# The Value of Truth: Information Integrity and Financial Stability in the Digital Age

**Bank & Finance
Consulting Group**

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# Preface

This report, *The Value of Truth: Information Integrity and Financial Stability in the Digital Age*, is part of the **Bank & Finance Deep-Dive Series**. The series provides forward-looking analysis on the strategic, financial, and policy implications of emerging global trends, with a focus on the challenges and opportunities facing institutional investors, regulators, and financial market participants.

Information has always been the lifeblood of markets and societies, but today it circulates in unprecedented volume and velocity. Alongside genuine knowledge, misinformation and disinformation travel faster and further, eroding trust, weakening institutions, and distorting decision-making. The rise of generative technologies, viral platforms, and global networks has amplified both the opportunities of information abundance and the risks of truth decay.

This report explores the **value of truth as a societal and financial public good**. It examines how misinformation affects decision-making, trust, and resilience, and how its impact is particularly acute in finance — where markets are fundamentally information-processing systems. From meme stocks and crypto collapses to rumor-driven bank runs, financial misinformation has proven to be not only disruptive but potentially systemic.

The analysis deliberately integrates perspectives from both advanced economies and the Global South — including Latin America, Africa, Eastern Europe, and Asia — recognizing that information vulnerabilities manifest differently across contexts, depending on financial literacy, regulatory capacity, and institutional trust.

The report builds on the structure and style of earlier publications in our series, including:

1. Ponzi Games: Anatomy, Evolution, and Containment Strategies
2. Cyber Resilience in Finance: From Risk Mitigation to Competitive Advantage
3. The Future of Payments and Cross-Border Finance: Navigating Transformation Amid Risk and Opportunity
4. Open Finance: Unleashing the Next Wave of Financial Innovation
5. Global Financial Stability in Transition: Structural Risks, Regulatory Challenges, and Strategic Pathways
6. Climate Change and Financial Risks: Navigating the Transition and Managing Physical Exposure
7. Demographic Change: Challenges and Opportunities in the Age of Low Fertility and Aging Populations
8. Unveiling the Future of Digital Currency Infrastructure: Navigating the Transformation of Finance in a Tokenized World
9. Artificial Intelligence Industry Deep-Dive Report: Investment Implications and Strategic Outlook 2025 – 2030
10. Financing Infrastructure with Private Participation
11. Sovereign Debt and Global Financial Stability

In each, our aim is to go beyond technical detail to frame issues in terms of **financial stability, institutional strategy, and global competitiveness**.

We hope this report will help financial institutions, regulators, and policymakers better understand the dynamics of misinformation, assess the value of truth as an invisible infrastructure, and design strategies to strengthen information integrity as a foundation of resilient markets and societies.

**Bank & Finance**
September 2025

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# List of Acronyms

**AP** – Associated Press (news agency, United States)

**AI** – Artificial Intelligence

**BIS** – Bank for International Settlements

**ESG** – Environmental, Social, and Governance

**FDIC** – Federal Deposit Insurance Corporation (United States)

**FSB** – Financial Stability Board

**IOSCO** – International Organization of Securities Commissions

**MBS** – Mortgage-Backed Securities

**NASDAQ** – Nasdaq Stock Market

**NGO** – Non-Governmental Organization

**OECD** – Organisation for Economic Co-operation and Development

**SEC** – Securities and Exchange Commission (United States)

**S&P** – Standard & Poor's 500 Index

**SVB** – Silicon Valley Bank

**UST** – TerraUSD (algorithmic stablecoin)

**VC** – Venture Capital

**WHO** – World Health Organization

# Executive Summary

Truth is increasingly scarce in an age of abundant information. From news outlets to social media feeds, individuals and institutions are exposed daily to a mix of accurate reporting, misleading narratives, and deliberate falsehoods. While the societal costs of misinformation are evident in politics, health, and climate debates, the financial impact is equally profound. Studies estimate that false financial news generates nearly USD 78 billion in annual global losses, while a single hacked tweet from a trusted news source once erased USD 136 billion in U.S. market value within minutes.

For financial markets, which operate as information-processing systems, the erosion of truth poses systemic risks. Viral retail narratives can detach prices from fundamentals; false assurances and opacity can destabilize new asset classes; and digital rumor dynamics can accelerate traditional bank runs. These cases, reviewed in detail in this report, illustrate how truth failures undermine market stability, investor confidence, and institutional credibility.

Protecting information integrity is therefore not an abstract concern but a core pillar of financial stability. As with capital buffers or liquidity backstops, truth must be treated as a strategic safeguard. This report proposes that societies and markets invest in a truth infrastructure: a systemic architecture that combines technology, regulatory standards, financial literacy, and trusted data services to ensure verification keeps pace with falsehood.

The dynamics explored here can be summarized in five interrelated themes, presented in **Figure 1**.

## Figure 1 – Key Highlights of the Report

**Truth as a Public Good**
Reliable information underpins trust, cooperation, and collective decision-making

**Societal Costs of Misinformation**
False claims distort health, education, and politics - eroding institutions and cohesion

**Finance as an Information System**
Markets depend on accurate signals; misinformation driven bubbles, runs, and systemic risks

**Current Defenses are Limited**
Fact-checking tools exist but struggle with scale. AI deepfakes amplify the challenge

**Towards a Truth Infrastructure**
Combining technology, regulation, and literacy to embed verification into finance and society
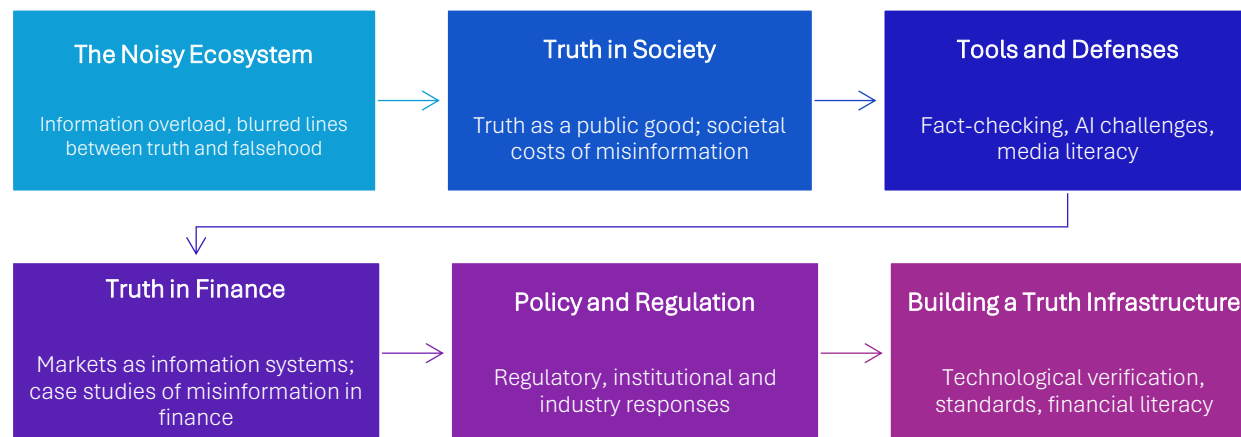
*Source:* *Bank & Finance elaboration based on RAND (2018), Kahneman (2011), Shiller (2019), and BIS (2022).*

Truth functions as a public good, underpins market resilience, and enables trust. Protecting it is both a societal imperative and a strategic priority for regulators, central banks, investors, and development institutions. Investing in truth is not just a defensive necessity but a source of competitive advantage for institutions and a safeguard for central banks tasked with maintaining stability.

The report follows a structured roadmap that begins with a broad societal framing of the problem of misinformation and progressively narrows toward its implications for financial markets and policy. This sequence, shown in **Figure 2**, ensures that readers first grasp the general value of truth before focusing on the specific challenges and opportunities in finance. By moving from societal costs to financial vulnerabilities, and then to regulatory responses and future truth infrastructures, the report highlights both the scale of the challenge and the pathways available to strengthen information integrity. The roadmap also reflects our dual ambition: to contribute to the global debate on misinformation while offering actionable insights for financial regulators, institutions, and policymakers.

