Executive Panel Session: Digital Finance and Crypto Assets Oversight - Where Do We Stand?

Opening Remarks:

Babak Abbaszadeh
President and CEO, Toronto Centre

Panelists:

William C. Dudley
Chair, Bretton Woods Committee

Nezha Hayat
Chairperson and Chief Executive Officer, Moroccan Capital Market Authority (AMMC)

Stefan Ingves
Chair, Toronto Centre; Former Governor, Sveriges Riksbank (Central Bank of Sweden)

Olivier Fines
Head, Advocacy and Capital Markets Policy Research for EMEA, CFA Institute

Moderator:

Marina Moretti
Deputy Director, Monetary and Capital Markets, International Monetary Fund (IMF)

Recording Date:

October 12, 2023

Transcript:

Babak Abbaszadeh:

Great. Hello everyone. Welcome to the executive panel on "Digital Finance and Crypto Assets Oversight: Where Do We Stand?" I am Babak Abbaszadeh, CEO of Toronto Centre, and I'm honoured to be the MC for today's event. I hope you can hear me without all the echoes. Before we begin, please join me in commending Moroccan authorities for holding such an impressive and well organized Global Annual Meetings right after the devastating earthquake; this is a prime example of resiliency. Congratulations, Morocco. Toronto Centre, which is dedicated to building the capacity of financial supervisors is the proud co-organizer of this conversation, in collaboration with our partners: the Bretton Woods Committee, the CFA Institute, and our friends at the Moroccan Capital Markets Authority. While each organization has its own distinct mission, and you can find them on Google, what is common to all of us is a fierce commitment to fostering meaningful dialogue, education, multilateralism, and ensuring high standards of ethics, transparency, and good governance in the financial sector.

Today, we're discussing how new technology and technological developments, including digital transformations, are triggering profound changes in the financial sector and whether these transformations can play a vital role in enhancing financial stability. While the opportunities are plentiful, we also need to avoid the pitfalls such as breaches in data integrity, data ownership, protection and privacy, financial crime, cyber security, operational and concentration risk, and consumer protection. I lost my breath, just reading that whole list. So, that's what we need to balance; it requires a very sophisticated approach to multi-stakeholder engagement and management for just getting us to understand what the stakes are. We have assembled a very strong panel. I'm just going to mention their names, you've seen their bios in the of time we're not reading them; neither me nor our moderator. William Dudley is the chair of the Bretton Woods Committee. Stefan Ingves is the chair of Toronto Centre and former governor of the Riksbank. Nezha Hayat is chairperson and CEO of AMMC and Nezha, thanks for your cooperation with us. And Olivier Fines, head of capital markets policy at the CFA Institute. So, without further ado, I'm going to pass the mic to our good friend, Marina Moretti, Deputy director, Monetary and Capital Markets Department, International Monetary Fund (IMF). Marina, over to you

Marina Moretti:

Thank you, Babak, for the nice introduction and I would like to join you in thanking the authorities of Morocco for hosting this year's Annual Meetings. It's a pleasure to be here and also thank you to the Toronto Centre for organizing this particular event. Just yesterday, the World Bank, the IMF, and the Moroccan authorities issued a statement on the Marrakesh Principles for Global Cooperation. One of those principles, under the umbrella of supporting transformational reforms, focuses on managing technological transformations to avoid digital fragmentation, narrowing the digital divide, facilitating domestic and cross-border payments, and fostering financial inclusion. Importantly, the Marrakesh Principles also call for globally consistent rules and regulation to effectively manage the risks of digitalization.

So, digital transformation has been at the center of many discussions that we have had during this week, and we are here today to discuss how authorities around the world can reap the benefits; that's a very big question that we all have: how can we reap the benefits of digitalization, digital finance broadly, and specifically crypto assets, while effectively addressing the impending risks? So, let me also welcome the panelists, and I wanted to start with you Nezha, with a broad question on digital finance. So, how does digital finance contribute to the development of capital markets in your experience and what is your vision as a regulator?

