To:

European Insurance and Occupational Pensions Authority (EIOPA)
Westhafenplatz 1
60327 Frankfurt am Main
Germany

16 January 2025

Re: EIOPA consultation on technical advice on standard formula capital requirements for investments in crypto assets

Coinbase Global, Inc. (together with its subsidiaries, **Coinbase**) appreciates the opportunity to share comments on the European Insurance and Occupational Pensions Authority (**EIOPA**) consultation on technical advice on standard formula capital requirements for investments in crypto assets.

Institutional investors are increasingly embracing blockchain and crypto assets, and EU insurance companies risk falling behind if they cannot gain exposure to this new asset class as part of their investment strategies.

Insurance companies are long-term investors, and exposure to crypto assets provides an opportunity to responsibly tap into an emerging asset class with potential for high returns and diversify away from traditional financial markets.

Therefore, we welcome a risk-based approach for exposures to crypto assets, including well-regulated stablecoins, that recognizes the risk diversification benefits that exposures to crypto assets may have. However, EIOPA's proposal that all crypto-asset exposures, whether direct or indirect, are stressed at 100% without diversification, is disproportionate to the risks and inconsistent with the establishment of the MiCA framework.

Coinbase appreciates EIOPA's attention and efforts and stands ready to support EIOPA's work on this proposal going forward.

Your sincerely,

Tom Duff Gordon, Vice President, International Policy, Coinbase

Scott Bauguess, Vice President, Global Regulatory Policy, Coinbase

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Introduction

We welcome the opportunity to respond to the EIOPA consultation paper on technical advice on standard formula requirements for investments in crypto assets by insurance undertakings.

We support an approach that allows a look-through to the underlying assets in the case of tokenised assets, including E-Money Tokens (EMTs) authorised under the Markets in Crypto Asset Regulation (MiCAR). This is consistent with the Basel Committee on Banking Supervision's (BCBS) outlined prudential treatment of crypto assets.

At the same time, we welcome a review of the BCBS approach to the prudential treatment of tokenised assets on permissionless systems and a more risk based approach for exposures to crypto assets, while recognising the risk diversification benefits that exposures to crypto assets may have.

We set out our arguments[1] in support of policy option 4 below.

Regulated EMTs should be treated like other short-term liquid assets

MiCAR authorised EMTs are similar to short-term liquid assets such as Money Market Funds (MMFs), due to their focus on liquidity, stability, and low-risk investments.

Like MMFs, EMTs are designed to maintain a stable value (typically 1:1 with a fiat currency, such as EUR or USD), which is crucial for ensuring confidence in their use as a store of value. Both MMFs and EMTs are expected to offer a high degree of liquidity, meaning that they should be able to be bought or sold quickly with minimal price fluctuation.

To ensure that EMTs maintain stability and liquidity, MiCAR imposes certain investment requirements on the funds received by issuers of EMTs. Issuers of EMTs must hold 30%of funds with credit institutions, while the remaining funds can be invested in secure, low risk assets that qualify as highly liquid financial instruments within minimal market risk, credit risk and concentration risk in accordance with Art. 38 of MiCAR, and which are denominated in the same official currency as the one referenced by the EMT.

Given these regulatory safeguards, MiCAR-regulated EMTs should be able to act as a reliable store of value and be treated similarly to MMFs. Therefore, we believe that the proposal that all crypto-asset exposures, including EMTs, are stressed at 100% without diversification, is disproportionate to the risks and negates the establishment of a MICAR

[1] The code and the data to replicate the results of the empirical analysis is available at https://github.com/coinbase-policy/EIOPA-Consultation-2025/

framework for EMTs. We also support the same treatment for well-structured stablecoins more broadly.

We believe that policy option 4 which proposes that tokenized assets, including EMTs authorized under MiCAR, are subject to look through and stressed according to the underlying assets' risk is the preferred option.

Furthermore, not only are MiCAR authorised EMTs similar in risk profile to MMFs, they are also critical tools for participating in the digital economy. Insurance companies that invest in other crypto assets will benefit from using stablecoins to purchase or trade crypto assets. While it is possible to buy crypto assets for fiat, stablecoins allow more efficient transactions, settled atomistically on a 24/7 basis.

Tokenised assets should be stressed according to underlying risks

There is a clear trend towards tokenisation and the use of Distributed Ledger Technology (DLT) in capital markets. Therefore, insurance undertakings will undoubtedly increase their exposure to tokenized assets in time.

