# Discussion of "Risk-based Capital for Stable Value Tokens"

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# Paper Summary: TCAF Framework

- Proposes TCAF: risk-based capital model for stablecoins.
- Covers financial (market, credit) & non-financial (tech, ops) risks.
- Methodology uses stress tests, VaR, and liquidation impact.

# Contributions

- Addresses complex non-financial risks unique to tokens.
- Advocates risk-sensitivity over static fixed ratios.
- Provides a tailored capital assessment methodology.

# Critique: Hindsight vs. Foresight

- TCAF calibration demonstrated well on past failures (SVB, Terra).
- Parameterizing risk is simpler after the fact.
- Prospectively calibrating for novel risks remains the core challenge.

# Context: Persistent Exchange Risk

- Recent major hacks: Bybit ('25, $1.5B), DMM ('24, $305M), WazirX ('24, $235M).
- History is replete with failures: Mt. Gox, FTX, QuadrigaCX, etc.
- Centralized counterparty risk remains acute.

# Context: Persistent Protocol Risk

- Code is law, until exploited: Curve ('23, $69M), Ronin ('22, $600M+).
- Vulnerabilities persist in smart contracts and bridges.
- Poly Network ('21, $611M initial) highlights interoperability risk.
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- An Ethereum hack on 7% of the days (Azar and Farboodi, 2025)

# Context: Interconnectedness And Amplification

- DeFi risks cascade; Curve hack impacted Aave via collateral price drops.
- Flash loans amplify exploit potential and contagion effects.
- Novel structures (e.g., tokenized T-bills, bridges) introduce new links.

# Key Question: Collateral Quality

- TCAF implicitly favors HQLA (Treasuries) over volatile crypto.
- Why should crypto assets ever qualify as eligible reserve collateral?
- Mixing collateral complicates risk assessment and potential stability.

# Caution: Misinterpretations

- Frameworks and official statements can create unintended interpretations.
- The Hinman speech controversy in the SEC vs. Ripple case serves as an example.
- Clear, consistent regulatory approaches are crucial.