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

Dear members and friends,

The FSB Plenary met in New York to discuss vulnerabilities in the global financial system and progress under its 2019 work programme, including deliverables for the June G20 meetings in Japan.

The Plenary discussed the financial stability implications of recent developments in global financial markets.

Market sentiment has improved since the start of the year and financial conditions have eased, after the sharp decline in the prices of various financial assets during the fourth quarter of 2018.

Uncertainties remain elevated, but some immediate concerns have receded, including following the extension to the deadline for the United Kingdom's withdrawal from the European Union.

Financial markets generally functioned well during the period of volatility at the end of 2018.

Nonetheless, the FSB recognised that a more severe and protracted stress event could test the resilience of the financial system.

The FSB therefore remains vigilant about the loosening seen in lending standards, elevated asset values, and high private and public debt.

The core of the financial system is considerably more resilient than it was a decade ago.

Potential vulnerabilities in the financial system persist, however, and in some cases have built up further and policy space is limited.

There are questions as to the extent of financial institutions' exposures to riskier credit instruments, including leveraged loans, directly and through collateralised loan obligations (CLOs).

While CLO structures appear to be more robust now than before the global financial crisis, leveraged loan credit quality has deteriorated over the past few years and it remains unclear whether CLO prices are aligned with risk.

The FSB is closely monitoring these markets and members will further examine information on the pattern of exposures to these assets in the coming months to deepen its analysis of potential vulnerabilities.

FSB surveillance framework

The Plenary discussed a new initiative to develop an FSB surveillance framework.

The assessment of vulnerabilities in the global financial system is a core element of the FSB's mandate, and the completion of the main post-crisis reforms reinforces the importance of vigilant monitoring.

The new framework will support the comprehensive, methodical and disciplined review of potential vulnerabilities, and help the FSB to identify and address new and emerging risks to financial stability.

Market fragmentation

International cooperation and coordinated action by financial authorities have strengthened the global financial system in the aftermath of the global financial crisis.

The FSB discussed a draft report that looks at examples of financial activities where supervisory practices and regulatory policies may give rise to market fragmentation and potential trade-offs between the benefits of increased cross-border activity and a need to tailor domestic regulatory frameworks to local conditions and mandates.

Examples include the trading and clearing of over-the-counter (OTC) derivatives across borders; banks' cross-border management of capital and liquidity; and the sharing of data and other information internationally.

The report, which includes a discussion of approaches and mechanisms that may enhance the effectiveness and efficiency of international cooperation, will be published and submitted to the June meeting of G20 Finance Ministers and Central Bank Governors.

Review of the implementation of the TLAC standard

The Plenary discussed a report on the implementation of the total-loss absorbing capacity (TLAC) standard.

The TLAC standard was developed as part of the FSB's work to end the risk of global systemically important banks (G-SIBs) being considered too-big-to-fail.

The standard seeks to ensure the availability of appropriate amounts of loss-absorbing capacity at the right locations within a G-SIB's group structure to provide home and host authorities with confidence that G-SIBs can be resolved in an orderly manner. The report will be published in June.

Evaluating the effects of financial reforms

The Plenary discussed the draft findings of the evaluation of the effects of financial regulatory reforms on the financing of small and medium-sized enterprises.

The evaluation is part of a broader examination of the effects of the post-crisis reforms on financial intermediation.

The draft report will be delivered to the G20 meetings in Japan and issued for public consultation in June.

The final report, incorporating public feedback, will be published in November.

The Plenary also approved the terms of reference for the evaluation of the effects of too-big-to-fail (TBTF) reforms.

The evaluation will assess whether the implemented reforms are reducing the systemic and moral hazard risks associated with systemically important banks.

It will also examine the broader effects of the reforms to address TBTF for systemically important banks on the overall functioning of the financial system.

Stakeholder outreach will be an important aspect of the evaluation, including through an initial call for public feedback on the effects of the TBTF reforms and through workshops to exchange views on this topic.

The FSB will publish a draft report for public consultation in June 2020 and will publish the final report, taking into account consultation responses, in late 2020.

Financial innovation

The Plenary discussed the different initiatives under way at standard-setting bodies to address risks from crypto-assets and any possible gaps in this work.

The FSB's work on crypto-assets has focused on two areas: monitoring of the financial stability implications and a directory of crypto-asset regulators.