## Figure 2 – Report Roadmap

| The Noisy Ecosystem | Truth in Society | Tools and Defenses |
|---|---|---|
| Information overload, blurred lines between truth and falsehood | Truth as a public good; societal costs of misinformation | Fact-checking, AI challenges, media literacy |

| Truth in Finance | Policy and Regulation | Building a Truth Infrastructure |
|---|---|---|
| Markets as infomation systems; case studies of misinformation in finance | Regulatory, institutional and industry responses | Technological verification, standards, financial literacy |

*Source*: *Bank & Finance elaboration based on RAND (2018), BIS (2022), Shiller (2019), and OECD (2021).*

# 1. Introduction: The Noisy Information Ecosystem

Information is now produced and distributed at near-zero marginal cost and at unprecedented scale. The same technological forces that democratize knowledge also lower the barriers to creating misleading content and accelerate its spread (Lazer et al., 2018; RAND, 2018). Traditional gatekeepers—newsrooms, professional associations, regulators—no longer control the pace or provenance of what most people see (Tufekci, 2017; Gillespie, 2018). In this environment, **truth competes for attention** against content optimized for virality rather than accuracy.
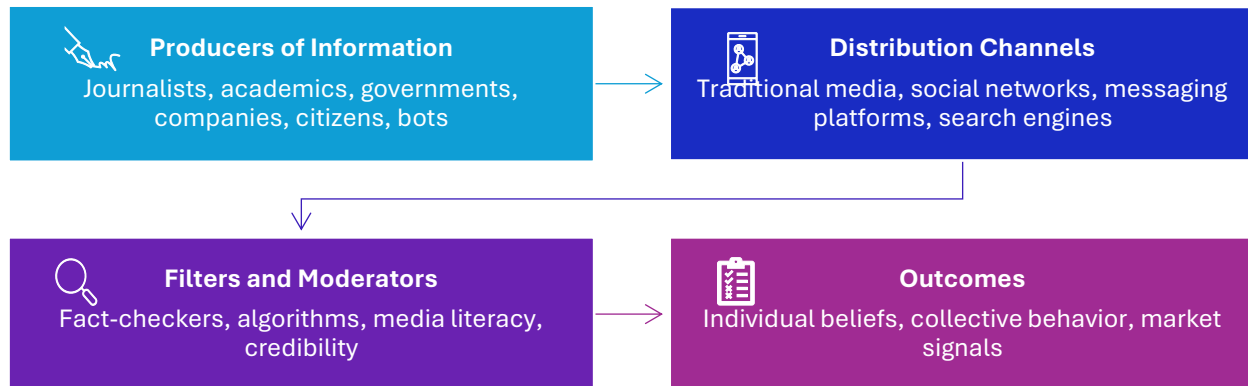
On the **supply side**, the production frontier has shifted. Low-cost content creation, influencer economies, coordinated networks, and now generative AI enable a steady flow of compelling but unverifiable claims. Synthetic media and *deepfakes* add a new layer of risk by making false content look indistinguishably real (Chesney and Citron, 2019). On the **transmission side**, recommendation algorithms amplify material that elicits strong engagement—often novelty, outrage, or identity-affirming cues—creating structural advantages for falsehoods (Vosoughi, Roy and Aral, 2018; Lazer et al., 2018). On the **demand side**, well-documented cognitive biases—salience, availability, confirmation, and motivated reasoning—shape how individuals select and interpret messages (Kahneman, 2011; Sunstein, 2019).

These dynamics have **societal** and **economic** consequences. The World Health Organization described the COVID-19 period as an *infodemic*, where an overabundance of information—accurate and not—made it difficult to find trustworthy guidance (WHO, 2022). More broadly, the literature on "truth decay" documents the diminishing role of facts and analysis in public and institutional decision-making (RAND, 2018). In financial settings, where markets are information-processing systems, distorted inputs can generate mispricing, volatility, and fragility. Classical theory assumes that prices reflect available information (Fama, 1970) but real-world behavior shows that narratives and social contagion move markets (Shiller, 2019), especially when asymmetries are large (Akerlof, 1970).

In April 2013, a single hacked tweet from the Associated Press reported a fictitious explosion at the White House. Within minutes, the S&P 500 fell sharply, wiping out an estimated USD 136 billion in market value before recovering. This flashpoint demonstrated that in an era of instant communication, false information can trigger real financial losses at extraordinary speed. Such incidents are no longer anomalies. The digital transformation of media has expanded the volume and velocity of information while weakening the filters that once upheld accuracy, creating an environment where truth must now compete with content optimized for virality (Lazer et al., 2018; Tufekci, 2017).

To navigate the rest of this report, **Figure 3** maps the core components and flows of today's information environment. It distinguishes four layers we will reference throughout: (1) producers, (2) channels, (3) filters, and (4) outcomes. The interplay across these layers explains why accuracy can lose to virality—and why verification must be embedded, not appended, to information flows.

## Figure 3 – Anatomy of the Information Ecosystem

| Producers of Information | Distribution Channels |
|---|---|
| Journalists, academics, governments, companies, citizens, bots | Traditional media, social networks, messaging platforms, search engines |

| Filters and Moderators | Outcomes |
|---|---|
| Fact-checkers, algorithms, media literacy, credibility | Individual beliefs, collective behavior, market signals |

*Source*: *Bank & Finance elaboration based on Lazer et al. (2018), RAND (2018), Tufekci (2017), Gillespie (2018), and Chesney and Citron (2019).*

Even when there is no malicious intent, small distortions can scale quickly through network effects, creating feedback loops between media narratives, public beliefs, and market prices. In practical terms, truth functions like infrastructure: when it is robust, institutions coordinate and markets allocate capital efficiently; when it is degraded, both social trust and financial stability weaken. As Habermas (1984) argued, credible communication is not just a norm—it is a precondition for collective action. In the pages that follow, we show that this precondition now has measurable financial value.

Given these dynamics, truth should be treated as a public good with positive externalities for society and markets alike. Section 2 develops this argument, assessing the societal value of verifiable information and the costs of its erosion before we turn to finance-specific mechanisms and case studies.

## 2. The Value of Truth in Society

Truth has long been recognized as a cornerstone of social order. Philosophers from Plato to Habermas have argued that truth enables rational discourse, collective problem-solving, and the pursuit of justice (Habermas, 1984). Economists increasingly frame truth as a **public good**: non-excludable and non-rivalrous, its benefits extend beyond the individual to the collective. When truth is widely available, societies can coordinate, cooperate, and innovate. Conversely, when truth is scarce or contested, collective action becomes fragmented, trust declines, and social costs multiply (Akerlof and Shiller, 2015).

### 2.1 Societal costs of misinformation

The erosion of truth imposes high costs across multiple domains:

- **Public health:** Misinformation has undermined vaccination campaigns, fueled skepticism around scientific evidence, and contributed to avoidable mortality (WHO, 2022). The COVID-19 pandemic showed how "infodemics" — rapid spreads of false or misleading content — can complicate crisis response (Cinelli et al., 2020).

- **Politics and democracy:** Electoral misinformation has distorted voting behavior, weakened institutional legitimacy, and heightened polarization. Research shows that false political news spreads faster and more broadly on social platforms than factual reporting (Vosoughi, Roy and Aral, 2018).

- **Climate and environment:** Decades of organized disinformation campaigns by vested interests have delayed climate action, sowing doubt about scientific consensus and undermining policy momentum (Oreskes and Conway, 2010).

In each of these domains, misinformation exploits human cognitive biases — notably confirmation bias and availability heuristics (Kahneman, 2011). The result is not only poor individual choices but systemic vulnerabilities. For example, when a critical mass of citizens distrusts vaccines, herd immunity collapses; when enough voters act on false claims, democratic legitimacy erodes; and when societies delay action on climate risks, economic and ecological damages accumulate.

The economic consequences of misinformation are not confined to long-term distortions in public debate. History shows that even a single false statement, when amplified through trusted or viral channels, can trigger immediate financial losses on a massive scale. **Box 1** illustrates how misinformation has produced sudden market shocks and recurring global costs.