It is important that tokenized assets reflect the substance over form principle, meaning that the real economic risks are taken into account regardless of the asset's digital representation. The Capital Requirements Regulation (CRR) transitional measures already allow for a look through approach for tokenised traditional assets, hence we support Solvency II capital requirements to be aligned with this.

We acknowledge that the Basel Committee for Banking Supervision (BCBS) does make a distinction between tokenised assets on permissioned and permissionless systems, with the latter being subject to a 1250% risk weight. We believe that this is not only disproportionate, as it goes beyond the potential loss, but more importantly neglects the legal and operational mitigants in relation to risks of permissionless systems that the BCBS identified itself.[2] BCBS has also indicated that rapid developments relating to the risk management of permissionless systems could generate new solutions which may benefit from further examination, which informs the role of the transition period BCBS has established before its new standards are scheduled to take effect. Accordingly, we would urge EIOPA not to have its own standards on this point take effect prior to those of the BCBS, to avoid possible unintended consequences of inconsistencies between the two regimes.

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[2] *See, e.g.*, Basel Committee on Bank Supervision, *Novel risks, mitigants and uncertainties with permissionless distributed ledger technologies* (28 Aug. 2024) at 7-9 (some proposed methods of mitigating potential risks for banks using DLT may include: business continuity planning, technology-based control over parties and transactions, technology to address privacy/confidentiality/consumer protection risks, and technology to address liquidity risk).

Research and development in the blockchain space is overwhelmingly focused on permissionless networks, giving a strong indication of where future innovation and commercial development will occur. This is because permissionless base layer financial market infrastructure holds unique benefits of permission-based systems in terms of security, resilience and interoperability due to its decentralized nature.

We believe that the unique benefits of permissionless base layer financial market infrastructure are increasingly understood, and may pave the way for a change to the prudential treatment of tokenised assets on permissionless systems in time. It is therefore important to maintain flexibility under Solvency II regime to align with future BCBS changes. This would be guaranteed by adoption of policy option 4 as well.

Prudential requirements for crypto assets should be based on actual risk

The consultation paper proposes to treat crypto-assets like intangible assets, with capital charges that range from 90% to 100%. However, as crypto assets continue to mature as an asset class, the risk profile of individual crypto assets has become clear, allowing the prudential requirements for crypto assets to be based on the actual risks. More specifically, crypto assets behave like Type 1 equities (i.e. equities listed in regulated EEA/OECD markets) and should be treated as such for the purpose of prudential requirements.

While we concur with the Consultation that, since the their inception, Bitcoin has experienced a maximum annual drawdown of approximately 80%, while Ethereum's drawdown has reached around 90%, these facts must be assessed in context to determine the actual risk of these and other cryptoassets:

1. **Comparable drawdowns in traditional markets:** Some EU-listed stocks exhibit similar levels of drawdowns, but receive vastly different regulatory treatment.
2. **Declining investment risk in cryptoassets:** Over the past five years, the volatility and risk associated with cryptoassets have steadily decreased.
3. **Systematic risk in line with traditional assets:** The systematic risk (beta) of cryptoassets is comparable to that of the average EU-listed stock.

Below, we present empirical evidence to support these three points:

1. Traditional markets experience comparable drawdowns

Drawdowns of 80% are not uncommon in traditional stock markets. Figure 1 shows the maximum annual drawdowns and 99.5% Value at Risk (VaR) for EU-listed stock components of the Stoxx 600 index, alongside Bitcoin and Ethereum, over the past 10 years. It reveals that certain stocks have experienced drawdowns and VaR levels exceeding Bitcoin's maximum drawdown. Despite this, these stocks are subject to a

capital charge of only 39%, compared to the proposed 80%-100% capital charge for cryptoassets.

