

How are smartphone app design and financial stability linked? Can social media undermine global financial system? What negative consequences can stem from the enforcement of anti-money laundering law? The research described below broadens the perception of financial stability by allowing us to spot serious legal threats in areas in which they have so far gone unnoticed. The aim of this project is to assess whether financial stability should constitute an overarching regulatory rationale.

1. What is the aim of the project?

The aim of this project is to identify and explore legal provisions in areas of technology, AML and climate, that are non-financial stability-oriented (the ones that do not embed financial stability as a regulatory rationale), but nevertheless have caused financial instability. This analysis will constitute an attempt to verify main hypothesis of this work: **financial stability should constitute an overarching regulatory rationale, regardless of the primary goal of a given regulatory solution.**

2. Importance of the project and research description

For the public, financial stability is a very abstract term. Volatilities in the markets or moments of weakness of financial institutions often go unnoticed. However, financial instability has a broad societal significance, and no one is immune to its impact: it affects people shocked that they cannot afford basic products, workers unable to find jobs, house-seekers unable to afford a loan, customers of financial institutions finding out they would lose all their money or those facing pandemic or war worrying for their financial survival on the top of everything else. These scenarios vividly demonstrate the **significance of financial stability and the need to protect it**, as without it, other global goals, such as climate protection or technological development may not be achievable.

After the Global Financial Crisis (GFC) of 2008 many legal measures were introduced with financial stability serving as their rationale. However, what has been omitted is that **non-financial stability-oriented rules can also threaten financial stability**. Recently, several instances of financial instability highlighted that the threats may originate from regulatory areas which are seemingly unrelated to financial stability. In the case of **Gamestop**, social media (Reddit) and app design (Robinhood) fueled the stock frenzy that resulted in significant volatilities and brought some of the Wall Street players to the brink. The run on **Silicon Valley Bank** was also exacerbated by social media. As for **Credit Suisse**, effective anti-money laundering enforcement and misconducts revealed by it, lead to an increase in reputational risk and contributed to its failure and subsequent takeover by UBS. Finally, including climate protection in capital calculation process (**green supporting factor** in the context of risk weights) proposed by the European Commission and European Banking Authority could also undermine financial stability. In all of these cases financial stability has been threatened (or will be in case of climate) by non-financial stability-oriented provisions.

In order to verify the hypothesis outlined above the project is divided into several work packages. First, the **financial stability as a regulatory rationale** will be examined, from its definition and signs of instability to its role in regulatory process. Then, the focus will shift to the main part of the project – **‘reverse engineering’ of selected cases** when financial stability was (will be) threatened. In-depth examination of Gamestop debacle, Silicon Valley Bank collapse, Credit Suisse demise and takeover by UBS, and lastly, proposals regarding climate-linked risk weights will allow to identify non-financial stability-oriented provisions that put financial stability at risk. Finally, based on this analysis, obstacles and consequences (**cost-benefit analysis**) of **treating financial stability as an overarching regulatory rationale** will be examined. The inclusion of both ex post (Gamestop, SVB, CS) and ex ante (climate proposal) perspectives allows to establish a regulatory continuum and create an opportunity to formulate comprehensive recommendations regarding the role of financial stability throughout the entire regulatory process.

This research is innovative especially because it uncovers **omitted legal threats** to financial stability originating outside the well-examined financial stability-oriented macroprudential regime. This broader perspective will be crucial internationally, as the legal systems analyzed are the ones setting the **regulatory example for the rest of the world**.

3. Results of the funded research

First, this project will provide for an in-depth analysis of above-mentioned cases and **identify particular non-financial stability-oriented provisions that contributed to financial instability**. Second, comprehensive **recommendations** regarding treating financial stability as an overarching regulatory rationale will be formulated, both specific (case-based) and more general – aimed at all developing legal areas and **all stages of regulatory process**. Results of this work shall be disseminated at international conferences and in international publications.