Members took note of the continued rapid evolution of crypto-asset markets and the need for continued monitoring of developments.

The FSB will publish an update on the work of the standard-setting bodies and will deliver it to the June meeting of G20 Finance Ministers and Central Bank Governors.

More generally, the FSB is exploring financial stability, regulatory and governance implications of decentralised financial technologies. The FSB will publish its report to the G20 on this subject in June.

Response to and recovery from a cyber incident

Cyber incidents have the potential to pose a threat to the stability of the global financial system.

The FSB agreed last October to develop a toolkit of effective practices, which will assist financial institutions, as well as supervisors and other relevant authorities in supporting financial institutions, before, during and after a cyber incident.

The Plenary discussed a draft of an initial progress report, which will be published and submitted to the June meeting of G20 Finance Ministers and Central Bank Governors. The toolkit will be subject to public consultation in early 2020.

Unique Product Identifier (UPI) and Legal Entity Identifier (LEI)

Plenary members discussed the designation of an entity/entities that will issue UPI codes and operate the UPI reference data library, following an assessment process launched in July 2018.

An announcement concerning the designation will be made shortly.

G20 Leaders at the 2012 Los Cabos Summit endorsed the FSB's recommendations for the development of a global LEI system and encouraged global adoption of the LEI to support authorities and market participants in identifying and managing financial risks.

The Plenary discussed at its meeting today the draft report of its thematic peer review of FSB member authorities' implementation of the LEI, which will be published in the coming weeks.

The report will reaffirm the FSB's commitment to a broader use of LEIs globally.

Addressing the decline in correspondent banking relationships

The Plenary noted with concern the continued decline in the number of correspondent banking relationships.

It discussed a progress report on the implementation of the FSB's action plan, including international guidance to clarify regulatory expectations, coordination of technical assistance and strengthening tools for due diligence.

The reduction in correspondent banking relationships has had a significant impact on remittance service providers' ability to access banking services, particularly acute in those developing countries where remittance flows are a key source of funds for households.

Plenary members reviewed a draft report to the G20 that follows up on the FSB's March 2018 recommendations on remittance service providers' access to banking services.

Notes

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability.

It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups. The FSB is chaired by Randal K. Quarles, Vice Chairman for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President, De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

Models, markets, and monetary policy

Richard H Clarida, Vice Chairman of the Board of Governors of the Federal Reserve System, at the Hoover Institution Monetary Policy Conference "Strategies for Monetary Policy", Stanford University, Stanford, California

The topic of this year's conference, "Strategies for Monetary Policy," is especially timely. As you know, the Federal Reserve System is conducting a review of the strategy, tools, and communication practices we deploy to pursue our dual-mandate goals of maximum employment and price stability.

In this review, we expect to benefit from the insights and perspectives that are presented today, as well as those offered at other conferences devoted to this topic, as we assess possible practical ways in which we might refine our existing monetary policy framework to better achieve our dual-mandate goals on a sustained basis.

My talk today will not, however, be devoted to a broad review of the Fed's monetary policy framework—that process is ongoing, and I would not want to prejudge the outcome—but it will instead focus on some of the important ways in which economic models and financial market signals help me think about conducting monetary policy in practice after a career of thinking about it in theory.

The Role of Monetary Policy

Let me set the scene with a very brief—and certainly selective—review of the evolution over the past several decades of professional thinking about monetary policy.

I will begin with Milton Friedman's landmark 1967 American Economic Association presidential address, "The Role of Monetary Policy."

This article is, of course, most famous for its message that there is no long-run, exploitable tradeoff between inflation and unemployment.

And in this paper, Friedman introduced the concept of the "natural rate of unemployment," which today we call u*.

What is less widely appreciated is that Friedman's article also contains a concise but insightful discussion of Wicksell's "natural rate of interest"—r* in today's terminology—the real interest rate consistent with price stability.

But while u* and r* provide key reference points in Friedman's framework for assessing how far an economy may be from its long-run equilibrium in labor and financial markets, they play absolutely no role in the monetary policy rule he advocates: his well-known k-percent rule that central banks should aim for and deliver a constant rate of growth of a monetary aggregate.

