FDTF Call Notes

*27 July 2021*

# Attendees

* Mike Bennett
* Rob Nehmer
* Pete Rivett
* Lars Toomre
* Terrance Milligan

# Agenda

From last week's notes:

For next time we aim to do the basic taxonomy from the Flower and compare with the Bolzano papers and come up with a taxonomy we are happy with.

That gives you the 'What kind of Thing is It?' part of the ontology

Then we

* identify differentiae
* Identify and sensible questions where those might be clear of universally agreed with

# Meeting Notes

## Updates

CBDC – expecting an update on this call from Lars (see below).

Relation with GBA and upcoming call(s).

## Ontology of Money papers

People have had a chance to look at these.

Hard to understand without understanding the higher level ontology (ontoUML)

These are like archetypes. Also similar to powertype / are powertypes.

These are seen on the diagrams as UML stereotypes.

### Comments:

1st diagram

Exchange Value – seems an odd thing

e.g. one exchange value of e.g. $5 can only have one valid monetary value.

Phase of RoleMixin

### Valid v non valid

The Monetary Object has a Valid and a Not valid 'phase', in the ontoUML sense of phases.

Then other kinds of non valid that are not phase / temporal e.g. forgery, torn in half: are these a separate sub class OR are these also included in the Phase (but e.g. never goes to the valid phase)

Easier deconstructions: exchange value, value-in-exchange

Reaction: Seems to be how a relatively small group thinks about money. Would not have been vetted with enough people in the economics space.

We can expect to contribute more to this from this group.

#### Valid v non valid in digital Currency

What about digital – needs to also support valid v non valid.

(given we are not sure that phase includes things that are never valid – or is another faceted classification of the role mixin.)

In crypto – someone decides they don't accept. Is that the same as 'validity'?

Assumption in the paper that there is always a notion of 'Legal Tender'.

Validity – are any crypto 'valid' in the (simplistic) meant here?

Legal Tender: means that a merchant is obliged to take payment for goods in the legal tender currency.

This does not apply in all jurisdictions. In some jurisdictions merchants may refuse to take certain denominations or bunches of change.

So this word 'Valid' is not an intrinsic universal property of a thing.

## Updates

### CBDC

LT: call later today with Mark Montoya CDO of GBA on what role OMG and / or GBA can have for the Sept 28 sessions.

Focus: effort within GBA on secure electioneering (voting). Incudes secure identiy, security in voting systems.

Want to figure out how to help them bring the various pieces to the OMG.

They have their meetings in Washing DC on the week of Sept 27 – Lars attending.

Monday of that week (27th?) is focused on state and local government services. Aiming to do more with Blockchain to deliver some of that. This is where secure voting initiative is discussed.

Another session (the Tuesday) 10:45 – 11:45 PT with GBA to OMG GovDTF on what they would like help with on standardization – MM organizing this.

Will also include work from the Aug 5 GBA Standards initiative. 3 or 4 orgs incl OMG talking about their Blockchain model (Nick S taking there for maintainability, sustainability)

 - part of today's discussion

### Digital Currency / CBDC Payment Systems

3 consultation papers coming. 2 now issued:

* BoE (late June)
* BCBS / BIS consultative document issued 20 June
* US Fed: Labor Day / maybe Jackson Hole meeting of Aug 27

Basel: Want responses by Sept 10.

BoE: October for responses.

US Fed: early 2022

We want to try and respond to these (from OMG) via GovDTF.

 - can FDTF / Blockchain PSIG help with any of these?

### Other CBDC Updates

Singapore Monetary Fund: Global Challenge for CBDCs.

15 PoCs. For Retail CBDCs. To get ideas.

Ask for responses, with responses for up to 15 responders get funding on participation in Sg dev blockchain environment. Their request: Focus on 1..\* problem areas:

1. Instrument
2. Distribution
3. Infrastructure

#### Instrument:

* Submissions to focus on new functionality for Retail CBDC v Inclusivity
* Security v Accessibility
* Availability v Risk of Disputes
* Recoverability v Anonymity

#### Distribution

* Consider widespread frictional issues v control
* Personal data protection v system integrity
* Expanding access to financial services v guarding against data monopolies
* Coexistence v integration complexity

#### Infrastructure

* Decentralization v accountability
* Extensibility v operational resilience
* Privacy v performance
* Interoperability v standardization

### Notes

This is all in terms of Retail (as distinct from the France example of B2B payments).

The governance related issues like resilience are not yet being thought of as part of this i.e. long-term issues.

OMG – need more imput from our own groups / members to be able to respond to this

(via the RFI?)

Also on these themes:

Also applicable to institutional / wholesale DCs / CBDCs.

How to factor in KYC.

Seeing in research, opinion pieces, the KCY / ATF issues are going to be one of the biggest hang-up wrt the US Digital $ idea. Any response we come back with has to help address those concerns of regulatory bodies.

