

Digital Monies

Sessions:

Tuesday October 10, 4:15 – 5: 30 PM: **Money and technology through the ages**

Tuesday October 17, 4:15 – 5: 30 PM: **The digital revolution in money and payments**

Tuesday October 24, 4:15 – 5: 30 PM: **Central Bank Digital Currencies**

Tuesday October 31, 4:15 – 5: 30 PM: **Monetary institutions for the digital age**

Basic questions

- Do digital monies require a change in the financial sector's institutional framework?
- If yes, why/how?

This session is different from the previous ones

More tentative.

The subject is  new!

No literature. Little or no discussion.

Should the regulatory architecture change?

1. Traditional model (by institution)
2. Functional model (according to the function performed)
3. “Twin peaks” (according to the objective pursued)
4. Integrated model (all-together-now)
5. Mixed model, mainly 1, moving toward 2, 3

Cross-institutional activities

PSPs

Payments

Deposit taking
Buy-now-pay-later
(credit)

Broker-Dealers

Market making
Prop trading

Client asset mgm.
Advisory

Insurers

Issuing policies
Pooling risk

Banks

Payments
Deposit taking
Credit

Conglomerates

Bancassurance
Financial advice
Client asset mgm.
and trading
Prop trading

Issues that may arise with digital monies *(or become more important)*

- **Misuse of personal data** (existence of large pools of payment or other personal data facilitate unauthorized use or circulation for marketing strategies, political campaigns, or other)
- **Lack of transparency, insufficient disclosure** (legislative void and ambiguity facilitate crypto instruments, exchanges, and payment applications withholding to users and asset holders underlying conditions and risks)
- **Fraud** (deliberate fraudulent practices are easier in novel and complex financial environments)
- **Abuse of dominant position** (stronger network effects in digital money and payment ecosystems enhance the scope for acquiring and exploiting dominant positions)
- **Operational risk** (complexities of the digital environment increase IT risks for intermediaries and other payment providers)

Status Quo: money and banking

(central banks, plus executives and legislators)

Payment oversight

Bank supervision

Monetary/macprudential

Status Quo: financial markets

(independent agencies, plus executives and legislators)

Securities and exchanges

Competition (finance)

Conduct and consumer protection

Conglomerates

Status Quo: outside of financial markets **(independent agencies, plus executives and legislators)**

Data protection

Consumer protection (non-finance)

Competition (non finance)

Patent and innovation protection

Financial markets

Securities, exchanges

Competition

Conduct, consumer protection

Data protection

Patent, innovation

Conglomerates

Normally operating in isolation: some institutional rivalry, some information exchange, occasional cooperation, no coordination

Money and banking

Payment oversight

Bank supervision

Monetary/macroeconomic

Financial markets

1. Abuse of personal data

Money and banking

Securities, exchanges

Competition

Conduct, consumer protection

Data protection

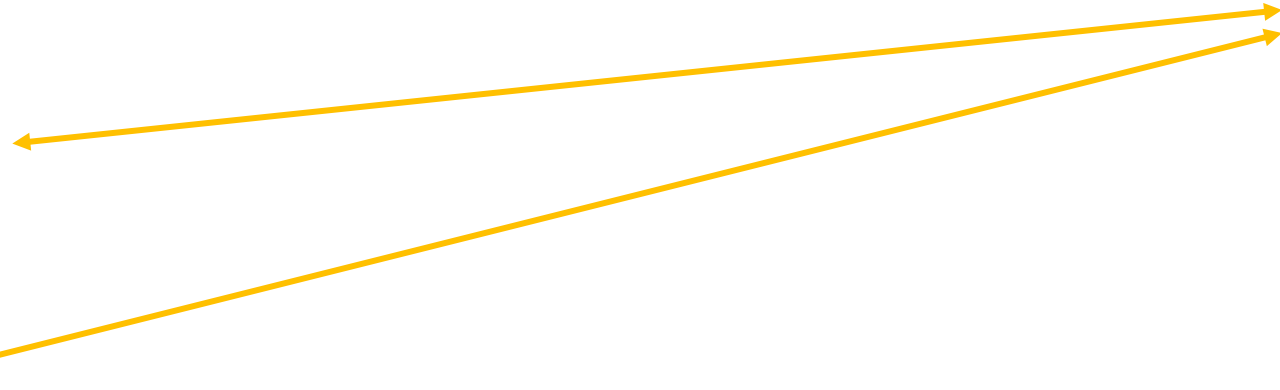
Patent, innovation

Conglomerates

Payment oversight

Bank supervision

Monetary/macropu.



