



July 31, 2023

The Board of the International Organization of Securities Commissions (IOSCO)

VIA EMAIL: [cryptoassetsconsultation@iosco.org](mailto:cryptoassetsconsultation@iosco.org)

Re: Public Comment on IOSCO's Consultation Report on Policy Recommendations for Crypto and Digital Asset Markets

The FIA European Principal Traders Association<sup>1</sup> and the FIA Principal Traders Group<sup>2</sup> (“FIA EPTA” and “FIA PTG,” collectively the “Associations”) appreciate the opportunity to submit this letter in response to IOSCO’s Consultation Report on Policy Recommendations for Crypto and Digital Asset Markets (the “Consultation”).<sup>3</sup> We support IOSCO’s efforts to foster the development of a consistent global regulatory framework for digital assets. Historically the Associations have repeatedly advocated for principles-based regulation and we were pleased to see IOSCO take this approach. While we generally concur with IOSCO’s principle of ‘same activities, same risks, same regulatory outcomes,’ and believe that innovation does not obviate the value of longstanding, thoughtfully established standards and requirements — we do caution that digital asset markets are not the same as securities markets and as such in some instances, specific regulation may need to be customized to address unique features.

Our members are becoming a part of the digital/crypto assets space, using their existing knowledge to improve the liquidity in digital/crypto products and in the development of technology. Our members are at the forefront of using blockchain technology to transform more traditional parts of

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<sup>1</sup> The European Principal Traders Association (FIA EPTA) represents Europe’s leading Principal Trading Firms. Our members are independent market makers and providers of liquidity and risk transfer for markets and end-investors across Europe, providing liquidity in all centrally cleared asset classes including shares, bonds, listed derivatives and ETFs. FIA EPTA works constructively with policymakers, regulators and other market stakeholders to ensure efficient, resilient and trusted financial markets in Europe. More information about FIA EPTA and independent market makers is available on: [www.fia.org/epta](http://www.fia.org/epta) and [www.wearemarketmakers.com](http://www.wearemarketmakers.com).

<sup>2</sup> FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy. More information about FIA PTG is available on [www.fia.org/ptg](http://www.fia.org/ptg).

<sup>3</sup> See <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD734.pdf>.

the financial market industry. For example, our members are closely involved with the development of the Pyth network<sup>4</sup> which aims at consolidating financial market data to DeFi applications and making it available to the general public. Our members welcome regulation in this growing new asset class and believe it is important for investor protection and the normalisation of trading digital/crypto assets.

The Associations broadly support the 18 policy recommendations contained in the Consultation. We are focusing our comments on two of the six key areas covered by the recommendations:

1. Conflicts of interest arising from vertical integration of activities and functions; and
2. Custody and client asset protection.

**The vertically integrated nature of digital asset trading platform business models requires thoughtful oversight and management.** Unlike traditional securities market structures, many digital asset businesses wear many “hats,” providing a variety of services and serving a variety of roles all within the same or affiliated entities. These activities may include everything from providing a trading platform, to market making and proprietary trading, to custody and settlement. In traditional markets these roles are generally performed by disparate, typically unrelated entities. In the digital asset space, this is often not the case. Accordingly, the Associations strongly support the recommendations in Chapter 2 of the Consultation requiring crypto-asset service providers (“CASPs”) to have effective governance, including systems, policies and procedures, to identify, manage and mitigate potential conflicts created by their vertically integrated structure. Furthermore, the Associations agree that regulators should evaluate these potential conflicts as well as the CASPs’ governance structure and plans on an ongoing basis to ensure they are sufficient to mitigate the risks presented by these business models. Finally, we concur that regulators should be prepared to require changes, including disaggregation, should they determine that the conflicts are not able to be mitigated sufficiently to protect market participants.

**The proper handling, custody and safeguarding of client assets is a critical component of digital asset market oversight.** Considering recent high-profile client asset protection failures, it is essential that regulatory standards, consistent with those in other traditional asset classes, be established for the custody of digital asset client monies and other related assets. Accordingly, the Associations are supportive of the recommendations on custody of client monies and assets in Chapter 7 of the Consultation. We agree that regulators should require CASPs to ensure that client assets are always adequately protected, including when placed with a third party chosen by the CASP. And that CASPs maintain accurate records of client assets in sufficient detail to be used as an audit trail. The CASP should regularly conduct reconciliations of client assets on a client-by-client basis and at least annually these procedures should be reviewed and reconciliations performed by an independent auditor. Except after providing clear disclosure, and with the client’s explicit permission, all client assets should be held separately from those of the CASP. Finally, acknowledging the sometimes unique ways in which client digital asset monies are held, we agree

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<sup>4</sup> Pyth Data Association, [Pyth Network: A First-Party Financial Oracle, 4 January 2022](#).

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that it is crucial that the CASP understands the specific risks applicable to each type of depository and has adequate policies and procedures in place to mitigate these risks.

As active participants in digital asset markets, the Associations' members support IOSCO's efforts to establish these global regulatory standards. If you have any questions, please do not hesitate to contact Piebe Teeboom at [pteeboom@fia.org](mailto:pteeboom@fia.org) or Joanna Mallers at [jmallers@fia.org](mailto:jmallers@fia.org).

Respectfully,

FIA European Principal Traders Association

FIA Principal Traders Group

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