International Association of Potential, New and Sitting Members
of the Board of Directors (IAMBD)
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News for the Board of Directors, February 2019

Dear members and friends,

High on the agenda of the Munich Security Conference 2019 (MSC 2019) are themes such as the European Union's self-assertion, transatlantic cooperation, as well as possible consequences of a renewed era of great power competition.

"When looking at the current state of international affairs, it is difficult to escape the feeling that the world is not just witnessing a series of smaller and bigger crises, but that there is a more fundamental problem. Indeed, we seem to be experiencing a reshuffling of core pieces of the international order.

A new era of great power competition is unfolding between the United States, China, and Russia, accompanied by a certain leadership vacuum in what has become known as the liberal international order," said MSC Chairman Wolfgang Ischinger ahead of the upcoming conference.

Additionally, experts from across the globe will discuss the future of arms control and cooperation in defence policy.

The intersection between trade and international security will be examined, as will the effects of climate change and technological innovations on the international security.

Unprecedented number of international decision-makers expected

German Chancellor Angela Merkel is present again, after last attending in 2017.

Among the numerous other heads of state and heads of government that have announced their attendance are Afghan President Mohammad Ashraf Ghani and Egyptian President Abd al-Fattah as-Sisi.

The same is true for Yang Jiechi, Member of the 19th Politburo of the Chinese Communist Party, as well as the Romanian President Klaus Iohannis, the President of Ukraine, Petro Poroschenko, the President of Rwanda, Paul Kagame, the Prime Minister of Bangladesh, Sheikh Hasina Wajed, and the Emir of Qatar, Sheikh Tamim bin Hamad Al Thani.

The MSC 2019 is also anticipating the largest US delegation of all time. From the United States, Vice President Mike Pence and Acting Secretary of Defense Patrick Shanahan have confirmed their participation.

The US Congressional Delegation will be led by Senators Lindsey O. Graham, Sheldon Whitehouse, Roger F. Wicker, James Inhofe, and Speaker of the House of Representatives Nancy Pelosi.

Other confirmed participants include Federica Mogherini, EU High Representative for Foreign Affairs and Security Policy, Jens Stoltenberg, NATO Secretary General, Christine Lagarde, Executive Director of the International Monetary Fund, and Kristalina Georgieva, Acting President of the World Bank.

Numerous foreign and defence ministers have confirmed their participation.

From Germany, Foreign Minister Heiko Maas and Defence Minister Ursula von der Leyen will be present alongside over 40 other foreign and defence ministers from the EU and NATO.

Russia's, Iran's, Iraq's, and Qatar's foreign ministers Sergey Lavrov, Mohammad Javad Zarif, Mohamed Ali Al-Hakim, and Mohammed bin Abdulrahman Al Thani will attend.

Their counterparts from Pakistan and the Philippines will also be present.

Among the defence ministers expected in Munich are British Defence Minister Gavin Williamson, French Defence Minister Florence Parly, Canadian Defence Minister Harjit Sajjan, and Singaporean Defence Minister Ng Eng Hen, as well as Hulusi Akar, Defense Minister of Turkey, and Tiémoko Sangaré, his Malian counterpart.

The German federal government will also be represented at the Conference by Minister for Economic Affairs and Energy Peter Altmeier, Vice Chancellor and Finance Minister Olaf Scholz, Health Minister Jens Spahn and Minister of Food and Agriculture Julia Klöckner.

In addition, more than 45 members of the Bundestag from all parliamentary groups will be in attendance.

A multitude of international organisations will also be represented at MSC 2019. Thomas Greminger, Secretary General of the Organization for Security and Cooperation in Europe (OSCE), Jürgen Stock, Secretary General of Interpol, and Børge Brende, President of the World Economic Forum, have announced their participation.

Also participating are Lassina Zerbo, Executive Secretary of the Comprehensive Nuclear-Test-Ban Treaty Organization, Henrietta H. Fore, CEO of the United Nations Children's Fund, and David Beasley, Executive Director of the United Nations World Food Programme.

The International Criminal Court will be represented by its President Chile Eboe-Osuji, and its Chief Prosecutor Fatou Bom Bensouda.

All told, more than 35 heads of government and heads of state, as well as 50 foreign and 30 defence Ministers are expected to be present.

Numerous events outside the main hall

In 2019, the debates of the main programme will again be accompanied by more than one hundred complementary side events.

This includes, among others, roundtables on cyber security, the Arctic, energy, health, transnational threats, technology and European defence.

Many international institutions and organisations, including the United Nations, the African Union, the OSCE and NATO, use the MSC as a platform for roundtable discussions and workshops.

These bring together international decision-makers from various fields or discuss the latest research findings on current issues in international security policy.

Beyond the events reserved for the MSC's high-level participants, events for the general public will also be offered on the side-lines of the Conference.

These include a joint literature series with the Börsenverein des Deutschen Buchhandels, several events on technology and cyber issues, and an event with the Munich Chamber Orchestra.

On the eve of the conference, the MSC invites the interested public to its event titled "#MSC2019 – From Cold War to Star Wars: How to Deal With the Arms Race to Space?" at the Hotel Bayerischer Hof.

Once again, the MSC will serve as a platform for a large number of foreign and security policy events by renowned NGOs and institutions.

For example, the Robert Bosch Foundation, the German Corporation for International Cooperation, Transparency International, the Nuclear Threat Initiative, the Stockholm International Peace Research Institute, the Royal United Services Institute, and the Atlantic Council will host roundtable discussions on the alongside the conference.

About the Munich Security Conference

Over the course of the past five decades, the Munich Security Conference (MSC) has developed into the world's leading forum for the debate of international security policy.

Each February, it brings together more than 450 senior decision-makers and thought-leaders from around the world to engage in an intensive debate on current and future challenges.

Repeatedly rated as "Best Think Tank Conference" in the world, the MSC provides a one-of-a-kind opportunity to discuss policy at the highest level in a protected and informal space.

In addition to its annual flagship conference, the MSC regularly convenes high-profile events on particular topics and regions and publishes the Munich Security Report.

Our goal will always be to provide the best possible platforms for an open exchange of opinions, ideas, and solutions on the critical security policy issues of our time.

Brexit - implications for UK branches of German banks

Prof Joachim Wuermeling, Member of the Executive Board of the Deutsche Bundesbank, at the Embassy of the Federal Republic of Germany, London

1 Introduction

Ladies and gentlemen,

From the perspective of a bank and from my perspective as a banking supervisor, the future regime under which banks and companies in general will operate after 29 March 2019 remains unclear. And whether we like it or not, a hard Brexit has become increasingly likely.

2 Implications of UK branches becoming third country branches

This means that - given what we know at the moment - UK branches of German banks (and SSM banks in general) will need to become third country branches.

Certainly, the PRA's temporary permissions regime buys time. Nevertheless, there is no alternative to conversion into third country branches. The PRA has already received some applications for third country branch authorisation in the UK.