### US Regulatory Updates

Chairman Gensler of the FDC – presentation to ABA on tokens, especially tokens backed by securities. Suggests that the regs on tokens and derivatives backed by securities have not been formally promulgated by SEC as called for in Dodd Frank but need to be.

In particular: Tether and Circle (stablecoins) should also be regulated by the SEC.

Distinctions: Pegged v Backed as per last time.

e.g. Tether is pegged but not clear if it is backed.

See the NY State suit on incomplete disclosure some years back (see earlier call notes). Now both Tether and Circle have produced reports showing what they are backed by.

Tether: 50% backing s in CP. This would make them the 3rd largest purchaser of CP in the market.

#### Issues (BoE and others):

Suppose e.g. Circle had a run if it were perceived as not being backed – would it take down Tether with it i.e. contagion?

That is: systemic Risk in the Stablecoin offering.

Most (non Stablecoin) crypto currencies roughly track Bitcoin (volatile). Tether etc. are tied so they do not follow the Bitcoin price movements – though there are some variations.

Review Powell's most recent testimony to Congress on Dodd Frank responsibilities he commented on the risk of Stablecoins. Are becoming like MM funds. If becoming like MM funds then they probably need to be regulated like MM funds.

See President's WG Meeting of Regulators a week ago Monday, have suggestions on how to regulate stablecoin to avoid systemic risk. Responses forthcoming by end of the summer.

Seems that 90% of existing bitcoins have not been traded this year, so the volatility we are seeing is on about 10% of the market. This would be expected to result in high volatility (low volume so nothing to moderate the price – due to low demand).

### New Entity in US Financial Regs: SPDI

Special Purpose Depository Institution.

4 states allow these to be chartered. So far.

None of those have got any of the chartered institutions insured by Fed or system yet.

2 in Wyoming have applied for Fed recognition (as…)

In this, we get back to some issues with the Basel consultative document references above Namely:

How much capital does one need to have for bank-issued stablecoins.

Position of Basel (and Fed) is 100% reserve requirements. So $1 Stablecoin must have $1 equity capital

Can do trust server but not holding and trading without holding the appropriate capital. Reason is operational risk: What would prevent a computer emptying the bank account, cyber risk of theft etc.

Until the security (operational) risks address, have to assume the potential for 100% therefore any coin must be backed by 100% capital.

There are arguments against.

Without a call on the taxing power of a political entity (a country), what recourse is there.

## RFI questions

Objective? Who should respond?

Once we collect the information, what would we do with it?

One potential: hoped this would be useful to the CBDC WG once it started meting again. Also wanted to understand the space more generally.

Not sure what we are trying to achieve if we had the ideal response e.g. potential standards.

RFIs in general:

* What we know
* What we want to ask

## Goals of FDTF

Maybe the value we are looking is just in gathering the knowledge

Do we need an RFI at all or should we work through the 'what we know' (concept ontology and vocabulary / VCoI type of thing).

Separately we identify if there is something we need to ask of a particular audience.

Meanwhile, we can do something more like the 'rolling RFI' effort we proposed last year in Blockchain PSIG (essentially, doing a wiki).

If we just built a wiki, to what end – who is it aimed to help?

e.g. feeding the vocabulary / definitions (per VCoI)

For example, as noted above where some entities are asking for responses from standards orgs, of their views from a technological perspective (the wording used in both BIS and Fed papers).

What we know - would that be a helpful resource in responding to the things that come out of those kinds of requests?

### Overall FDTF Goals

Also what are the goals of FDTF post FIBO and FIGI?

Much of what Finance was set up for is happening in GovDTF, Blockchain, others. For example financial regulatory matters are being handled in GovDTF.

There are other potentials for finance specifically, e.g. Machine learning / AI financial stuff, deep learning retail credit analysis types of standard. Also risk management – standard ways of calculating things that we can see regulators wanting to have, that FDTF would best deliver, from banking and non banking entities, e.g. VAR, Dispersion Risk, Concentration Risk.

Also if SBRM adopted, can see a need for specific taxonomies out of Finance / OMG like the European Taxonomy project (now replaced by enhanced taxonomy for ESG terms).

### Summary

* There are more things that Finance can do.
* There are ongoing things that are broader than finance that we also participate in or can contribute to

Many of the issues in finance get solved in e.g. Blackrock, MSCI etc. analytics groups – i.e. De facto standards, benchmarks etc. in Fx and Bonds and elsewhere.

At OMG we do not have many of the players in that space coming to OMG.

### Plan for next quarterly meeting:

Have this conversation, determine where to spend our energy in Q4. At the Q3 meeting we decided to meet weekly instead of monthly or fortnightly. This is a decision we make at each quarterly meeting.

e.g. in Long Beach we put RegTech in GovDTF not FDTF (the old FERM group).