Nezha Hayat:

Well thank you Marina. Good morning. I would like to thank first the CFA Institute, the Bretton Woods Committee, and of course Toronto Centre for organizing, with our support, this panel session. I think this is an important issue especially for a country and continent like ours. Clearly, and you said it, it is acknowledged that digital finance is key to developing our capital markets. Why is that? Because, first of all, all kinds of technologies that can enhance the access to markets, the access to banking, the access to transactions, are important to allow more individuals to invest in these markets but also to allow more projects to be financed. What we have done on the Moroccan Capital Markets side is first, innovation technology; digital finance is a main orientation in our strategy. What we've started, well years ago, even on the stock exchange; for 15 years, we have had online stock brokerage companies, and we know that it's important to attract more individuals in a market that is mainly composed of institutional investors, both local or high net worth individuals. So, we want to have more people.

These online stock brokerage companies received more clients during COVID, when people had not much to do, so they discovered our online stock market. Tackling innovation in digital finance, I will not mention what is being done by banks, by the central banks, to push forward digital payments; I would rather speak about how we, in the field of capital markets, how we tackle innovation of FinTech. So, first, our position is to encourage innovation, but also to understand it and to find out what can be regulated and what cannot be. So, for this, we are in permanent discussion with all startups that are willing to go into this field, find out whether it is possible to be regulated, or if it is something that will be handled but another regulatory such as central banks. We have a portal for this, and we meet them very often on one side. So, we encourage those that can have projects of FinTech on the other side to go further and to get closer to the other field that we will be discussing, which is crypto.

We have started with some proof of concepts to understand the risks; we've done some on blockchain with some banks and to understand first where the risks are, what it means to have a bond issue using blockchain. So, we are doing this proof of concept. The third thing that we are looking at is how we tackle innovation in our legislation and our regulatory scheme, and we listen, and we cooperate a lot within IOSCO. We are involved in all FinTechs, both regional within the African and the Middle East committees or in IOSCO, to look at all the possibilities that are being implemented and how we will address them in our regulation.

Finally, we were talking about financial inclusion, the first digital platforms that we will be able today to license, our crowdfunding platform. It took us a while to have all the complete legal and regulatory framework approved and published. Now it's done and it's an exciting moment for us because we know that so many startups need this kind of financing. We will be licensing this platform either through the central bank if it's a donation or loans platform and the Moroccan Capital Markets if it's equity. So, everything has been approved and we will be soon releasing some guidelines. We set up a special portal within our website to explain all this. If we want to improve innovation and to encourage it, we need to focus more of our efforts on financial education so that everyone can understand and also have a permanent dialogue with all the stakeholders. This is my first response. Thank you.

Marina Moretti:

Thank you, Nezha. I think that makes a lot of sense. It's a very cautious approach of monitoring technological development in finance and cautiously supporting products that are to the benefit of the broader stakeholder population while contributing to the discussion of the international standard setters. Let me turn to you, Bill, with a question specifically on crypto. There have been many discussions at the level of the G20, heated discussions I would say, on whether crypto should be banned, a blanket ban on crypto. Eventually the decision was made of not going for a blanket ban but rather to go for a regulatory approach. What do you think are the potential macro-financial consequences of going down this path, both positive and negative, and what should we expect in the near and longer term?

William C. Dudley:

Well, I am very supportive of where the G20 is going because I think that if you try to ban it, you're just going to push it into regimes that are not part of the consensus. Since crypto assets can be used offshore, banning it is just going to essentially foster greater use for illicit activities. So, I think regulation is definitely the right approach. Also, when you think about financial markets and payment mediums, trust is really important and if you don't have a regulatory regime, you're not going to be able to ensure that trust over time. As Gresham's law says, the bad money tends to drive out the good, so you want a regulatory regime, so people have confidence in the assets that they're using as mediums of exchange, as stores of value, so I think the regulation is absolutely essential. Now, the risk of regulation is that you're not always going to get it right and bad things are occasionally going to happen in the crypto world and we've certainly seen plenty of those over the last 24 months.

But I would argue that the things that have happened are really because of the absence of regulation, rather than because we had regulation. I mean if you look at what happened to FTX, the trial right now is going on, that was essentially a lack of a regulatory regime and I think having a regulatory regime is far superior to that. The Bretton Woods Committee, we've been doing work on digital finance now for probably about a year and a half and we published seven briefs so far and an eighth brief coming out on C\entral Bank digital currency shortly, and our thesis is that you want to have regulation so you can see how far the technology can take you.

We're pretty skeptical about crypto assets; we think there's a lot of speculation involved with crypto assets, but we think the technology of blockchain of distributed ledger has potential interesting use cases in trade finance and cross-border payments potentially in securities, clearings, settlements because you can have atomic settlement, instantaneous transactions, and you have a single notion of what truth is.

