

G20 LEADERS' SUMMIT STARTS TOMORROW

# Crypto can't be legal tender; ban not easy: IMF-FSB paper

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Crypto assets should not be granted official currency or legal tender status, the much-awaited synthesis paper by the International Monetary Fund (IMF) and Financial Stability Board (FSB) has said ahead of the G20 leadership summit under India's presidency. However, the report has argued against a blanket ban on activities linked to crypto assets, explaining that such a move can be costly as well as technically demanding to enforce.

Central banks should avoid holding crypto assets in their official reserve as they pose a risk to monetary and global financial stability, according to the synthesis paper. Stressing the need for an unambiguous tax treatment of crypto assets, it has advised countries to safeguard monetary sovereignty.

In another significant recommendation, the report has said that policymakers should guard against excessive capital flow volatility by taking steps such as clarifying the legal status of crypto assets. As for emerging markets and developing economies, the report said they may face amplified macro-financial risks from crypto assets due to a less developed tax framework, large unbanked population, and larger cross-border transaction costs. The joint report of the IMF and FSB is part of the ongoing G20 deliberations on regulating crypto assets. Outlining the fiscal risks, the synthesis paper said that if crypto assets were granted legal tender status, government revenues could be exposed to exchange rate risk. Crypto assets do not fulfil the three basic conditions of currency, mainly unit of account, means of exchange, and store of value.

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The two-day G20 summit will be held at the newly built international convention and exhibition centre, Bharat Mandapam, at Pragati Maidan in New Delhi

PHOTO: PIB



## POLICY PRESCRIPTION ON CRYPTO

- Safeguard monetary stability and sovereignty
- Guard against excessive capital flow volatility
- Address fiscal risks and adopt unambiguous tax treatment
- Monitor crypto's impact on international monetary system
- Implement FATF standards

Source: IMF and FSB synthesis paper on crypto assets

# Need comprehensive oversight on crypto: IMF-FSB

On banning crypto-related activities, the report has said that it is not an easy option, adding that temporary restrictions should not substitute for robust macroeconomic policies.

"Developing effective frameworks and policies is the best way to limit substitution into crypto assets," the report said. Credible institutional frameworks and comprehensive regulation and oversight are the first line of defence against the macroeconomic and financial risks posed by crypto assets.

Calling for comprehensive regulatory and supervisory oversight of crypto assets, the report has recommended that countries should avoid large deficits and high debt levels and adopt an effective mone-

tary policy framework to avoid the use of crypto assets for payment.

In cases of official crypto asset use, governments should minimise fiscal and operational risks, the report has highlighted. That is, government revenues should not be exposed to variations in crypto-asset prices.

"The growing use and integration of crypto assets in the global financial system has necessitated a coordinated set of international standards that form a comprehensive policy toolkit, as well as the effective implementation of these standards," the joint report said. The borderless nature of the crypto-asset ecosystem limits the effectiveness of individual national regulation, it added.



The FSB and IMF have also drawn attention towards money laundering, terrorist financing, and the prolifera-

tion of weapons of mass destruction risks associated with virtual assets. The report has asked countries to identify and take appropriate steps to manage and mitigate those risks, including the adoption of Financial Action Task Force (FATF) standards.

"Pseudonymous crypto assets can undermine tax revenue collection and compliance since withholding taxes and third-party information could be challenging to collect."

In a cautionary note, the IMF-FSB paper has said that if capital flow management measures become less effective, jurisdictions may need to consider greater exchange rate flexibility, balancing the three competing objectives of monetary autonomy,

exchange rate stability, and financial openness.

"The failure of a market player can quickly transmit shocks to other parts of the crypto-asset markets. If interconnections between crypto-asset activities and the traditional financial system were to increase, the spill-over effects may impact important parts of traditional finance."

As part of its roadmap, the IMF, FSB, other international organisations and standards-setting bodies are working towards building institutional capacity beyond G20 jurisdictions, enhancing global coordination, cooperation, and information sharing; and addressing data gaps necessary to understand the rapidly changing crypto-asset ecosystem.