For German banks, unlike other SSM banks, there is no formal requirement for the home supervisor to approve a third country branch.

However, given the aim of establishing a level playing field among all current and future SSM banks, you should expect the SSM to address certain requirements via other supervisory measures where necessary to ensure that the future set-up of the new third country branches is in line with SSM expectations.

This means that the SSM will not accept empty shells, neither from incoming nor from outgoing banks.

A third country branch will not be allowed to perform central functions for its SSM-domiciled group. And any outsourcing must not hamper the efficient and effective supervision of SSM entities.

Not all SSM banks are currently fully compliant with the SSM's respective supervisory expectations. In particular, all banks must ensure that they have relocated sufficient staff to the EU27 entities.

EU business must be booked from within the EU27. This will require significant asset transfers in several cases. Sufficient trading and risk-management staff as well as technical infrastructure are needed on site at the EU27 entities to ensure adequate risk management.

3 Split of responsibilities between PRA and SSM

Making the transition from the EU28 to the EU27 as smooth as possible for the financial sector will require close cooperation between the SSM and the PRA. The details of such a split of responsibilities are currently being negotiated.

I am convinced that London will remain an important financial centre after Brexit, and I have no doubt that the financial ties between London and the EU27 will remain strong - all of you will work to ensure that. Close cooperation and a continued dialogue between the supervisory authorities will therefore be necessary, especially in times of crisis.

I believe that the SSM and the PRA should ensure information sharing and reciprocal consultation while respecting independent supervisory decision making in each jurisdiction.

Now I'm sure you are wondering what a split of responsibilities would mean for UK branches of German (and other SSM) banks. The truth is: we can't really tell just yet.

We'll have to wait for the final outcome of the negotiations between supervisory authorities. As I have said, these negotiations are already under way, and I am optimistic that they will be concluded soon.

Overall, our goal must be to achieve an adequate level of information sharing and joint supervisory work that does not lead to an increased workload for all parties involved.

Certainly, it will not be possible to develop a one-size-fits-all solution. The agreement on a split of responsibilities will need to leave room for accommodating specific cases.

On the basis of the agreement, the PRA plans to process applications for third country branches.

4 Conclusion

Ladies and gentlemen,

In the short run, the temporary permissions regime will mitigate the outcome of a possible hard Brexit. Nevertheless, thorough preparations by financial institutions are necessary.

What happens in the long run depends on how Brexit re-shapes the European financial system.

Where does all this leave us? In a way, you could simply say: uncertainty continues.

But we should not forget that we have made quite some progress since the referendum in June 2016. At that time, Brexit and its potential repercussions were essentially a black box.

Since then, both financial institutions and supervisors have put tremendous effort into better understanding and preparing for every possible outcome. And while some tasks are yet to be completed, most banks are well advanced in their preparations.

Strengthening the Community Reinvestment Act - what are we learning?

Lael Brainard, Member of the Board of Governors of the Federal Reserve System, at the "Research Symposium on the Community Reinvestment Act", hosted by the Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania.

Thank you all for participating in our Research Symposium on the Community Reinvestment Act (CRA). I am happy to have an opportunity to learn from your extensive experience and expertise.

At the Federal Reserve, we value the CRA as a critical tool for providing support to low- and moderate income (LMI) families and their communities. And we are interested in strengthening the CRA as it encourages banks to help meet the credit needs of the communities they are chartered to serve.

Today's research forum is one part of an extensive outreach effort we are undertaking to gather the best ideas for improving implementation of the Community Reinvestment Act.

Over the past four months alone, all 12 of our Reserve Banks have hosted roundtables in locations around the country, from San Francisco to Boston, and from Rapid City to Puerto Rico.

The purpose is to hear ideas on improving the CRA regulations from the bankers and community groups that have a stake in the CRA's success.

In addition, we held two roundtables at the Federal Reserve Board earlier this week to gather perspectives from national organizations focused on policy topics, such as housing, small business lending, and consumer credit.

We have also consulted with our advisory councils to gather their thoughts on CRA reform. We have asked our large and community bank advisory councils, the Federal Advisory Council and the Community Depository Institutions Advisory Council, about their experiences with the CRA and suggestions for improvements. We have also sought community

perspectives. At our most recent meeting with our Community Advisory Council, we asked for their recommendations for reform.

Even though we decided not to join the Office of the Comptroller of the Currency in the publication of its August 2018 Advance Notice of Proposed Rulemaking concerning revisions to the CRA regulations, we have been reviewing the approximately 1,500 comment letters submitted by academics, banks and banking trade associations, community and consumer groups, and citizens.

So what have we learned so far from the comment letters we have reviewed and the roundtables we have held? If there is one common thread, it is that support for the Community Reinvestment Act is broad and deep.

Commenters across the board applauded the significant volume of CRA loans and investments that have supported LMI households and communities, as well as the benefits households and communities have realized from the CRA's focus on local retail financial services, small business lending, and community development lending, investments, and services.

And they asked that the three banking agencies work together toward a joint rulemaking proposal so that CRA policies can be clearly and consistently applied across agencies.

Second, there are some good ideas about how to modernize the procedures for setting the area in which the agencies assess a bank's CRA activities while retaining the core focus on place.

This is not a simple challenge, and this morning's panel identified some promising solutions to the challenge of modernizing the definition of assessment areas to keep up with changes in banks' business models.

I appreciated the panelists' insights on how to balance the importance of place with various business models, including to reflect the extensive use of digital channels and other changes in the banking industry.

The public comments we have read so far suggest general agreement that there is a need for an update-but not a complete overhaul-of assessment areas through a balanced package of reforms.

We have heard general support for assessment areas that reflect each bank's business model, recognizing that branch-based assessment areas work for many banks but that additional or different assessment areas may be appropriate for others.

Third, we have received helpful input on tailoring CRA regulations to banks of different sizes and business models.

Many of the comments we reviewed expressed support for retaining different performance tests for different types of banks, including the strategic plan option.

We also heard this at the regional roundtables, where banker participants ranged from small community banks to large internet-only banks. It was clear that CRA regulations cannot be one-size-fits-all.

Fourth, we have heard some good suggestions for ensuring that any modernization of assessment areas should keep in focus the goal of encouraging banks to seek out opportunities in underserved areas, including in this morning's panel on assessment areas.

The concern about CRA hotspots and credit deserts was echoed in the comment letters, and several commenters offered helpful suggestions for addressing this problem going forward.

And the need to create incentives for CRA capital to reach underserved communities was a theme we heard in our regional roundtables from both bankers and community groups.

Fifth, we have received many suggestions about how to increase the consistency and predictability of CRA evaluations and ratings.

Although we are still in the process of working through the public's comments, those we have read so far suggest general support for the view that the CRA regulations and examinations would benefit from more clarity, consistency, and predictability.

Likewise, there is an openness to expanding the use of metrics that evaluate components of a bank's activity on an assessment area level, while recognizing the importance of also leveraging performance context information, including of a qualitative nature, so that bankers and examiners are able to identify and understand local community needs.

