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evaluated based on the current Basel III framework, with potentially different haircuts than traditional ETFs being considered, if determined necessary. We believe banks are already reflecting cryptoasset ETFs under the existing Basel III framework with adequate capital considered assigned to these trades.

2. **Categories of Cryptoassets** – We believe cryptoassets in Group 2 that have proven to be highly liquid, transparent, and redeemable with a history of trading on a robust ledger infrastructure should receive preferential risk weight treatment that is lower than 1250%.
3. **Classification conditions** – For Group 1b cryptoassets, we recommend

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mitigate and manage any material risks. We request

We do not believe the same 1250% risk weight should apply to all Group 2 cryptoassets. We support a lower risk weight for highly liquid and well-established Group 2a cryptoassets. Alternatively, we request that the BCBS consider the deduction of the exposure from capital. We also recommend continued separation of the trading and banking book as a single measure of market and credit risk may result in excessive capital in certain cases (e.g., trading of crypto ETFs hedged with crypto futures entails no credit risk).

Furthermore, we believe that recognition of hedging for exposures in both the trading and banking book should be considered and allowed. For example, if a bank is holding a long Bitcoin ETF position hedged with an equivalent short Bitcoin futures position, we believe that exposure should be netted before applying the appropriate risk weight. Otherwise, the level of capital to support provision of liquidity in both the ETF and related derivative financing markets will be overly costly and will not reflect the hedged nature of the market risk. For market making activities, we suggest the exposure be treated on a net basis.

We believe that exposures in any form (e.g., ETFs, Futures, Closed End Funds, etc.) which reference the sam.

Disclosure

We believe the proposed disclosure requirements for cryptoassets are comprehensive and should provide investors with sufficient information to make informed decisions.

Thank you for considering our comments. We would be pleased to discuss any questions that you may have at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be "AM", is written over a horizontal line.

CC OSFI:

Amar Munipalle, Senior Director, Capital Division

Brian Rumas, Managing Director, Bank Capital, Capital Division

Paul Melaschenko, Director, Bank Capital, Capital Division

Matthew Gordon, Capital Specialist, Capital Division

CBA comments on BCBS Consultative Document Prudential treatment of cryptoasset exposures

CBA Members' Comments and Requests for Clarification

OVERALL COMMENTS

We note that the current guidance reflects the fact that cryptoassets are not yet mainstream nor is there sufficient guidance on how to account for these assets. We suggest the Committee ensure continued alignment with any IASB guidance given the basis of our capital reporting starts with assets as booked on our Balance Sheets.

INTRODUCTION (pages 5 – 7)

Q1. What are your views on the Committee's general principles?

We agree with the Committee's three general principles. We find they are logical, well articulated, and clear. We also have the following observations:

We agree with the concept of "technology neutrality" in relation to all cryptoassets.

- Public vs. Permissioned blockchain issued assets: Irrespective of the underlying infrastructure of the asset issuance, we believe the capital treatment should be consistent otherwise the rules deviate from the principle of technology neutrality.

Blockchain technology development could help build a more stable and reliable network for transactions, clearing, and settlements, especially

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Cryptoasset networks do not employ clearing houses in the traditional sense, and some of them have programmatic governance that is relatively fixed. In other words, Bitcoin only functions to transact in Bitcoin. Its 'rules' are embedded in its code, and there is no room for interpretation or flexibility. We could evaluate certain blockchain networks for the integrity in their protocol rules as part of a risk evaluation.

Some other digital assets (such as DeFi governance tokens) may vary in governance structure. There is also risk variance in group 2 as not all cryptoassets and blockchains are created equal.

Group 1 cryptoasset controls will fall within the purview of the participants and the network operator. By definition, Group 2 will be a public blockchain, which will inherently have built in controls. Group 2 cryptoassets may have less operational risk given their instantaneous acknowledgement platforms.

Stablecoins should have transparent and evaluated governance structures in place since they are operated by centralized entities.

Regardless of which group a cryptoasset is allocated to, a detailed report of the technology used, rules, and a detailed prospectus should be disclosed to the public. There should also be a detailed outline of the responsibilities and regulatory requirements of the exchanges supporting all cryptoasset categories.

The "sufficiency" condition is open to interpretation regarding the "materiality" of risks; it would be beneficial to receive clearer guidance.

Q6. For the fourth classification condition, (i) to what extent would the regulation and supervision of entities that execute redemptions, should not be in scope of regulation or supervision? For instance, are there entities involved in the transfer and settlement systems of WfmdhcUggYhg'flg i W\ 'Ug'bcXYgz' cdYfUhcfg'UbX#cf' jU'XUhcfgl'h\Uh'g\c i`X'VY'YIW i XYX'Zfc a'h\Y'WcbX]h]cb'cZ'fYe i jfYX'fY [i`Uhion and supervision? (page 10)

We do not believe classification condition #4 should be required. Banks will naturally engage with more regulated entities from a risk management perspective.

