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Virtual Executive Panel Summary

Friday, April 17, 2020 at 10am EDT

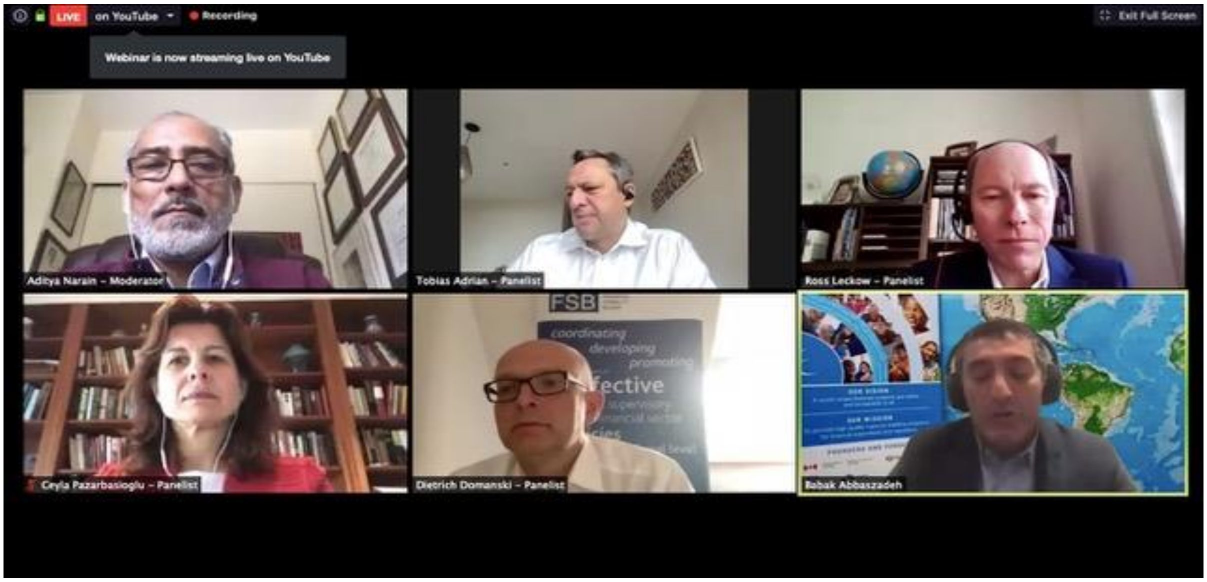
COVID-19: Supervising the New Normal

Using stablecoins to facilitate financial stability and inclusion in unprecedented times

Financial innovation is inspiring "a technological revolution in the payments space," according to an April 17 panel convened by Toronto Centre during the Spring Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG). Amid the current economic downturn, ***COVID-19: Supervising the New Normal*** *explored how policymakers and regulators can maintain financial stability, keep markets functioning, preserve the financial system's ability to finance growth, and address the challenges posed by innovations like stablecoins. It found that a well-functioning and widely-accessible digital payments infrastructure that supports transfers, payments, and remittances is emerging as a key element of a successful COVID-19 response, and that countries where small and medium-sized enterprises (SMEs) are not well integrated into the digital payments ecosystem will struggle to rebuild their economies in the new world. The panel was moderated by* ***Aditya Narain****, Deputy Director of the Monetary and Capital Markets Department of the IMF (and Toronto Centre board member). The panelists were* ***Tobias Adrian****, Financial Counselor of the IMF,* ***Ceyla Pazarbasioglu****, Vice President for Equitable Growth, Finance and Institutions at the World Bank Group (and Toronto Centre board member),* ***Dietrich Domanski****, Secretary General of the Financial Stability Board (FSB), and* ***Ross Leckow****, Senior Adviser, Innovation Hub of the Bank for International Settlements (BIS). The video is available at https://vimeo.com/409901865*

More than four hundred senior officials from around the world, including governors and deputy governors of central banks, financial sector supervisors/regulators, representatives from the US Treasury, the IMF, the WBG, NGOs, and various other international development agencies participated in Toronto Centre's Virtual Executive Panel.