The first panel this morning on metrics and evaluating performance also helped further our understanding in this area, with particular focus on the investment behaviors of CRA-motivated banks and on how we might strengthen the CRA to better evaluate a bank's performance in meeting the credit needs of its communities.

Sixth, in both comment letters and roundtables, community and consumer groups emphasized the historical context of the CRA as it relates to redlining practices.

To that end, they strongly supported the CRA retaining a proactive focus on reaching all underserved borrowers, including low-income communities and communities of color.

The central thrust of the CRA is to encourage banks to ensure that all creditworthy borrowers have fair access to credit, and, to do so successfully, it has long been recognized that they must guard against discriminatory or unfair and deceptive lending practices.

This has been an excellent convening so far, and I want to thank you for sharing your knowledge and insights with us.

The Federal Reserve is a research-driven institution, and we want to be sure that we are aware of all the latest research on the effectiveness of the CRA and what the research has to say about potential regulatory improvements.

Today's conversation is an opportunity not only to hear from external academic researchers, but also to have a robust conversation with practitioners about how this research might inform the Board's work.

This afternoon, I look forward to hearing the conversation on the effectiveness of the CRA, past, present, and future.

I have had opportunities to hear directly from stakeholders in a variety of settings, kicking off with a community development visit in Baltimore last April and most recently in Denver, at our first regional roundtable.

The Denver roundtable was attended by state member banks and was hosted by the Federal Reserve Bank of Kansas City.

I appreciated the robust conversation among knowledgeable individuals whose work touches on the CRA every day.

Sitting around a table together provided an opportunity for me to hear community bankers reflect on what has worked well for their communities and what they see as challenges, and to provide thoughtful suggestions on what they think might work best going forward.

It was also helpful to be exposed to some differences of views. The best approach to implementing the CRA in today's environment is a complex issue, so I value hearing a wide range of suggestions.

In closing, I want to reiterate my own commitment to strengthening the CRA, which is widely shared across the Federal Reserve System. We aim to promote more CRA activity, not less.

We think that simplifying and clarifying the regulations while strengthening local community engagement will help us accomplish that goal.

Thank you for your help in this process.

FSB publishes Global Monitoring Report on Non-Bank Financial Intermediation 2018

The Global Monitoring Report on Non-Bank Financial Intermediation 2018 presents the results of the FSB's annual monitoring exercise to assess global trends and risks from non-bank financial intermediation.

The annual monitoring exercise is part of the FSB's policy work to enhance the resilience of non-bank financial intermediation. It focuses on those parts of non-bank financial intermediation that perform economic functions which may give rise to bank-like financial stability risks (i.e. the narrow measure of non-bank financial intermediation).

Executive summary

Non-bank financing is a valuable alternative to bank financing for many firms and households, fostering competition in the supply of financing and supporting economic activity.

However, non-bank financing may also become a source of systemic risk, both directly and through its interconnectedness with the banking system, if it involves activities that are typically performed by banks, such as maturity/liquidity transformation and the creation of leverage.

To assess global trends and risks in non-bank financial intermediation, the Financial Stability Board (FSB) has been conducting an annual monitoring exercise since 2011.

With the 2018 Report, the FSB moves away from the term "shadow banking" and adopts "nonbank financial intermediation" (hereafter NBFI), to emphasise the forward-looking aspect of the FSB's work.

This change in terminology does not affect either the substance or the coverage of the monitoring exercise.

This Report presents the results of the FSB's eighth annual monitoring exercise. It covers data up to end-2017 from 29 jurisdictions, which together represent over 80% of global GDP.

As in previous years, this Report compares the size and trends of financial sectors in aggregate and across jurisdictions based primarily on sectoral balance sheet data.

The Report then focuses on those parts of NBFI that may pose bank-like financial stability risks (hereafter the "narrow measure"). Non-bank financial entities are included in the narrow measure if they perform one of the FSB's five economic functions.

This assessment is conducted on a conservative basis, reflecting the assumption that policy measures or risk management tools are not exercised (ie on a pre-mitigant basis).

To read the paper:
http://www.fsb.org/wp-content/uploads/P040219.pdf

Seminar on Innovation for Inclusive Development

Tokyo, Japan, Sponsored by the Ministry of Finance of Japan, the World Bank Group and the Asian Development Bank

We have very important presentations at the G20 symposium at Chinzanso, Tokyo, Japan.

G20 Finance Ministers and Central Bank Governors Meeting JAPAN 2019

Session1: Demographic Change and their Impacts on Macro Economy

Moderator	Takatoshi Ito	Columbia University	Bio	
Speaker	Toshitaka Sekine	Bank of Japan	Bio	Slide
	Selahattin İmrohoroğlu	University of Southern California	Bio	Slide
	Vitor Gaspar	IMF	Bio	Slide
	Yasuyuki Sawada	ADB	Bio	Slide

Session2: The Impacts of Demography on Fiscal Condition and Social Security System

Moderator	Takeo Hoshi	Stanford University	Bio	
Speaker	Alan Auerbach	University of California, Berkeley	Bio	Slide
	Motohiro Sato	Hitotsubashi University	Bio	Slide
	Laurence Boone	OECD	Bio	Slide
	Marco Buti	EC	Bio	Slide
	Junji Ueda	Japan Ministry of Finance	Bio	Slide

Session3: Monetary Policy and Financial System during Demographic Changes

Moderator	Kazuo Ueda	Kyoritsu Women's University	Bio	
Speaker	Shigenori Shiratsuka	Bank of Japan	Bio	Slide
	Gauti Eggertsson	Brown University	Bio	Slide
	Hyun Song Shin	BIS	Bio	Slide
	Ryozo Himino	Japan Financial Services Agency	Bio	Slide

To read more:
https://www.g20fukuoka2019.mof.go.jp/ja/meetings/pdf/20190116_1.pdf

https://www.g20fukuoka2019.mof.go.jp/en/meetings/20190117.html

Demographic Changes and Macroeconomic Challenges

Keynote Speech at the G20 Symposium in Tokyo
Haruhiko Kuroda, Governor of the Bank of Japan

Introduction

I would like to express my sincere gratitude to G20 finance and central bank deputies and distinguished academics from around the world for attending this G20 Symposium organized by the Bank of Japan and the Ministry of Finance of Japan.

This year, Japan assumes the G20 presidency for the first time. It is my great pleasure to co-host this symposium as one of the kick-off events of Japan's G20 presidency.

When considering the relationship between demographic changes and economic developments, the work of Malthus naturally comes to mind.

In the late 18th century, Malthus argued that the means of substance, particularly agricultural production, would limit population growth.

Later, for some time, the population issue remained a minor topic in economics. However, as economic growth theory regained its central role in economics, the relationship between population and economic developments attracted increased attention once again.

Furthermore, policy makers and the business community have increasingly been interested in the impact of demographic changes on the economy, as advanced and some emerging economies have experienced, or are expected to experience, declining and aging populations.