Box 1 – Financial Flashes of Misinformation

Beyond long-term societal costs, several high-profile incidents demonstrate the immediate and material impact of misinformation on financial markets and corporations.

- **Corporate losses:** The World Economic Forum warns that disinformation — including fake news and deepfakes — has already inflicted **billions of dollars in losses**, damaging both revenues and reputations of global companies (World Economic Forum, 2025).

- **The AP Twitter hack (2013):** When hackers took over the Associated Press Twitter account and falsely reported an explosion at the White House, the S&P 500 briefly plunged, erasing an estimated **USD 136 billion** in market value within minutes. Although markets quickly recovered, the incident revealed the vulnerability of financial systems to single false messages amplified through trusted channels (Reuters, 2013; The Guardian, 2013).

- **The global cost of fake news:** A study by Cavazos and CHEQ estimated that false financial news generates around **USD 39 billion annually in stock market losses**, plus **USD 17 billion in misguided financial decisions**, for a total impact of approximately **USD 78 billion each year** (Cavazos and CHEQ, 2019; World Economic Forum, 2025).

*Source: Bank & Finance elaboration based on World Economic Forum (2025), Cavazos and CHEQ (2019), Reuters (2013), and The Guardian (2013). We thank Claudia Villegas for referring us to these cases.*

These episodes demonstrate that misinformation is not just a social or political concern, but a direct financial risk with measurable costs — from billions in lost corporate value to sudden market instability. They provide a bridge between the societal impacts of misinformation and its systemic consequences in financial markets, which are explored in greater depth in **Section 4**.

## 2.2 Why truth matters as a public good

The collective benefits of truth extend far beyond the absence of misinformation. Reliable information underpins:

- **Trust in institutions:** Citizens' willingness to accept rules, pay taxes, and comply with regulations depends on believing that public institutions operate on factual grounds (Levi and Stoker, 2000).
- **Effective policy-making:** Governments require accurate data to design and evaluate interventions. Misreported inflation, unemployment, or fiscal balances can lead to miscalibrated policies.

- **Innovation and science:** Knowledge creation relies on shared baselines of empirical truth. Scientific progress stalls when misinformation undermines evidence or crowds out reliable knowledge (Nelson, 2004).

Truth, in this sense, functions as an **invisible infrastructure**: it is not always visible or tangible, but its absence quickly generates inefficiencies, mistrust, and crises.

The enabling role of truth can be represented schematically as a public good that generates multiple positive externalities as in **Figure 4**. At its core, truth provides a baseline of shared facts; radiating outward, it strengthens trust in institutions, supports effective policy-making, and fosters innovation and scientific progress. These benefits together underpin the broader resilience of societies.

This framework underscores that truth functions much like an invisible infrastructure: often unnoticed when it works, but deeply disruptive when it fails. Its public-good character means that underinvestment in verification, education, or credible communication creates collective vulnerabilities. Protecting truth, therefore, is not simply about combating misinformation but about safeguarding the institutional and economic systems that depend on it.

The evidence across public health, politics, and climate demonstrates that truth is far more than an abstract virtue; it is a practical necessity for societies to function effectively. Treated as a public good, truth reveals its enabling role in sustaining trust, shaping policy, and driving innovation. Yet recognition alone is insufficient. Because misinformation exploits structural weaknesses in both cognition and institutions, societies must move from acknowledging truth's value to actively defending it. The next section therefore turns to the tools and defenses currently deployed — from fact-checking platforms to media literacy — and assesses their effectiveness and limitations.

Figure 4 – Truth as a Public Good
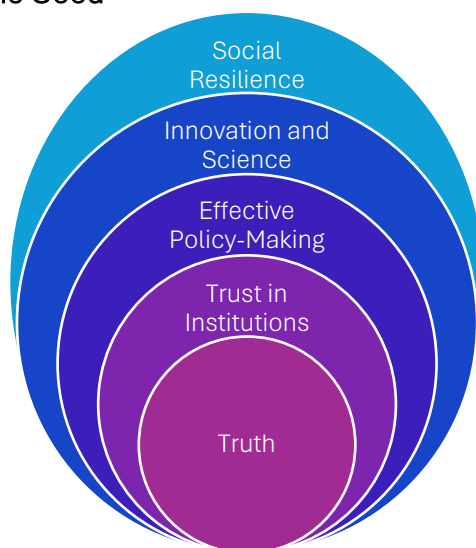


*Source:* *Bank & Finance elaboration based on Habermas (1984), Akerlof and Shiller (2015), Nelson (2004), and WHO (2022).*

## 3.      Tools and Defenses Against Misinformation

Efforts to counter misinformation have multiplied over the past decade. Yet defenses remain fragmented, uneven in effectiveness, and often reactive rather than preventive. Understanding the strengths and limits of existing approaches is essential for designing a more resilient truth infrastructure.

### 3.1 Fact-checking platforms

Fact-checking organizations have expanded globally, from *PolitiFact* in the United States to *Chequeado* in Argentina and *Africa Check* in South Africa. These initiatives evaluate claims made by politicians, media outlets, and influencers, providing evidence-based ratings on their veracity (Graves, 2018). While valuable, fact-checking faces structural constraints: it is labor-intensive, often slower than the viral spread of misinformation, and reaches only a fraction of the audiences exposed to false content.

### 3.2 Algorithmic and platform responses

Digital platforms have introduced content moderation policies, warning labels, and algorithmic downranking for demonstrably false claims. Twitter/X, Meta, and YouTube have all experimented with different models. Evidence suggests that such interventions can reduce the spread of falsehoods, but they also raise questions about transparency, accountability, and potential censorship (Gillespie, 2018). Importantly, platforms' profit models remain centered on engagement, creating incentives misaligned with truth.

## 3.3 The role of artificial intelligence

AI holds both promise and peril in the fight against misinformation. On the one hand, machine-learning tools can automatically detect suspicious patterns, verify images, and cross-check textual claims at scale (Hansen et al., 2022). On the other, the same technologies enable the production of hyper-realistic "deepfakes" and synthetic media that erode trust further (Chesney and Citron, 2019). This dual-use nature makes AI a critical but double-edged tool in the defense landscape.

## 3.4 Education and media literacy

Perhaps the most durable defense is human judgment. Media literacy programs in schools and civic organizations have been shown to improve individuals' ability to recognize misinformation and apply critical thinking (McDougall et al., 2019). However, these interventions are slow-moving, generational in scope, and require consistent policy commitment.

To assess the effectiveness of current responses, it is useful to classify defenses according to their **type** (technological, institutional, or human) and their **nature** (reactive versus preventive). This typology, shown in **Table 1**, highlights both the breadth of existing tools and the gaps that remain.

Table 1 – Typology of Defenses

| Type of Defense | Nature of Intervention | |
|---|---|---|
| | Reactive | Preventive |
| Technological | AI-driven detection, platform moderation | Authentication standards, blockchain verification |
| Institutional | Fact-checking organizations, regulatory enforcement | Transparency laws, disclosure requirements |
| Human | Public shaming of false claims | Media literacy, critical thinking education |

*Source*: *Bank & Finance elaboration based on Graves (2018), Gillespie (2018), Chesney and Citron (2019), and Hansen et al. (2022).*

The typology reveals a fragmented architecture: most defenses are either reactive and piecemeal, or preventive but underdeveloped. True resilience requires reinforcing all quadrants simultaneously — technological tools for rapid detection, institutional frameworks for enforcement and transparency, and human capacities for critical thinking. Without such balance, misinformation will continue to exploit the asymmetry between low-cost falsehoods and high-cost verification.

These defenses represent an evolving but incomplete architecture. Most interventions remain fragmented, reactive, or limited in scope, while the production of misinformation continues to outpace verification. The asymmetry between the low cost of falsehood and the high cost of truth persists. To understand how these dynamics intersect most acutely with economic and financial outcomes, the next section examines truth in the context of markets — where information is the lifeblood of valuation, risk assessment, and stability.

## 4.     The Value of Truth in Finance

Markets are, at their core, information-processing systems. Prices emerge from the aggregation of signals — corporate disclosures, analyst forecasts, macroeconomic indicators, and investor sentiment. When the informational base is accurate, markets can allocate capital efficiently and risks can be priced appropriately. When it is polluted by falsehoods, distortions ripple through valuations, liquidity, and stability.

