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Crypto-assets, acknowledging the potential benefits, tackling the actual challenges

In the past 10 years, a new class of assets has emerged, the so-called crypto-assets. If the first generation, like the Bitcoin, was essentially of speculative nature, we are now seeing a number of market initiatives, still building on the potential offered by the DLT technology but based on mechanisms designed to ensure the stability of their value, and for this reason generally referred to as stablecoins.

These initiatives are diverse in their nature and features, but aim at bringing improvements in payments. Some intend inter alia to make cross-payments quicker and cheaper and to improve financial inclusion – and progress is indisputably needed there. Others tend to pave the way for faster settlements between financial intermediaries. As such, the various projects must be looked at with lucidity and technological neutrality.

At the same time, we must be fully aware of the challenges they raise. The stablecoins indeed form settlement assets that may compete against commercial and central bank money at the center of our payment systems. As many central bankers have stressed, today's crypto-assets do not satisfactorily offer the qualities expected from a settlement asset to be used interchangeably with commercial bank and central bank money. This highlights the misleading nature of the name of "crypto-currency".

From that perspective, as pointed out by the G7 in its October 2019 report under the French presidency, stablecoins of potential large size and reach may not only pose risks in terms of legal certainty, money laundering and terrorist financing, consumer and investor protection, but also raise additional challenges to competition policy, financial and monetary stability.

The preferred response should be to establish appropriate regulations to reconcile the need to address risks and the preservation of the potential for technological innovation offered by crypto-assets. This has to be done according to the "same business, same risk, same rule" principle so that a risk-based and proportionate regulation and oversight be applied to stablecoins.

We need proper regulation and oversight to make them part of the solution, not part of the problem. At global level, the Financial Stability Board has been mandated to assess potential regulatory and supervisory gaps and to suggest a potential way forward to handle them.

This does not mean that the sole response from the public authorities should be defensive. Where innovation helps the financial system function more efficiently, it must be supported, as central banks have kept doing since decades. The private sector, to the extent that it does bring improvements without inducing unaddressed new risks, is of course best placed here, be it for front-end or back-end payment solutions. Central banks have also a role to play, as issuers of the reference settlement asset and operators of critical payments infrastructures. This is why Banque de France will experiment a wholesale Central bank digital currency, with a view to fooding Eurosystem thoughts. This is why also it fully supports - and actively contributes to - the G20 roadmap on the improvement of cross-border payments. ●