Financial markets

2. Lack of transparency, disclosure

Money and banking

Securities, exchanges

Competition

Conduct, consumer protection

Data protection

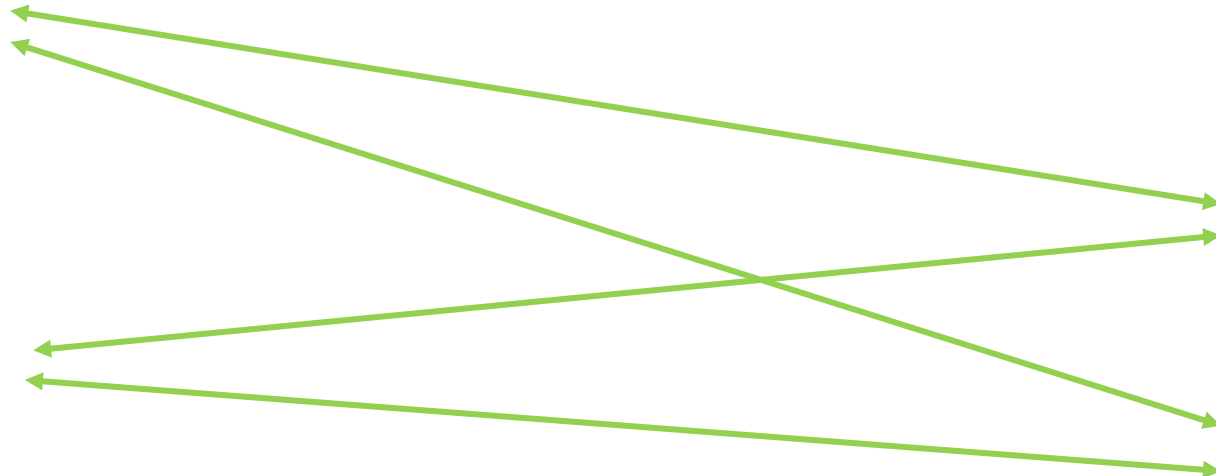
Patent, innovation

Conglomerates

Payment oversight

Bank supervision

Monetary/macropu.