As highlighted in **Box 1**, even isolated incidents — such as a hacked news account or the viral spread of a false financial story — can erase billions of dollars in market value within minutes. Estimates suggest that fake news and disinformation cost the global economy tens of billions annually, underscoring the materiality of information integrity in finance.

To explore these dynamics more deeply, this section reviews three recent case studies that illustrate different pathways by which misinformation can destabilize markets: **GameStop**, where viral narratives amplified by retail communities drove extreme volatility; **Terra-Luna and FTX**, where false assurances and opaque practices undermined trust in digital assets; and **Silicon Valley Bank**, where digital rumor acceleration transformed a liquidity problem into a systemic banking crisis. Together, these cases reveal how truth failures translate into financial fragility across diverse segments of the system.

### 4.1 Markets as information systems

The **Efficient Market Hypothesis** assumes that prices reflect all available information (Fama, 1970). Yet this assumption breaks down when misinformation spreads faster than verification. Information asymmetries, already central to financial theory (Akerlof, 1970), are amplified in the digital era by algorithmic trading, viral narratives, and speculative communities. The result is not only mispricing but also feedback loops that destabilize markets (Shiller, 2019).
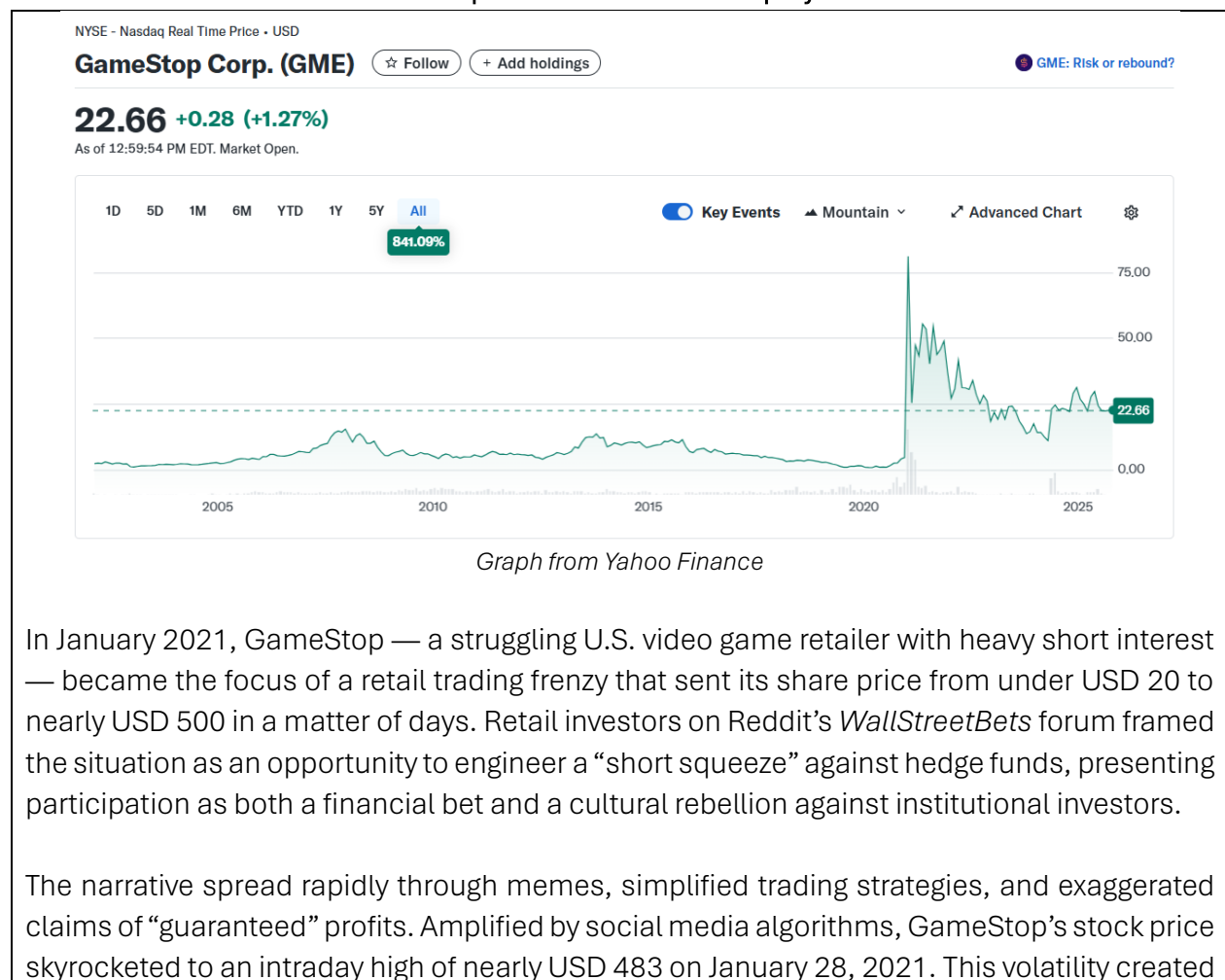
To illustrate these dynamics, this section reviews three recent cases where misinformation — whether viral narratives, false assurances, or rumor amplification — triggered severe market disruption.

## 4.2 Case studies of financial misinformation

As Box 1 highlighted, misinformation has already generated substantial financial losses, from hacked news accounts to global estimates of tens of billions of dollars lost annually to false narratives. Building on these flashpoints, this subsection reviews three recent cases from **2021 to 2023 — GameStop, Terra-Luna/FTX, and Silicon Valley Bank** — each illustrating a distinct mechanism through which misinformation interacts with finance: the amplification of viral retail narratives, the propagation of false assurances in emerging asset classes, and the acceleration of traditional bank runs through digital rumor dynamics.

The first case, in **Box 2**, shows how viral retail narratives in equity markets can fuel extreme volatility. This episode shows that even in highly regulated equity markets, community-driven information cascades can generate systemic pressures when truth is diluted by simplified or exaggerated claims. This case highlights how **viral retail herding** can overwhelm fundamentals and strain the basic market infrastructure on which stability depends.

Box 2 – Meme Stocks and GameStop: Viral Narratives in Equity Markets



*Graph from Yahoo Finance*

In January 2021, GameStop — a struggling U.S. video game retailer with heavy short interest — became the focus of a retail trading frenzy that sent its share price from under USD 20 to nearly USD 500 in a matter of days. Retail investors on Reddit's *WallStreetBets* forum framed the situation as an opportunity to engineer a "short squeeze" against hedge funds, presenting participation as both a financial bet and a cultural rebellion against institutional investors.

The narrative spread rapidly through memes, simplified trading strategies, and exaggerated claims of "guaranteed" profits. Amplified by social media algorithms, GameStop's stock price skyrocketed to an intraday high of nearly USD 483 on January 28, 2021. This volatility created

unprecedented pressures on brokers and clearinghouses, which faced extraordinary collateral demands. Platforms such as Robinhood restricted trading in GameStop and similar "meme stocks," fueling public backlash and congressional scrutiny.

Although GameStop's underlying fundamentals had not changed, narratives drove valuation dynamics. The Securities and Exchange Commission (SEC) later concluded that while no fraud had occurred, the scale and velocity of events highlighted systemic vulnerabilities in clearing, collateral management, and market communication (SEC, 2021).

This case underscores how digital narratives can generate powerful feedback loops in equity markets. Even absent malicious intent, community-driven information cascades can disconnect prices from fundamentals, strain financial plumbing, and raise questions about market stability in the digital age.

*Source:* Bank & Finance elaboration based on SEC (2021), Shiller (2019), BIS (2022) and MarketWatch (2021).

The second, in **Box 3,** case illustrates how false assurances and opaque practices destabilized the crypto ecosystem. The Terra-Luna and FTX collapses underscore that without verifiable disclosures and independent oversight, digital assets remain acutely vulnerable to misinformation and the erosion of trust. These collapses reveal how **false assurances and opacity** in new asset classes can mislead millions and magnify systemic risk.