I mean some of the great frauds that have been executed over the last 50 years are in trade finance where people thought they had a claim on a warehouse of olive oil and then they found out that the olive oil had actually been sold to someone else. Well, if you have a distributed ledger that makes it clear that the olive oil is owned by this entity and only one entity, and that can be very clear on that, that can reduce that kind of fraud risk. So, our view is very, very simple: we want to have regulation that allows you to run the experiments, it allows people to innovate to see how far technology takes you. We're pretty agnostic about how successful distributed ledger technology is actually going to be because it has a number of problems: that throughput is a real problem; it's pretty slow, it's pretty expensive. There have been some innovations recently that are proof of stake rather than proof of work. There are new technologies like sharding that are promised to potentially increase throughput, but right now I'd have to say the evidence suggests that there's more promise than actually success in terms of making this a really viable means of payment. It's just too expensive, too slow, and of course, the cryptocurrencies themselves are not stable stores of value.

I think you can have stable stores of value, in terms of stable coins, but to do that you need regulation that requires those stable coins to be backed by central bank reserves, one-to-one, and audited in a real-time basis, and we really don't have that yet. I mean, one of the leading stable coins basically claims that they have sufficient assets to back their stable coin, but we don't actually have real time evidence that that's the case. The interesting thing, stablecoin now is a lot more viable model, with interest rates at 5% in the United States than it was when interest rates were at zero, because if I can take in stable coins, if I can take in cash issued stable coins, invest the proceeds in central bank reserves, and make 5% on that, that's a pretty good business model. So, there is a business model there that I think is viable.

I think the regulators in the United States at least have been pretty slow to be willing to lean into this innovation. A number of firms have actually tried to get access to the Federal Reserve settlement, and they've been denied, and there's actually lawsuits that are taking place. Custodian bank for example, is suing the Federal Reserve because the Fed has essentially not ruled about their application, about whether they'll offer them a master account, and I think the Fed's worried about the precedents they're setting by these approvals, but I also think every regulator has a responsibility to come forward with a coherent rule set. This idea that you can just say no without any reason, without any rationale, I think is competitively unfair because you really do want to see where the technology can take you.

Marina Moretti:

Thank you, Bill. Let me turn to you Stefan, with a question on regulation. So, now we do have high level principles that the FSB just issued on crypto assets, including stable coins, as well as the global stablecoin arrangements, and these are supposed to constitute a global approach to crypto asset regulation. How do you envision at the national level such a consistent global regulatory framework for crypto assets taking place, and what challenges and opportunity does this pose for international cooperation and financial stability?

Stefan Ingves:

Well, let me start way back and reflect for a second on what is really important in a functioning market economy. What you need is orderly transfers of ownership titles. That's the key to it all. If you don't have that, nothing works. That's an idea and that requires a sound legal definition of what you do, and it requires some kind of a regulatory framework with reference to what Bill just talked about because you need to understand what to trade, what you're trading and what you're transferring, and you need to understand how to trade. That does not change because technologies change. These are ideas that we have in our heads when it comes to how we organize our societies, and those ideas are basically technology neutral. Now, from that perspective, there's almost nothing new under the sun despite the fact that technologies change over time, and that is, I think, the key to it.

In the old days, everything was on paper. Now, we move into an environment where we have to live with and accept that nothing will be on paper. Then, the issue before is still, how do we deal with that? But the basic ideas are, in most cases, actually several hundred years old. So, in that respect, there is nothing new under the sun. Some of the tech people don't agree with me on that, but I'll get to that in a minute. We know what an exchange is, we know what a broker is, we know what a market maker is, and we know what it means to trade for your own account versus trading on behalf of your customers. We know how to define a money market fund, we know how to define a mutual fund, and we know how to define underlying assets regardless, of what people talk about it in the crypto space.

What all of this implies to me is that we need technology neutral rules. I think that that is the key to it and when it comes to the international aspects of this, because you can't really define where a digital "this and that" is located anymore more; it's somewhere in the cloud, and that means that we need international cooperation, but we do have a longstanding more-or-less global machinery for dealing with that. So, let's use those organizations and institutions to make that happen and we should try to avoid reinventing the wheel. Let me use only one example to explain why this needs to be done, and why views sometimes are so different. When Libra, the Facebook currency showed up out of the blue, that was kind of like shaking the tree, and people, almost overnight, understood: "Oh my gosh, I'm in this old-fashioned business, something is happening here. Now, what do we do?"