Financial markets

3. Fraud

Money and banking

Securities, exchanges

Competition

Conduct, consumer protection

Data protection

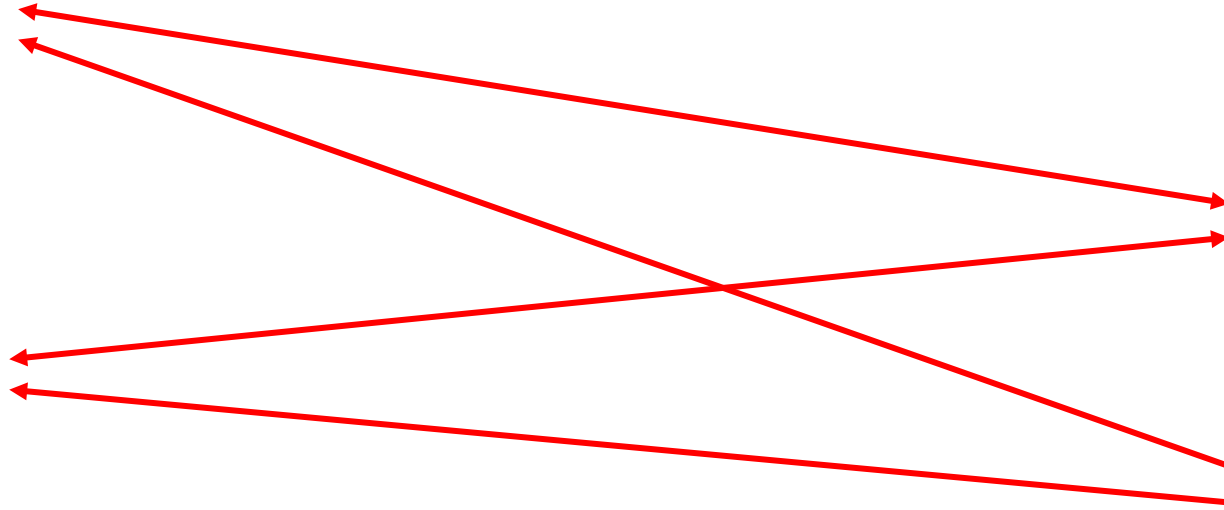
Patent, innovation

Conglomerates

Payment oversight

Bank supervision

Monetary/macropu.



Financial markets

4. Abuse of dominant position

Money and banking

Securities, exchanges

Technology Sector

Competition

Payment oversight

Conduct, consumer protection

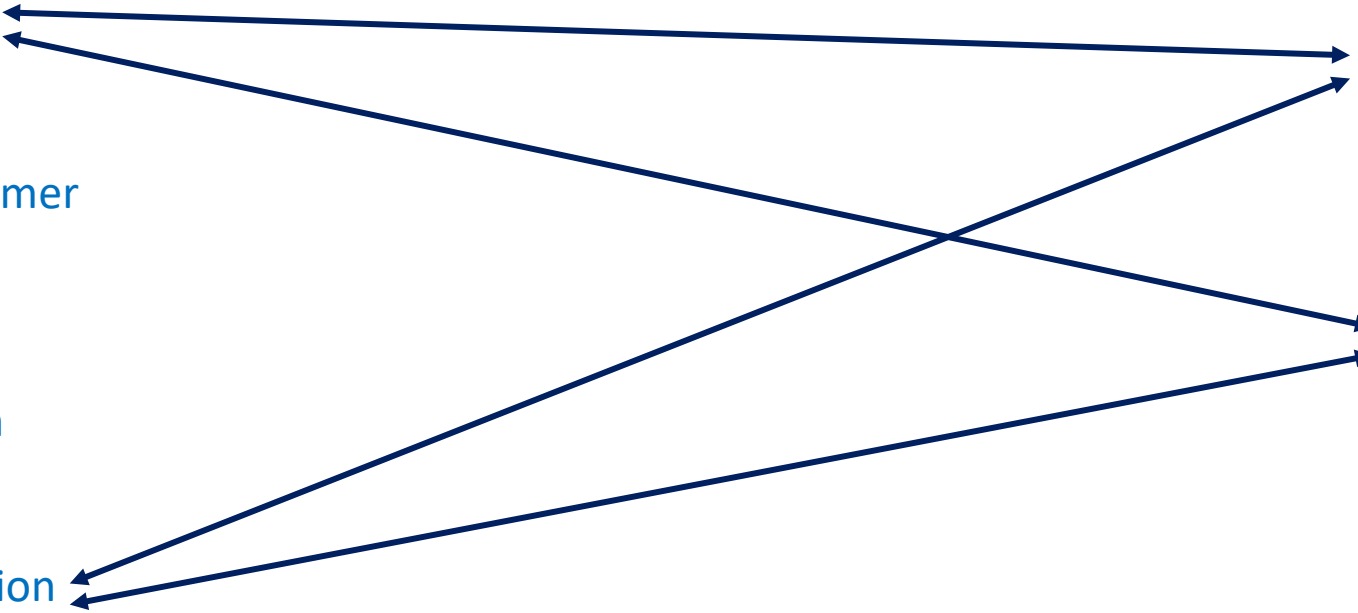
Bank supervision

Data protection

Patent, innovation

Monetary/macropru.