### Box 3 – Terra-Luna and FTX: False Assurances and the Fragility of Crypto Markets

In 2022, two of the most prominent names in digital assets — the Terra-Luna stablecoin system and the FTX crypto exchange — collapsed spectacularly, exposing the fragility behind misleading assurances of stability and sound management.

**Terra-Luna** was designed as an algorithmic stablecoin ecosystem. TerraUSD (UST) was promoted as a "safe, dollar-pegged" digital asset, backed not by reserves but by an arbitrage mechanism with its sister token, Luna. Crypto exchanges and promotional campaigns reinforced this perception, with some platforms explicitly describing Terra as a safe investment (Financial Times, 2022). Investors were further drawn by the Anchor Protocol, which promised yields of nearly 20 percent on deposits — portrayed as sustainable despite relying on continuous inflows. When confidence faltered in May 2022, UST lost its peg, triggering a death spiral that wiped out more than USD 40 billion in market capitalization and undermined trust in stablecoins. Analysts later emphasized that the collapse reflected both flawed design and the overconfidence generated by misleading assurances (Time, 2022).

**FTX,** one of the world's largest crypto exchanges, collapsed just months later. The firm projected itself as a secure, well-regulated platform, with its founder, Sam Bankman-Fried, portrayed as a visionary leader committed to transparency and effective altruism. In reality,

customer deposits were misused to fund speculative bets by its trading affiliate, Alameda Research. Once these practices came to light, investor confidence evaporated, leading to a liquidity crisis and bankruptcy in November 2022. Losses rippled across the crypto ecosystem, hitting lenders, hedge funds, and retail investors worldwide.

Both cases underscore the fragility of financial systems built on **false assurances**. Terra-Luna failed because its promises of stability and high returns were structurally unsound, while FTX unraveled due to deliberate misrepresentation and opaque governance. In both instances, misleading narratives substituted for robust risk management, leading to systemic contagion and a loss of confidence in the digital asset class as a whole.

The following graph from Cornelli et al. (2023) shows that as prices of crypto coins were dropping and TerraUSD and FTX platform collapsed, in May and November, respectively (panel A), trading activity of the three major crypto platforms – Binance, Coinbase and FTX – increased after news about the troubles of Terra (solid lines) and FTX (dashed lines) emerged (panel B). As explained by Cornelli et al. (2023) the portfolio adjustments were heterogeneous as large investors were able to move away from stress tokens at the expense of smaller holders that increase their positions (panel C).



In stormy seas, "the whales eat the krill"  Graph 1

A. As prices tumbled...

B. ...all users traded more...[1]
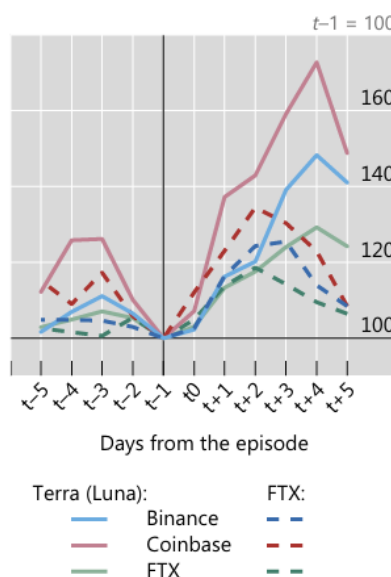
C. ...but whales sold while krill bought[2]
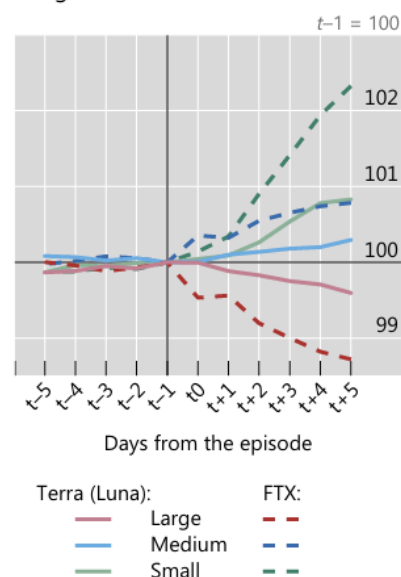
[a] Terra USD and Luna collapse, 8 May 2022.  [b] FTX collapse, 7 November 2022.

[1] Based on daily active users of cryptoexchange apps.  [2] Based on the number of BTC held in addresses with balance less than 1 BTC (small), 1–1000 BTC (medium), and more than 1000 BTC (large).

Sources: CoinGecko; IntoTheBlock; Sensor Tower; authors' calculations.

*Graph from Cornelli et al (2023)*

> These episodes demonstrate how misinformation in emerging markets is not confined to retail speculation but can reverberate across global finance. They highlight the need for stronger disclosure standards, independent audits, and regulatory frameworks to ensure that innovation in digital assets is anchored in verifiable truth.

*Source:* *Bank & Finance elaboration based on FSB (2023), BIS (2022), Cornelli et al (2023) Financial Times (2022), Time (2022).*

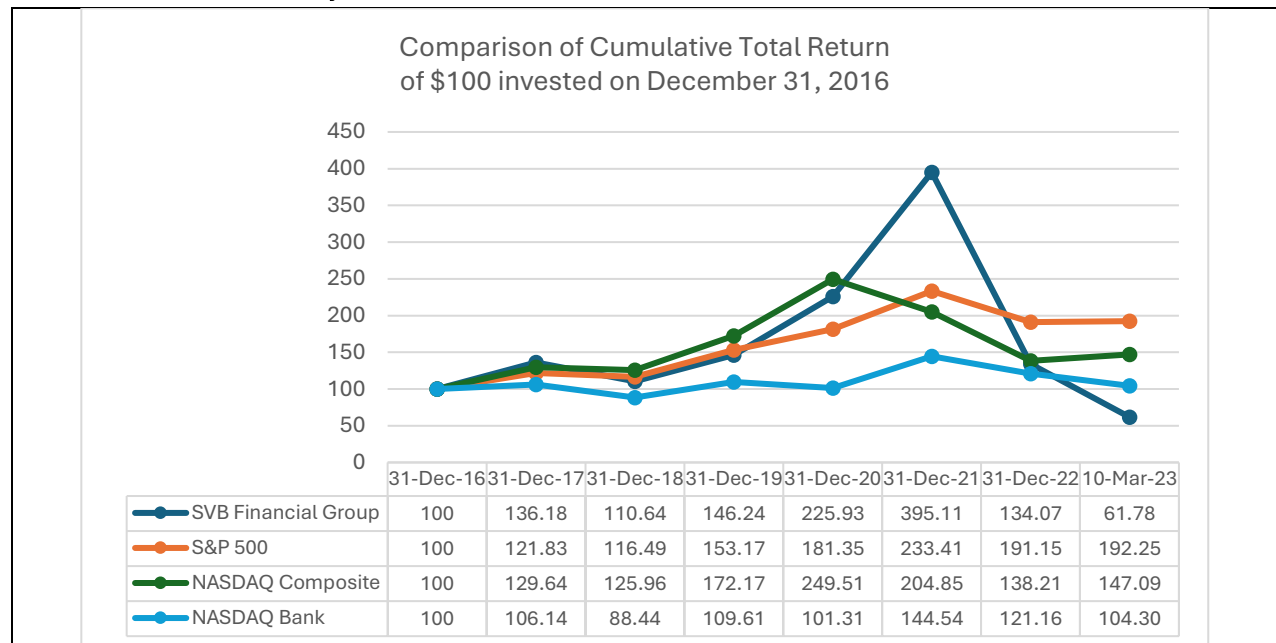The third case, in **Box 4**, highlights how digital rumors can accelerate a traditional bank run into a systemic crisis. The SVB run confirms that bank fragility is now inseparable from information dynamics, making communication monitoring and trust management integral to financial stability. It shows how **digital rumor acceleration** can turn balance-sheet fragility into a full-blown systemic crisis.