This simple rule, he believed, could deliver long-run price stability without requiring the central bank to take a stand on, model, or estimate either r* or u*. Although he acknowledged that shocks would push u away from u* (and, implicitly, r away from r*), Friedman felt the role of monetary policy was to operate with a simple quantity rule that did not itself introduce potential instability into the process by which an economy on its own would converge to u* and r*.

In Friedman's policy framework, u* and r* are economic destinations, not policy rule inputs.

To read more: https://www.bis.org/review/r190506a.pdf

Sixteenth progress report on adoption of the Basel regulatory framework

This updated progress report provides a high-level view of Basel Committee members' progress in adopting Basel III standards as of end-March 2019.

It focuses on the status of adoption of all the Basel III standards, including the finalised Basel III post-crisis reforms published in December 2017, to ensure that they are transformed into national law or regulation according to the internationally agreed time frames.

In addition to the status classification, a colour code is used to indicate the adoption status of each jurisdiction: green = adoption completed; yellow = adoption in process (draft regulation published); red = adoption not started (draft regulation not published); and "na" = not applicable. The colour code is used for those Basel components for which the agreed adoption deadline has passed.

Number code: 1 = draft regulation not published; 2 = draft regulation published; 3 = final rule published (not yet implemented by banks); 4 = final rule in force (published and implemented by banks); and * = implementation status mixed (please refer to the progress monitoring report).

Standards for which the agreed implementation deadline has passed receive a colour code to reflect the status of implementation: green = adoption completed; yellow = adoption in process (draft regulation published); red = adoption not started (draft regulation not published); and "na" = not applicable.

	Basel standards	Deadline	AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	ZA	CH	TR	US	EU
Capital	Countercyclical capital buffer	Jan 2016	4	4	4	4	*	4	4	4	4	4	4	4	4	4	4	4	4	4	4
	Margin requirements for non-centrally cleared derivatives	Sep 2016	1	4	3	4	1	4	2	1	4	4	1	1	4	4	2	4	1	4	4
	Capital requirements for CCPs	Jan 2017	4	3	4	4	1	2	3	1	4	4	1	2	4	4	2	4	2	2	2
	Capital requirements for equity investments in funds	Jan 2017	4	1	4	4	1	2	na	na	4	4	1	4	4	4	2	4	4	1	2
	SA-CCR	Jan 2017	4	3	3	4	4	2	3	4	4	4	1	2	4	4	2	4	2	2	2
	Securitisation framework	Jan 2018	4	4	4	4	1	4	1	4	4	4	1	4	4	4	1	4	1	1	4
	TLAC holdings	Jan 2019	4	1	4	4	1	4	1	1	4	1	1	2	4	4	1	4	1	2	2
	Revised standardised approach for credit risk	Jan 2022	1	1	1	1	1	1	1	2	1	1	1	2	1	1	1	1	1	1	1
	Revised IRB approach for credit risk	Jan 2022	na	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
	Revised CVA framework	Jan 2022	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
	Revised minimum requirements for market risk	Jan 2022	1	1	1	1	1	1	1	1	1	1	1	1	3	1	1	1	1	1	2
	Revised operational risk framework	Jan 2022	1	1	1	1	1	1	1	2	1	1	1	1	1	1	1	1	1	1	1
	Output floor	Jan 2022	na	1	1	1	1	1	1	1	1	1	1	2	1	1	1	1	1	1	1

The report is based on information provided by individual members as part of the Committee's Regulatory Consistency Assessment Programme (RCAP).

The report includes the status of adoption of the Basel III risk-based capital standards, the leverage ratio, the standards for global and domestic systemically important banks (SIBs) and interest rate risk in the banking book (IRRBB), the Net Stable Funding Ratio (NSFR), the large exposures framework and the disclosure requirements.

In addition to periodically reporting on the status of adoption, all Committee members undergo an assessment of the consistency of their domestic rules with the Basel standards.