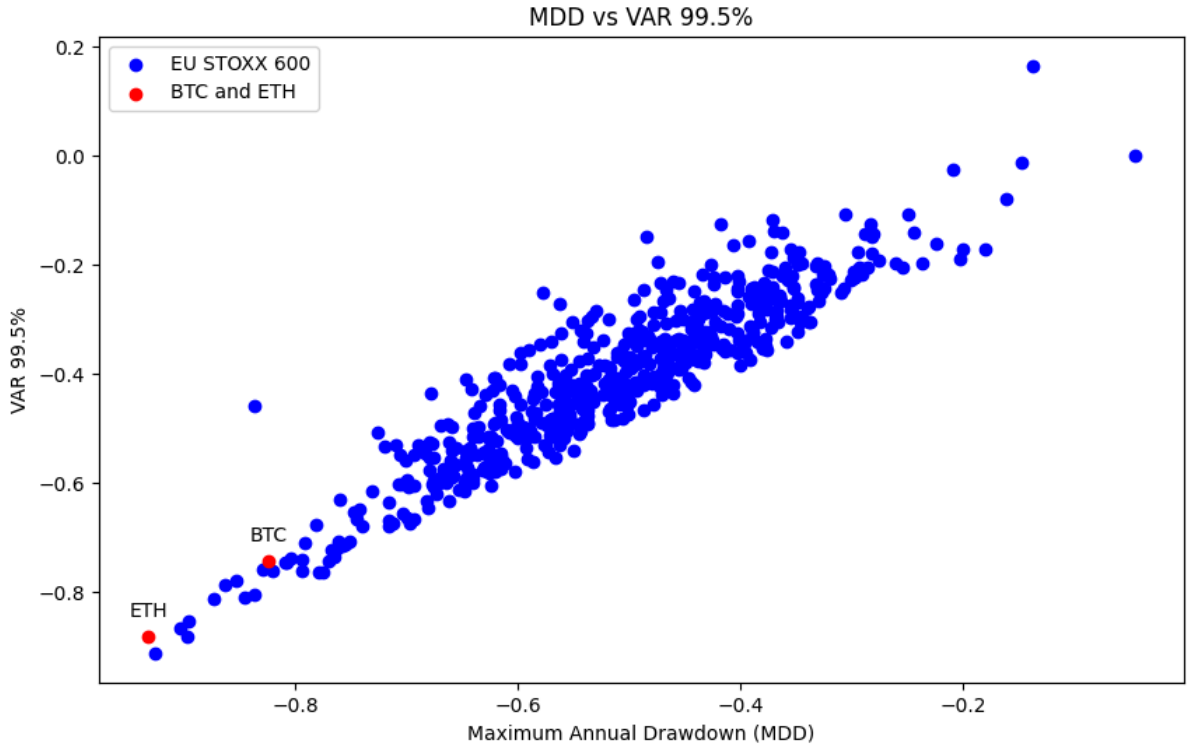

Figure 1: Maximum Annual Drawdowns and 99.5% Value at Risk – Stoxx 600 Stocks vs. Cryptoassets

2. Declining investment risk in crypto assets

The crypto market has matured significantly in the past five years due to developments such as the introduction of regulatory frameworks (e.g., MiCA), the growing adoption of cryptocurrencies, the entry of institutional investors, and the launch of crypto ETFs. These advancements have contributed to a reduction in the return volatility of cryptoassets.

Figure 2 demonstrates that the 1-year rolling daily return volatility of Bitcoin and Ethereum has halved since 2018. Consequently, the magnitude of annual drawdowns has also declined. As shown in Figure 3, the maximum drawdowns highlighted in the consultation (80%-90%) occurred in 2019, whereas, over the past five years, drawdowns have aligned more closely with the median levels observed among Stoxx 600 stocks.

