The Basel Committee's prudential treatment of crypto exposures

Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland and Germany),
Solicitor (England & Wales and Hong Kong)
Of Counsel, KGP Legal LLC
alexander.ressos@kgplegal.com.sg
www.ressos.com.sg

The BCBS published its standard on the prudential treatment of cryptoasset exposures on 16 December 2022 as a new chapter SCO60 of the consolidated Basel Framework, for implementation by 1 January 2025. It divides crypto assets into two groups. Group 1 covers tokenised traditional assets (Group 1a) and stablecoins that pass a redemption-risk test and a basis-risk test (Group 1b). Both receive the capital treatment of the underlying exposure, subject to an infrastructure risk add-on that supervisors may activate. Group 2 covers everything else, including bitcoin, ether and stablecoins that fail the tests. Group 2a assets, for which hedging recognition criteria are met, receive a modified market-risk treatment. Group 2b assets receive a risk weight of 1,250 per cent, which means that a bank must hold capital equal to the full exposure. Total Group 2 exposure is limited to 1 per cent of Tier 1 capital, with a hard ceiling of 2 per cent beyond which the whole Group 2 book is treated as Group 2b.[1] On 17 July 2024 the Committee adopted targeted amendments tightening the criteria for stablecoins to qualify as Group 1b, in particular the composition and maturity of reserve assets, and moved the implementation date to 1 January 2026.[2]

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The standard matters to the two hubs because both are banking centres with banks that hold or custody crypto assets. Switzerland implemented the Basel III final standards through the revised Capital Adequacy Ordinance and FINMA circulars with effect from 1 January 2025 and incorporated the crypto-asset standard for its banks. Swiss crypto banks such as Sygnum and AMINA therefore hold capital at the 1,250 per cent weight for proprietary Group 2 exposure, while custody of client assets off balance sheet attracts operational-risk capital only. Singapore implemented SCO60 through amendments to MAS Notice 637 for locally incorporated banks. In both places the standard explains why banks will custody crypto for clients, which the standard treats lightly, but will not hold crypto on their own books, which the standard makes uneconomic. The standard also explains why bank-issued stablecoins are structured as tokenised deposits (Group 1a) and not as freestanding stablecoins (Group 1b at best).[3]

Zug perspective

A Zug fintech that wants a Swiss bank to hold its treasury tokens should understand what the bank's capital department sees. Custody of the tokens for the fintech is an off-balance-sheet service that costs the bank little capital, so most crypto-friendly banks will offer it. Lending against the tokens creates a Group 2 exposure for the bank's collateral, where the 1,250 per cent weight means the bank effectively cannot count the collateral at all. The Lombard loan on crypto that Part D, Chapter VI, discusses is therefore priced as an unsecured loan by any bank that applies SCO60 in full. The practical answer is a custody relationship with the bank and a credit line from a non-bank lender, or a tokenised deposit that falls into Group 1a.

Notes

1. BCBS, Prudential treatment of cryptoasset exposures, 16 December 2022, published as chapter SCO60 of the Basel Framework, for implementation by 1 January 2025. The Group 1/Group 2 classification, the 1,250 % risk weight for Group 2b and the 1 %/2 % Tier 1 limits are in SCO60.8 ff., SCO60.85 ff. and SCO60.120 ff. ↩

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2. BCBS, Cryptoasset standard amendments, 17 July 2024, consolidated into SCO60, agreed for implementation by 1 January 2026. ↩
3. Capital Adequacy Ordinance (CAO; ERV, SR 952.03), as revised with effect from 1 January 2025. FINMA Circular 2025/2 "Credit risks – banks" and related circulars implementing the final Basel III standards. MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore, as amended to incorporate the cryptoasset exposure standard. ↩

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Author contact: Dr Alexander Ressos, TEP · contact@ressos.com