### Box 4 – The Silicon Valley Bank Run and the Role of Information Flows



Comparison of Cumulative Total Return of $100 invested on December 31, 2016

| | 31-Dec-16 | 31-Dec-17 | 31-Dec-18 | 31-Dec-19 | 31-Dec-20 | 31-Dec-21 | 31-Dec-22 | 10-Mar-23 |
|---|---|---|---|---|---|---|---|---|
| SVB Financial Group | 100 | 136.18 | 110.64 | 146.24 | 225.93 | 395.11 | 134.07 | 61.78 |
| S&P 500 | 100 | 121.83 | 116.49 | 153.17 | 181.35 | 233.41 | 191.15 | 192.25 |
| NASDAQ Composite | 100 | 129.64 | 125.96 | 172.17 | 249.51 | 204.85 | 138.21 | 147.09 |
| NASDAQ Bank | 100 | 106.14 | 88.44 | 109.61 | 101.31 | 144.54 | 121.16 | 104.30 |

*Graph from Bank & Finance*

In March 2023, Silicon Valley Bank (SVB), a mid-sized lender heavily exposed to the technology sector, collapsed within 48 hours after clients rushed to withdraw deposits amid viral posts about its balance-sheet fragilities.

As shown in the Balance Sheet information below, between 2019 and 2022, SVB's average deposits more than tripled, rising from USD 55 billion to USD 185.8 billion. Seeking yield, the bank invested over USD 80 billion in long-duration mortgage-backed securities (MBS) with maturities of 10 years or more. As the Federal Reserve tightened monetary policy, the market value of these securities fell sharply, given the availability of higher-yield alternatives. While the

unrealized losses would not have materialized if held to maturity, SVB faced liquidity needs and sold USD 21 billion of its securities portfolio, realizing a USD 1.8 billion capital loss.

**SVB Annual Reports: Average Balances, Yields and Rates Paid for the Years Ended December 31, 2022, 2021, 2020, 2019**

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Interest-earning assets: | | | | |
| Federal Reserve deposits | 5,932 | 12,252 | 20,800 | 14,742 |
| AFS securities taxable | 9,598 | 18,653 | 24,996 | 28,795 |
| HTM securities taxable | 13,041 | 10,728 | 52,937 | 88,403 |
| HTM securities non-taxable | 1,631 | 2,385 | 5,093 | 6,991 |
| Total loans, amortized cost | 29,916 | 37,266 | 54,547 | 70,289 |
| Total interest-earning assets | 60,118 | 81,284 | 158,373 | 209,220 |
| Cash and due from banks | 592 | 1,021 | 2,241 | 2,367 |
| ACL: loans | -306 | -509 | -441 | -503 |
| Other assets | 2,808 | 3,996 | 5,838 | 5,019 |
| **Total assets** | **63,212** | **85,792** | **166,011** | **216,103** |
| Funding sources: | | | | |
| Interest-bearing liabilities | | | | |
| Interest-bearing checking and savings accounts | 499 | 2,874 | 3,924 | 16,229 |
| Money market deposits | 13,721 | 19,741 | 41,481 | 54,493 |
| Money market deposits in foreign deposits | 165 | 330 | 918 | 530 |
| Time deposits | 112 | 336 | 994 | 3,787 |
| Sweep deposits in foreign offices | 1,777 | 1,542 | 1,169 | 974 |
| Total interest-bearing deposits | 16,274 | 24,823 | 48,486 | 76,013 |
| Short-term borrowings | 145 | 401 | 74 | 7,398 |
| Long-term debt | 685 | 632 | 1,775 | 3,521 |
| Total interest-bearing liabilities | 17,104 | 25,856 | 50,335 | 86,932 |
| Portion of noninterest-bearing funding sources | 43,014 | 55,428 | 108,038 | 122,288 |
| Total funding sources | 60,118 | 81,284 | 158,373 | 209,220 |
| Noninterest-bearing funding sources | | | | |
| Demand deposits | 38,783 | 50,193 | 99,461 | 109,748 |
| Other liabilities | 1,484 | 2,168 | 3,660 | 2,998 |
| Preferred stocks | 18 | 340 | 1,925 | 3,646 |
| SCBFG common stockholders' equity | 5,675 | 7,080 | 10,353 | 12,429 |
| Noncontrolling interests | 149 | 155 | 277 | 350 |
| Portion used to fund interest-earning assets | -43,014 | -55,428 | -108,038 | -122,288 |
| **Total liabilities, noncontrollin interest, and SVBFG stockholders' equity** | **63,213** | **85,792** | **166,011** | **216,103** |
| Net interest income margin | 2,109 | 2,173 | 3,207 | 4,522 |
| **Total deposits** | **55,057** | **75,016** | **147,947** | **185,761** |
| Average SVBFG common stockholders' equity as percentage of average assets | 8.98% | 8.25% | 6.24% | 5.75% |
| Reconciliation to reported net interest income | | | | |
| Adjustments for taxable equivalent basis | -13 | -16 | -28 | -37 |
| Net interest income, as reported | 2,096 | 2,157 | 3,179 | 4,485 |

On March 8, 2023, SVB announced the realized loss and its plan to raise USD 2.25 billion in equity and debt to shore up its balance sheet. The announcement triggered a collapse in confidence: SVB's stock price plummeted, clients began withdrawing deposits en masse, and within 48 hours the bank was closed by regulators. Viral posts and messaging among its concentrated depositor base — venture capital firms and tech start-ups — accelerated the run, compressing the traditional timeline of contagion from weeks to hours. As shown in the graph above, what until then was a stellar performance with a cumulative total return well above S&P and NASDAQ indexes, rapidly reversed to a subpar performance.

This episode demonstrates that while SVB's vulnerabilities were structural, the velocity and scale of the crisis were driven by digital information flows. Bank runs in the digital age are no longer solely financial phenomena; they are also communication crises, where narratives and network effects determine survival or collapse.

*Source: Bank & Finance elaboration based on SVB Annual Reports, Federal Reserve (2023), FDIC (2023), and BIS (2023).*

Taken together, these cases underscore that while the mechanisms of misinformation vary — from retail herding to crypto opacity to rumor acceleration — their cumulative effect is the same: they distort pricing, amplify fragility, and demand closer attention to the implications for risk assessment and capital allocation.

## 4.3 Implications for risk assessment and capital allocation

The three cases reviewed illustrate the multiple pathways through which misinformation undermines finance: **viral retail herding** in equity markets, **false assurances and opacity** in crypto assets, and **digital rumor acceleration** in banking. While the mechanisms differ, the outcomes converge: distorted prices, misplaced trust, and heightened systemic fragility.

For market participants, misinformation leads to **mispriced risk and misallocated capital**, as valuations detach from fundamentals or investors commit resources based on misleading narratives. For financial institutions, it creates reputational vulnerabilities and operational strains, from collateral shortfalls in clearinghouses to liquidity crises in banks. For regulators, it complicates **surveillance and early-warning systems**, as signals from markets may reflect noise rather than fundamentals.

The cumulative result is fragility: markets that appear liquid and robust can seize up suddenly under the weight of distorted narratives. For central banks and regulators, protecting information integrity is therefore not a peripheral concern but a **core element of financial stability**, as critical as capital buffers or liquidity backstops (BIS, 2022).

# 5.    Policy, Regulation, and Industry Responses

The rise of misinformation as a systemic risk has forced regulators, policymakers, and market participants to confront challenges that extend beyond traditional financial supervision. While progress has been made, responses remain uneven, fragmented, and in many cases reactive rather than preventive.

## 5.1 Regulatory approaches to information integrity

Financial regulators have long recognized the importance of disclosure rules and market transparency. Securities commissions require timely and accurate reporting of financial data, while central banks issue guidance to ensure clarity in monetary policy communication. Yet these frameworks were designed for an era when false information traveled slowly and correction mechanisms were more effective (IOSCO, 2021). Today, regulators face a

qualitatively different challenge: misinformation spreads virally, can originate from anonymous sources, and is amplified by algorithmic systems.

Supervisors are beginning to experiment with **real-time monitoring of digital narratives**. For instance, some central banks now track social media chatter for early-warning signals of bank runs or currency stress. Others are exploring partnerships with fact-checking organizations to counteract false rumors that could destabilize markets (BIS, 2022).

