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# Prospects for Reforming the Financial System

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# The problem

Since January 3, 2009 money and financial markets changed when **Bitcoin** was created. Now we have hundreds of cryptos in circulation.

Subsequently, **custody and exchange platforms** between crypto-currencies arose



Some, beyond custody and exchange of crypto-currencies also act as the basis of **credit lines open to market operators to finance their own initiatives**

They act as **efficient substitutes of banks and financial companies** and have the capacity to crowd out the former

Originating as payment instruments, cryptocurrencies have now become financial instruments, i.e. **cryptoassets**

# The impact on money and finance

In this situation the frameworks of monetary policy, financial policy, supervisory activity (carried out by the FED, SEC and other similar institutions) are no longer clear cut, nor is the transmission mechanism of economic policy decisions

**The genie is out of the Aladdin's Lamp and it cannot re-enter for two main reasons:**

1. technology is now a shared resource which is used by many who would continue to operate even in the face of existing rules or prohibitions
2. decisions have been taken by monetary, financial, and government authorities to legitimized the use of these new instruments

# Current state of crypto-affairs

The US and UK authorities have an approach open to crypto-instruments and self-regulation within existing regulations.

The ECB recently stated that anyone who starts a cryptocurrency or cryptoasset business must be authorized by it. This affects the freedom of market operators, but not the activity of these digital tools because they operate in the infosphere

**The result will be a crowding out of regulated markets and displacement of activities to allow operators to act freely.**

It is possible to control the operations that take place in the infosphere. China has decided to do so, by creating its own alternative protocol to the one currently used (Internet), and by keeping a centralized center where the authorities collect all the information

# My vision

Analyses made by public authorities and scholars abound on crypto monetary and financial innovations, but they have not produced a clarification on the type of institutional set-up to be given to these markets and supervisory policies.

In the absence of this clarification, crypto-assets have expanded greatly (estimates are in the order of 2,000 billion USD equivalent for cryptocurrencies alone) and the authorities have directly or indirectly legitimized the existence and interchangeability operated by the custody and exchange platforms, which have also served as crypto-credit creators

With Jan Kregel, I have already expressed my vision of what the lines of reform of the monetary and financial system should be, **referring to Minsky's ideas, albeit reinterpreted in light of the developments assumed by the cryptocurrency and cryptoasset market**



# The Best Solution

1. Money must be created only by public institutions, be it traditional or encrypted. If national States accept the presence of privately created money, the same technology base (protocol and Blockchain/DLT) must be established for both
2. The collection of savings in traditional and encrypted forms should be considered as financial instruments to be held in the same technological base, but with a permissioned and not permissionless decentralized accounting
3. Banks are placed outside the monetary creation circuit and, together with financial intermediaries, compete to collect savings and manage them with objective and safe methods (as Artificial Intelligence algorithms)

# The logical base

To read the future of cryptocurrencies, I am proposing to refer to Gresham's law, **bimetallism** and the **fiduciary regime of money**.

The centuries-old experience of gold-silver bimetallism teaches us that it is intrinsically unstable because it is linked to the different temporal rhythm of discovery of the mines of one or the other metal that has alternately caused cycles of inflation or deflation

Agustin Carstens, DG of the BIS in Basel, recently presented a paper in which he argues that Gresham's law would work in favor of public money. I disagree



# If we underestimate the implications:

The most likely prospect is that monetary sovereignty will pass into the hands of the market and, mainly, into those of Big Techs, (e.g. Facebook's Libra)

I therefore remain of the opinion expressed in 1996 on the functioning of the free derivatives market that, “sooner or later the State will have to intervene”

**My hope is that this is a wrong prediction because, if it is not, the consequences could be dramatic**

# Further implications

The problem would no longer be about the technology of the financial accounting used, either traditional (on paper or digitized credit) or innovative (encrypted), but about **who has access to information and their dissemination.**

The **law must therefore regulate** the correct methods of acquisition and utilization by the public authorities of financial information

This is why **IT protocols and DLT methods must be considered public goods**, that is, goods of public interest whose production must be guaranteed by the State, and must also ensure cyber security and the availability of non-polluting energy sources and social goals (as the growing legislation on ESG-Environmental, Social, and Governance) also for any kind of cryptoasset

# Conclusion

Market operators and existing public institutions have **to adapt** themselves to the operation of markets in the opaque cyber universe of the infosphere

Incoming legislation **cannot be independent of the technology** underlying financial innovations which evade existing legislation

Central banks will have to issue their own cryptocurrency, absorbing the monetary functions of deposit banks and placing themselves in a **DLT system permissioned**

Private financial institutions will continue to **manage payment systems through exchange platforms** between traditional and crypto instruments, and collect savings in competition with other intermediaries, managing them with AI methods



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**Thank you**

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