Christine Lagarde: Cutting through the noise - exercising good judgment in a world of change

Welcome address by Ms Christine Lagarde, President of the European Central Bank and Chair of the European Systemic Risk Board, at the ninth annual conference of the ESRB, Frankfurt am Main, 3 September 2025.

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It is my pleasure to welcome you to the ninth annual conference of the European Systemic Risk Board (ESRB).

Having done my fair share of scuba diving, allow me to begin with a brief detour beneath the waves.

Submarines rely on sonar to navigate unseen depths and detect hidden dangers. Yet the ocean is never silent: it is filled with shifting currents, marine life and, increasingly, noise from human activity. In some waters, that background noise has doubled every decade for the past 60 years,[1] making it harder to pick out the signals that really matter. But no matter how unfamiliar the waters are, the technical principles remain the same. Those trained to listen can always discern the echoes of real danger.

So it is with our financial system. We too are navigating waters where the currents are shifting rapidly. Geopolitical fragmentation, climate change and rapid digital innovation are reshaping where finance flows and through which channels. The noise is getting louder and the landscape more complex, but the echoes of risk remain familiar.

Our task, like that of the submariner, is to listen carefully and to separate signal from noise. However much the structures of finance may change, the patterns of risk endure. As Charles Kindleberger reminded us: "Financial crises are a hardy perennial." By recognising their recurring signals, we can keep such crises in check and preserve stability.

Today I would like to reflect on how we can safeguard financial stability in a changing system by cutting through the noise to recognise the risks that endure.

The financial system's architecture is changing, but its functions and risks have not

This task has become ever more demanding. In the past, when Europe's financial system was dominated by banks, detecting risks often meant closely reading banks' balance sheets. That world has changed. Europe's non-bank financial sector has expanded rapidly. In relative terms it is now larger than that of the United States, amounting to 3.8 times GDP compared to 3.1 times in the U.S.[2] At the same time, banks' activities are intertwined with those entities and increasingly with new entrants such as fintech platforms. The line between "banks" and "non-bank financial institutions " has blurred to the point where the old conceptual distinction is no longer a useful guide.[3]

So how do we cut through the noise created by this new complexity? Two constants can help us.

The first is that financial activities, however novel their appearance, are almost always variations on a few timeless functions: transacting, saving and borrowing; investing and sharing risk; insuring and hedging; and transforming maturity.

Likewise, the risks that arise from these functions - namely credit, market, liquidity, underwriting and operational risks – are equally enduring. And we know from experience that the tools to contain them remain familiar: capital and liquidity buffers, reliable data and secure infrastructure.

The second constant is the framework of sound risk management and supervision. These principles endure best when they are set globally. This is why banks remain governed by global standards developed by the Basel Committee, and why the Financial Stability Board is extending that framework to new financial activities.

This does not mean a reluctance to adapt to new realities. On the contrary, it is about using a stable framework for regulators and supervisors to 'cut through the noise'.

That is why the ESRB has argued for an activity-based and system-wide approach to financial stability.[4] By 'looking through' the outer shell of both traditional and novel financial entities, we can assess the activities and risks that truly matter.[5] And by viewing the system as a whole, rather than as a collection of individual firms, we can better understand how risks propagate across these institutions.

Applying timeless principles to new issues: the specific case of stablecoins

How does this perspective apply to new financial entities that are emerging across the financial landscape? Take the crypto-asset sector. For example, stablecoins are issued with the promise of maintaining a stable value against a reference asset. For now, they are used mainly as a bridge to and from the crypto ecosystem and as a tool to facilitate crypto-asset trading. But they also aspire to take on more traditional functions, such as serving as a means of exchange.

At first sight, these entities and activities may seem novel. But we do not need to wait for them to mature to realise that they are reintroducing old risks through the back door.[6] The categories of risk they create are not new. They are risks long familiar to supervisors and regulators.

The most evident is liquidity risk. We know the challenges posed by institutions that invest in risky assets while promising investors redemption at short notice and at par. Such entities must mitigate the risk of a run by ensuring that they have sufficient liquidity to meet redemptions swiftly: this is why the ESRB has been sounding the alarm on certain types of money market funds, for example.[7]

In the case of stablecoins, the EU's Markets in Crypto-Assets Regulation (MiCAR) seeks to address this risk in two ways. First, stablecoin issuers must allow EU investors to always redeem their holdings at par value. Second, stablecoin issuers must hold a substantial share of reserves in bank deposits.

But gaps remain. One example is so-called multi-issuance schemes, where an EU entity and a non-EU entity jointly issue fungible stablecoins.[8] [9] In such cases, MiCAR requirements do not extend to the non-EU issuer. In the event of a run, investors would naturally prefer to redeem in the jurisdiction with the strongest safeguards, which is likely to be the EU, where MiCAR also prohibits redemption fees. But the reserves held in the EU may not be sufficient to meet such concentrated demand.

The risk of liquidity mismanagement across jurisdictions is one we have seen before. Banking groups, for example, are already required to ensure that reserves are available in the part of the group where and when they are needed. This is why requirements such as the net stable funding ratio and liquidity coverage ratio apply at every level of consolidation. Multi-issuance schemes replicate these very same risks within a single entity.

We know the dangers. And we do not need to wait for a crisis to prevent them.

That is why we must take concrete steps now. European legislation should ensure that such schemes cannot operate in the EU unless supported by robust equivalence regimes in other jurisdictions and safeguards relating to the transfer of assets between the EU and non-EU entities. This also highlights why international cooperation is indispensable. Without a level global playing field, risks will always seek the path of least resistance.

Conclusion

Let me conclude.

Today you will be looking at many of the ways in which finance is changing at breakneck speed, through new technologies, new actors and new forms of finance. Yet as the crypto-asset sector shows, the echoes of risk remain familiar: liquidity strains, leverage, sudden loss of confidence, and hidden interconnections.

Our task is to cut through the noise of novelty while remaining anchored in the perennial principles of good risk management, supervision, and effective policy. I am confident that institutions such as the ESRB can adapt to change while keeping crises in check.

I look forward to hearing your ideas on how macroprudential policy can rise to these challenges. With this, I am pleased to open the ninth annual conference of the European Systemic Risk Board.

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[1] Animal Welfare Institute, *Ocean Noise*.

[2] Pelizzon, L. et al. (2025), "Growth of non-bank financial intermediaries, financial stability, and monetary policy", *Adapting to change: macroeconomic shifts and policy responses – ECB Forum on Central Banking 30 June-2 July 2025*, ECB, Frankfurt am Main.

[3] Acharya, V.V. et al. (2024), "Where Do Banks End and NBFIs Begin?", *NBER Working Paper*, No 32316, April 2024.

[4] ESRB (2024), *A system-wide approach to macroprudential policy*, November.

[5] This principle is reflected in MiCAR as "same activities, same risks, same rules" and combined with the principle of technological neutrality. See Recital 9 of Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937, OJ L 150, 9.6.2023, p. 40.

[6] See Policy Digest 4 in ESRB (2024), op. cit.

[7] See Policy Digest 1 in ESRB (2024), op. cit.

[8] See the ECB's Non-paper on EU and third country stablecoin multi-issuance published on the Council of the EU website in April 2025.

[9] See Portes, R. (2025), "The stablecoin loophole that could expose the EU", *Financial Times*, 25 July.