## 5.2 Industry initiatives and self-regulation

Financial institutions themselves are also exposed to reputational and market risks from misinformation. Many have invested in **cybersecurity and digital resilience**, but fewer have developed systematic defenses against information risks. Some exchanges have introduced rules to penalize market manipulation via false rumors, while banks increasingly use AI tools to monitor sentiment and detect disinformation campaigns (FSB, 2023). Still, the industry response is often siloed and lacks collective standards.

## 5.3 International coordination

Because information flows transcend borders, national efforts alone are insufficient. International organizations such as the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), and the Bank for International Settlements (BIS) have begun to highlight the risks of digital misinformation in their policy agendas. However, global coordination remains at an early stage. Unlike cybersecurity or anti-money laundering, no common framework yet exists for addressing information integrity in finance (FSB, 2023; IOSCO, 2021).
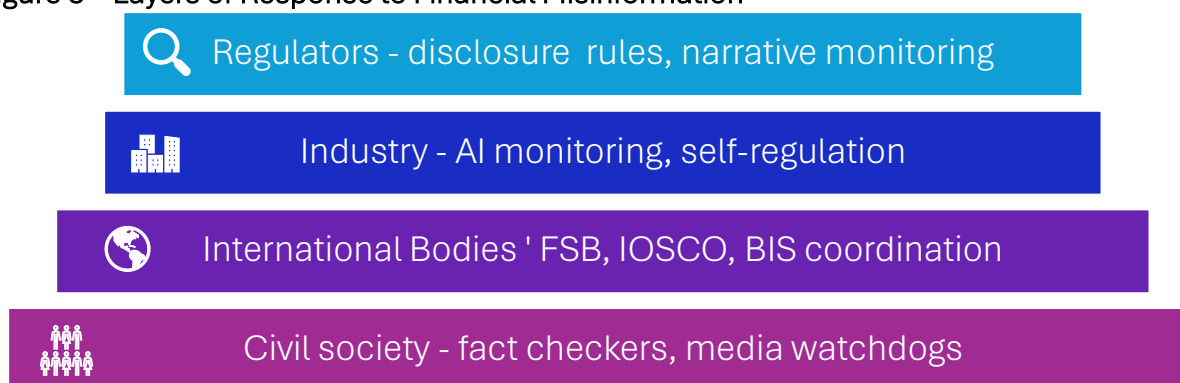
## 5.4 The role of the media and civil society

Finally, media organizations and civil society play a complementary role. Investigative journalism, fact-checking networks, and NGOs have been instrumental in debunking financial scams and exposing manipulative narratives. Yet their resources are often limited compared to the scale of misinformation. Strengthening these actors through collaboration, funding, and data access could reinforce the broader ecosystem of truth.

As shown in **Figure 5**, responses to financial misinformation can be grouped into four broad layers: regulators, industry, international bodies, and civil society. Each plays a distinct role, with complementary strengths but also critical gaps in scope and coordination.

The figure highlights how responses are currently layered but fragmented. Regulators provide formal oversight, industry actors develop technological tools, international bodies seek coordination, and civil society delivers independent scrutiny. To be effective, these layers must operate as a coherent architecture rather than in isolation — a challenge that remains unresolved.

Figure 5 – Layers of Response to Financial Misinformation



🔍 Regulators - disclosure rules, narrative monitoring

🏢 Industry - AI monitoring, self-regulation

🌍 International Bodies ' FSB, IOSCO, BIS coordination

👥 Civil society - fact checkers, media watchdogs

*Source*: Bank & Finance elaboration based on BIS (2022), IOSCO (2021), and FSB (2023).

The policy and industry responses to financial misinformation show promising innovations but also critical gaps. Current approaches are fragmented, unevenly resourced, and insufficiently coordinated across borders. To move from reaction to prevention, regulators and market participants must embed information integrity into the core architecture of financial stability — a theme we explore in the next section on building a truth infrastructure for the future.

# 6.    Building a Truth Infrastructure

The responses analyzed in Section 5 remain fragmented and insufficient to address the structural asymmetry between the low cost of producing misinformation and the high cost of verifying truth. To move beyond reaction and patchwork interventions, societies and financial markets need to build a **truth infrastructure**: a systemic architecture that embeds verification, transparency, and resilience into information flows.

## 6.1 Technological verification pipelines

Emerging technologies can strengthen the credibility of information when designed for transparency. Digital watermarking, blockchain-based content authentication, and AI-driven verification systems offer ways to trace the provenance of financial statements, news, or disclosures (Hansen et al., 2022). However, these tools require common standards and interoperability to avoid fragmentation.

## 6.2 Regulatory and institutional standards

Just as accounting standards ensure comparability of financial data, regulatory standards could embed requirements for information integrity. Securities regulators might mandate verification protocols for market-sensitive disclosures; central banks could institutionalize monitoring of digital narratives as part of financial stability frameworks (IOSCO, 2021; BIS, 2022). Institutional credibility, however, will remain the anchor: standards will be ineffective if public trust in regulators erodes.

## 6.3 Financial literacy and societal resilience

Technological and regulatory measures must be complemented by investments in human judgment. Financial literacy programs, public awareness campaigns, and civic education initiatives help citizens critically assess information quality. Over the long term, societal resilience depends not only on filtering technologies but on cultivating "informed skepticism" among investors and the public (McDougall et al., 2019).

## 6.4 New business models: "trusted data as a service"

A growing opportunity lies in private-sector initiatives that provide curated, verified datasets as subscription services to investors, firms, and regulators. Much as credit rating agencies or Environmental, Social and Governance (ESG) data providers occupy niches in the information economy, "truth services" could emerge as critical intermediaries. While these models raise governance questions, they may help address the verification gap.

In **Figure 6** the elements of a truth infrastructure can be visualized as an interconnected system rather than isolated initiatives. Four dimensions — technology, regulation and standards, financial literacy, and trusted data services — must reinforce each other to embed verification and resilience into the financial and societal information ecosystem.

Figure 6 – Elements of a Truth Infrastructure
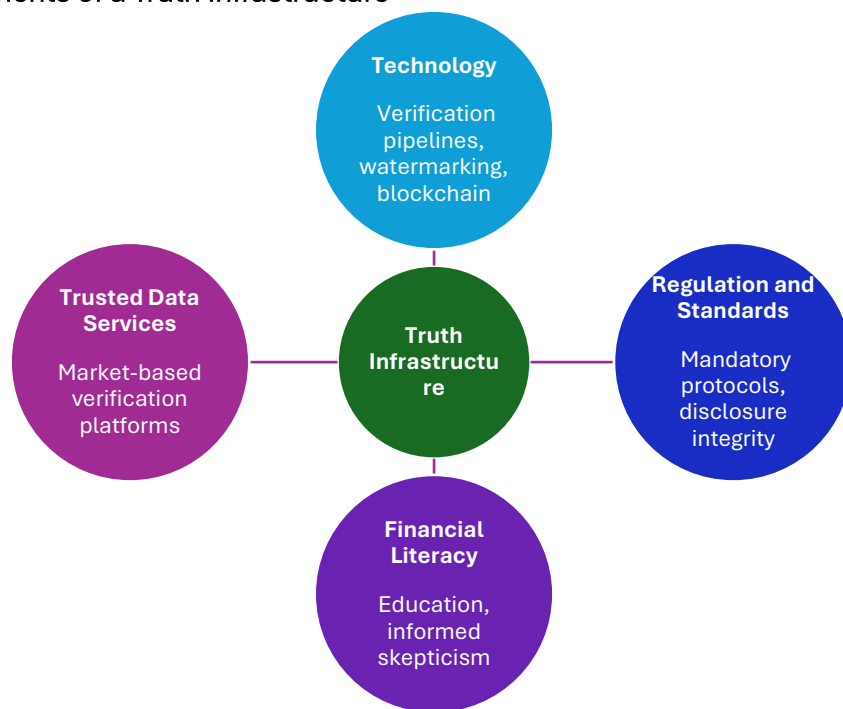


*Source*: *Bank & Finance elaboration based on BIS (2022), IOSCO (2021), Hansen et al. (2022), and McDougall et al. (2019).*

This framework highlights that no single element can safeguard truth on its own. Technologies require standards, standards require literacy, and literacy needs reinforcement through trusted data intermediaries. A durable truth infrastructure emerges only when these elements operate together, embedding verification and resilience into the very fabric of finance and society. Building such an ecosystem is not optional: it is the only way to close the widening gap between the speed of falsehood and the slower pace of verification. The conclusion that follows argues that truth must be treated as the ultimate risk mitigator for markets and societies alike.

