BOX 7.2

PRUDENTIAL TREATMENT OF BANKS' EXPOSURES TO CRYPTOASSETS

In December 2022, the Basel Committee on Banking Supervision (BCBS) approved the global standard for the prudential treatment of banks' exposures to cryptoassets, whose implementation will start on 1 January 2025.

Banks will have to classify cryptoassets into two broad groups, which will determine their regulatory treatment for the purposes of calculating capital requirements. In general, this classification distinguishes, from among all the cryptoassets, those which are tokenised traditional assets or those which are issued by an issuer subject to capital and liquidity regulation and supervision and that have an effective stabilisation mechanism, minimising redemption risk, provided that they are also subject to the other conditions summarised in Figure 1.

Thus, cryptoassets that meet the full set of classification conditions (see Figure 1) will form part of Group 1 (see Figure 2), which includes, as indicated above, tokenised traditional assets (Group 1a) and stablecoins with an effective stabilisation mechanism, whose issuer is regulated and supervised (Group 1b). Their regulatory treatment is essentially based on the existing Basel framework. In addition, it is left to the competent authorities´ discretion to establish an add-on to cover possible operational weaknesses related to the new infrastructure used.

All cryptoassets —including tokenised traditional assets and stablecoins— that do not meet the classification conditions will form part of Group 2. To the extent that they incorporate more risk than Group 1 cryptoassets, the framework considers a new and more demanding capital treatment, that includes a limit on the banks' exposure to these cryptoassets.

Within this Group 2, cryptoassets that meet a number of market criteria (existence of regulated financial products that have the cryptoasset as the underlying, high capitalisation, liquid market and sufficient price data) will be allowed to determine capital requirements by netting the net credit and debit position (Group 2a). For the cryptoassets that do not meet any of these market criteria (Group 2b), the exposure will be determined without the possibility of carrying out hedging operations and with the application of a 1250% risk weight, thus being the group that receives the highest capital requirement.

In short, the approved standard provides a global regulatory framework that promotes responsible innovation and seeks to preserve financial stability.

In any case, the BCBS will continue to review certain aspects of the standard, given the brief experience with these instruments and their rapid evolution. Also, the BCBS work plan foresees further assessment of banks' progress in relation to cryptoasset markets, including their role as issuers of stablecoins, risk management practices as custodians of cryptoassets and possible interconnections. In addition, the Committee will continue to cooperate with other international standard-setting bodies and the Financial Stability Board in order to ensure a consistent global treatment of cryptoassets.

