

## **Denis Beau: The future of money - regulatory and policy issues related to the introduction of CBDCs**

Opening remarks by Mr Denis Beau, First Deputy Governor of the Bank of France, at the European Law Institute Webinar, 3 June 2024.

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Ladies and Gentlemen, good evening,

First of all, I thank the European Law Institute for inviting me to this panel discussion on the Future of Money. I am very pleased to share with you a few thoughts on the challenges which have emerged in the field of money and the associated payments systems, as I see them from my central bank and supervisor standpoint, and on the policies we develop given our monetary and financial stability mandates, to help address them. On those topics, within the 5 minutes I have, I would like to make 4 quick points:

The first one is on the changes which are taking place in our payment system and the wider financial system, driven by the advancing digitalisation of financial services. At this stage, a lot of attention is focused on the use of distributed ledger technologies (DLT), in relation to the speculative crypto market and Decentralised finance (DeFi). However, behind the hype, there is a more discrete and more transformative trend underway: the tokenisation of finance.

However tokenisation is not a single innovation per se but rather a new ecosystem that is building up, which has spawned new activities and services, which first appeared in the payments sector before spreading to the wider financial sphere. The development of this ecosystem is still in an early stage. Nevertheless, it could lead to far-reaching changes in the way our financial system operates, by fostering the emergence of new players, that bridge the gap between IT and Finance, new investment and settlement assets in tokenized form, and new type of financial infrastructures, decentralized, based on DLT, particularly blockchains.

My second point is about the opportunities and risks created by those transformations, for market participants and the payment system as a whole. Here I would like to stress first that this impact is likely to be two sided. To illustrate this for the functioning of the payment system, it is important to recognize that the positive impact those transformations may have in terms of improved transparency, better cost effectiveness and (24/7) availability could come at the price of more fragmented processes. This is particularly relevant if blockchains are non interoperable and unable to interact smoothly with existing central clearing, settlement and payment systems. It could also come at the cost of an excessive reliance on non-European entities, which raises competition, strategic autonomy and data protection concerns. Second, this two sided impact creates specific challenges for an institution like the Banque de France, given its mandate, a major one being the preservation of the critical role played by CeBM in anchoring the stability of our payment and of our financial system more broadly.

In that context, we see our task as being to help mitigate the risks brought by the transformations underway, while ensuring that benefits of those transformations are

harnessed.

To deliver on that task, we intend to use and we have actually started to use two policy instruments as levers, on the basis of two convictions. The two levers are our influence in the development of regulations for payment services and systems and the adaptation of our central bank money services. The two convictions are:

- First, innovation can bring sustainable benefits for the payment system only if it benefits from the confidence of its users, which requires a regulatory framework that does not stifle innovation but that is sufficiently demanding to ensure the protection of the stakeholders and the stability of the system.
- Second, there is a public interest in keeping central bank money at the heart of the settlement processes between financial intermediaries as it is the safest settlement asset and hence the most appropriate to ensure financial stability.

My third point is about the use of our first policy lever, the contribution to the development of regulations. In this field we have in the recent past contributed to the trail blazed in France in crypto assets with the adoption in May 2019 of the PACTE Law, which introduced the legal status of digital asset services provider, or DASP. Europe's lawmakers have drawn heavily on the French framework, with the adoption of MiCA Regulation, a specific regulatory framework covering the issuance of crypto-assets and stablecoins and the provision of related services.

Looking forward, while MiCA represents a vital regulatory step forward, it will need to be built on in the coming years. For example, it only partially tackles the concentration of crypto-asset service activities within crypto-conglomerates. The challenge here is to ensure that investors are protected, through rules covering notably the segregation of customer funds, rules of conduct and management of intermediary risks, for example by requiring activities to be separated. By virtue of its decentralised nature, the DeFi ecosystem likewise raises regulatory challenges that will need to be addressed.

With this in mind, the ACPR has begun identifying potential avenues of regulation. These were set out in a paper published in October 2023. They include three measures: (1) first preserving the resilience of public and private DLT infrastructure via security standards; (2) second, certifying smart contracts, even if this raises operational questions; and (3) third, regulating DeFi entry points to protect investors against the risks of abuse.

Work is continuing in 2024 with stakeholders on one of the ACPR's key proposals, namely the mandatory certification of smart contracts prior to their use.

My fourth and last point is about the use of our second lever, the adaptation of the services we provide in CeBM. It has taken the form so far of two major endeavours to prepare for such adaptation.

First, the Banque de France was the first central bank to launch an ambitious experimental programme on wholesale central bank digital currency (CBDC) for large-value payments, in 2020, to support DVP and PVP settlement processes of tokenised financial assets, both domestically and cross-border. The experiments are now pursued under the aegis of the ECB. The Banque de France's wholesale CBDC technical

solution, based on our own DLT (DL3S), is one of the solutions currently trialed by the Eurosystem.

The Banque de France is also taking part in several important international initiatives, notably those spearheaded by the Bank for International Settlements' Innovation Hubs, to explore the future of market infrastructures and interoperability between traditional systems and different types of DLT. In the latest Project, Agorá, the Banque de France will represent the Eurosystem, and will explore with six other central banks worldwide the tokenisation of cross-border payments using both tokenised central bank money and tokenised commercial bank deposits in an ecosystem that preserves the two-tiered architecture of the financial system based on the concept of unified ledger.

The second major endeavour is our participation as a central bank of the Eurosystem to the preparation of the digital euro, but I do not develop this aspect as my colleague of the ECB will tell you more on this.

If and when we will deploy these CBDCs, wholesale and retail, remains uncertain as we speak. The only certainty we have and market participants should have, is that we will be ready to deploy them if and when we deem it necessary to meet our policy objectives, in line with our mandate. Let me stop there.