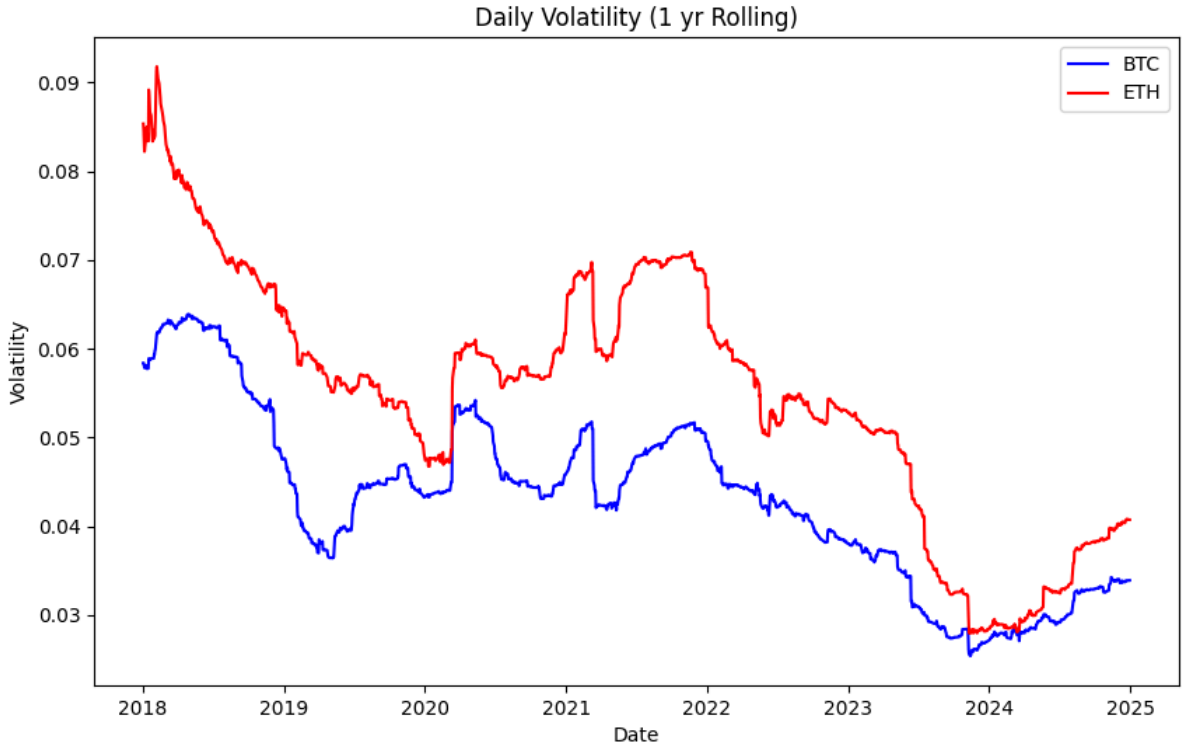

Figure 2: Daily Return Volatility (1-Year Rolling) – Bitcoin and Ethereum

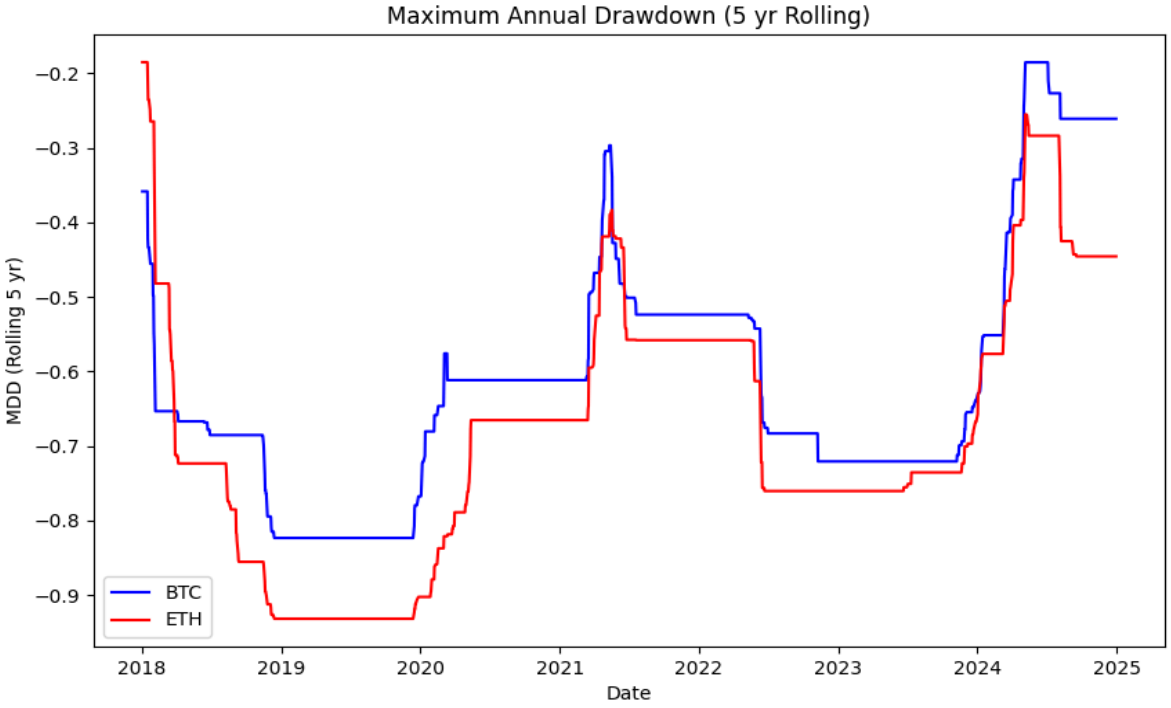

Figure 3: Maximum Annual Drawdowns (5-Year Rolling) – Bitcoin and Ethereum

The proposed capital charge for cryptoassets would therefore impose a far higher penalty than for other assets with comparable risk levels.

