

# NEW MONEY & SYSTEMIC RISK

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# 1. Project Introduction: “Legal and Economic Conceptions of Money”

- Four themes:
  - Analysis of classical **functions of money** (medium of exchange, etc.)
  - Development of category “**quasi money**” (emphasis on FinTech)
  - **Private creation of money** in the banking system (not just intermediation)
  - Nature of **central bank reserves**
- Key contribution is “new money” connection with systemic risk:
  - When does a risk **become systemic**? (e.g. operational risks, contagion, “too big to fail” or “too interconnected to fail”)
  - Financial stability and **cross-border supervision** (e.g. “borderless” Fintech services)
  - **New actors and objects** disrupting incumbent actors and existing regulation/oversight (e.g. central bank monetary policy)

## 2. A word on “Libra” (and “Calibra”) I

- Since proposal in June 2019, Libra has shaken the central bank community (immediate responses by Fed, ECB, FSB, G7, Bank of England etc.)
- Libra is a privately-issued virtual currency with the potential to change the monetary system and international payments
  - Currency launched by “Calibra” (Facebook subsidiary), “Libra Association” to manage reserve pool (formed under Swiss law by consortium)
  - Working with regulators, but serious concerns among regulators
  - Rhetoric about financial inclusion and serving unbanked
  - Facebook/WhatsApp response to Chinese BigTech? (TenCent, AliPay, etc)

## 2. A Word on “Libra” (and “Calibra”) II

- Not like Bitcoin
  - Backed by basket of currencies and government bonds (“stablecoin”)
  - Supply/reserves managed by Libra Association
- Not like Bancor:
  - Retail medium of exchange, not reserve asset of central banks
- Clearly of systemic scale (>2 billion Facebook users)
- Main competition from BigTech firms, central banks and IFIs
- Illustrates societal dimension of money—*de facto* establishment of payment system creates “money”?
- Will regulatory interventions prevent this money creation *de jure*?

### 3. “New Money” and Systemic Risk I

- Project explores **alternative forms of money enabled by new technology** (including DLT).
- Development of functional analysis—when does something acquire “**money status**”?
- Money-ness as **spectrum**, not binary property
  - Need for category of “**quasi money**”?
  - Challenging from **legal doctrine** perspective
- **Legal foundations of money** and money-like media of payment/stores of value/units of account (especially credit-based systems, but also “digital commodities”)

### 3. “New Money” and Systemic Risk II: New Money as Risky Financial Assets

- Shift focus from **transactional** aspects of Fintech to **systemic** ones (synthesis of new asset types, scaling up of transaction through “pooling”, “layering”, “acceleration”, and “compression”)
- No (necessarily) monetary functions (e.g. “security tokens”)
- Consumer protection (and outright fraud)
- **Source of contagion in capital markets**
- Exposure of SIFIs

### 3. “New Money” and Systemic Risk III: New Money in the Payments System

- **Failure of payments provider** can impact real economy and spread default risk
- **Policy of expanded access to central bank settlement and clearing** integrates non-bank PSPs into monetary system
  - Would Calibra get a central bank reserve account?
  - How is this different from giving direct access to central bank money to households and firms?
- **Emergency Liquidity Provision?**
  - Risks if no emergency liquidity to systemic PSPs
  - Risks if emergency liquidity to (non-bank) systemic PSPs
- **Implications for the definition of “money”**

## 4. “New Money” and Monetary Policy

- Many cryptocurrencies **inimical to certain forms of monetary policy** (algorithmically fixed supply, or supply fixed by outside body)
  - Potential Libra **impacts on domestic monetary policy**? (E.g. trilemma of (i) fixed exchange rate, (ii) free capital flows, (iii) independent monetary policy.)
- **Old debates** about free banking, gold standard, and competition between currencies
- **What is the way forward?**
  - **Redefining monetary sovereignty** in “borderless” world with transnational actors?
  - **Or reclaiming monetary sovereignty** by using the Law to restrain transnational actors?



# 5. Topics of Future Research

- **Central Bank Digital Currencies (CBDC)**
  - Is CBDC a necessary response to private virtual currencies? (especially Libra)
  - What are central bank reserves (i) **legally** and (ii) **economically**?
  - Is their nature changing? (monetary policy operations, PSP reserve accounts)
  - How would CBDC change the landscape?
  - How should a CBDC be designed? (technical parameters, currency area, etc.)
- **Libra**
  - Rethinking sovereignty, seigniorage, fiat money
  - Uber/spotify moment in banking: Libra's potential for disruption
  - Evolution of Libra, since may be required to get banking licence
  - International money and payments in a virtual/digital world
  - Implications for concept of "money"

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