	Basel standards	Deadline	AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	ZA	CH	TR	US	EU
SIB	G-SIB requirements	Jan 2016	na	4	4	4	4	4	na	na	4	na	na	na	na	4	na	4	na	4	4
	D-SIB requirements	Jan 2016	4	4	4	4		4	4	4	4	4	4	4	4	4	4	4	4	na	4
	Leverage ratio buffer	Jan 2022	na	na	na	1	1	1	na	na	1	na	na	1	1	na	na	4	na	2	2
IRRBB	Interest rate risk in the banking book (IRRBB)	2018	4	1	4	2	4	3	2	4	4	2	1	2	4	4	1	4	1	2	2
Liquidity	Monitoring tools for intraday liquidity management	Jan 2015	3	4	4	3	1	4	4	4	1	1	1	4	4	4	4	4	4	4	4
	Net Stable Funding Ratio (NSFR)	Jan 2018	4	4	4	3	4	4	3	4	2	4	1	4	4	4	4	2	2	2	2
Large exposures	Supervisory framework for measuring and controlling large exposures	Jan 2019	4	4	4	3	4	3	4	3	1	2	1	2	4	2	1	4	2	4	2
Disclosure	Revised Pillar 3 requirements (published 2015)	Dec 2016	4	1	3	4	1	4	1	2	4	4	1	4	4	4	4	4	4	1	*
	CCyB, Liquidity, Remuneration, Leverage ratio (revised)	Dec 2017	4	1	*	*	*	4	1	2	4	4	*	3	4	4	4	4	*	*	*
	Key metrics, IRRBB, NSFR	Jan 2018	4	*	*	*	*	4	*	*	*	*	1	*	4	*	*	4	*	1	2
	Composition of capital, RWA overview, Prudential valuation adjustments, G-SIB indicators	Dec 2018	4	1	*	*	1	4	1	*	*	4	1	3	4	4	*	4	1	*	*
	TLAC	Jan 2019	na	na	1	4	1	4	na	na	4	3	1	na	4	na	na	4	na	2	2
	Market risk	Jan 2022	1	1	1	1	1	1	1	1	1	3	1	1	3	1	1	1	1	1	2

The report:
https://www.bis.org/bcbs/publ/d464.pdf

Ciaran Martin at CYBERUK 2019

Ciaran Martin, CEO of the NCSC, speaking on day two of CYBERUK 2019.

Thank you for coming back.

We know you have other options such as hotel room beds, nice walks along the river. It's easy to come here on day one. It's really quite admirable after a very inspiring but very demanding day to have everyone back. We had a fantastic day yesterday.

We had international cooperation with the Five Eyes, we had brilliant technical panels, we had a real buzz in the evening as we showed off collectively the community's efforts on technological innovation on cyber security, and in a minute, before I introduce our panel, I just wanted to return to that sense of pragmatic optimism about what we can achieve as a community.

Looking around and seeing so many people I spoke to yesterday, there's that real spirit of challenge, of fixing things, that spirit of just speaking truth unto power, a sort of equality and egalitarianism.

And I was remembering this because I think we'll probably all struggle a bit for energy levels today.

And I once said to one of my team: 'Why am I struggling? Why am I in such a bad mood today?'

And in the best spirit of the NCSC, she said: 'Maybe it's because you're a 44-year-old man and none of your childhood dreams have come true.'

But anyway, this is a spectacular and wonderful event, and I just wanted to set the tone.

This is the last CYBERUK of the decade.
So what's it going to be like – what's it going to feel like for us and our successors in 10 years time?

And I want to set a tone and capture a spirit of being optimistic because I think we're at an important point in the history of technology.

If you think back 15 or 20 years, you think of the narrative around new technology, around the information age, the fourth industrial revolution – whatever fancy term you want to use.

We were changing the world. Everything was getting easier. Everything was being better and faster, more connected.

We could do more.

We were on a relentless trajectory to better. And it was going to fix everything. And it was going to free up everything. And nothing could get in the way.

And we don't talk like that anymore.

I remember – I'm not going to say too much about other countries this morning; I think this is a very domestic focus – but I remember on a visit to China of all places – I'm not going to say much about China because you may have noticed I had to speak an awful lot about China in the course of yesterday – but I remember on one visit having a fascinating discussion with a leading Chinese opinion former about the way the internet was going.

And he said: 'Twenty years ago, you were telling us that our model of the internet wasn't going to work. It wasn't practical. You couldn't really control the internet. But also it wasn't desirable. Twenty years on, you're beginning to talk a bit like we are. You're talking about harms all the time.'

And it's absolutely right we talk about harms.

You look at, as Director Fleming said yesterday, you look at the excellent DCMS online harms paper. A really grown-up, groundbreaking, realistic look at the sort of challenges we face with the way technology has evolved. Obviously, our field is the vulnerabilities of technology that can be exploited to our detriment.