We recognize that BTC and ETH are among the cryptoassets with the most significant adoption, including among institutions, and that assets with different levels of adoption, use cases, and liquidity may behave differently. We also expect this to evolve over time, for example, as firms seek to launch ETFs referencing other crypto assets in the near future. The benefit of the proposed approach is that it captures potential differences and changes in risk profile without needlessly preventing insurance companies from realizing the benefits of investing in such assets. In short– it is proportional to the actual risks faced by the insurance company when including specific assets in its portfolio.

3. Systematic risk and portfolio diversification

Modern Portfolio Theory pioneered by Markowitz (1952) highlights that risk in a diversified portfolio depends on both volatility and correlation. While cryptoassets exhibit higher average (though declining) volatility than stocks, they also have a lower correlation with traditional markets, as shown in Figure 4.

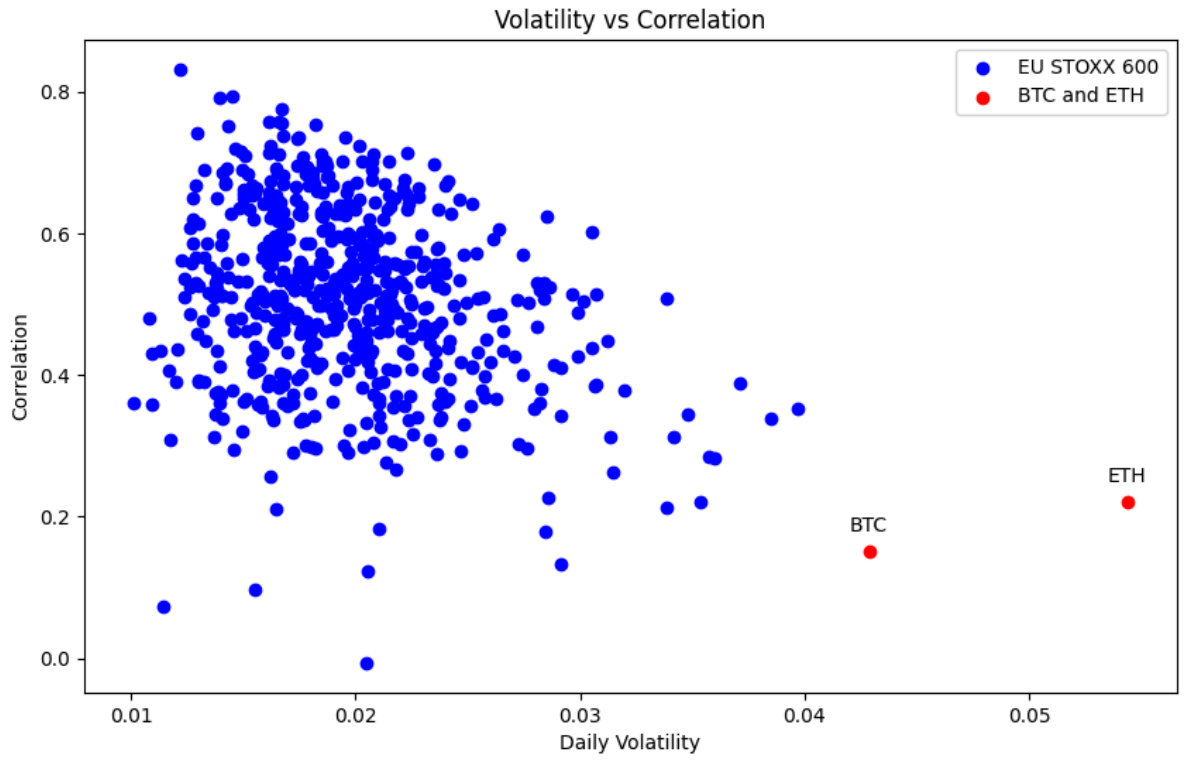

Figure 4: Volatility vs. Correlation with Stoxx 600 Index – Stocks vs. Cryptoassets

A key conclusion of mean-variance analysis is that an asset's contribution to portfolio risk is determined by its beta, which combines volatility and correlation. As demonstrated in Figure 5, the betas for Bitcoin and Ethereum (ranging between 0.75 and 1.25) are comparable to those of many EU-listed

stocks. Furthermore, institutional investors are also able to hedge exposures to crypto assets through use of regulated crypto derivatives which should also be recognised as a means to manage risks and enhance the ability of institutions to take positions in the market.