In Japan, the working age population peaked in 1995 and the total population in 2008, and both have been declining since then. The share of the elderly population in the total population was 10 percent in 1985, but this increased to 28 percent in 2017.
Among the G20 members, Japan is the most affected by the population issue. While some emerging economies in the G20 are now seeing an

increase in their young-age labor force, these countries will also face the aging problem sooner or later.

I believe it is important for G20 members to learn from each other's demographic conditions, institutional settings, and policy responses. Such mutual learning would be beneficial for the member countries when conducting policy management in the future.

This is one of the reasons why we chose aging as one of the G20 agenda items this year.

As is obvious from the discussions this morning -- and this will no doubt be confirmed this afternoon -- there are a number of issues to be considered when tackling the demographic problem.

I assume that staff members in charge of this symposium have had much difficulty in framing discussion with a focus on critical issues, since there are so many different angles from which they can even begin approaching this problem.

As I cannot touch upon all the issues in a limited time, I would like to concentrate on three basic questions here.

I. Impact on the Macroeconomy

The first question is: "Does an aging and declining population hinder economic growth?" Many people might intuitively answer "yes."

However, given the impact technological innovation can have, for example, the answer could be "yes" or "no."

As policy makers, we are obliged to pursue appropriate policy measures so that the answer can become "no."

Needless to say, an aging and declining population leads to a decrease in the labor force population and puts downward pressure on economic growth from the supply side.

In addition, a simple back-of-the-envelope calculation suggests that per capita growth would be lower.

This is because the reduced production of a declining labor force is shared with an increasing proportion of retired elderly people.
If pessimism about future economic growth prevails, not only future but also present demand could be stifled as people are discouraged from current investment and consumption.

An aging and declining population, however, does not necessarily push down macroeconomic and per capita growth rates.

Based on growth accounting, the economic growth of a country is affected not only by demographic changes but also by capital accumulation and changes in total factor productivity.

Even though demographic changes have a negative impact on economic growth, economic growth could be stimulated by promoting capital accumulation and innovation.

In fact, we have seen recently in Japan how active investment in equipment and software has been substituting for human labor amid a declining labor force.

There have been major innovations in areas such as AI and IoT, and in drug developments to tackle serious diseases.

In order to promote such innovations, it is important to provide the best possible education for young people, and for middle-aged and elderly people to have access to recurrent educational opportunities.

This will lead to increased labor productivity across all generations and to improvements in macroeconomic growth and per capita living standards.

Changes in demography could encourage changes in a country's industrial structure.

As aging proceeds, demand for labor-intensive services such as health care will increase.

In Japan, the labor share of medical and care services in 2002 was about 7 percent, but it increased to about 12 percent in 2017.

As a population ages and declines, the labor force also declines and labor market conditions in the medical and care service industries become very tight.

Appropriate policy measures must be implemented to promote smooth labor movement between industries and to encourage innovation so that more people can receive proper medical and care services.

Since demographic changes have an impact on a country's saving and investment patterns, they will also affect international capital flows and current account developments.

Savings will generally decline as the working-age population declines and the elderly population increases.

This is because the working-age population is likely to accumulate savings from a life-cycle perspective, while the elderly population is likely to dissave accumulated assets.

However, the longevity of elderly people has also increased, due to advances in medical technology.

Therefore, we must not simply assume that all elderly people dissave their assets.

If the elderly assume that their life expectancy will be much longer than before, they could hesitate to dissave and choose to continue working in order to save more in the early stages of their elderly lives.

Saving patterns may differ from country to country due to differences in social security systems.

Regarding investment patterns, a country with an increasing working-age population tends to have abundant investment opportunities with higher growth potentials.

However, there could be differences in investment developments among aging countries due to advances in innovation.

To read more:
http://www.boj.or.jp/en/announcements/press/koen_2019/data/ko190117b.pdf

Debt dynamics

Ben Broadbent, Deputy Governor for Monetary Policy of the Bank of England, at the London Business School, London.

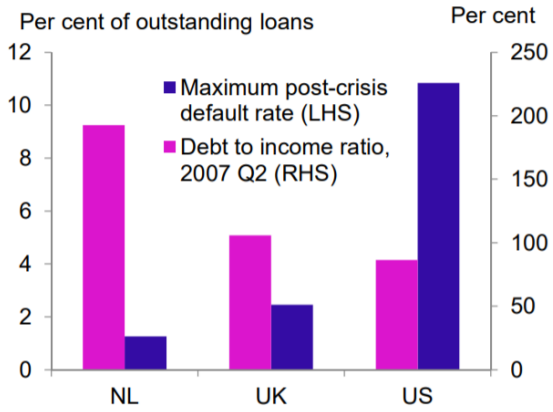
Introduction and summary

In mid-2007, as the first cracks in the financial system began to appear, some of the most indebted households in the developed world were not in the US or the UK but in the Netherlands.

Average mortgage debt was almost twice average annual income.

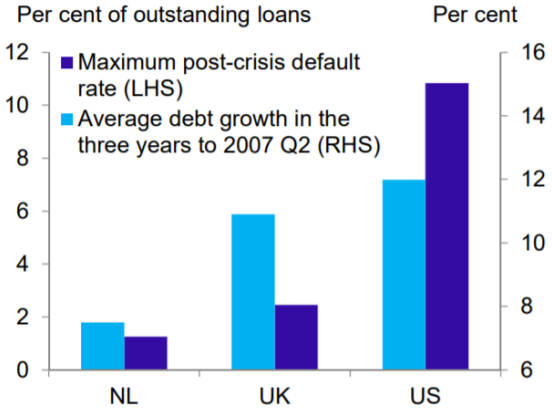
Yet over the following few years, there were almost no defaults on Dutch mortgages and associated losses for the lending banks were minimal (Chart 1).

Chart 1: Level of mortgage debt a poor guide to subsequent distress



Sources: Bank stats, Office for National Statistics (ONS), DataStream from Refinitiv, Stanga et al. (2017), CBS Netherlands, US Flow of Funds and Bank calculations.
Figures are for mortgage loans; default rate defined as non-performing exposures over three months in arrears.

Chart 2: Pre-crisis growth rate does better



Sources: Bank stats, ONS, DataStream from Refinitiv, Stanga et al. (2017), CBS Netherlands, US Flow of Funds and Bank calculations.
Figures are for mortgage loans; default rate defined as non-performing exposures over three months in arrears.

In the UK, where households were less heavily indebted, mortgage losses were somewhat higher though still comparatively low.
It was in the US – of the three, the country with the least mortgage debt – where rates of negative equity and ultimate default were by far the most severe.

So at least among this mini-sample of three, prior levels of debt were not a good guide to the scale of the subsequent distress in the mortgage market (Chart 1).

What did a little better as an advance warning signal was the prior growth rate of mortgage debt (Chart 2).

