Discussion of Paper: Libra or Librae? Basket based stablecoins to mitigate foreign exchange volatility spillovers
by P. Giudici, T. Leach and P. Pagnottoni

Discussion by Prof. Rym Ayadi, The Business School (Former CASS) & Chair of BSG
Stablecoins are a new type of digital money that try to address the shortcomings of the first generation crypto currencies (CC) initiated by the Bitcoin that suffered significant price volatility.

Stablecoins use different stabilization mechanisms for pegging their value to an underlying currency or a pool of currencies or assets that can offer a more stable digitally transferable asset to support liquidity in traditional cryptotcurrency networks – stabilisation mechanisms can also use protocols and applications.

Governments generally fear the rise of stablecoins issued by non-government bodies (Ward and Richemont (2019)).

Research on this field is growing rapidly – my advice is to review the latest papers on the topic.
Many of the first generation SC were launched and circulated taking advantage of gaps in regulation and supervision;

Different stability mechanisms can be exposed to significant risk if not properly managed and regulated – according to the FSB (OCT. 2020)

- Financial stability
- Consumer and investor protection
- Data privacy and protection
- Financial integrity and compliance with AML/CFT rules...
- Cyber security

The stability provided by currency baskets could eventually shift liquidity away from the internationally dominant USD and may disrupt the exchange market dynamics – but still to be tested empirically

If SC achieve high liquidity in crossborder payments, There might be negative externalities because of operational difficulties in the companies that provide them

CC and SC trading/liquidity might be polluted with wash trades
• **Objective**: to explore empirically stablecoins whose value is derived from a basket of underlying currencies as compared to SC that is pegged to the value of a major currency

• It builds a basket based SC whose weights can maximise stability over a long time period

➢ This is a *paper* that contributes to the policy debate about stabilization mechanisms;
Data:
- Use of daily foreign exchange rate data from Jan 2002 to Nov 2019, data from investing.com
- To build the optimal basket of currencies, collect data relative to the foreign exchange pairs between the currencies that are included in the IMF’s Special Drawings Rights: the US dollar, the Chinese Renmimbi, the Euro, the British pound and the Japanese Yen.
- What drives the choice of the basket of currencies? More explanation is needed in the paper

Methodology:
1. Optimal basket and stability analysis computing the normalized value in exchange (RNVAL)
2. Assess the spillovers using VAR and Network analysis

Results:
- The proposed stable coin appears to be less volatile than single currencies and to single currency stable coins
- When proposing a variance decomposition technique, they show that a basket based SC is better than a dollar based one, from a stability and value storage standpoint
- A basket based stablecoin allows to offset the risk of currencies shocks
Improvements/extensions:

- **On the data:**
  - Period of analysis could be extended to 2020 to include COVID-19 period
  - Justify the choice of the currencies in the basket

- **On the overall structure of the paper:**
  - Better organisation will benefit the paper – streamlining and emphasise the discussion on the risks of different stabilisation schemes

- **On the results and policy discussion:**
  - Extend the policy discussion on the impacts of SC on the determinants of a dominant currency in terms of additional loss absorbency and minimum capital requirements, liquidity coverage ratio and NSFR - See Ogawa and Muto (2019 and 2017)
  
  - What are the impacts on the existing regulatory and supervisory frameworks? Should there be a new regulatory and supervisory requirement for issuing and exchanging SC? FSB (2020)
• Thank you
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