



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC
COURTESY TRANSLATION

Mario DRAGHI
President

Ms Paloma López Bermejo
Mr Miguel Viegas
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 17 July 2017
L/MD/17/284

Re: Your letter (QZ-045)

Honourable Members of the European Parliament, dear Ms López Bermejo and Mr Viegas,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 9 June 2017.

I had the opportunity to discuss the relevance of financial innovation for the European Central Bank (ECB) and the euro area at the last hearing of the Committee on Economic and Monetary Affairs on 29 May 2017.¹ On that occasion, I explicitly discussed the possible impact of distributed ledger technology, i.e. the technology underpinning decentralised virtual currency schemes (VCS), on the ECB's tasks in relation to monetary policy, financial stability and prudential supervision.

The ECB published reports on VCS in 2012 and 2015², which, inter alia, discuss the existing differences between VCS and the traditional monetary systems of electronic payment.³ The detailed analyses presented

¹ See <http://www.ecb.europa.eu/press/key/date/2017/html/ecb.sp170529.en.html>

² See <https://www.ecb.europa.eu/pub/pdf/other/virtualcurrencyschemes201210en.pdf> and <https://www.ecb.europa.eu/pub/pdf/other/virtualcurrencyschemesen.pdf> respectively.

³ VCS are profoundly different from traditional electronic payment services. In the case of the latter, the payment service provider is responsible for the safety, efficiency and reliability of the payment services, as well as for the safekeeping of the user's deposits. If problems arise, users can turn to the payment service provider, which is a supervised entity, and their deposits of up to € 100.000 are guaranteed under EU rules. By contrast, in the case of most VCS, users currently interact directly with other users, in their own right and at their own risk. There is no supervised provider, no guarantee scheme, and there are many ways in which users could lose (the equivalent of) all their virtual currency holdings.

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in the aforementioned reports conclude that they do not currently pose a threat to financial stability, owing to their limited connection to the real economy, the low volumes issued and traded, and the lack of wide user acceptance. The reports also conclude that they do not pose a risk to price stability, provided that their issuance volumes continue to be stable and their usage low. Although the market capitalisation of VCS has increased since the publication of these reports, there is no evidence to suggest that the connection of VCS to the real economy has strengthened significantly.

As also argued in the reports, build-up of risks stemming from VCS could materialise in the future and in such a case, a more direct regulatory response may be required from a financial stability perspective. Moreover, such regulatory response is likely to be more effective if it is coordinated at the international level. A patchwork of inconsistent national regulatory responses to financial stability concerns may not address these risks adequately, as agents in this market may be conducting their activities internationally.

An increase in the usage of VCS is conceivable. It is thus important to monitor the take-up of VCS from a financial stability perspective. Transparency on the number, structure and scope of VCS is key in this regard. The Eurosystem therefore intends to continue monitoring the volumes traded and exchange rate dynamics of the most important VCS, as well as their links to the “traditional” financial sector.

Yours sincerely,

[signed]

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