The ordering, at least, is in line with post-crisis defaults in the three countries.

To read more:
https://www.bis.org/review/r190123a.pdf

International hacker-for-hire jailed for cyberattacks on Liberian telecommunications provider

A British cyber criminal has been jailed for conducting attacks that disrupted a Liberian telecommunications provider, resulting in losses estimated at tens of millions of US dollars.

Daniel Kaye pleaded guilty in December 2018 to creating and using a botnet and possessing criminal property.

He was sentenced to 2 years and 8 months following an investigation led by the NCA's National Cyber Crime Unit.

Kaye began carrying out intermittent DDoS on the Liberian telecommunications provider Lonestar MTN in October 2015 using rented botnets and stressor.

He was hired by a senior official at Cellcom, a rival Liberian network provider, and paid a monthly retainer.

From September 2016, Kaye used his own Mirai botnet, made up of a network of infected Dahua security cameras, to carry out consistent attacks on Lonestar. In November 2016, the traffic from Kaye's botnet was so high in volume that it disabled internet access across Liberia.

The attacks had a direct and significant impact on Lonestar's ability to provide services to its customers, resulting in revenue loss of tens of millions in US dollars as customers left the network.

A European Arrest Warrant was issued for Kaye and when he returned to the UK in February 2017, he was arrested by NCA officers.

World Economic Forum Annual Meeting

A 'Fourth Social Revolution'?

2019-01-25 03:00

The Fourth Industrial Revolution is projected to unlock $3.7 trillion in economic value by 2025. How could it also help close the vast income and wealth gaps that opened in the wake of the digital age?

On the Forum Agenda:

- Alternative taxation models

- Basic income models

- Data ownership

This session was developed in partnership with Deutsche Welle.

Speakers: Sarah Kelly, Subramanian Rangan, Amitabh Kant, Hilary Cottam, Winnie Byanyima, Robert E. Moritz

The Price of Free

Join Nobel Peace Prize Laureate Kailash Satyarthi in a special screening of the documentary, The Price of Free, portraying the rescue of 80,000 child factory workers in India.

This session will be followed by a Q&A; with Kailash Satyarthi.

Speakers: Kailash Satyarthi, Shereen Bhan

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You may visit:
https://www.weforum.org/events/world-economic-forum-annual-meeting

Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

Introductory statement by Mr Mario Draghi, President of the European Central Bank, at the ECON committee of the European Parliament, Brussels.

Mr Chairman,
Honourable members of the Economic and Monetary Affairs Committee,
Ladies and gentlemen,

It is a pleasure to be back at the European Parliament and to appear before your Committee.

I am happy that you have chosen the euro project and its achievements over the past 20 years as the topic for our discussion today.

I will start on the substance without further ado, discussing in turn the internal and external dimensions of the euro area.

I will then argue that, building on what we have already achieved, our duty today is to continue to make progress in ensuring that all of the euro's benefits are realised in full.

The euro's internal dimension

The euro was introduced to deepen the Single Market and safeguard its integrity. It continued the European project of reducing cross-border barriers through common endeavours and common policies.

It followed the spirit that was already imbued in the Schuman declaration in 1950: building Europe "through concrete achievements".
As a result, our economies are now integrated to a point that was unimaginable not so long ago.

The euro was designed to be a trusted and stable currency. And the euro has indeed provided two decades of price stability, thereby upholding

people's confidence in the value of their savings. Stable prices also facilitated firm investment and the creation of new jobs.

Today, there are 20 million more Europeans in employment than 20 years ago in the 19 countries that currently make up the euro area. And since the creation of the euro, the labour force participation rate has risen from 59% to 67%, its highest level ever.

The two decades in which the euro has existed have been exceptional. The first decade was the culmination of a 30-year period of macroeconomic stability, also known as the Great Moderation. Inflation averaged close to 2% and the ECB ensured price stability mainly by adjusting its key interest rates.

The second decade produced the worst economic and financial crisis since the Great Depression. As I had the opportunity to discuss at length in my remarks at the Parliament's plenary debate two weeks ago, as a response to the crisis we had to deploy new instruments to safeguard the effectiveness of our monetary policy and stabilise the euro area economy.

Thanks to the collective efforts of all European citizens, the euro area has emerged from this crisis.

The results of their and their representatives' determination have been tangible: 22 consecutive quarters of economic growth, the unemployment rate at its lowest level since October 2008, and wages and incomes on the rise.

However, over the past few months, incoming information has continued to be weaker than expected on account of softer external demand and some country and sector-specific factors.

The persistence of uncertainties in particular relating to geopolitical factors and the threat of protectionism is weighing on economic sentiment.

At the same time, supportive financing conditions, favourable labour market dynamics and rising wage growth continue to underpin the euro area expansion and gradually rising inflation pressures.

This supports our confidence in the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus remains essential to support the further build-up of domestic price pressures and headline inflation developments over the medium term.

This will be provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets.

In any event, the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

The euro's external dimension

The benefits of the euro have not been limited to the European internal dimension. Standing together within the Economic and Monetary Union (EMU) allowed us to retain sovereignty that would otherwise be lost by individual countries in a highly integrated world economy.

As already envisaged at the time of its creation, the euro symbolises the unity of a European continent that is better able to exert global influence. Our togetherness in the EMU gives us "a greater say in international negotiation" and enhances our "capacity to influence economic relations" - to quote the Delors Report.

Over the past 20 years, the euro has become the second most important currency in the international monetary system. Somewhere between 20% and 40% of global foreign reserves, foreign exchange transactions, international debt and international trade transactions are denominated in euro. And over 50 countries or territories use or link their currency to the euro.

This global standing brings benefits. For one, it lowers the transaction costs of trading internationally, making euro area firms more competitive.

It also adds breadth and liquidity to euro area financial markets, allowing domestic and international investors to allocate economic resources more efficiently.

And it lowers the cost of global capital market financing for euro area borrowers, including corporations, financial institutions and public entities, thus benefiting firms, households and taxpayers.

Of course, the international role of the euro also brings challenges, such as greater exposure to global foreign financial developments and potential changes to the monetary policy transmission process.

The international benefits of sharing a currency go beyond the monetary sphere.

In a world with deep economic and financial interlinkages, international cooperation is essential and we can more effectively promote European ideas and interests by speaking together.

Indeed, the euro area's voice has been crucial in strengthening the international financial regulatory framework after the global financial crisis.

Today, the Single Supervisory Mechanism is the largest banking supervisor globally and successfully contributes to shaping the international supervisory framework.

Since the global financial and euro area debt crises, however, the euro's international role seems to have gradually eroded. While its importance as the currency of invoice for international trade transactions has remained broadly stable, its role in global foreign reserves and global debt markets has declined.

This decline is a symptom of the fault lines in EMU exposed by the crises. Concerns about the resilience of the EMU architecture and about financial fragmentation underpinned this erosion.

Indeed, stability, financial depth and liquidity are among the key determinants of an international currency.