In his introductory remarks, **Babak Abbaszadeh,** CEO of Toronto Centre, noted that recent stablecoin initiatives have highlighted the shortcomings in cross-border payments and the importance of improving access to financial services, especially for the 1.7 billion people around the world who are unbanked.



The session was divided into two parts. In the first part, the panelists covered the implications of the COVID-19 health crisis for the global economy and the financial system and discussed policy responses. In the second part, the panelists drilled down to the potential for digital payments in general, and stablecoins in particular, to facilitate commerce and finance in the new world.[1]

Key highlights from the first-round discussions

Tobias Adrian stated that COVID-19 is a medical crisis and the first-order policy response has to be a lockdown. But COVID-19 is also generating an economic crisis around the world as both supply and demand are collapsing. Three months ago, the IMF forecast for global growth in 2020 was about three percent; it has now shifted to negative three percent. This change is driven by the huge amount of uncertainty and the threat of a financial crisis. Rapid and aggressive policy measures have been put into place around the world. The monetary policy response has been extremely aggressive both in advanced economies and emerging markets. Tobias emphasized that many central banks have cut interest rates, started asset purchase programs, injected liquidity, and backstopped certain sectors. Banks are better capitalized than in the 2008 crisis and so the benefits of 10 years of tighter regulation and regulatory reforms are paying off. This crisis is expected to lead to a wave of defaults in the corporate and household sectors, and to distress in some countries. We have already seen record capital outflows from emerging markets and low-income countries. The IMF recently announced that a new liquidity line will be available for some of the more stable emerging markets.

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[1] *The panel used the definition of stablecoins as put forward by the Financial Stability Board in their most recent report. It states that stablecoins are a crypto asset that aims to maintain a stable value relative to a specified asset or a pool of basket of assets. A stablecoin arrangement is one that combines the range of functions to provide an instrument that purports to be used as a means of payment and or a store of value. Finally, a global stablecoin is one with the potential reach and adoption across multiple jurisdictions and the potential to achieve substantial volume.*

Ceyla Pazarbasioglu highlighted that this crisis is particularly challenging for developing countries because their fiscal space to deal with the crisis and the ability to inject billions of dollars to protect their economies is limited. Developing countries have very fragile health systems. Social distancing becomes impossible when you are living in crowded slums, making your living in the informal sector, and do not have any protection or social safety net. The impact on developing economies will translate directly into increased poverty. Ceyla said that the WBG used its fast-track facility to deal with the health implications of this crisis. The WBG is working with other multilateral development banks to help countries with procurement initiatives and is working very closely with the WHO and other organizations. The policy response to date has mainly focused on providing market and funding liquidity, supporting affected borrowers, and providing regulatory flexibility with the key objective of preserving the functioning of core financial markets and ensuring financial sector resilience. Ceyla urged that measures should be taken in a transparent manner with sunset clauses and clear risk-sharing arrangements. Otherwise, efforts to deal with the economic consequences of this crisis may turn into a financial crisis.

Dietrich Domanski added that COVID-19 represents the biggest test of the post-crisis financial system to date and is pushing the global economy into a recession of uncertain magnitude and duration. He elaborated that the FSB is exchanging information daily on policy actions taken by its members in response to the pandemic. This broad sharing of information is helping jurisdictions to respond quickly and consistently. It will become increasingly important to assess the impact of the measures taken, compare their effectiveness, and identify what is working best. The FSB is providing risk assessments to inform policy discussions. It will be working to identify and assess the specific vulnerabilities that may materialize in the coming months during the major global economic downturn. One important issue is the implication of the rapidly-growing solvency crisis. The FSB is working with its members and international standard setters to coordinate global policy responses. These actions have been tailored to individual needs but are underpinned by common principles that the authorities will continue to follow in the future to support the real economy and maintain financial stability. Dietrich emphasized that to minimize the risk of market fragmentation, authorities must first monitor and share information on a timely basis to assess and address financial stability risks from COVID-19, and then recognize and use the flexibility built into existing financial standards to support policy responses.

