

# Response to Consultation Paper

on the CONSULTATION PAPER 381 Updates to INFO 225: Digital assets: Financial products and services

## SOLIDUS LABS RESPONSE:

**QA1Q2** Are there any topics or guidance that were included that you think should not have been included? Please provide details.

Stablecoins offer an unprecedented opportunity to enhance financial inclusion, improve cross-border payments, efficiency and transparency of digital transactions. From a risk monitoring perspective, stablecoins offer an opportunity to enable a safer financial service ecosystem, even compared to traditional finance, which is unfortunately still plagued by illicit activity, despite extensive regulations, enforcement and compliance requirements.

Solidus' work provides ample evidence and case studies that demonstrate that when an asset on the blockchain, including stablecoins, can be more effectively monitored for illicit activities. Moreover, with the right risk frameworks and dedicated technology, this can be achieved without introducing invasive data collection requirements that compromise user privacy, and burdensome reporting requirements that increase the cost of compliance to a point where it hurts businesses.

To capitalize on this opportunity, the regulation of stablecoins must strike a delicate balance between fostering financial innovation and ensuring market integrity, consumer protection, and systemic stability. Given the growing role of stablecoins in global payments, a sound regulatory framework should:

- Support payments innovation while mitigating risks associated with illicit finance, fraud, and market manipulation.
- Ensure alignment with broader financial regulatory priorities, including anti-money laundering (AML) and counter-terrorist financing (CFT) efforts.
- Leverage the transparency of blockchain technology to implement advanced risk monitoring and fraud prevention measures.
- Establish a globally coordinated regulatory approach to mitigate prudential risks.

A well-calibrated regulatory framework for stablecoins must integrate robust market safeguards, advanced risk monitoring capabilities, and a clear commitment to global financial stability. By implementing Know-Your-Ecosystem (KYE) standards, enhancing cross-chain transaction monitoring, and promoting international cooperation, policymakers can ensure that stablecoins serve as a secure, transparent, and innovative digital asset while mitigating risks of illicit finance and market abuse. Note, the following policy recommendations apply to fiat or asset-backed stablecoins and do not apply to so-called algorithmic stablecoins, which have other, novel risks that require additional safeguards and monitoring beyond those mentioned below.

## **I. Strengthening Market Integrity and Risk Mitigation**

To ensure the integrity of the stablecoin market, regulatory oversight should prioritize robust risk mitigation mechanisms:

- Smart contract audit mandates: Require independent pre-launch audits of stablecoin smart contracts to identify security vulnerabilities, ensure compliance with established engineering and cybersecurity standards, and proactively detect malicious code, vulnerabilities, scams and exploits.
- Reserves transparency and verification: Enforce public disclosures of stablecoin reserve holdings, including their composition, valuation methodologies, and custodian regulatory status and locations, to maintain 1:1 backing and enhance user confidence. For onchain reserves, such reserve attestation should be available real-time and any-time.
- Governance and risk management oversight: Implement clear regulatory expectations for stablecoin issuers, including comprehensive governance structures, risk management frameworks, and policies for managing reserves, conflicts of interest, and issuer accountability.
- Stablecoin ecosystem monitoring: Require issuers to continuously monitor on-chain activity, leveraging advanced tools to detect and mitigate illicit financial activity across the broader stablecoin ecosystem.
- Advanced and fit-for-purpose RegTech solutions: Encourage regulators and market participants to deploy innovative, fit-for-purpose regulatory technology (RegTech) solutions for digital assets that utilize the blockchain's transparency to enhance financial crime detection, risk monitoring, and regulatory compliance in the stablecoin ecosystem.

## **II. Advancing Know-Your-Ecosystem (KYE) Standards**

Given the permissionless and transparent nature of blockchain-based assets, a new paradigm beyond Know-Your-Customer (KYC) and Know-Your-Transaction (KYT) is possible, and needed. Know-Your-Ecosystem (KYE) introduces a holistic risk management framework:

- Ecosystem-wide risk assessments: Require stablecoin issuers to identify, map, and monitor key participants in their operational ecosystem, including custodians, validators, liquidity providers, and on/off-ramp service providers.
- Counterparty due diligence requirements: Mandate that stablecoin issuers conduct rigorous due diligence on counterparties, service providers, and liquidity sources to mitigate operational, compliance, and reputational risks.
- Real-time intelligence and threat monitoring: Establish mandatory requirements for stablecoin issuers to leverage advanced risk intelligence tools, enabling proactive detection of illicit activity, emerging threats, and anomalous trading behaviors within the ecosystem.
- Threshold-based alerting and risk containment mechanisms: Develop regulatory frameworks that require issuers to set predefined risk thresholds, implement early-warning indicators, and adopt real-time escalation protocols when ecosystem-wide risks are detected.

## **III. Consumer Protection, Disclosures, and Market Conduct Standards**

To ensure a safe and transparent stablecoin ecosystem, regulatory frameworks must prioritize consumer protection, issuer accountability, and clear market conduct guidelines:

- Mandatory transparency and risk disclosures: Require stablecoin issuers to provide users with clear, standardized disclosures on reserve backing, redemption mechanisms, operational risks, and regulatory oversight.
- Consumer dispute resolution mechanisms: Establish robust legal and operational frameworks for addressing disputes related to stablecoin fraud, redemption failures, or service disruptions, ensuring user recourse in the event of issuer misconduct.
- Stablecoin redemption guarantees: Implement safeguards that ensure stablecoin holders can reliably redeem their assets at a 1:1 ratio with the underlying fiat currency, minimizing counterparty risk and maintaining financial stability.

## IV. Cross-Border Regulatory Coordination and Global Standards Alignment

Given the borderless nature of digital assets, a fragmented regulatory approach creates significant risks. International regulatory cooperation is essential to mitigate systemic risks and prevent regulatory arbitrage:

- Global stablecoin oversight mechanisms: Encourage cooperation between central banks, financial regulators, and international standard-setting bodies (e.g., FATF, BIS, FSB) to establish a harmonized approach to stablecoin regulations.
- Cross-border data sharing and risk coordination: Facilitate international agreements for real-time information sharing on illicit stablecoin transactions, money laundering risks, and emerging fraud schemes.
- Prevention of regulatory arbitrage: Develop mechanisms that prevent stablecoin issuers from exploiting jurisdictional gaps by ensuring consistent regulatory requirements across key global markets.

### ABOUT SOLIDUS LABS:

[Solidus Labs](#) is the category-definer for crypto-native market integrity solutions. Our mission is to enable safe and secure crypto trading throughout the entire digital asset life-cycle - off-chain, on-chain and pre-chain. Crypto exchanges, financial institutions, DeFi projects and regulators globally rely on Solidus HALO – our real-time market integrity platform – to safeguard their platforms, investors and consumers. HALO is purpose-built to address the distinctive compliance and regulatory risks and challenges tied to crypto-assets, providing the assurance needed for responsible and secure operation.

As the founder of industry-leading initiatives like the [Crypto Market Integrity Coalition](#) and [DACOM Summit](#), and in everything we do, Solidus is deeply committed to enabling the merits of decentralization, by mitigating its new risks.

Solidus Labs developed its solutions, and continues to update them, in tandem with constant feedback from regulators and in view of evolving regulatory developments. As such, we have been closely monitoring regulatory developments in Singapore, and are pleased to provide our feedback on the proposed regulatory framework.

We are appreciative of ASIC's efforts to promote greater consistency and address concerns related to market integrity and investor protection in crypto-asset activities. We appreciate the opportunity to contribute our expertise to this important dialogue.