There is the horrors of terrorist radicalisation, harmful material, child sexual exploitation, cyber crime, and so forth. And this Chinese opinion former was saying: 'That's what we were warning you about. And you need to do something about it.'

So it is the case that whilst these new technologies – and a new generation of technologies – still offer these unparalleled opportunities to make all our

lives so much better – our healthcare, our economies, our societies – but we have to think about managing the risks and managing the harm.

And that's the challenge for this community – and the opportunity.

We can fix these problems. We can get ahead of the problem. We can look at the way technology is evolving. We can avoid the mistakes of 20 years ago where we allowed new technology to develop but in a way that didn't always incentivise good security. And we can make it safe enough so we can all enjoy it and use it safely.

But I think for all of us, there is a question every so often – maybe on a daily basis – about why we're getting out of bed and doing what we do.

And for me – and I think for this community – it is spectacularly motivating to be able to get out of bed – to come to work – and say: there are a set of things happening across the world, a set of innovations, a set of products and services that are changing the way we live.

And we're going to make them safer, still usable, but safer so we can have confidence in them.

Because at a time when confidence in the way the western internet works, it's not collapsing – but it's pretty obvious that in some areas it's wobbling.

Let's get that confidence back. Let's do these fixes. Let's get after these problems. Nothing particularly ideological about it.

I love the approach that we have in this event of having the sessions – the breakout sessions – ranked by chillis in order of technical complexity.

This talk – as with all my talks – is zero chillis, a new category all of my own.

But whether it's highly technical or actually quite general, just about the way people behave – whether it's behavioural science, economics, whether it's product design, or whether it's a really complex mathematical or engineering problem, I think everyone in this room – and everyone in our organisations – has his or her part to play in making sure that when we vacate this stage – literally and metaphorically – and give way to the next generation, that we are handing over to them a technological economy and society with confidence.

So that's all I really want to say this morning.

But we have a mission – it is an historic mission – to secure our society for the next generation.

Our children get this. They're digital natives. They know about the risks. But when they take control of the country, what are we leaving them?

Are we leaving them a technological legacy that's imbued with confidence, optimism, that fundamentally works in a safe way? Or are we leaving them with an absence of confidence, with concerns and doubt?

Let's make sure we win this.

So with that, enjoy the day. We've an excellent first panel of senior figures in journalism and in public regulation and law enforcement – and me, I'm afraid.

We then have the second most senior member of the government, we have excellent sessions later on, and I hope you enjoy the day.

And with that, thank you, and it is my pleasure to welcome to the stage our panel headed by the editor of the Financial Times, Mr Lionel Barber.

Thank you.

The video:
https://www.youtube.com/watch?v=tXgusGn5YC0&feature=youtu.be

Federal Reserve Board invites public comment on proposal to simplify and increase the transparency of rules for determining control of a banking organization

The Federal Reserve Board has invited public comment on a proposal that would simplify and increase the transparency of the Board's rules for determining control of a banking organization.

If a company has control over a banking organization, the company generally becomes subject to the Board's rules and regulations.

Over time, the Board has issued public and private interpretations on the topic of control, but banking organizations and their investors often remain uncertain about whether a proposed investment is controlling.

The proposal would set forth a comprehensive regulatory framework for control determinations and request comment on the framework.

"Providing all stakeholders with clearer rules of the road for control determinations will responsibly reduce regulatory burden," Chair Jerome H. Powell said. "As a result, it will be easier for banks, particularly community banks, to raise capital to support lending and investment."

In particular, the proposal lays out several factors and thresholds that the Board will use to determine if a company has control over a bank. The key factors include the company's total voting and non-voting equity investment in the bank; director, officer, and employee overlaps between the company and the bank; and the scope of business relationships between the company and the bank. The proposal clearly describes what combination of those factors would and would not trigger control.

As a result, the proposal would reduce complexity and burden for banking organizations and their investors, and provide clarity so that a wide range of stakeholders can better understand the control rules.

"The Board's control framework has developed over time through a Delphic and hermetic process that has generally not benefited from public comment," Vice Chair for Supervision Randal K. Quarles said. "This proposal would place substantially all of the Board's control positions into a comprehensive public regulatory proposal and allow public comment on those positions to improve their content and consistency."

