



Advance Notice on Upcoming Stablecoin Regulation

Advance Notice Of Proposed Rulemaking (ANPRM) On Stablecoins

Catawba Digital Economic Zone
Zone Authority Commission
September 7th, 2022

The **Catawba Indian Nation**, through its General Council, approved the creation of the [Catawba Digital Economic Zone– CDEZ](#). The CDEZ is a [special economic zone](#) under the sovereignty of the Catawba Nation, built to enable Web3 companies, digital assets, and fintech. The Zone features a best-in-class legal code, a streamlined company registration platform, and a proactive regulatory body, making it one of the most competitive jurisdictions for digital industries.

Since its creation, the CDEZ has enacted regulations on [digital assets](#), adopted the [UCC Amendments](#) including the new Article 12 on Controllable Electronic Records, and published [Proposed Rules on DAOs](#).

According to the Zone Civil Ordinance, the CDEZ is governed by the Zone Authority, which is in charge of creating and enforcing regulations within the CDEZ. As part of its duties as a regulatory authority, the Zone Authority may request information for upcoming regulations in the form of an **Advance Notice of Proposed Rulemaking (ANPRM)** pursuant to Section 303 of the CDEZ's Administrative Procedures Regulation.

An ANPRM is a preliminary notice stating that the Zone Authority is considering regulatory action before it develops a fully detailed proposed rule. It describes the general area that is subject to regulation and asks for public comment on the issues and alternatives being discussed. Below you can find the Zone Authority's ANPRM on Stablecoin Regulation.

Purpose of this ANPRM

The goal of this ANPRM is to request relevant information from the industry, digital banks, regulatory agencies, stablecoin issuers and users, developers, practitioners, regulators, legal teams, web3 companies, and blockchain users that may be familiar with Stablecoins. The Zone Authority is interested in finding issues of public concern that are currently relevant to the issuance and operation of stablecoin for the proposed regulation. The main topics included in this ANPRM are:

- Risks assessed





- Oversight
- Backing
- Entity types
- Audits/attestations
- Privacy

Channels

The Zone Authority accepts public comments through its Discord Server, website form and email. The relevant links and addresses to respond can be found below:

- [CDEZ Discord Server](#)
- [Online Form](#)
- stablecoins@zoneauthority.io

What is a Stablecoin?

Stablecoins are a type of digital asset the value of which is pegged or linked to the market price of another asset, as may be to that of a fiat currency like the U.S. Dollar or Euro, commodity (like gold) or financial instrument. Stablecoins have gained considerable growth as they provide an alternative to the high volatility of the most popular cryptocurrencies including Bitcoin (BTC), which has made such digital assets less suitable for wide payment transactions. There are currently different types of stablecoins including fiat-backed, crypto-backed, commodity-backed and algorithmic stablecoins.

How are stablecoins currently regulated?

Federal regulators do not currently have specific regulations in place to oversee stablecoin issuers. Nonetheless, there are several bills that have been recently proposed on the matter, including bills put forward by U.S. Senators Toomey, Lummis, Gillibrand, as well as Guidance on the issuance of U.S. Dollar-Backed Stablecoins by the Superintendent of Financial Services of New York. New York state is the only state in the nation currently to oversee stablecoin issuers.

Why are they relevant?

Major stablecoins were impacted and are still recuperating from the recent crypto crash that wiped out an estimated US\$ 2 trillion from the market. It started when algorithmic stablecoin TerraUSD lost its peg to the dollar, triggering a slide causing sister currency Luna to crash. Collateralized stablecoins are kept stable using collateralized assets, while algorithmic stablecoins are kept stable using smart



contract algorithms. Regulation to avoid these types of situations is considered imperative.

ANPRM Questions

The following are a series of proposed questions to be included in the Advance Notice of Proposed Rulemaking (ANPRM) on Stablecoins. You may choose to answer some or all questions.

The Zone Authority invites the public to comment on the issues discussed below:

a.) Risks

1. What are the reasons that make regulating the issuance of stablecoins an urgent matter?
2. What type of regulations should stablecoin issuers be subject to?
3. What precautions can be put in place by a regulator, if any, for stablecoins not to be able to circumvent money laundering and terrorism financing laws and/or evade possible sanctions?
4. How could stablecoins impact the traditional banking system in the U.S. and how could any negative effects to the financial system be avoided through regulation?
5. What is likely to happen to stablecoins with the adoption of a Central Bank Digital Currency (CBDC)? Will they coexist or would stablecoins tend to disappear, and why?
6. What are the risks that the CDEZ should address through regulations to protect investors and users?



7. How should a CDEZ stablecoin regulation mitigate the technological risk associated with hacks and exploits?

b) Oversight

1. What core stablecoin elements should the CDEZ regulate and oversee?
2. What should be the core responsibilities of a regulator in regulating stablecoins?
3. What does the absence of appropriate oversight on stablecoin imply to users and investors?
4. How can the CDEZ stablecoin regulation strive to achieve a balance between market innovation, integrity, consumer protection, and safeguarding against illicit activity?
5. What kind of digital assets and core attributes of stablecoins should be subject to this regulation?

c) Backing

1. What should be the legal status of algorithmic stablecoins?
2. On what basis/terms should the public disclosure of assets backing stablecoins be done?
3. How should publicly adopted policies be disclosed and informed on the redeeming of stablecoins, including indications of such requests being met on demand or with a time lag?



4. Besides fiat and fiat equivalents or tier 1 assets in the U.S., what other assets should qualify as reserves or assets backing stablecoins?

d) Entity types

1. Should stablecoin issuers be required to be insured depository institutions to guard against stablecoin runs and protect users and why?
2. What other stablecoin issuers should be subject to oversight at the CDEZ level?
3. Should stablecoin issuers be classified as banks and therefore be subject to the same standards and regulations and why?
4. What other service providers should be subject to the CDEZ's Stablecoin regulation (yield farming, etc.)

e) Audits / Attestations

1. Should Audits / Attestations be required for all stablecoin issuers?
2. To what extent should audits/attestations of stablecoin issuers and the assets backing them be done?
3. What type of entities, accounting firms or certified individuals should carry out audits/attestations to stablecoin issuers and the assets backing them?
4. In what contexts or circumstances should audits/attestations be done?



5. With what frequency should audits/attestations to stablecoin issuers be carried out?

f) Privacy

1. What data privacy provisions should the CDEZ apply in order to strive for a balance between user privacy and user protection as well as avoid illicit finance?
2. To what extent should wallet holders be required to reveal personal information about the ownership of the wallet in due process requirements?
3. To what extent should stablecoin issuers be required to collect and disclose information on stablecoin purchasers?
4. What exceptions should be in place for reporting/disclosure of information?

You can help us grow and stabilize the digital asset industry by responding to this ANPRM through any of the channels listed below.

- [CDEZ Discord Server](#)
- [Online Form](#)
- stablecoins@zoneauthority.io

A handwritten signature in black ink, appearing to read "S. Trimnal", is positioned above a horizontal line.

Sam Trimnal

Chairman

CDEZ Zone Authority

