Benoît Cœuré: Interview with Bloomberg

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and Bloomberg, conducted by Ms Jana Randow and Mr Piotr Skolimowski on 10 October 2019 and published on 17 October 2019.

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Mr Cœuré, the working group on stablecoins you've been chairing is expected to provide policy recommendations to G7 ministers on 17 October. What will be the gist of what you're going to tell them?

It's important to expand the discussion on global stablecoins to embrace the broader context of technological changes in payments so that we may have a wider discussion on the mix of solutions – both public and private – that can bring the benefits of technological improvements to the end users. Stablecoins are only one component of this discussion. They raise a multifaceted technological and regulatory debate, covering financial regulation and anti-money laundering, as well as non-financial issues such as privacy, data and taxes. Stablecoins also raise deeper public-policy issues, particularly regarding the definition of money and monetary sovereignty.

The report offers a framework for exploring these and related topics. It helps to structure the discussion, starting with how global payments work, what the shortcomings are and how stablecoins fit into this discussion, before addressing a number of issues specifically related to global stablecoins.

How important is it to tackle the issue jointly at the global level?

It's essential that the discussion of global stablecoins is inclusive. If and when stablecoins become live and reach global scale, they will have a different impact in different jurisdictions. Scale is important here.

What we want to see is international cooperation and coordination on regulatory approaches, potentially leading, as needed, to international standards – which we already have in some fields such as payments. All jurisdictions are now reviewing existing regulation to see how it applies to stablecoins. In Europe, the European Commission is carrying out this review. We will have to consider whether the existing regulations suffice or whether they will have to be adapted to address stablecoins.

That's why this discussion is also taking place at the G20 level, and I would argue it should go beyond the G20 perimeter so we can reach out to developing countries too. We very much count on the IMF and the World Bank to help us on that.

Are any jurisdictions more vulnerable than others?

The stakes are probably higher in small, open, developing economies. On the one hand, they may enjoy more potential benefits in the form of cheaper and faster payments, in particular for cross-border payments and remittances, and more financial inclusion. On the other, they may incur higher costs owing to the possible risks relating to monetary policy transmission and monetary sovereignty, in particular in economies which are partly dollarised. "Dollarisation" can easily morph into "stablecoinisation" (with apologies for the neologism!). We're flagging this in the report and it deserves closer consideration, which in my view the IMF should lead.

This is just the start of what looks like a long process of tackling the challenges of stablecoins. What would be the next immediate steps?

The plan is to pass the baton to the Financial Stability Board (FSB). The FSB has launched a new working group on the regulatory implications of stablecoins, which I co-chair with Chia Der Jiun from the Monetary Authority of Singapore. This group will focus on regulatory frameworks and approaches, starting with a stocktake of how different jurisdictions intend to deal with stablecoins. This will feed into a report that will be submitted for public consultation in April 2020.

Can you give us a flavour of the scope of the challenges stablecoin projects involve?

The list of issues raised by all stablecoin projects is already quite long, as you know from our July report. They relate to legal certainty – to put it simply, on what or whom is the stablecoin a claim – and also to the governance and the architecture of each project. Other aspects have to do with compliance with money laundering and anti-terrorism financing rules and the question of whether a stablecoin payment system is safe and efficient enough. We can use existing international standards as a reference in this regard.

Then there are issues related to operational resilience and cybersecurity, market integrity and investor protection, and data protection, particularly segregation between payment data and data being produced in a social network. And you have issues with tax compliance.

Whenever these projects are based on existing global networks, there's a chance that they may reach a critical size very quickly, which raises additional potential issues relating to financial stability, monetary policy and the functioning of the international monetary system.

According to Kenneth Rogoff, some prominent central banker told him the goal is to regulate Libra into oblivion. Is that a sentiment you share?

The G7 report is not technology-specific and it is not company-specific. There are different stablecoin projects and there will be new ones. We want to set principles that are applicable to all. It's too early in the process to say whether individual projects will meet these principles.

There is certainly no judgement that stablecoins shouldn't exist. In the case of Europe, neither the Commission nor the ECB intend to make Europe a no-fly zone for stablecoins. But stablecoins will have to meet the highest regulatory standards and adhere to broader public policy goals. When we talk about people's money, there is no trade-off between innovation and safety. We want to see both, as we do for any payment instrument.

Depending on the design and the details of each stablecoin initiative, the approval would be contingent on meeting the highest existing standards. It might also require new regulations and be contingent on adherence to broader public-policy goals. The bottom line is that the bar will be very high and it's too early to tell whether it will be reached.