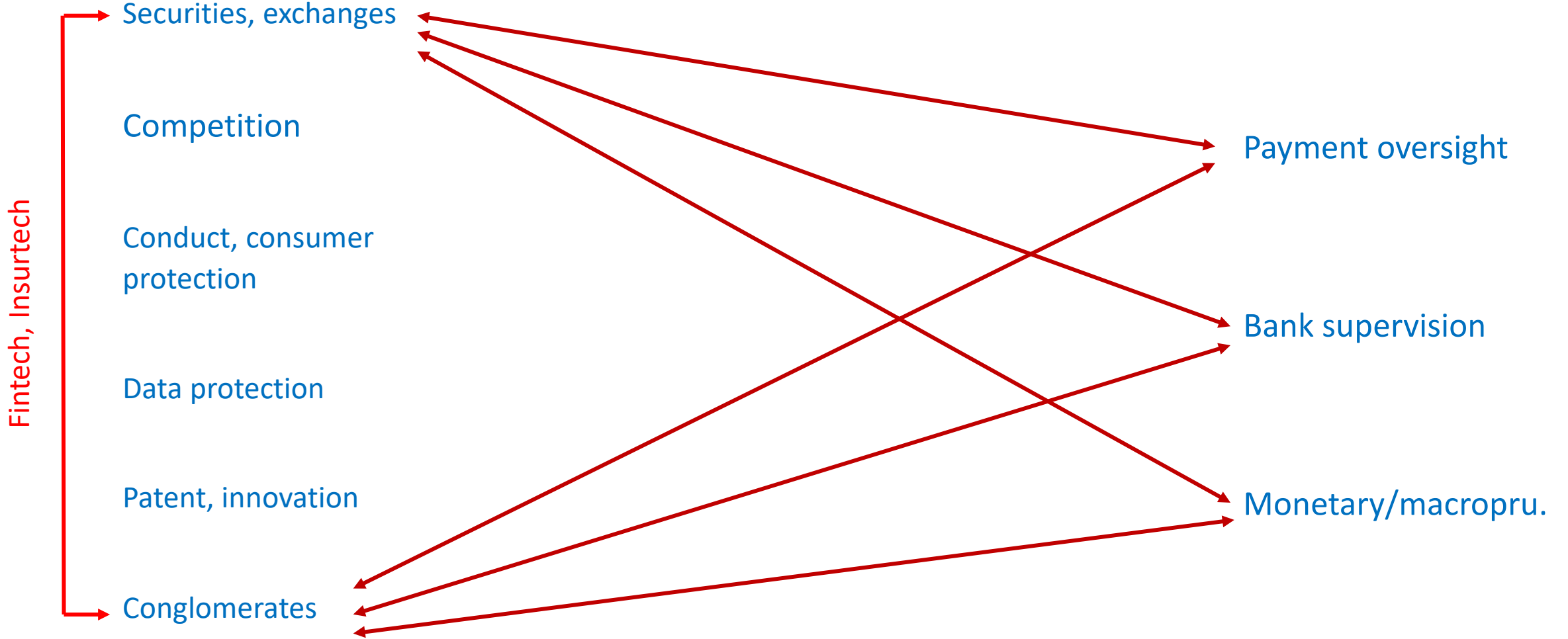
Conglomerates



Financial markets

5. Operational risk

Money and banking



ALL TOGETHER

Financial markets

Money and banking

Securities, exchanges

Competition

Conduct, consumer protection

Data protection

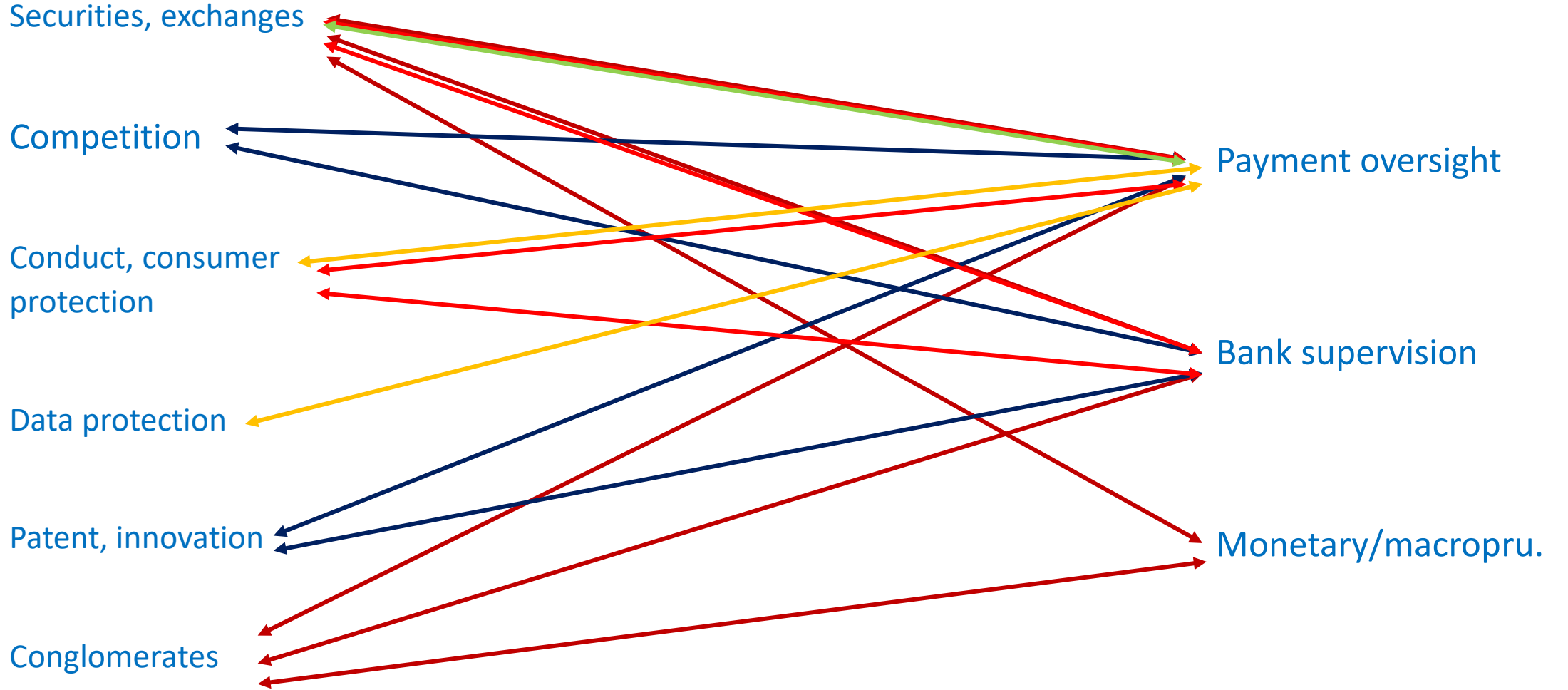
Patent, innovation

Conglomerates

Payment oversight

Bank supervision

Monetary/macropriu.



Back to the models

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2. Functional model (according to the function performed)
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Financial markets