European policymakers are now paying closer attention and various calls have been made in recent months for the euro to assume a stronger international role.

The Euro Summit of December 2018 encouraged work to be taken forward to this end.

The international role of the euro is supported by the pursuit of sound economic policies in the euro area and a deeper and more complete EMU. And this requires further efforts along the path of deeper integration.

Completing the Economic and Monetary Union

The past 20 years have revealed beyond doubt how challenging ensuring economic prosperity and stability can be. This was true both inside and outside the euro area.

Nonetheless, these years also demonstrated that such a shared challenge is best faced collectively. To realise in full the benefits of the euro, we need to have the same components that made the euro a reality in 1999.

On the one hand, we need national reforms to promote sustainable economic convergence. Under any monetary system, higher growth potential can only be achieved through continuous reform efforts.

As the convergence process is primarily driven by structural factors, this is a key responsibility of Member States.

On the other hand, Europe can make a difference by supporting and facilitating such reform efforts. Our togetherness represents a unique competitive advantage, and we should capitalise on this.

First, we can build on the synergies between EMU and the Single Market. The Single Market is indeed one of the most powerful tools we have to unlock the mechanisms that will raise productivity.

In particular, a genuine capital markets union (CMU) would not only ease and diversify access to funds for households and firms, thus fostering investment and innovation.

It would also enable risk diversification and thus compensate for temporary drops in activity locally - the so called private risk-sharing -, thereby reinforcing the overall resilience of EMU.

Second, it is essential to complete the projects that we initiated during the crisis, namely the banking union.

Together with CMU, a complete banking union would deliver meaningful private risk sharing that is currently lacking in the euro area in comparison to the US.

But private risk sharing, to be effective, needs to be supported by other policies.

We should thus rekindle trust in our economic and fiscal framework, by making it more effective in ensuring sound policy making at national level.

These actions can also be further supported at the European level by the recent decisions to launch an instrument for convergence and competitiveness for the euro area.

To tackle future cyclical crises, the two layers of protection against shocks - the diversification of risk through the private financial system on the one hand, and public countercyclical support through fiscal instruments at the national and European levels on the other - need to interact in a complete and efficient manner.

Achieving these reforms is not idealistic, nor utopian if we work together. And at the Euro Summit in December, leaders renewed their political commitment to strengthen EMU. If we want to realise in full the benefits of the euro, we need to capitalise on this commitment and translate it into concrete policy actions.

Conclusion

Mr Chairman,
Honourable members of the Economic and Monetary Affairs Committee,

I have used the word "together" several times today. As this is the last time that we will be together in this legislative term, let me add a few words to you personally.

I would like to thank you all for the role that this Committee has played over the past years.

In my first hearing here, I remember saying that was my first exercise in democratic accountability with the European Parliament and how grateful I was for it.

Many more would follow and you effectively ensured that the ECB would be accountable and therefore could legitimately be independent in carrying out its monetary policy.

But I am also grateful for the support that this Committee always expressed for the actions of the ECB, a sincere support because it built on the voice of European citizens and an important support that helped the ECB through the many difficult times of the past years.

As co-legislators your role was also essential in delivering reforms that further strengthened our Union.

This Committee, and the European Parliament more generally, has been in my experience an attentive interpreter of the demands of European citizens.

It is only by doing so that the trust in the legitimacy of the EU's institutions and policies is built, making it possible to achieve a more effective and inclusive Union.

As I have argued elsewhere, citizens demand, and Parliament may help in achieving, a "more perfect Union".

A Union that will continue providing its citizens with physical and economic security, while also promoting the values of an open, democratic and peaceful society.

Thank you for your attention. I am now at your disposal for questions.

IoT Security Standards Gap Analysis, from ENISA

Mapping of existing standards against requirements on security and privacy in the area of IoT

ENISA conducts a preliminary analysis of the IoT-related landscape of standards, which indicates that there is no significant gap in standards to bring secure IoT to the market.

This does not mean that the security of the IoT ecosystem as a whole has been addressed by means of standards.

Elements of a holistic approach towards IoT security can be found in a series of standards, however to achieve an overarching approach that protects the entire IoT ecosystem further work is needed.

Accordingly, given the particularity of the IoT ecosystem (e.g. very high scalability, context of use, short time to market and cost drivers), this study does not intend to promote a specific solution for the entire IoT.

Conversely, by identifying and mapping the existing standards landscape for IoT security, the study aims at pinpointing potential areas of improvement and additional efforts in securing the IoT.

In general, there is an identifiable gap in process by which a vendor can assert that their IoT product or service is secure.

On the assertion that standards enable interoperability, the lack of cohesion on the use and application of standards for secure IoT mean that interoperability is not guaranteed even if all devices were to be placed on the market with security features enabled.
The primary argument of the present document is that standards are essential but not sufficient to ensure open access to markets.

In the particular case of security, a large number of processes as well as technical standards have to be in place to ensure that any device placed on the market is assuredly secure.

In this case the present document proposes, in Annex B, a theoretical approach towards a certification and assurance and validation scheme to identify what is sufficient, as a precursor to allow for market access through device, service and process certification.

It should be noted that this approach is inherently theoretical, since it does not take into account relevant concerns such as economic considerations that might affect the viability of applying standards.

The process recommended in this document is intended in part to engender a change in attitude towards device security by making secure IoT the only form of IoT that reaches the market and to give confidence to the market through a mélange of certification, assurance testing & validation, and market surveillance.

The bulk of the material in the present report is contained in Annex A, the mapping of requirements to available standards, and in Annex B, a proposal for the technical basis of market certification.

To read the paper:
https://www.enisa.europa.eu/publications/iot-security-standards-gap-analysis

EIOPA calls for improvements to the assessment of the propriety of BOARD MEMBERS and QUALIFYING SHAREHOLDERS of insurance companies

- The peer review examines how national competent authorities (NCAs) assess the propriety of those responsible for managing insurance companies and, when relevant, the companies' shareholders

- In general, NCAs dedicate considerable resources to the initial assessment, but very few NCAs perform any ongoing assessments as part of their supervisory activities

- Diverging assessment practices continue to exist among NCAs, which can lead to different outcomes in different countries for the same individual

- The review resulted in 80 recommended actions for 29 NCAs

The European Insurance and Occupational Pensions Authority (EIOPA) published the findings of its peer review examining how national competent authorities (NCAs) assess the propriety of administrative, management or supervisory body (AMSB) members and qualifying shareholders.

EIOPA reviewed national regulatory frameworks and supervisory practices followed by NCAs to assess the propriety of AMSB members and qualifying shareholders at solo and group level, both at the moment of authorisation and on an ongoing basis.

Furthermore, EIOPA assessed the effectiveness of cross-border cooperation.

A key requirement of Solvency II is for insurers to be owned and run by persons of integrity. The primary responsibility to ensure the fitness and propriety of AMSB members at all times rests with insurers, with NCAs carrying out their assessment following the assessment by insurers.