Are there any projects that might be easier to handle than others?

I see substantial differences between projects aimed at retail participants and those confined to the wholesale world. It's more likely in my view that existing regulations would broadly apply to wholesale projects rather than to retail projects. But it's all very tentative and there's no conclusion yet.

With Libra, we're looking at a player that'll dominate the market. Is that a concern you have?

In the discussion on fintech regulation we've been accustomed to discussing small-scale projects. By and large, until recently, we've taken a sandbox approach to fintech regulation under which we could afford to give projects a chance and see how risks materialise. That's possible when the project is small enough. But now we have an elephant in the sandbox. So that approach doesn't work anymore.

What happens if the coin reaches a global scale? You have questions relating to the fair use of client data and to possible services that may not be planned initially, but could develop in the ecosystem, like what happens if a deposit-taking or lending activity emerges around the stablecoin, in which case it should be regulated as banking activity.

Are we then at the beginning of an historic shift in our approach toward money and payments?

The payment universe, both locally and globally, has evolved very rapidly over the past five years. The last wave of technological change in payments was 20 years ago when central banks introduced real-time gross settlement systems (in our case, TARGET followed by TARGET2). The new wave is more focused on retail payments and driven by technology.

Before passing any judgement, we have to start from the principle that innovation is good because it makes payments cheaper and faster. That's an area where we're learning a great deal from our African and Latin American colleagues. There's a lot of leapfrogging toward innovative solutions. In the end, the new landscape will be a mix of public and private solutions.

So the key question for the years to come is how to combine core public infrastructures like the ECB's fast payment platform, TIPS, with private systems, and what impulse central banks can give to make this happen in an integrated way. This is a particular challenge in Europe where the retail payment world remains fragmented along national lines. The Eurosystem is working on it. We'd better act fast here, because we don't want this new world of payments to be dominated solely by US and Chinese actors. Europe has a particular interest in developing its own approach and standards so it can be safe and efficient at home and attractive as an international reference.

How do stablecoins, private and public, fit into this discussion?

Stablecoins have the potential to leverage technological change to bring new and cheaper services to customers – provided that the long list of risks I highlighted is addressed properly. You're asking me whether a public stablecoin will also fit into this landscape. That's an area where we're treading very carefully because the prospects differ across jurisdictions. Central bank digital currencies (CBDCs) raise a number of serious questions to which we don't yet have answers. Although they might look like an attractive proposition for individuals wishing to reap the benefits of technology while holding a safe store of value, they may have shortcomings of their own: there are many ways to implement CBDCs, which we need to study carefully. If they make bank funding more fragile and more vulnerable to liquidity shocks and bank runs, then they might be bad for financial stability and financial intermediation. Central banks shouldn't have their heads in the sand and avoid that discussion. At the same time, we have to think through the consequences.

If people have access to digital central bank money, isn't the central bank entering an unfair competition with the private sector?

If the demand for cash in a country collapses, citizens would be left with no option but to use commercial money, even for small payments. There's a good case to be made that citizens should be offered the option of using central bank money for small payments, even in a digital world. You have an overarching public-policy goal, which is trust in the currency. But again, we have to think through the consequences. As long as CBDCs are using new technologies to do what we already do – issuing money – in a more cost-effective way, I'm all for it. But if that implies a world where the central bank is crowding out private banks and attracting all deposits; a world where the central bank is disintermediating private financial intermediation, then that would not be a place where we want to be, because we're a market economy and we need competition to generate innovation in the first place.

All those arguments taken into account, are CBDCs part of our financial future?

I’m personally pretty sure CBDCs will come. I don’t know how and in which form. It may come in different ways in different jurisdictions. The nature of money will change. It’s not the first time this is happening – the nature of money has kept changing over the centuries. We’ve got to adapt so we can reap the benefits of technology. But the principles won’t change. I’m convinced that one key evolution that dates back to the 17th century will remain: you need a public institution to anchor trust in the currency. I don’t see any chance that we will move back to a system where money will only be issued by commercial entities and regulated by competition between these entities. Our economies are so complex that you need trust in the currency to be anchored in the rule of law. A social convention isn’t enough. It’s too fragile. That doesn’t mean everything needs to be public. To echo Ludwig Erhard, you need as much commercial money as possible to reap the benefits of innovation and competition, and you need as much public money as needed to anchor the trust in the currency.