

CRISIS PREVENTION AND MANAGEMENT IN AN ERA OF DIGITAL FINANCIAL SERVICES

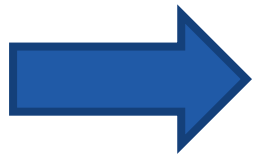
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INTRODUCTION

- The banking crises at the beginning of the year (SVB, Silvergate, Signature Bank) were partially attributable to traditional risks: liquidity risk, interest rate risk, etc.
- These risks are being **amplified** and **circulated** within the system by digital innovations (social networks, development of ‘tokenised’ finance, etc.)
- These events raise questions about the appropriateness of the crisis prevention and management framework



What lessons for regulators and supervisors?



I. MORE EFFECTIVE IMPLEMENTATION AND ADAPTATION OF CRISIS PREVENTION AND MANAGEMENT FRAMEWORKS FOR TRADITIONAL FINANCE

A. PRIORITY NEEDS TO BE GIVEN TO IMPLEMENTING THE REGULATORY FRAMEWORK AND TO ENHANCING OVERSIGHT

- The example of SVB does not invalidate the regulatory framework enshrined in international standards.

The example of SVB

Non-applicable prudential rules

Banks with balance sheets totalling less than USD 250bn are exempted from US prudential regulations (which SVB was a long way from complying with)

Poor supervision

Shortcomings recognised by the FED in its post mortem report

- However, this observation should not prevent consideration of carefully targeted changes (mechanisms that accelerate the volatility of certain deposits, etc.).



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Two main lessons:

Lesson 1: Apply **existing regulations** properly and extend them to all banks because of the multiple links and possibilities for contagion

Lesson 2: Highlight the essential role of **supervision** by strengthening it: prudential ratios need to be underpinned by enhanced supervision

I. MORE EFFECTIVE IMPLEMENTATION AND ADAPTATION OF CRISIS PREVENTION AND MANAGEMENT FRAMEWORKS FOR TRADITIONAL FINANCE

B. PRIORITY NEEDS TO BE GIVEN TO ADAPTING THE BANKING CRISIS MANAGEMENT FRAMEWORK

Lessons from recent crises for the **resolution** framework:

- The importance of the exceptional measures taken by central banks to provide **liquidity**. The priority in the euro area: devising the Eurosystem's processes for dealing with banks in resolution.
- “Bail-ins” must be rounded out by other **transfer-based** resolution arrangements – and this includes for the largest banks.
- As is the case in Europe, international resolution standards must apply not only to global systemically important banks (G-SIBs), but to all banks that could have a **systemic impact** if they were to fail, such as US regional banks.
- The **review of the European framework for banking crisis management** (CMDI) put forward by the Commission in April 2023, should provide an opportunity to apply the European resolution procedure more widely – including to small and medium-sized banks – to restrict non-standard national practices and ensure a level playing field throughout Europe.

II. THE NEW TECHNOLOGIES IN FINANCE NOW REQUIRE REGULATIONS THAT NEED TO BE EXTENDED AND DEPLOYED IN A MORE STANDARDISED WAY











A. THE TRANSFORMATION OF THE FINANCIAL LANDSCAPE CALLS FOR AN EXTENSION OF REGULATION

- Innovation can deliver benefits to the financial sector, by helping it to meet customer expectations more effectively...
- ... **but** it can also be a factor for instability and increase the risks to which the financial sector is exposed.
- Regulation is a vector for building trust: it devises a framework within which innovation can be freely deployed.
- The Banque de France is working to develop appropriate regulation:
 - at European level, in the short term: the example of financial data sharing (Financial Data Access regulation (FIDA))
 - at national level, looking further ahead: the example of DeFI

II. 'DECENTRALISED' FINANCE REGULATION THAT NEEDS TO BE EXTENDED AND DEPLOYED IN A MORE STANDARDISED WAY

B. THIS TRANSFORMATION ALSO CALLS FOR A REVIEW OF THE SERVICES OFFERED BY CENTRAL BANKS

■ Tokenisation: opportunities and risks

 <p>Promising technology of great interest to market players</p>	 <p>However, it raises the issue of the settlement asset used</p>
 <p>Tokenisation involves issuing financial securities in the form of tokens that circulate on distributed ledgers (DLTs) such as blockchains.</p>	 <p>Central bank money is the safest and most liquid settlement asset.</p>
<p>Tokenisation could enhance the efficiency of settlement and delivery, by making such operations...</p>	 <p>Central bank money is not currently available in tokenised form. Investors may use private assets that can be exchanged directly on distributed ledgers (DLTs), such as stablecoins.</p>
 <p>Tokenisation is attracting growing interest from traditional investors and issuers as well as from new players (BigTechs, FinTechs).</p>	<p>Using these private assets on systemic markets involves potential risks and inefficiencies...</p>
 <p>The Eurosystem's exploratory work and the European Pilot Program will make it possible to test solutions for settling tokenised transactions in central bank money.</p>	 <p>Counterparty risk</p>  <p>Liquidity risk</p>  <p>Liquidity fragmentation risk</p>

→ Central banks are looking into the possibility of issuing central bank money directly on distributed ledgers (DLTs)

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▪ CBDC: a new form of central bank money