The attached chart shows how different combinations of the factors would or would not result in control. Comments will be accepted for 60 days after publication in the Federal Register.

To read more:
https://www.federalreserve.gov/newsevents/pressreleases/files/control-proposal-fr-notice-20190423.pdf

https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190423a.htm

Central banking and innovation: partners in the quest for financial inclusion

Agustín Carstens, General Manager of the BIS, at the Reserve Bank of India, C D Deshmukh Memorial Lecture, Mumbai, 25 April 2019.

Introduction

Good afternoon, ladies and gentlemen. It is a privilege to be here in Mumbai to deliver the 17th C D Deshmukh Memorial lecture. Thank you, Governor Das, for the kind invitation.

Governor Deshmukh was both an extraordinary statesman and the Reserve Bank of India's first Governor of Indian nationality. While presiding over the Bank's transformation from an institute owned by private shareholders to a modern-day central bank, he drove initiatives to support rural credit, including channelling Reserve Bank funds to develop agriculture.

These measures reflected Governor Deshmukh's deep understanding of why financial inclusion matters. And, in his honour today, I would like to revisit the question of why financial inclusion belongs within the mandate of a central bank.

My main thesis is that central banks and financial authorities can support and promote financial inclusion, first and foremost, by pursuing their core objectives.

By watching over price stability, they ensure that money keeps its value. By ensuring financial stability, they prevent financial institutions from failing, and taking people's savings with them.

But most of all, central banks promote trust. By reinforcing trust in the financial system and its institutions, central banks bring ordinary people into the mainstream and help them reap its benefits.

In this way, the central bank can help to catalyse a more inclusive and vibrant economy.

It is thus a necessary condition for financial inclusion that central banks fulfil their core mandate.

Yet it is not sufficient. Other elements too are important. New technology can play a crucial role in breaking down barriers for both citizens and financial institutions.

To foster this process, central banks and financial authorities must provide the right infrastructure. This includes hard or physical infrastructure such as payment and settlement systems, as well as soft or "contextual" infrastructure such as rules and guidelines that let the full benefits of the technology be captured while protecting its users.

Central banks and innovators are vital partners: one cannot achieve financial inclusion without the other's help.

Today, I will begin by stressing the benefits of financial inclusion and taking stock of where we now stand. I will then touch on the role that central banks and financial authorities play in providing the necessary conditions for success. And I will suggest how they might build on this success by partnering with fintech, as we now call technology-driven innovation in financial services.

Finally, I will outline how the BIS can help to foster international cooperation in this field.

To read more:
https://www.bis.org/speeches/sp190425.pdf

API Updates and Important Changes

facebook for developers

As part of our ongoing commitments to privacy and security, we are making updates to our platform. These updates include removing access to a number of APIs, updating our platform policies, and regularly evaluating an app's access to user permissions.

A list of APIs that will be removed from the platform can be found here. Please review this list to determine if your app is impacted. Existing apps using these APIs will no longer have access as of July 30, 2019. No new apps will have access to these APIs as of April 30, 2019.

Additionally, our Facebook Platform Policies are being updated to include provisions that apps with minimal utility, such as personality quizzes, may not be permitted on the platform. The update also clarifies that apps may not ask for data that doesn't enrich the in-app, user experience.

Also as of today, previously approved user permissions that your app has not used or accessed in the past 90 days may be considered expired. Access to expired permissions will be revoked. Going forward, we will periodically review, audit, and remove permissions that your app has not used. Developers can submit for App Review to re-gain access to expired permissions.

In the coming months, we will be releasing a more significant update to our policies. In response to developer feedback, we will be moving toward a more streamlined and straightforward experience for developers and eliminating the need for certain supplemental terms. We're committed to supporting our developers and providing resources for building on our platform.

To read more:
https://developers.facebook.com/blog/post/2019/04/25/api-updates/

Stay safe

International crime can affect you too. Find out how to stay safe.

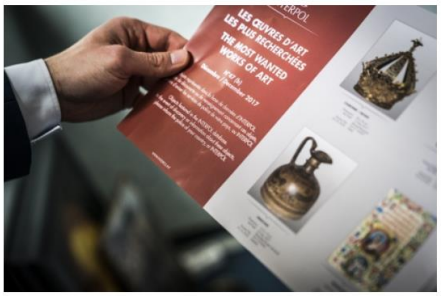
INTERPOL

You might think transnational, organized crimes belong to another world, far from your own. In reality, they can affect you on a day-to-day level, without you even being aware.

