Funding the Future

If banks are planning new currencies regulators need to...

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The FT is reporting this morning that four banks are teaming up to create a new form of digital currency based on blockchain technology: a rival to Bitcoin in other words.

I have problems with this. First, there are questions to ask about the control mechanisms in this process. I have already expressed my concerns about the Bitcoin process where the creation of currency blocks appears to give rise to an unknown beneficiary of the credit (or income) in the process. I believe this is a major potential cause of financial instability.

Second, in the case of new bank created currencies I do therefore want to know if the credit arises from loan structures or is taken to an income account, as appears to be the case in the Bitcoin blockchain, which is why its behaviour cannot be like that of conventional money.

Third, the regulatory environment for this new mechanism needs urgent attention. It is claimed it will allow greater volumes of trading by banks with lower capital requirements, but that also very obviously links to increased risk. Who is going to make sure that the risk in question is managed within the banks and has no potential spillover effect?

And last, what is the relationship between such a currency and money laundering regulation? The question needs an answer.

Banks will not be undertaking these activities without expecting a return. Too many bank returns have for too long been at cost to society at large. That possibility seems implicit in these arrangements. Some pretty firm regulation is required in that case.