Similarly, any acquisition of or changes to qualifying shareholders are subject to review and approval by NCAs.

This report presents the overall findings of the peer review, including identified best practices, case studies and recommended actions.

The findings are published on a named basis.

In general, NCAs invest considerable resources in the initial assessment of AMSB members and qualifying shareholders. However, these tend to be seen as a one-off task with few NCAs undertaking any ongoing assessments as part of their supervisory activities.

Ongoing assessment should involve proactive, risk-based and proportionate engagement resulting from the NCAs' own initiative, as part of its supervisory activities.

Other areas requiring action from NCAs were related to the national legislation or regulatory framework; propriety assessment questionnaires; as well as guidance and supervisory records.

The review was initiated following a number of cross-border cases indicating a lack of harmonisation in relation to the propriety assessment across the European Economic Area, leading to potentially divergent outcomes in different countries in relation to the same person.

The review found that complex cross-border cases of propriety assessment can take a long time, hampered by cumbersome information sharing processes.

In relation to the definition of propriety of ASMB members, a significant variation with respect to whether and when to consider ongoing prosecution and pending investigations for criminal and administrative offences became apparent.

As a result of this peer review, EIOPA will seek to strengthen and support processes of crossborder assessments.

A shorter Executive Summary, the full report and the methodology applied in the conduct of the peer review can be obtained via EIOPA's Website.

Gabriel Bernardino, Chairman of EIOPA, said: "Behaviour steers business. Character influences governance. Conduct dictates the integrity of financial health and reporting of business. Behaviour, character and conduct often contribute to the likelihood of failure and unfair treatment of consumers.

Therefore, propriety is an essential element of the governance and supervision framework of Solvency II. This peer review highlights differences in national legal and regulatory frameworks as well as in supervisory processes in relation to propriety assessments. In addition to

improvements that NCAs are already implementing, EIOPA will further strengthen convergence of practices by supporting the process for information gathering and, where necessary, sharing, processes related to complex cross-border cases as well as identify possible ways to strengthen the legal powers of NCAs. In this way, we can protect both the integrity of the internal market and consumers across Europe."

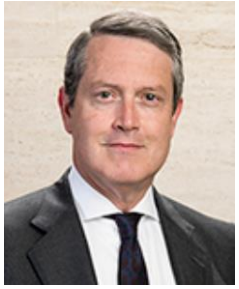
To read more:
Executive summary: https://eiopa.europa.eu/Publications/Reports/2019-01-25%20PeerReviewProprietyExecutiveSummary.pdf

Report: https://eiopa.europa.eu/Publications/Reports/2019-01025%20PeerReviewProprietyReport.pdf

Methodology:
https://eiopa.europa.eu/Publications/Administrative/2018-11-15%20Peer%20review%20methodology.pdf

Inviting participation - the public's role in stress testing's next chapter

Randal K Quarles, Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System, to the Council for Economic Education, New York City.



Thank you, Nan, for that kind introduction, and thank you to President Mester of the Federal Reserve Bank of Cleveland for inviting me to speak this evening.

I am honored to be here and to support the mission that you and the Council for Economic Education have worked so hard to advance-that every student in America gets a strong, early start on their financial education.

That mission is critical in its own right, but it also reflects the deeply held value of participation-of giving young people the chance to shape not just their own futures, but also the futures of their communities and their country.

Because so much of the language of finance is couched in terms of metrics and rationality, we often forget that finance is something we never do alone. It is, by definition, a collaboration, which helps us work together to achieve common goals.

The Federal Reserve is no exception. Tonight, I want to briefly discuss the role that participation plays in the Federal Reserve's work and outline one effort to solicit broad participation-an upcoming conference on stress tests, intended to make those tests more open, transparent, and effective.

Public institutions exist under a grant of trust from the people they serve, to pursue a specific policy goal. When the public holds an institution accountable for that grant, the institution becomes stronger.

The Federal Reserve System we know today emerged through decades of legislation, public consultation, and debate-from the original Federal Reserve Act, which created the Federal Reserve System, to the Banking Act of 1935, which established the modern Federal Open Market Committee

(FOMC), to the Treasury-Federal Reserve Accord of 1951 (PDF), which ensured the separation of monetary and fiscal policy.

These changes made our economy and our country stronger, because they improved the Federal Reserve's ability to accomplish the mission Congress assigned it.

Throughout this evolution, a key principle has been that accountability allows the Federal Reserve to be independent-that we are subject to challenge, to counterargument, and to the emergence of new evidence and ideas.

For our work to remain legitimate, the public must be able to see, understand, and engage with our efforts; to reaffirm their support when we have earned it; and to offer informed guidance on when to change course.

Accountability is only one reason the Federal Reserve relies on public outreach and participation. We also rely on participation for our effectiveness, because the best ideas in finance and economics can, and often do, come from a wide variety of sources.

Agencies like the Federal Reserve are a collection of expertise-informed by experience and positioned to turn a broad range of information into policy. But we are not, and cannot be, a monopoly on insight or wisdom.

The Federal Reserve recognizes these limits, and the need to invite new ideas, through a variety of initiatives. We seek out a qualified, diverse workforce, and foster an inclusive workplace.

We meet frequently with a range of advisory councils, drawing on expertise in banking, modeling, and consumer and community finance.

We have increased transparency around our policy process and issued new reports on financial stability and banking supervision and regulation, with new details about our work.

And across the Federal Reserve System, our staff publishes a wide range of economic and policy research and plays an active role in academic discourse.

Monetary policy itself shows the value of participation and transparency. U.S. monetary policy is the sole responsibility of the Federal Reserve. Yet some of the most important innovations in the field have come from outside the Reserve System. Since 1935, we have decided monetary policy by committee, a structure that has served us well because it is designed to capture different views of a wide and varied national economy.

And over the past several decades, the FOMC has greatly increased its own transparency-from postmeeting announcements, to announcing an objective for inflation, to a published survey of economic projections, to postmeeting press conferences (which will now take place after every FOMC meeting).

As many of you know, over the course of 2019, we will be reviewing our monetary policy strategy, tools, and communication practices, and we will hold a research conference on the subject with outside speakers, as well as "Fed Listens" events at a number of Reserve Banks, to hear from a broad range of constituencies.

But these improvements are more than a simple matter of disclosure. They are an invitation to participate, and a way to provide the public with the means and opportunity to inform our work.

This year, we are taking similar steps to improve a cornerstone of our post-crisis rules. Supervisory stress tests offer an independent and valuable lens on the health of the banking system.

They offer us a forward-looking measurement of bank capital, a view of common and systemic risks across the banking sector, and a broader understanding of the health of the financial system. The results are valuable for markets, analysts, and ultimately, the participating firms.

Ten years have passed since the Federal Reserve conducted its first supervisory stress tests.

That initial experiment helped stabilize financial markets and shore up our banking system at a critical and uncertain time. Our challenge now is to preserve the strength of the test, while improving its efficiency, transparency, and integration into the post-crisis regulatory framework.