So I sent for the Libra documentation; I got 200 pages of stuff, 190 of those pages were roughly tech specs, so I had to go to my IT people and ask, "Guys, what is this?" Then there was roughly 10 pages on the economics of the whole thing, and if you bothered to read those pages and try to understand what it was, you clearly understood that either those who wrote it did not understand what they were doing or they had something to hide, and that was sort of a clear signal that this is not a technological issue. This is more about how do you define money? How do you define trades? What is the legal framework?

Because keep in mind that without laws, you can never understand what you move around in the cloud, so it's not a technological issue. At the end of the day, you have to have a set of rules and if you don't have those rules, as Bill already said, bad money drives out good money in one form or the other and it increases the likelihood that the whole system collapses. We were actually through a similar process in the 1800's when a very large number of central banks were created in different corners of the world, and sooner or later, all of them started issuing physical bank notes and most banks were not allowed to issue physical bank notes because there were so many problems with that issuance and now a similar problem sort of comes back and has to be dealt with again. But nothing has changed in terms of the intellectual content of this, but technologies have changed. Thanks.

Marina Moretti:

Thank you, Stefan, for bringing all of it back from the cloud and keeping it on planet earth. I think it's a very useful perspective for all of us. Olivier, let me turn to you now on a further question on the G20 approach to crypto regulation. It is clear that they do recognize that approaches need to be tailored to national circumstances, and one specific challenge in the crypto space is that there is a lot of diversity. Crypto is a very diverse range of assets; I am specifically not using the word currency for a reason, but there is unbacked crypto, there is stable coin that is backed. As Bill said, there is a lot of debate on the stability of the stablecoin depending on the backing. There are different platforms defied, there are different, there are multifunction crypto asset intermediaries that pose their own challenges. So, this is a very diverse universe and how should regulators approach this diversity?

Olivier Fines:

Thank you, Marina. Thanks also for the comments made by my fellow panelists. I'll be using some of those concepts as part of my own answer here. I think the irony of the debate on how to properly regulate crypto assets and in general the processes related to distributed ledger technology has been that at their core, crypto assets are meant to self-regulate, or at the very least offer a degree of security on the legitimacy of those transactions. That was commensurate with the natural alignment of interest among all the users of the network. That was the fundamental proposition: a network no longer based on trust guaranteed by financial institutions, but rather based on cryptography. The reason why I'm bringing this up is because history has shown, especially this year, 2022, that that was an aspirational belief at best. The events surrounding FTX, and we've discussed FTX briefly a moment ago, the FTX debacle have shown that we're dealing with an industry that is still largely immature and that is in dire need of institutionalizing its own business conduct. Whether that maturity is brought about organically, from within or externally through regulation had been the question and I myself wasn't really sure what I would've ideally wanted here, but it is interesting to note the words used by FTX's new CEO upon his arrival in November 2022.
When he was describing the situation that he was facing at the failed company, he said, "I

have never seen such a complete failure of corporate control." In other words, this is an industry that completely lacked the natural reflexes of traditional finance for all its flaws and its bureaucratic friction. There is a reason why we've put in place all the administrative scaffolding in banking and investment services to protect investor interest and the integrity of capital markets. Another problem has been that both traditional financial institutions and regulators, I have to say, have been largely surprised by the development of digital finance in all its variations, as you say yourself, and have since been playing essentially catch up. This is because the crypto movement was largely driven by a decentralized and grassroots initiative empowered by technology that was rather new for finance, which tends to be a top down process. Having said all that, then, what can regulators do to rectify this situation?

We believe the fundamental principles developed by the FSB and IOSCO on crypto regulation are correct, starting with the very rational concept of same risk: same activity, same risk, same regulation, right? Then you keep it a little bit flexible and you stay technologically neutral. This makes a lot of sense to me. In other words, you need to focus on existing regulatory outcomes without being too prescriptive, precisely at a time when the situation is still so fluid. Therefore, focus on key risks which are existing risks in the financial industry, custody, and safekeeping of client assets, clarify ownership rights, who owns what? We were just discussing that on a blockchain and how do you enforce or prove that ownership, right? It seems like stating the obvious, but we need to get to the bottom of that problem. Conflicts of interest for anyone operating in finance, this is the absolute must.