Ross Leckow started with an introduction to the BIS's new Innovation Hub. He emphasized that the Innovation Hub is focused on helping to define the future of the global financial landscape. This crisis has demonstrated the importance of new technologies to allow us to function in a world of social distancing, both in society and in the financial system. The crisis may have a lasting impact on the shape of the global financial system and may accelerate trends in digitization in the areas of banking, domestic and cross-border payments, and regulation and supervision. He talked about the steps the BIS is taking to help the international community respond to COVID-19. The BIS is continuing to provide financial services to the central banking community notwithstanding the challenges of working remotely and social distancing. The BIS continues to serve as the preeminent forum for consultation and cooperation between central banks through regular meetings, albeit in a virtual format. The BIS is generating research that examines the implications of the pandemic for the global economy, financial markets, regulation, and supervision. Scientific evidence is demonstrating that this risk is actually low compared to other forms of payments, including credit cards.

Key highlights from the second-round discussions

Tobias Adrian underscored that we are in a time of technological revolution in the payments space. Over the next five years, we will see a vastly different payments landscape both nationally and internationally. Stablecoins are one of the many single currencies, and multi-currency baskets are being planned. The introduction of stablecoins might have a first-order impact on international transactions. Many countries are exploring ways to link their real-time gross settlement systems (RTGS) directly, and RTGS themselves are undergoing a technological revolution. Countries are updating their payment systems and at the same time finding ways to link those payment systems. Tobias said that this crisis might accelerate the motivation and speed for central bank digital currencies to be rolled out. If many countries adopt central bank digital currencies, that in and of itself would have implications for cross-border payments.

Ceyla Pazarbasioglu said that the crisis made it very clear that digital payments are part of the COVID-19 response to the lockdowns and social distancing. It is difficult to use cash as banks have reduced their operating hours, and physical locations used by mobile money users are also affected. These factors are leading to greater adoption of digital payments by individuals and governments where the right services and infrastructure are available. Ceyla explained that many governments are simplifying the processes for financial service providers. Brazil was able to digitize 40 million people. She acknowledged that not every country would be able to do this. The WBG is working to help countries to move to safe digital payments. Improving the safety, reliability, and efficiency of payment systems and financial market infrastructures is a major issue for the WBG.

Dietrich Domanski mentioned that the FSB has just issued a consultative report on global stablecoins (GSCs). Since GSCs have potential systemic importance, the G20 mandated the FSB to examine regulatory issues and to advise on multilateral responses to this very important issue. He talked about the broader debate around payment system efficiency and noted that an FSB report mentioned GSCs have the potential to enhance the efficiency of the provision of financial services. This argument is even more important in the current environment of social distancing. This is an issue both for emerging markets and developing economies, but more so for emerging markets. Dietrich noted that enhancing the efficiency of local cross-border payments is a priority on the international policy agenda. The FSB is developing a roadmap on how to enhance cross-border payments. The discussion about regulatory framework needs to be seen in the context of this ongoing work. Dietrich said that the question of the systemic importance of global stablecoins can be considered as the flip side of the coin as GSCs could pose financial stability risks through a number of channels. What could and should regulators do to reap the potential benefits of staying with stablecoins while containing potential risks to financial stability? This is the question behind the consultative report, which includes 10 high-level recommendations to address the regulatory supervisory and oversight challenges.

Ross Leckow said that a lot of work still needs to be done to clarify which legal rules apply within a regulatory regime and where gaps may exist. He highlighted some of the issues to be addressed: to what extent stablecoins will constitute money or securities; into which regulatory regimes it would fall; and which jurisdictions can assert jurisdiction over a stablecoin. These issues are particularly important for GSCs that span multiple jurisdictions with different service providers and users in different countries. Ross acknowledged that beyond these concerns, there are a lot of private law issues that need to be addressed generally with respect to digital currencies. The list expands with respect to stablecoins and many of these issues are identified in the G7 report. He pointed out that given their different designs, different stablecoin systems may raise different legal issues. These issues include: the legal definition of stablecoins; legal arrangements around the protection of the reserves of assets underlying the value of stablecoins; rights of a holder to redeem stablecoins; and the rights of holders over their data when it is held by either the issuer or the stablecoin service provider. Ross concluded that these are just a few of the issues that have arisen, but there are likely many others and much more work needs to be done to resolve them.