Money and banking

Securities, exchanges

Institution, Function

Competition

Objective

Function

Payment oversight

Conduct, consumer protection

Objective

Institution

Bank supervision

Data protection

Objective

Patent, innovation

Function, Objective

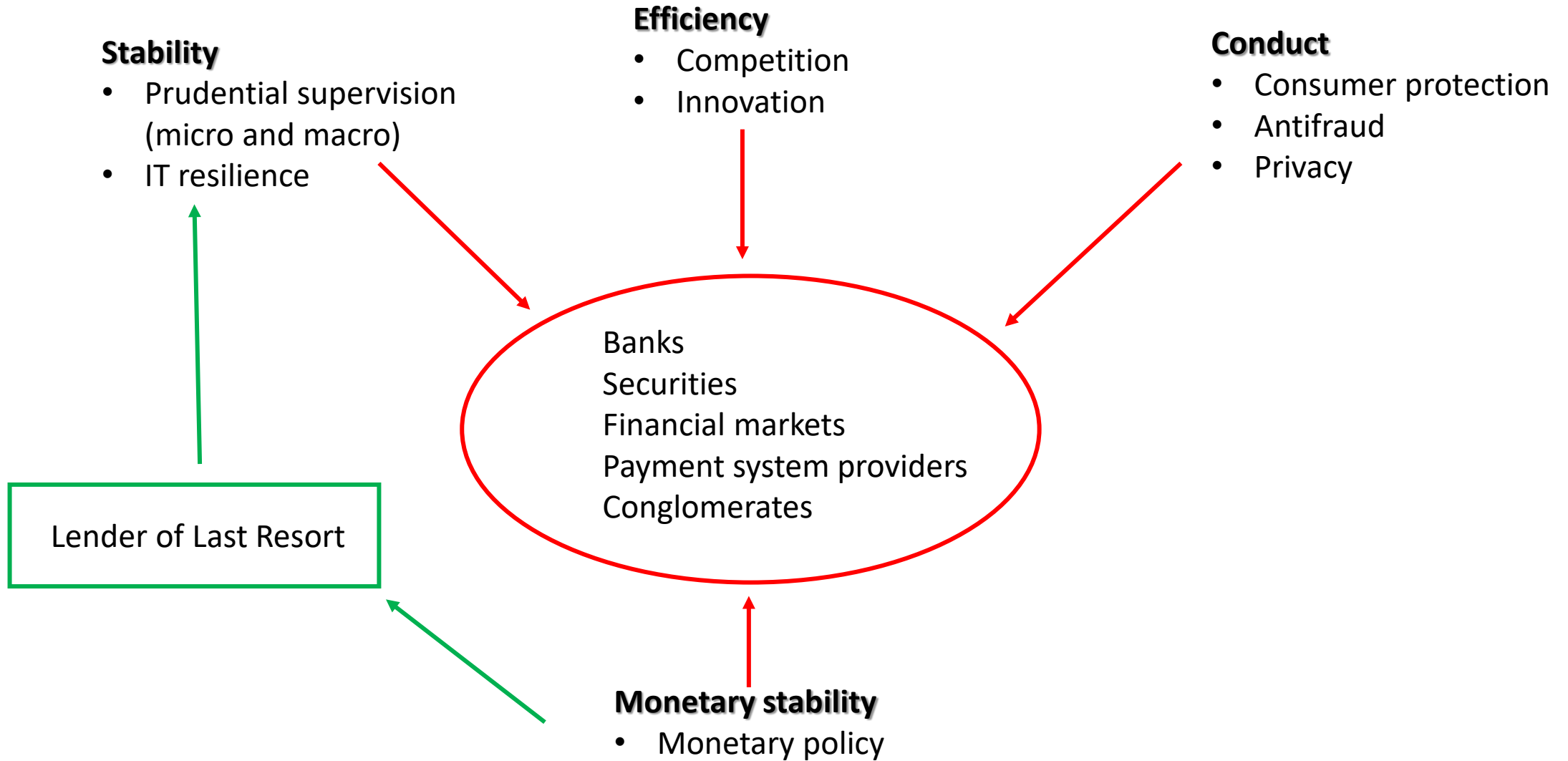
Objective

Monetary/macropu.

Conglomerates

Institution

“Twin Peaks” model



Pros and cons

- Clearer, more orderly

But:

- Objectives may overlap
- More risk of inter-agency conflict?
- Politically difficult to implement

Wrap-up of four sessions

1. *The digital “revolution” is inevitable (modern information technology is digital)*
2. *The digital transformation should preserve (possibly enhance) the functions of money*
3. *This is not a spontaneous market outcome*
4. *Policy/regulation is needed. Regulatory architecture may also need to change.*