You have to understand the governance structure, especially in crypto when we're dealing with firms with multiple affiliates that combine sometimes conflicting activities. However, we also recognize at the same time the inherent limitations of this approach, given that digital defiance appears or at least aspires to be naturally decentralized and borderless as we've discussed. So, we will still need answers from international organizations on the following critical questions: what are crypto assets or which ones are securities, commodities, securities, and under what conditions? We cannot have a different definition here across the world. Who are the responsible entities? We'll discuss that more in detail later on. What is the economic proposition we are dealing with that creates a regulatory nexus that creates a regulatory risk? Going back to your question on the diversification of products and services, Marina, there should rightly be a distinction between digital services, the technology that we've just discussed, and the tokens themselves.

We're not talking always about the same thing here. So right now, the problem is we have different responses to these questions depending on the jurisdiction. I think the FSB and IOSCO frameworks as progressing as they are, they are still too vague and aspirational on some of those basic fundamental questions which do require clear guidance. Finally, I would like to say that the regulatory answers should be able to distinguish between objectives related on one side to business conduct, and on the other side to financial stability, which are not the same thing. At our own systemic risk council, very early on, recommended that stable coins, we mentioned stable coins, be regulated as systemically important.

However, given the still small size of digital finance at the moment, we would probably argue that the main urgent risks are to be found in its pervasiveness with retail markets and individuals, through phenomena like gamification and social media. Thank you.

Marina Moretti:

Thank you, Olivier. And absolutely, I think we all agree that on the principle of same activity, same risk, same regulatory outcome or same regulation, but it's more complicated than that in terms of implementation, and the borderless nature of crypto, as you said, makes it very complicated. I mean, one wonders how much of this market, let's call it market, is driven by regulatory arbitrage and thinking about how easy it is to the extent that you tighten the screws in country A, it's very easy to move to country B, and so I think we will get back to this point of what can we do as the international community in trying to sort of foster the closing of these regulatory gaps in a consistent manner. Let me get back to you, Stefan, on a sort of broader question: so, is the growth of crypto going to change the traditional financial markets? I mean, is that really transformational in terms of the financial markets as we know them, and more broadly, if we are witnessing really a transformation in traditional finance, what are the implications for monetary policy, central banks, and global financial stability?

Stefan Ingves:

Well, first of all, to refer to what Bill said earlier, we don't know yet the potential value added of some of these new transactions technologies, so time will tell, but in terms of existing structures, either we have a world where what I call the fiat currency team, which is basically central banks and the old banks, adjust and start using these new technologies in an efficient way, or the old guys are so stale and oligopolistic, so that others actually run faster. If others run faster, we need to regulate them, but it's probably just fine that they run faster for the economy as a whole, and we don't know the outcome yet when it comes to new players, but as I said, we have all these frameworks already and the new players will have adjusted to these new frameworks and they will have to accept that in the real world, that's how things work and you have to put up with a few regulators here and there who tell you what to do and what not to do.

When it comes to monetary policy, of course it's difficult to fully know the answer to that as well, but first of all, if you happen to have your own currency, it is imperative in this new digital world that you maintain what I call transactional efficiency. It has to be simple, easy, cheap, and safe to use your own currency because if that is not the case, you will use somebody else's money. Transactional efficiency is not a concept that central bankers are accustomed to talking about, because mostly you talk about inflation and sort of macro, macro things. And then of course, at the macro level it's obvious that if you work hard on destroying the value of your own currency, then basically you produce a good or a good/service that no one wants to hold, and then they will use somebody else's money.

We already know from many economies that do not function well at all, that if you, to that, add dysfunctional foreign exchange controls, then of course the whole system eventually moves to using somebody else's currency, and Marina, you spent your entire professional life at the IMF. So, you have probably seen more dysfunctional cases than anybody else in this room. So, you know quite a lot about what to do and what not to do when it comes to that. But this is really, really important because either as I said, the fiat money team is capable of adjusting or it doesn't happen and then the whole thing will move somewhere else.

But eventually, it's going to be very, very important for many, many central banks to sort of go along with new technologies because otherwise it will move out of you run the risk of losing control of actually your own currency. And while I have the microphone, on a separate topic, there's something called a global algorithmic safe stable coin. I would call that kind of an instrument, an unstable coin, and that is because during my entire professional life, I have time and time again run up against situations where it's clear that markets function the worst when you need them the most, and that's why if you claim that an algorithm will save you when you are in deep, deep trouble, I just don't believe in that. Thanks.