To that end, the stress tests have not remained static. Just in the past several days, the Board acted to suspend stress tests this year for lower-risk firms-generally, those with total assets between $100 billion and $250 billion.

That move follows the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

The extended cycle provides administrative burden relief for these institutions and recognizes the different risks that they typically pose-especially compared to the largest and most complex firms, whose failure poses the greatest risk to the real economy.

Even with this change, the stress tests remain a core part of our supervision of these firms. Our experience with this "interim" year will inform the move to a permanently longer testing cycle-a change that would, of course, be subject to a full notice and comment process.

Improvements like these are necessary to ensure our supervisory framework evolves from its post-crisis origins to an effective steady state.

The question of how best to consolidate the gains from the first 10 years of stress testing deserves the attention and effort of the country's best minds. We should welcome changes and novel ideas, even when they explore stress testing in a new and unfamiliar light.

In July, as a forum for such ideas, we will host a public conference focused on the transparency and effectiveness of stress testing. Called Stress Testing: A Discussion and Review, the event will convene panel discussions, drawing on a mix of presenters with industry, academic, and regulatory backgrounds.

It will involve written papers, which will be compiled and published to spur further research. We expect the insights from the conference to inform the evolution of our stress-testing framework-and we hope to continue the conversation well after the conference ends.

This input is as essential to our work as any public outreach we do. Stress testing provides insight into a dynamic financial system, and our stress-testing process must be dynamic as well.

More broadly, the core of the Federal Reserve's independence is a broad consensus around the value and public worth of our mission. The Federal Reserve is the steward and trustee of that mission, but the public is its owner. To serve the public, we must not just allow input, but welcome it; not just permit debate, but foster it; not just allow participation, but treat it as essential to our work. Thank you.

Banking regulation and the benefits of international cooperation - Basel III and beyond

Prof Joachim Wuermeling, Member of the Executive Board of the Deutsche Bundesbank, at the Konrad Adenauer Foundation, Washington DC.

Ladies and gentlemen,

Welcome to the "Gold Room" of the Konrad Adenauer Foundation. I am honoured to welcome you all - your attendance today surely makes this lunch a golden opportunity to exchange ideas and perspectives on the future of transatlantic and international cooperation.

We are probably all having quite difficult conversations in our jurisdictions at the moment about what transatlantic cooperation - and what international cooperation - can do to achieve a prosperous economy over the coming years and decades. How can cooperation support the goals of prosperity, stability and progress?

My personal view is this: our prosperity hinges heavily on the interdependencies of our economies. That's what makes cooperative frameworks that create reliability and trust so important.

Take banking regulation as an example - here we have a fairly successful track record of international cooperation: the Basel Committee of Banking Supervision is a semi-formal network of supervisors from currently 28 jurisdictions.

Since 1974, regulators in the Committee have been developing international minimum standards and guidelines to harmonise the supervision of internationally active banks.

Even though its standards are only non-binding agreements, these are typically implemented in more than 100 countries.

During its 45 years of international cooperation, the Basel Committee has achieved a lot:

- It ensures a clear-cut separation of work and cooperation between home and host supervisors, so that the activity of international banks cannot fall through the cracks.

- It fosters the continuous exchange between supervisors and thereby helps build mutual trust.

- The Basel minimum standards reduce the opportunity for regulatory arbitrage.

- And in the process, they reduce the likelihood of a regulatory race to the bottom.

I like to think of Basel as an example of the value of international cooperation.

And as such, the Basel Committee was crucial as a forum to make sure that regulatory reforms after the financial crisis were developed in international accord.

The final pieces of this international reform effort were achieved with the Committee finalising the Basel III standard. The Basel III package, which includes reforms developed between 2009 and 2019, will make internationally active banks safer in the future.

And yet I would like to bring one sobering fact to your attention: since the Basel Committee started its work, financial crises have not become fewer but more frequent.

How can that be? One reason is regulatory loopholes that emerge due to financial innovation - this calls for a confident, strong supervision in the face of new developments that are not covered by international standards.

But another source of weakness of the international Basel standards is insufficient implementation.

I was recently discussing with my staff the implementation of Basel III in the EU. At some point, the discussion turned to the less than optimal experiences with the previous Basel standards.

Some pointed out that the US did not implement the Basel II standard in full, despite having pushed for it in the first place. That led to the question how complete the implementation could be if other jurisdictions simply cherry-picked.

But then I saw two colleagues whispering and laughing - and I asked what it was about. One of them, quite reluctantly, explained that it may be true

that Basel II implementation in the US diverged from what the EU had hoped for - but that it was the EU which had been found to be materially non-compliant with the Basel III standard. The room suddenly fell silent.

Finally, someone asked: will it be different this time around?

The purpose of this tale is not to blame and shame. My concern is rather to highlight where we are right now in terms of finalising regulatory reform after the financial crisis - and that the system of national implementation does not favour full implementation.

So where are we? We are getting closer, we can already make out the finishing line. But the last leg of national implementation is a steep upward climb.

Without reaching the last milestone, Basel III would lose dramatically in value in terms of financial stability.

What we need is complete implementation, nothing less: all internationally active banks - be they American, European, Asian or from any other region - need to be subject to these minimum standards - otherwise we have failed to achieve a truly international compact.

Does this mean that, in future, every community bank should apply internal models to estimate its risk of credit valuation adjustment in derivative positions?

Of course not. International cooperation would reach beyond what is sensible. The Basel rules are highly complex and call for big compliance departments - something that is beyond the reach of a community bank business model, for example.

That's why smaller institutions which are not internationally active should be subject to less complex rules.

And that's why the US and the EU have begun to reduce operationally burdensome rules for such institutions - a path that we are pursuing further, within the Basel Committee as well as in national implementation.

However, we should not take this too far. For example, I am concerned about tendencies in both the EU and the US to exclude from key regulations internationally active mid-sized banks. The last crisis erupted not only due to what large banks did, but also because of the activities at mid-sized banks.

International cooperation can serve us well. In banking regulation, cooperation can contribute to building a safer banking system. As Basel III

has been finished by the Basel Committee, the focus will now shift towards evaluation and implementation monitoring. Though, some topics have to be kept on the agenda of the Basel Committee.

One example is the regulation of sovereign exposures in times of historically high sovereign debt levels and rising interest rates worldwide. There is a considerable reputational risk for the Basel Committee if it ignored the sovereign risk issue.

Furthermore, new risks are emerging and will determine the Basel Agenda. I am thinking of climate risks in banks' balance sheets or risks stemming from crypto assets as well as new players like BigTechs expanding to banking business.

Those examples also show that risks and stakeholders can't be grasped within national borders which shows very clearly that there is no alternative to international cooperation.

However, international cooperation can only work if national politics are able to overcome the tendencies towards less than full implementation.

International cooperation does not cause national responsibility to vanish.

Thank you for your attention - I look forward to our discussion.

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