

ADVISORY | INDUSTRY INFORMATION

# Digital Asset SCPS Consultation Guidance

## Introduction

The Bermuda Monetary Authority (the "**Authority**") released its Digital Asset Business Single Currency Pegged Stablecoins (SCPS) Consultation Guidance (the "**Guidance**").

The Guidance seeks to provide information and clarification to SCPS Issuers ("**SCPSIs**") with respect to the Authority's expectations for meeting the requirements under the Digital Asset Business Act 2018 ("**DABA**").

Some key points discussed in the Guidance include:

## Governance and Risk Management

- a. SCPSIs are expected to establish governance arrangements that demonstrate compliance with DABA requirements
- b. Responsibilities of the board of directors and senior management
- c. Policies and procedures comprising the risk management framework

## Market Making and Due Diligence

- a. SCPSIs are expected to design, implement and document due diligence processes for assessing market makers

## Backing Assets

- a. SCPSIs are expected to hold sufficient backing assets in quantity and quality to support the stability of the designated peg in value of their SCPSs
- b. Backing assets are expected to be sufficiently liquid to meet reasonable foreseeable redemptions
- c. SCPSIs are expected to keep all assets received from clients segregated from their own
- d. SCPSIs are expected to seek the highest credit rating available for their invested backing assets

- e. SCPSIs are expected to have an investment policy in place
- f. With respect to risk of de-pegging, SCPSIs are expected to have triggers and processes in place to monitor and intervene when such scenarios pose risk to their clients or the sustainability of the business and to report to the Authority as appropriate
- g. SCPSIs should value backing assets daily and ensure the amount held is adjusted daily to an amount at least equal to the original pegged currency amount

## Disclosures

- a. SCPSIs should produce regular attestations and/or external audits in accordance with industry best practices
- b. Elements to be considered for disclosures
- c. SCPSIs should publish a white paper on their website providing information including a description of the business, rights and obligations of each party, risks to the stability of SCPS value and ability of SCPSIs to fulfil obligations
- d. SCPSIs are expected to provide full disclosure of their investment policy and backing assets
- e. Requirements for ongoing disclosure to clients and data to be made available
- f. Conditions SCPSIs wish to impose for redemptions should be clearly disclosed to clients

## Stress Testing

- a. SCPSIs are expected to identify, design and implement stress testing scenarios at least yearly or on a material change in business or risk profile

## Bankruptcy Remoteness

- a. SCPSIs are expected to have bankruptcy remoteness measures to create effective separation among entities, providing protection for specific assets
- b. SCPSIs should establish clear contractual arrangements to govern operations
- c. SCPSIs should perform internal and external reconciliations to assure the quantity and value of issued SCPS at least on a daily basis

## Interoperability

- a. SCPSIs should design and implement policies and controls to assess and monitor blockchains
- b. Elements SCPSIs should consider when assessing the operationalisation of their SCPS on different blockchains

## Recovery and Resolution Planning

- a. SCPSIs should identify extreme circumstances and maintain an effective plan to enable continuing provision of critical services
- b. The recovery and resolution plan should include a contingency funding plan and liquidity arrangements
- c. SCPSIs should have a plan to cease operations in an orderly manner where the contingency funding plan proves ineffective

## Own Funds: Liquidity Requirements

- a. SCPSIs should hold sufficient liquidity to wind down or exit the market in an orderly manner
- b. The minimum liquidity requirements should be based on a proportion of the expected SCPS in circulation

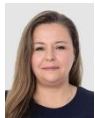
## Own Funds: Net Assets Requirements

- a. SCPSIs are expected to determine their appropriate net assets level, aligned with their risk appetite and the impacts of winding down or exiting the market
- b. Practice for calculating the minimum level of net assets to be held

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## Further information

For further information please speak with your usual contact or contact:



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