Marina Moretti:

Thank you, Stefan, and indeed what you said on fiat money makes a lot of sense and one new phenomenon that we have seen as side product of crypto is that what we used to see, or what we're still seeing in terms of dollarization and the challenges that it brings to the conduct of monetary policy in a number of countries, is now the new version thereof is cryptolization, and that's something that is of great concern for a number of countries. Bill, let me stay on the theme of trends, and there is a lot of focus on monitoring development. I mean, that presents its own challenges given data availability, but what do you think are trends that regulators and policy makers should be particularly vigilant about and how again, as I said at the beginning, the very big question of how can we strike a balance between fostering innovation, disrupt innovation that is positive for consumers and investors, while at the same time, safeguarding against the range of potential risks including financial and macroeconomic stability, but also fraud and market manipulation?

William C. Dudley:

I think right now, fraud and market manipulation are really the center of the problems. I mean, you've seen lots of cases where people have issued stable coins and then they've sort of just disappeared into the ether and obviously, FTX is another example of essentially market manipulation. They issued stable coins, then they illicitly, apparently, supported the market by buying the stable coins to boost their price and then referred back to their treasury supply of these stable coins and said, look, we're worth $10 billion because the stock of stablecoin outstanding, we own most of them, obviously we're very rich. Of course, if they actually tried to sell those holdings, the stablecoin value would've plunged dramatically in value.

I think generally, at this point we're not in a particularly good place because there's still a lot of activity taking place in the shadows. There's still a lot of this activity which is associated with illicit and nefarious activities. People have nowhere to really go if something goes wrong.

It's not like you can sort of say, "Well, FDX blew up, can you help me recover my assets?" I mean, the bankruptcy is trying to recover as much assets as possible, but there's not really a person to go to in a regulatory community for help. One of the big challenges, I think, is that the regulatory community doesn't have the technological expertise to make really good judgements about what "really good" looks like. I think that's going to be an ongoing challenge for central banks frankly, as they get into the central bank digital currency space, is how do they make well-informed opinions about what technology to use, how to structure it, and how do they keep those people engaged? I mean, central banks are mostly about monetary policy, not so much about payments, and now we're sort of saying we want you to actually do a lot more in the payment space. I think that's going to be very, very, very challenging for central banks.

People talk about same activities, same risks, same regulation; I don't really particularly like that formulation because I don't think it's same regulation, I think it's same outcome that you want to focus on. I think you actually probably need somewhat different regulations for some of these digital finance activities because the activities are structured in a different way. What you want to have I think is the same outcomes across the different regimes to be consistent with one another. Same degree of safety, same degree of trust, the same ability to resolve problems when something bad happens. Not necessarily the same regulatory regime exactly in place. I think if you impose the exact same regulatory regime, you'd have two problems: the regulations would not be really fit for purpose in the crypto regime, and you'd probably inadvertently have a bunch of gaps because there'd be regulations you probably need for crypto, because it's decentralized, that you don't actually need for centralized finance.

Marina Moretti:

Thank you, William and I completely agree on the regulatory outcomes point. I have two more questions, first for Olivier and then Nezha, if you could keep your answer short so we have some time for Q&A. Olivier, in a recent report of yours aptly called "Crypto Assets: Beyond the Hype", you state the decentralization poses a particular challenge for regulation, so what are your views on the dichotomy between decentralization and the need to hold parties accountable? And besides, is decentralization real or is it just a cover up?

Olivier Fines:

Thank you, again, for the great question. So, with this report, what we wanted to do was precisely to demystify crypto assets by bringing an investor perspective. This development essentially bridged, basically, this technological breakthrough with the very regulated reality of financial markets. If you will allow me, I would like to use a quote supposedly attributed to former US Secretary of State Henry Kissinger, even if incorrectly, to illustrate one major problem we have faced as part of this research when discussing US relations with Europe. The story was that Henry Kissinger responded, and you might know the quote, "What is the phone number of Europe? If I want to speak with Europe, who do I call?" When it comes to crypto, whether he actually said that or not is irrelevant. I think it's pretty relevant. The problem with crypto is that we're dealing with the same problem here. What is the phone number of Bitcoin? Who do I call if I have a problem with Bitcoin?

