DIGITAL TOKEN IDENTIFIER FOUNDATION

Digital Token Identifier Foundation (DTIF)
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To: Financial Conduct Authority

Re: DP23/4: Regulating cryptoassets Phase 1: Stablecoins

The Digital Token Identifier Foundation (DTIF)[1] and its Product Advisory Committee (PAC) welcome the opportunity to respond to the Financial Conduct Authority (FCA) discussion paper on '*Regulating cryptoassets Phase 1: Stablecoins*' (hereafter referred to as the 'discussion paper') to introduce the proposed approach to regulating fiat-backed stablecoins, which may be used for payments.

The DTIF is the Registration Authority for the International Organization for Standardization (ISO) 24165 Digital Token Identifier (DTI) standard[2], an ISO standard that enables the unique identification of all fungible digital assets which use distributed ledger technology (DLT) for token issuance, storage, exchange, a record of ownership, or transaction validation. The DTI itself comprises a code - a random, unique combination of nine alphanumeric characters allocated to a digital token - and a record of data relevant to that token (the reference data), which is held by the DTIF. The reference data provides information about the DLT on which the token is deployed, as well as token technical attributes (such as address, name(s) and any external identifiers).

The DTIF's mission is to provide the golden source reference data for the unique identification of digital tokens. The DTIF issues and maintains DTIs on a non-profit basis, to increase transparency in the digital asset space by creating a core reference data set based on open data principles and made available as a public good.

The DTIF welcomes the objectives of the proposed regulatory regime on fiat-backed stablecoins to mitigate risks to consumer protection and market integrity, while following an outcomes-based, technology-agnostic approach. The DTI ISO standard was established to enhance efficiencies within crypto and digital asset

[1] The DTI Foundation is a non-profit division of Etrading Software Limited: https://etradingsoftware.com/
[2] ISO 24165-1:2021 and ISO 24165-2:2021, Digital token identifier (DTI)

markets, assisting regulators and market participants in managing risks through greater transparency. In particular, the use of the DTI, a globally consistent identification standard for digital tokens, could be integrated within the proposed regulatory regime to provide additional consistency and transparency to regulators and market participants.

Internationally recognised ISO standards, such as ISO 6166, ISO 17442, and ISO 10383 for defining ISINs, LEIs, and MICs respectively, have proven effective in establishing a harmonised framework of identification for regulators, market participants and infrastructure providers across financial markets. The ISO 24165 DTI standard is recognised as the global standard for the identification of digital tokens, including stablecoins, and is being increasingly adopted by market stakeholders and recognised by regulators. For instance, the European Securities and Markets Authority (ESMA) has proposed the use of the DTI to identify cryptoassets under the European Union's Markets in Crypto Assets Regulation (MiCA) for record-keeping, disclosure and reporting requirements.

The following sections outline how the DTI supports various proposals set out within the discussion paper, particularly addressing record-keeping, communicating information, client disclosures and statements, and operational resilience through (i) the classification of DLT networks and digital tokens and (ii) the assessment of risks associated with cryptoasset technology.

DTI supports classification of digital tokens and DLT networks

A standardised form of identification will facilitate the consistent classification of DLT networks and digital tokens across all stakeholders involved in digital asset markets. The DTI is a globally recognised ISO standard that provides guaranteed uniqueness of digital tokens and DLT networks based on objective and verifiable technical data across different platforms, systems, and jurisdictions.

- *Digital Tokens:* Cryptoasset names are not standardised or unique across crypto exchanges, therefore, any disclosures should relate to a global standard, such as the DTI, to ensure clarity and avoid confusion. As an example, names such as "USDT" or "Tether USD" lack clarity as numerous tokens share these designations. By uniquely identifying each token through its technical specifications, the DTI can assist market participants in verifying that they are holding and comparing the same cryptoasset. A standardised token identifier would support the accuracy and usefulness of any record-keeping requirements set out in sections 3.20 to 3.27 of the discussion paper. Additionally, a DTI alongside the description as set out within section 4.5 on *Communicating*

information would provide a more accurate and consistent identification of the regulated stablecoin for consumers.

- *DLT networks*: In the cryptoasset market, a digital asset may be issued on multiple DLTs and traded or settled on multiple DLT market infrastructures. The 2017 BIS CPMI report on distributed ledger technology in payment, clearing and settlement identified several DLT-specific risks[3] - each DLT network has a different combination of these risks. The DTI uniquely identifies and links cryptoassets with their respective DLT network, allowing market participants and regulators to understand and monitor network risks for each cryptoasset. For example, the TetherUSD DTI on the Ethereum network (2QWSBDMNC) links to the Ethereum ledger identifier, and the TetherUSD DTI on the TRON network (C9N6ZVN7S) links to the TRON ledger identifier. The FCA for these reasons may consider the benefits of requiring custodians to report DTIs alongside client disclosures and statements for cryptoasset holdings, as set out within section 5.43.

In the case of multiple DLT financial instruments across different DLT networks that are deemed to be functionally fungible (not technically compatible, but considered equivalent), a DTI can be issued to represent the group of tokens. To date, fourteen unique DTIs have been allocated to different token implementations of TetherUSD and linked at the asset level to FFG DTI L09Q657BK and ISIN XTL09Q657BK6. The DTI in this case can enhance market transparency by enabling aggregation of the order and market data across multiple chains across the functionally fungible tokens.

DTI supports cryptoasset risk assessments

Reference data linked to the DTI can help customers and regulators assess risks associated with specific stablecoins. As referenced within the discussion paper under section 6.12 on *Operational resilience*, IOSCO has previously highlighted the importance of cryptoasset firms being able to identify relevant important operational and technological risks within its *Policy recommendations for Crypto and Digital Asset Markets*. The DTIF considers the ISO 24165 DTI to be an important tool for both institutional and retail customers to understand unique risk profiles associated with digital tokens, including stablecoins. Technical information captured by the DTI Registry on stablecoins to support such assessments includes, among others:

- *Protocols:* The mechanism/protocol used to create a digital token, such as ERC-20 used for Ethereum.

[3] BIS CPMI report (2017). DLT-specific risks: operational and security risks, settlement issues, legal risks, governance, data management and protection

- *Distributed Ledger Identifier:* Unique identification of the distributed ledger/DLT Network where the stablecoin is implemented.
- *Public distributed ledger indicator*: Whether access to reading the distributed ledger is unrestricted (versus private/permissioned) – whether the data elements specified in the DTI Registry are accessible for independent verification by the general public.
- *Additional non-technical information*: Informative attributes are captured to provide additional reference to the token, such as long/short names, reference implementation URLs and any DTI validation status, if applicable.

The DTIF would note that it is open to capturing additional details based on market and regulatory demand.

When configuring systems to consume data directly from the chain, regulators will need to ensure the link between the DLT financial instrument and the associated chain(s) where transaction data resides is understood. The DTI metadata provides a link between the DLT financial instrument and the chain(s) where the token is implemented, thereby providing a machine-readable mechanism to identify which chain(s) the transaction data will be available on. The DTI is agnostic to the technical implementation of the distributed ledger, with token reference data available for both public and private blockchains. It is also used to represent a wide range of cryptoassets – tokenised and native financial instruments represented as security tokens, stablecoins and other asset-based tokens, e-money tokens, cryptocurrencies, utility tokens, and digital or virtual assets.

We are available to answer any questions you may have and would welcome the opportunity to discuss the ISO 24165 DTI standard further with the FCA. Please do not hesitate to contact us at secretariat@dtif.org.