

## **Libra as an Alarm Clock**

Opening remarks by Ryoza Himino, Vice minister for international affairs of the Financial Service Agency of Japan at the Second Roundtable on Supervisory Oversight of Crypto-assets held in Tokyo on September 6, 2019

Good morning, everyone. Thank you for joining today.

This year, in 2019, Japan has been the G20 presidency country. We made several proposals related to crypto-assets. Responding to our requests, the FSB produced a directory of crypto-asset regulators, an analytical report on regulatory gap, and a forward-looking exploratory report on decentralised financial technologies. IOSCO drafted a handbook for crypto-asset regulators, the first in its kind ever. The G20 Finance Ministers and Central Bank Governors met in Fukuoka in early June and welcomed these works.

But a few days after the Fukuoka meeting, the Libra whitepaper was published. I would insist that works under the Japanese presidency address many issues raised by Libra, but I also have to admit that many others are unaddressed. At the G20 Summit held in Osaka in late June, the G20 Leaders asked the FSB and other standard setting bodies to advise on additional multilateral responses as needed.

I cannot predict at this stage whether the Libra project will be a viable one or not. However, I think that Libra serves as a ringing alarm clock to us all.

What do you do when the alarm clock rings? I often just push a snooze button. However, that would allow only a few more minutes of sleep. The same story may also apply to Libra. Libra alarm bell is now making regulators and central bankers to open their eyes and see squarely the issues they need to face sooner or later. And many other clocks may be waiting to ring next.

I would like to talk about three examples of these issues.

First, banks. The traditional commercial banking business model bundles three activities together: deposit-taking, payment services and lending. Banks provide payment services to attract deposits and also to acquire information needed to monitor borrowers.

The model has provided strong advantages to licensed entities, but these advantages seem to be eroding. The deposit spread, or profitability of deposit for banks, is diminishing, particularly in jurisdictions with negative market rates. Some BigTech firms have found other sources of information useful in monitoring borrowers and many profitable use of payment information for purposes other than for lending.

The second issue is about banknotes. Cash has two key characteristics: anonymity and inconvenience. Anonymity provides protection for privacy, but creates the risk of being abused for money laundering, terrorist financing and other criminal activities. But the risk is mitigated by its inconvenience. It attains a certain balance, but I doubt if an instrument whose hallmark is inconvenience can survive throughout the 21<sup>st</sup> century. Sooner or later, cash will have to be replaced by an alternative payment method which is more convenient, yet less susceptible to criminal activities and still capable of protecting privacy.

The third issue is related to regulators and supervisors. There is a growing dissonance between supervisors fragmented across the national borders and seamless financial services conducted across the globe.

True, it is not a new issue. A quarter century ago, just a week after I became a junior bank supervisor, I faced the task of closing the BCCI Tokyo Branch. I still remember this: BCCI had a quite complex and decentralised structure, with its founder in Pakistan, its main shareholders in the Middle East, its headquarters function in London, its two key legal entities registered in Luxemburg and the Cayman Islands, and its operations in 78 countries worldwide. Supervisors collaborated through a supervisory college, but jurisdictionally divided supervisory power was not effective enough. Since then, the global regulatory community, under the leadership of the Basel Committee on Banking Supervision, have tried to address this kind of problems by furthering the consolidated supervision principle.

Libra may be posing a new form of supervisory consolidation issue. The proposed Libra ecosystem may have a significant impact on the global banking, payment and currency systems, but it is composed of various entities scattered around the world inside and outside the regulatory perimeter, and no single entity is responsible for the entire activities. Regulators who can effectively supervise this kind of structure would look different from what they look today.

Banks, cash and regulators, three of our good old institutions, will have to go through major transformation in the coming period. And the transformation will inevitably involve a certain degree of disruptions. However, the three are among the key foundations of our economic system, and we need to control the transformation process so as not to allow disruptions to result in a runaway disorder.

I hope that the discussion today will help us all gain insights as to what issues we must face, how we should design the future, and how we should manage the transformation.

Thank you.