The entirety of the regulatory corpus dealing with financial services is predicated on the notion that they are responsible entities and responsible people that can be held accountable for their decisions and their actions. With crypto, we're dealing with a very different environment. In fact, the debate surrounding the recently proposed bill in the US called the Digital Asset Market Structure Bill, was precisely related to that question. How can we fit crypto assets within existing crypto US securities laws if there is no issuing entity to speak to, basically, hence the astute solution to split the bill, so to speak, between the SEC and the CFTC, depending on the sequencing of the issuance of new tokens. This notion of centralization is where it becomes important; this is where the SEC or the proposed bill draws the line between the SEC and the CFTC.

So, the problem, again is that if you ask regulators in the US, in the UK or EU, you'll get a different answer to that very same question. This is why I had originally, some sympathy for chair Gary Gensler in the SEC who has maintained so far, a very straight line. Until Congress gives me an update, I'm going to assume that what we're dealing with here is equivalent to what we're dealing with in the world of securities. For all its flaws, that is at least an understandable line. This then takes us back to the same activity, same risk, same regulation, which is I think the correct standpoint and I think I agree with you. You can caveat that by focusing on desired outcome, regulators should approach this problem from the point of view of regulatory outcomes they seek to achieve and then report to their legislators when there are gaps. This has been the approach, for example, taken in the UK.

I'll conclude with the caveat that in the case of crypto, this goes back to what was said previously. It is possible, at least in my opinion, that technology itself will cause or might cause this logic to fail or to prompt a possible need to legislate precisely on the problem of the issuing entity or the responsible entity. This is where I think most debate will be hanging over the following years. We might have reached an inflection point, probably similar to what we're seeing with AI decision making may have switched from what we thought it was to what it could become. So, the crypto industry, to finish will argue and is arguing that precisely it is this absence of intermediation that makes the whole process more secure and more direct. I do not think we can accept this premise in its entirety. Basically, the industry will have to reckon what needs to demonstrate that marketing and advice needs to be respectful of basic principles related to honesty, proper representation, and fiduciary duty, which are the remits of regulators. Thank you.

Marina Moretti:

Thank you, and that was absolutely very thoughtful. Let me ask Nezha a last question. Going back to this issue of the cross-border nature of crypto and the challenges that it poses to implementing a globally consistent regulatory approach. In this space, how can we facilitate cooperation among nations in establishing regulatory framework and what else can standard setters do, or should do, both in terms of further shaping global regulatory approaches as well as in fostering implementation?

Nezha Hayat:

Okay, thank you. Anyway, global cooperation is key because as you've heard, I mean the national approaches are different. There are countries where these crypto activities are not regulated, are not even legal, which is the case today in Morocco. What we have done up to now was to warn the investors, saying that their investments are not protected because there's no regulation, there's no legislation, but we couldn't do more. In order for us to really protect these investors, we had to start with the legislation and clearly, we have a national group for these crypto assets and we're in the process of drafting a specific legislation to oversee crypto assets and to identify what we call crypto assets. To do so clearly, we look at what has been done, we have to implement the standards; this is why we work within the different committees, FinTech committees at IOSCO, and we learn from what is happening elsewhere, especially in terms of risks.

We have the same approach: same activity, same risk, and then same regulatory approach. But even if today, and if tomorrow we are to have this legislation, we will still need, and I think it's key to have it - we have these MOUs within IOSCO, but international cooperation will be important, because I will not be able to protect an investor that would use platforms elsewhere that we are not regulating. So, no matter what our national legislation or regulation is, we definitely need to understand what we have, and it's quite difficult because it's a different world. We are not in the traditional environment. So, how we will be able to work together and protect our investors worldwide? This is a big challenge, and we are only at the beginning.

Marina Moretti

Thank you. I take the blame for only leaving six minutes for the Q&A. So, I just want to open the floor, please.

Audience Member:

Thank you. We spent a lot of time speaking about crypto assets, but in the digital assets world there are also stable coins and CBDCs, and to some extent, the more stable coins in CTCs take place, the more cryptos will be reduced in space. So, a question for the panel, a comment on these two other forms of digital assets, CBDCs. What do you think about the efforts made by the various central banks to catch up with what the PBOC have done? They've already launched what the central banks are still studying. On stable coins, what do you think about the fact that commercial banks may want to issue their own stable coins, to speak in the forms of tokenized deposit or properly called stable coins, as an exchange for helping central banks to introduce CBDCs in a kind of two-tier format? Thank you very much.

