

DIGITAL TRANSFORMATIONS AND FINANCIAL SYSTEM TURBULENCE: WHAT LESSONS FOR REGULATORS AND SUPERVISORS?

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I- TRADITIONAL FINANCE PUT TO THE TEST BY THE DIGITAL WORLD: WHAT LESSONS CAN BE LEARNED FROM RECENT BANK FAILURES?

II- DIGITAL FINANCE: A REGULATORY CHALLENGE



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The case of the Silicon Valley Bank (SVB)

A fragile business model

On the liabilities side, unhedged and concentrated deposits; on the assets side, long-term fixed-rate securities => bank highly exposed to interest rate and liquidity risks

Prudential rules not applied

Banks with a balance sheet total of less than USD 250 billion exempt from prudential rules in the United States

Weak supervision

Shortcomings recognised by the Fed in its recent report



Banks under USD 250 billion exempt from liquidity ratios

Fragmented and minimally intrusive supervision



All banks subject to the same prudential rules

Single supervisor for the Banking Union (ECB), intrusive supervision, stress tests, on-site inspections

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- These observations do not rule out considering possible improvements to the regulatory framework, provided that simplistic answers are avoided:
 - **Supervision of interest rate risk:** keep the current « enhanced supervision » approach
 - **Unrealised losses:** be attentive to side effects

Two main lessons

Lesson 1: apply existing rules and frame proportionality adequately: relief should not be at the expense of financial soundness

Lesson 2: the central role of supervision: prudential ratios must be accompanied by intrusive supervision



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1. Rapidly growing markets but increased risks

- **New players:** big techs, Fintechs, crypto-asset service providers
- **Generating new risks:** operational risk, cyber risk, volatility, regulatory arbitrage => risks to financial stability

2. The EU is leading the way in providing regulatory responses

- **DORA:** introduces an oversight framework for monitoring critical third-party service providers
- **MiCA:** regulates crypto-asset activity



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3. Regulatory efforts to be pursued: three avenues for consideration

- Expanding the prudential framework to include the financial activities of **big techs**
- Regulating « **crypto-conglomerates** »
- Devising new rules to regulate « **decentralised finance** »