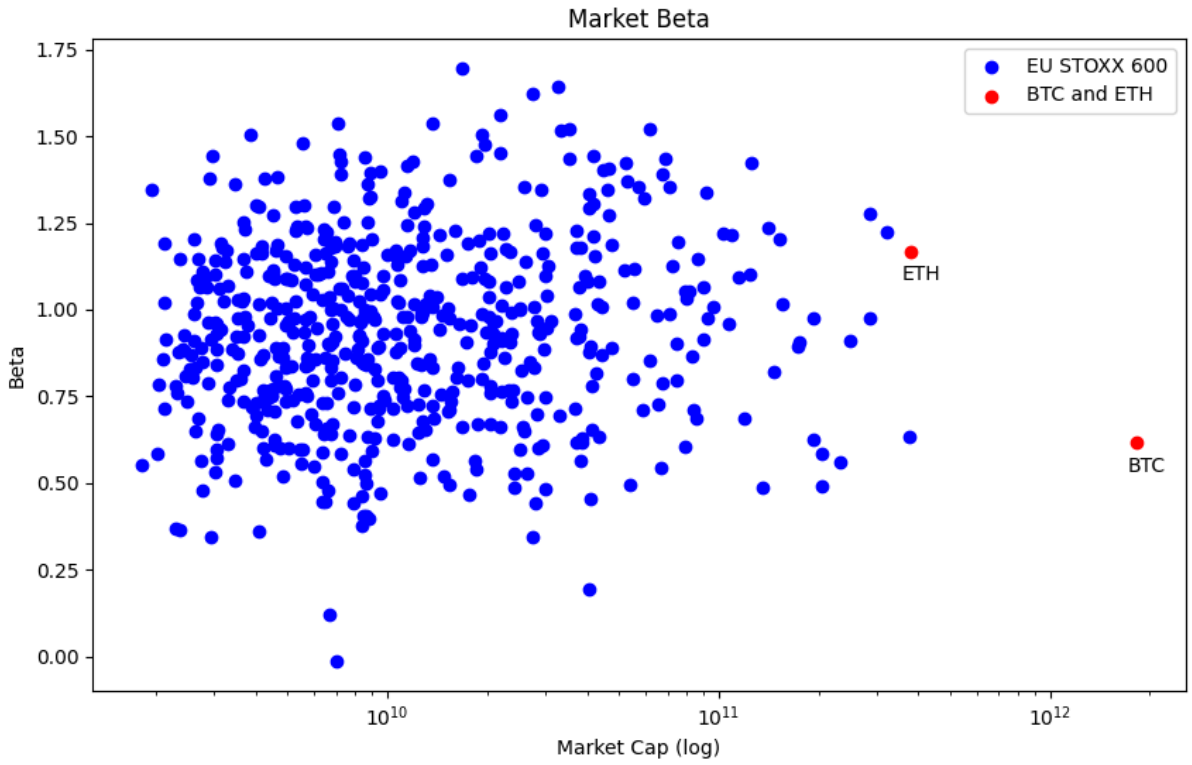

Figure 5: Market Beta – Stoxx 600 Stocks, Bitcoin, and Ethereum

Finally, we agree with the consultation's recommendation that no distinction should be made between direct and indirect exposures to cryptoassets. However, exposure via funds, such as exchange-traded funds (ETFs), offers advantages for institutional investors and insurance companies. These include reduced operational complexity (e.g., custody and security), lower compliance risks, improved liquidity management, and better diversification, particularly when funds hold a mix of assets.

Conclusion

We believe that policy option 4, which proposes that tokenized assets, including EMTs authorized under MiCAR, are subject to look through and stressed according to the underlying assets' risk is the preferred option. This reflects MiCAR's establishment of a regulatory framework for crypto assets, acknowledging potential variations in risk among different categories of crypto-assets. At the same time, we believe it is important to maintain flexibility under Solvency II regime to align with future BCBS changes for prudential treatment of tokenised assets on permissionless systems and exposures to crypto assets.

As noted above, empirical evidence demonstrates that cryptoassets such as Bitcoin and Ethereum have risk profiles comparable to EU-listed stocks. Imposing disproportionate capital charges (e.g., 80%-100%) on cryptoassets would create an unlevel playing field across asset classes. We therefore recommend stress testing assets according to their underlying risk rather than applying unnuanced and inaccurate blanket stress assumptions.

Perhaps most importantly, a policy approach that reflects the actual risks of investment in crypto assets will allow insurance companies to benefit from the potential for high returns and risk diversification presented by a well-managed portfolio that includes exposures to crypto assets.