William C. Dudley:

So, I'm happy to say that I have no objection to stable coins that are 100% backed not by treasuries, but bank reserves, at the central bank.

I mean, even if you have treasuries, you potentially have interest rate risk and you want to make sure that the reserves are sufficient to always a hundred percent, plus collateralize the stable coins. If you allow that to take place and are comfortable that you have confidence that the reserve backing is always there, I think the stablecoin is a good store of value and then it can be used in interesting technological ways. One potential advantage of a stablecoin is it can be used to embed a smart contract and so execution can be done. You can sort of have novel ways of transactions actually taking place. So, I think it's perfectly possible to go down that path.

In terms of central bank digital currencies, I think there's no question that they're coming. We already have several countries that do have central bank digital currencies and literally tens and almost I think probably a hundred countries are engaged in pilot programs of some sort or doing very serious research about central bank digital currencies. I've used central bank digital currencies, just an improved version of cash. I mean cash is basically a form of transactions. Central bank digital currencies are a little bit better, because hopefully it'll be harder to lose than cash and, on transactions, when I'm paying you with cash, I need to be pretty close to you to make the transaction. With a central bank digital currency, I can make a transaction with you at long distance. So, I feel like central bank digital currencies, I think are ultimately going to be an improvement on cash. How much they change the world though I think is really going to depend on how they change the payment system.

In the United States, for example, you have some very strong embedded payments regime where most people are very comfortable using credit cards to pay for very high proportion of their assets, and for their purchases. It's not the most efficient regime; retailers have to pay an interchange fee of about 2-3% of sales, but as long as the users are comfortable with it, it's not clear you're actually going to be able to force that out into a central bank digital currency regime. But I definitely think it's coming. I think the Fed will be probably the last to introduce a central bank digital currency. The Federal Reserve is very conservative in this respect. The dollar is the reserve currency, and the last thing you want to see is some sort of mistake made in a US dollar base, central bank digital currency. So, I think the Fed will be a slow follower rather than a rapid leader in the space.

Stefan Ingves:

Can I add to that? A sort of very general reflection on that is that I do think with new technologies, with sort of an add-on to what Bill just said, is that we're going to see different degrees of money-ness when it comes to different types of financial instruments. Clearly, you have, just for the sake of the argument, a digital central bank currency, you can have stable coins with a 100% reserve ratio and then you have sort of different degrees moving further and further away from money. I do think that we will see the very different versions in the very different parts of the world when it comes to how you set that up. I do think though that, and that's a different panel, when it comes to CBDCs, one needs to be mindful of the fact that unfortunately in some parts of the world, in some countries, the central bank is the only functioning institution.

Then of course in that environment it makes a lot of sense, also from a financial inclusion perspective, to actually produce a CBDC because that's the only asset that people really prefer to hold. In addition to that, the only alternative is to hold dollars or Euros or somebody else's currency and that has all sorts of other problems going with it.

Olivier Fines:

I would just like to add a quick point to what both Bill and Stefano were just saying. We've done our own research on the CBDCs and we've questioned our own membership, the CFA membership, on what they thought about that. Two interesting remarks based on what you said. First of all, most people don't understand what we're dealing with here. Even our own membership, only about 10% said "Yes, I think I know what we're talking about here when you're saying CBDCs. Okay, 90% said "No clue". Another interesting point regarding what you said is it was very clear across the analysis that the interest for CBDC was much higher in emerging economies than in developed economies. Canada, US, couldn't care less about CBDCs, but the interest in India, in China, in the Middle East for example, in Latin America, was very much higher, above 50%.

We haven't exactly tried to explain why, but the fact of the matter, going back to the stability that you were discussing, it is possible that people would trust a CBDC more than, of course they would trust a private cryptocurrency to provide them with the mechanism of payment that we are saying might improve this concept of inclusive finance, for example. So, we thought there were a series of interesting dichotomies here, but of course also the major reason brought forward for not wanting CBDCs are still something that we'll need to get to the bottom of, which is privacy and cybersecurity risk of fraud. There is no chance of success if you don't resolve those problems upfront. Thank you.

Marina Moretti:

Thank you. I think we need to wrap up, right? Yeah. So, let me wrap up this conversation by thanking the panelists for their views and their candor. So, ladies and gentlemen, this brings an end to today's event and thank you very much for your time. Thank you.