To bring legitimacy, safety, and transparency to the crypto market, a broader set of participants across the crypto market infrastructure (i.e. custody, exchanges, brokers, ledgers/nodes) should be subject to regulation in the same way as similar participants in the equity and fixed income markets. It is impractical to expect banks as one type of participant to oversee the eco-system. Normalizing regulation across all market participants would pave the way for more transparent and liquid markets, better risk management, and more accurate capital treatment.

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The nodes, operators, and validators are more or less agnostic (depending on the blockchain) to the happenings on chain, so evaluating them would not be required if we are already conducting a full blockchain integrity evaluation.

The stablecoin redemption mechanisms should be transparent and considered. If the stablecoin issuer makes it difficult

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We suggest openness to group 1b cryptoassets and a subset of Group 2 being considered for credit r



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Separately, **Section 3, bullet 5**

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the SA-CCR framework. We seek more information about how the Committee made the determination that a 50% PFE factor for derivative EAD is needed. We would also like to gain more insight as to why there is no consideration of the maturity factor reflected in PFE to differentiate between long and short dated transactions within the SA-CCR framework.

Comprehensive approach: We believe more technical guidance is still needed under the comprehensive approach under the Basel III reforms guidelines for hedging activities in the banking book. This discussion in relation to crypto assets further highlights this issue.

Funds: We disagree with applying the same treatment to Funds of Group 2 h/a11.1 (o .1 (i)-l (t)-1.1 e01 (..3 (f)-1.g (g)-12.2 (ht)-(1.1 (o (h .2 (T3 1-%DC /TT2 1

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4. OTHER REGULATORY REQUIREMENTS (pages 19 – 20)

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contribute to the default fund of a CCP

- Statement on risk and residual
- Unencumbered
- Unencumbered securities that are not in default a

covered remaining loans with the lowest risk weight (or 0% if eligible for Standardised Approach in default of ...

ial maturities of one year or more, excluding loans to financial institutions

l reverse mortgages that would qualify for a 50%, 75%, or 100% risk weight under the Standardised

nd do not qualify as HOLA with a remaining maturity of one year or ...

... and exchange-traded securities

10% • Unencumbered loans to financial institutions with residual maturity of less than six months where the loan is secured

freely rehypothecate the received collateral for ... against non-Level 1 assets, and where the institution has the ability to ... the life of the loan

The LCR inflow on Group 2 reverse repos should be 100% as per the “other collateral” category:

Maturing secured lending transactions backed by the following asset category	Inflow rate (if collateral is not used to cover short positions)	Inflow rate (if collateral is used to cover short positions)
Level 1 assets	0%	0%
Level 2A assets	15%	0%

Other Level 2B assets ...

Other Level 2C assets ...

... collateral ...

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Similarly, a >30day repo collateralized with a Group 2 cryptoasset should receive 0% outflow.

Asset Liability Management: We suggest that additional guidance be provided by the Committee on Asset Liability Management for banks given the following:

Crypto deposits (especially non maturity) would not be able to be invested for term unless it was done at a risk-free rate associated to the crypto (which is not liquid)

- There is a basis risk between Crypto and the CAD funding/investments which would not be eligible for hedge accounting. Thus, this volatile basis would reside in ALM Profit & Loss.

From a cash management perspective, how will our ledger tie into the Central bank (Bank of Canada) or the Repo market? How will the basis risk associated with crypto be allowed from a financial planning perspective?

How will our ledger tie into the central bank Fx lines if liquidity is needed?

5. SUPERVISORY REVIEW AND ADJUSTMENTS TO PILLAR 1 REQUIREMENTS (pages 20 – 22)

5.1 RESPONSIBILITIES OF BANKS (pages 20 – 21)

Q15. Do you have any views on the responsibilities of banks? Are there any other responsibilities or aspects that should be covered by

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We believe that the proposed capital treatment for group 2 cryptoassets is overly conservative, with a risk weight of 1250% and where netting of offsetting positions is not permitted. As a result, we do not believe there should be a requirement for any Pillar 1 capital add-ons.

We are in agreement with the Committee's suggestion to limit the use of specific parameter models for IRB banks given the lack of data history. We suggest instead allowing the use of the Foundation IRB approach which still allows banks to reflect the probability of default.

6. DISCLOSURE REQUIREMENTS OF CRYPTOASSETS (page 23)

Q18. Do you have any views on the potential design of disclosure requirements? (page 23)

We believe the proposed disclosure requirements are comprehensive and should provide investors with sufficient information to make informed decisions. We suggest following a similar approach to existing disclosures around the banking book and trading book as required under Pillar 3. Classification by Group 1 and 2 would likely be needed to align cryptoasset