## 7.    Conclusion: Truth as the Ultimate Risk Mitigator

This report has argued that truth is not an abstract ideal but a practical infrastructure on which societies and markets depend. Across domains — from health to politics to climate — misinformation corrodes trust, weakens collective action, and generates tangible costs. In finance, the stakes are particularly acute: markets function as information-processing systems, and when their informational inputs are distorted, the entire process of valuation, risk pricing, and capital allocation falters.

The evidence reviewed in this report — from meme-stock volatility to crypto collapses and rumor-driven bank runs — shows that financial misinformation is not episodic but structural. Digital channels compress timeframes, accelerate contagion, and magnify vulnerabilities. Information integrity has therefore become a dimension of financial stability, as critical as capital buffers or liquidity backstops.

As Box 1 and the subsequent case studies show, the costs of misinformation range from sudden market shocks to long-term systemic collapses, underscoring the urgency of building a durable truth infrastructure. Responses are emerging, but they remain fragmented. Regulators experiment with disclosure rules and narrative monitoring; industry actors develop AI-based detection tools; international organizations highlight the issue in policy debates; and civil society works to strengthen fact-checking. Yet these layers do not yet form a coherent architecture. The asymmetry between low-cost falsehood and high-cost verification persists.

Looking forward, the construction of a **truth infrastructure** is essential. This means embedding verification technologies, regulatory standards, financial literacy, and trusted data services into a coherent system. The alignment of these elements can shift the balance from reactive correction to proactive resilience.

Ultimately, the value of truth is inseparable from the resilience of markets and societies. Truth functions as the ultimate risk mitigator: it enables trust, supports informed decisions, and stabilizes expectations. For regulators and central banks in particular, protecting information integrity is now as essential as maintaining capital buffers or liquidity lines, since the credibility of financial communication directly underpins both market confidence and policy effectiveness. Safeguarding truth is thus not only an ethical imperative but a strategic priority for regulators, investors, and institutions seeking to navigate the uncertainties of the financial age.

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## 9.   Appendices

### A. Methodology and Data Sources

This report combines **conceptual analysis**, **case study review**, and **desk-based research** from authoritative sources.

- **Literature review:** Core academic contributions on misinformation, truth decay, and financial markets (e.g., RAND, 2018; Lazer et al., 2018; Shiller, 2019).

- **Case studies:** AP (Reuters, 2013; The Guardian, 2013), GameStop (BIS, 2022; SEC, 2021; Shiller, 2019; MarketWatch, 2021), Terra-Luna and FTX (BIS, 2022; FSB, 2023; *Financial Times*, 2022, *Time*, 2022), and Silicon Valley Bank (Federal Reserve, 2023; FDIC, 2023; BIS 2023). These episodes were selected for their systemic implications and illustrative value across asset classes.

- **Policy documents:** Regulatory publications from the BIS, IOSCO, FSB, OECD, and WHO provide institutional perspectives on information risks.

- **Data sources:** Quantitative information is drawn from publicly available reports, regulatory filings, and international datasets (e.g., SVB annual reports; WHO statistics).

- **Figures and tables:** All visuals were developed by Bank & Finance for this report, synthesizing academic and institutional insights. See Appendix C for details.

## B. Glossary of Key Terms

**Algorithmic stablecoin:** A type of stablecoin whose value is maintained through an algorithmic relationship with another token, rather than direct reserves.

**Crypto exchange:** A platform for trading digital assets, which may also act as custodian of client funds.

**Deepfake:** Synthetic media — often video, audio, or images — created using artificial intelligence to fabricate realistic but false representations of individuals or events. Deepfakes can undermine trust by making misinformation more convincing and harder to detect.

**Disinformation:** False information deliberately created and disseminated to mislead or manipulate (cfr. Misinformation that is information shared without intent to deceive).

**Financial literacy:** The ability to understand and use financial information to make informed decisions about saving, investing, borrowing, and managing risk. Enhanced financial literacy improves resilience against misinformation and reduces vulnerability to deceptive narratives.

**Infodemic:** An excessive volume of information — accurate or false — that makes it difficult for individuals to find trustworthy guidance (WHO, 2022).

**Information asymmetry:** A condition where one party in a transaction possesses more or better information than the other, leading to potential mispricing or adverse selection (Akerlof, 1970).

**Meme stock:** Shares of a company whose price movements are driven by social media narratives rather than fundamentals.

**Misinformation:** False or misleading information shared without intent to deceive.

**Narratives (in finance, economics and society):** Shared stories or frames that shape how people interpret information and make decisions. In markets, narratives can influence investor behavior and drive asset prices beyond fundamentals (Shiller, 2019). In society more broadly, they can amplify misinformation by appealing to identity, emotion, or group dynamics.

**Short squeeze:** A market phenomenon in which rapid buying of a heavily shorted stock forces short sellers to cover positions, driving prices higher.

**Truth decay:** The diminishing role of facts and analysis in public and institutional decision-making (RAND, 2018).

**Truth infrastructure:** A systemic architecture that embeds verification, transparency, and resilience into information flows across society and finance.

This glossary provides a shared vocabulary that underpins the report's analysis. By clarifying definitions and standardizing usage, it supports regulatory convergence, strengthens public understanding, and helps practitioners recognize recurring patterns of financial fraud with greater precision.

## C. Source–Exhibit Matrix

This appendix provides a consolidated mapping of all figures, tables, and boxes in the report to their primary sources. It highlights the mix of archival research, regulatory reports, press coverage, and academic literature that underpin the exhibits. The aim is to ensure transparency of methodology and to facilitate further research by institutional readers.

| Exhibit | Title | Section | Primary Sources |
|---|---|---|---|
| Figure 1 | Key Highlights of the Report | Executive Summary | RAND (2018), Kahneman (2011), Shiller (2019), BIS (2022). |
| Figure 2 | Report Roadmap | Executive Summary | RAND (2018), BIS (2022), Shiller (2019), OECD (2021). |
| Figure 3 | Anatomy of the Information Ecosystem | Section 1 | Lazer et al. (2018), RAND (2018), Tufekci (2017), Gillespie (2018), Chesney and Citron (2019). |
| Box 1 | Financial Flashes of Misinformation | Section 2 | *World Economic Forum* (2025), Cavazos and CHEQ (2019), *Reuters* (2013), *The Guardian* (2013). |
| Figure 4 | Truth as a Public Good | Section 2 | Habermas (1984), Akerlof and Shiller (2015), Nelson (2004), WHO (2022). |
| Table 1 | Typology of Defenses Against Misinformation | Section 3 | Graves (2018), Gillespie (2018), Chesney and Citron (2019), Hansen et al. (2022). |
| Box 2 | Meme Stocks and GameStop: Viral Narratives in Equity Markets | Section 4 | SEC (2021), Shiller (2019), BIS (2022), MarketWatch (2021). |
| Box 3 | Terra-Luna and FTX: False Assurances and the Fragility of Crypto Markets | Section 4 | FSB (2023), BIS (2022), Cornelli et al. (2023), *Financial Times* (2022), *Time* (2022). |
| Box 4 | The Silicon Valley Bank Run and the Role of Information Flows | Section 4 | SVB Annual Reports, Federal Reserve (2023), FDIC (2023), BIS (2023). |
| Figure 5 | Layers of Response to Financial Misinformation | Section 5 | BIS (2022), IOSCO (2021), FSB (2023). |
| Figure 6 | Elements of a Truth Infrastructure | Section 6 | BIS (2022), IOSCO (2021), Hansen et al. (2022), McDougall et al. (2019). |

This matrix demonstrates the evidentiary base behind the report's exhibits, systematically linking each figure, table, and box to its supporting sources.