EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

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60, rue Wiertz
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Frankfurt am Main, 19 December 2019

L/CL/19/48

Re: Your letter (QZ-053)

Honourable Members of the European Parliament,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chairwoman of the Committee on Economic and Monetary Affairs (ECON), accompanied by a cover letter dated 22 November 2019.

As I highlighted during my hearing before the ECON committee of the European Parliament on 2 December 2019,[1] the ECB is closely monitoring innovation in the financial and payments sector and assessing the benefits and risks of innovative projects, including the Libra initiative.

Stablecoin initiatives such as Libra aim to overcome shortcomings in cross-border payments by building a new separate payments ecosystem that does not rely on existing clearing and settlement arrangements. By doing so, they aim to offer cheaper and more efficient payment solutions and foster financial inclusion. At the same time, as I argued in my remarks before the ECON committee, innovations – including stablecoins – will only be beneficial if the associated risks are mitigated through effective regulation and oversight.

[1] For details, see https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp191202~8d8d9feef5.en.html

One such possible risk is that stablecoin arrangements could lead to significant market concentration. If the entities that govern stablecoin arrangements control large digital platforms, they could impact the level playing field by promoting the use of their own solutions, with possible lock-in effects, and/or blocking other service providers or payment methods from their platforms. Moreover, the potential combination of social media data with financial data could give stablecoin operators a strong competitive advantage and undermine market contestability. The European System of Central Banks has been monitoring this in the broader context of the entry of large technology companies or "bigtech firms" into the European retail payments market.

If stablecoin initiatives achieve scale and if retail users treat stablecoins as an alternative to bank deposits, a potentially sizeable amount of retail funds could be transferred from the banking system into non-bank entities. Although stablecoins promise "stability" and the possibility of converting coin holdings back into fiat currency at any time, the value of a stablecoin will crucially depend on its governance and risk management, and on the value of the underlying assets or fund portfolio. A mere promise that the proceeds from the sales of coins will be invested in low-risk financial instruments will not be enough to ensure the stability of the coin. In this respect, the term "stablecoin" is a misnomer. It should be clear to stablecoin users that losses could occur and that they would not be covered by the traditional financial stability net, which includes deposit guarantee schemes and central banks' role as lenders of last resort. If successful, Libra's complex arrangement of functions such as issuing tokens, managing reserve assets and operating a payment system could become a sizeable self-contained financial ecosystem. It is critical that the same rules are applied to all activities that give rise to the same risks, irrespective of the technologies used or the identity of the service providers. In other words, "same business, same risk, same rules" should be a guiding principle in the regulatory approach to stablecoin initiatives and placed at the core of technology-neutral regulation.

There is broad agreement at the global level that stablecoin arrangements, including Libra, should not commence operation before their public policy and regulatory risks are evaluated and adequately addressed. The ECB concurs with the joint statement by the EU Council and the European Commission[2] on the need for legal clarity on the status of stablecoin arrangements and for these to be subjected to clear and proportionate regulatory and oversight frameworks. Efforts are under way at the EU and global level to assess the risks of the Libra project, examine the applicability of the existing rules and identify gaps in the current regulatory and oversight framework. Given Libra's cross-border nature, international coordination is crucial to ensure consistency and prevent regulatory arbitrage.

In accordance with its mandate, the ECB intends to apply its oversight framework for payment systems to stablecoin arrangements. The ECB is also reviewing its existing oversight framework for payment

[2] Joint statement of 5 December: https://www.consilium.europa.eu/fr/press/press-releases/2019/12/05/joint-statement-by-the-council-and-the-commission-on-stablecoins/#

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instruments, schemes and arrangements to clarify which aspects of stablecoin arrangements that facilitate the transfer of value between end-users fall within the Eurosystem oversight competence. Finally, the ECB will work with other international authorities to ensure that the Eurosystem requirements remain relevant by closing any gaps that innovative solutions might create. We also support the creation of cooperative oversight frameworks whenever a payment arrangement is relevant to multiple jurisdictions.

Yours sincerely,
[signed]
Christine Lagarde

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