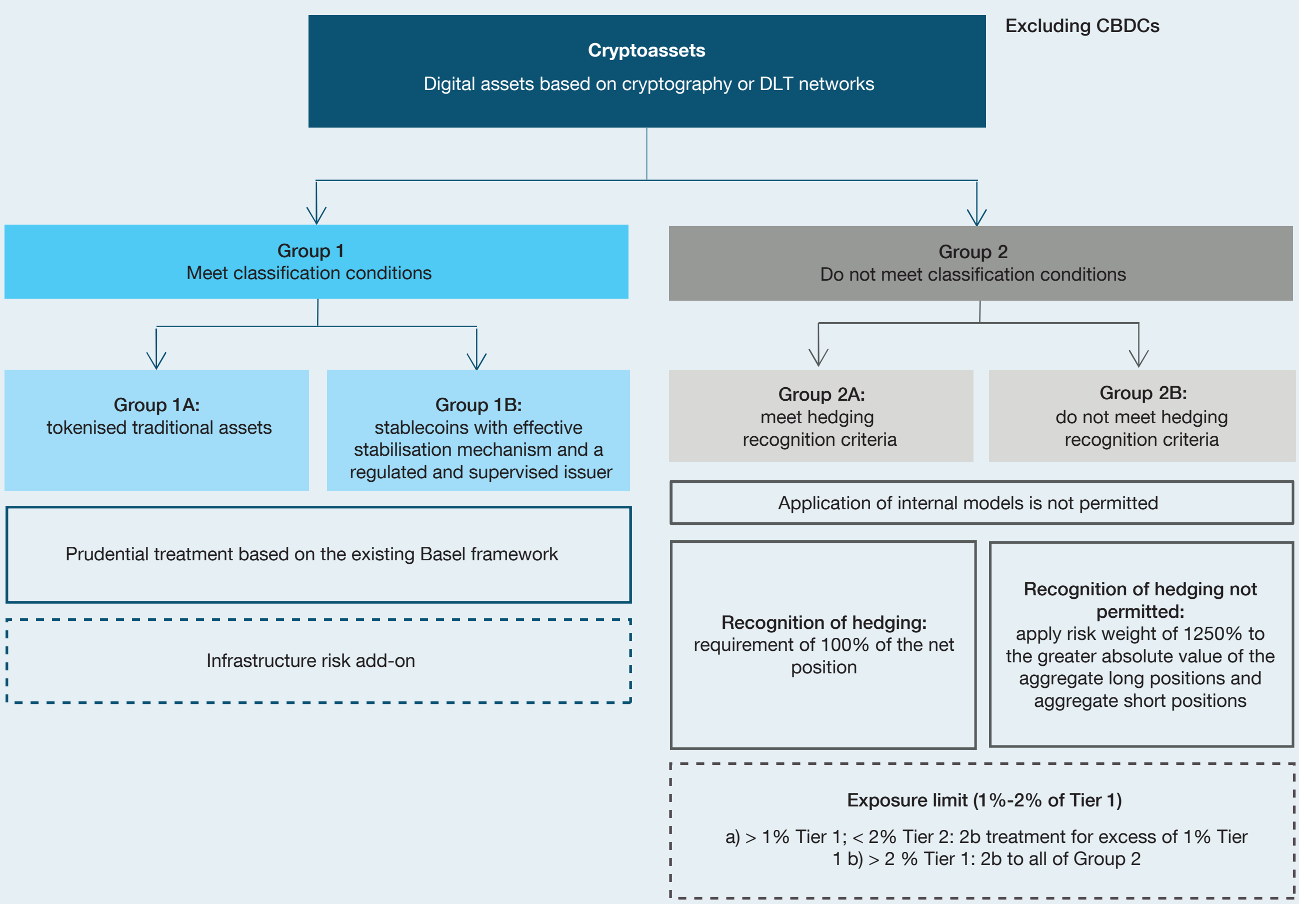
Box 7.2

PRUDENTIAL TREATMENT OF BANKS' EXPOSURES TO CRYPTOASSETS (cont.)

Figure 1
1 CLASSIFICATION CONDITIONS OF BANKS' EXPOSURES TO CRYPTOASSETS

Classification condition 1	— **Tokenised traditional assets:** cryptographic representations of traditional assets with the same level of credit and market risk as the traditional form of the asset. The stabilisation mechanism requirement does not apply — **Stablecoins:** a stabilisation mechanism is required, that is effective at all times in linking its value to a traditional asset (or a pool of assets), and the issuer must be regulated and supervised and subject to capital and liquidity requirements
Classification condition 2	— All cryptoasset rights and obligations arrangements are **clearly defined and legally enforceable** in all the jurisdictions where the asset is issued and redeemed — Banks must ensure that the arrangements are properly documented — At all times the arrangements must ensure full transferability and settlement • Stablecoins **must ensure full redeemability**
Classification condition 3	— The functions of the cryptoasset and the network on which it operates are designed to mitigate and manage any material risks that could impair its transferability, redeemability or settlement — **The key functions are well defined:** operational structure, degree of access, roles of the nodes and consensus mechanism — **Traceability:** all transactions and participants are traceable
Classification condition 4	— Entities that execute settlement, transfer, custody or redemption functions or manage reserve assets **are regulated and supervised** (or subject to appropriate risk management standards)

Figure 2
2 CRYPTOASSET CLASSIFICATION GROUPS



SOURCE: Banco de España, based on Basel Committee on Banking Supervision data.