But there is a lot you can do to protect yourself and your family. Not only can you increase your level of safety but you will also help reduce the profits being driven into organized crime.

What you can do

Advice for car owners



What you can do

Protecting cultural heritage

What you can do

Reduce your impact on the environment

What you can do

Keeping children safe online

What you can do

Financial crime – don't become a victim!

What you can do

Fake electrical devices

You may visit:
https://www.interpol.int/What-you-can-do/Stay-safe

NIST Tool Enables More Comprehensive Tests on High-Risk Software

Updated "combinatorial testing" tool could reduce potential errors in safety-critical applications.

We entrust our lives to software every time we step aboard a high-tech aircraft or modern car.

A long-term research effort guided by two researchers at the National Institute of Standards and Technology (NIST) and their collaborators has developed new tools to make this type of safety-critical software even safer.

Augmenting an existing software toolkit, the research team's new creation can strengthen the safety tests that software companies conduct on the programs that help control our vehicles, operate our power plants and manage other demanding technology.

While these tests are often costly and time-consuming, they reduce the likelihood this complex code will glitch because it received some unexpected combination of input data.

This source of trouble can plague any sophisticated software package that must reliably monitor and respond to multiple streams of data flowing in from sensors and human operators at every moment.

With the research toolkit called Automated Combinatorial Testing for Software, or ACTS, software companies can make sure that there are no simultaneous input combinations that might inadvertently cause a dangerous error.

As a rough parallel, think of a keyboard shortcut, such as pressing CTRL-ALT-DELETE to reset a system intentionally.

The risk with safety-critical software is that combinations that create unintentional consequences might exist.

Until now, there was no way to be certain that all the significant combinations in very large systems had been tested: a risky situation. Now, with the help of advances made by the research team, even software that has thousands of input variables, each one of which can have a range of values, can be tested thoroughly.

NIST's ACTS toolkit now includes an updated version of Combinatorial Coverage Measurement (CCM), a tool that should help improve safety as well as reduce software costs.

The software industry often spends seven to 20 times as much money rendering safety-critical software reliable as it does on more conventional code.

The peer-reviewed findings of the research team appear in two papers the team will present on April 23 at the 2019 IEEE International Conference on Software Testing, Verification and Validation in Xi'an, China.

The research includes collaborators from the University of Texas at Arlington, Adobe Systems Inc. and Austria's SBA Research.

NIST mathematician Raghu Kacker said that CCM represents a substantial improvement to the ACTS toolkit since its last major addition in 2015.

"Before we revised CCM, it was difficult to test software that handled thousands of variables thoroughly," Kacker said. "That limitation is a problem for complex modern software of the sort that is used in passenger airliners and nuclear power plants, because it's not just highly configurable, it's also life critical. People's lives and health are depending on it."

Software developers have contended with bugs that stem from unexpected input combinations for decades, so NIST started looking at the causes of software failures in the 1990s to help the industry.

It turned out that most failures involved a single factor or a combination of two input variables—a medical device's temperature and pressure, for example—causing a system reset at the wrong moment. Some involved up to six input variables.

Because a single input variable can have a range of potential values and a program can have many such variables, it can be a practical impossibility to test every conceivable combination, so testers rely on mathematical strategy to eliminate large swaths of possibilities.

By the mid-2000s, the NIST toolkit could check inputs in up to six-way combinations, eliminating many risks of error.

"Our tools caught on, but in the end, you still ask yourself how well you have done, how thorough your testing was," said NIST computer scientist Richard Kuhn, who worked with Kacker on the project. "We updated CCM so it could answer those questions."

NIST's own tools were able to handle software that had a few hundred input variables, but SBA Research developed another new tool that can examine software that has up to 2,000, generating a test suite for up to five-way combinations of input variables.

The two tools can be used in a complementary fashion: While the NIST software can measure the coverage of input combinations, the SBA algorithm can extend coverage to thousands of variables.

Recently, Adobe Systems Inc. contacted NIST and requested help with five-way testing of one of its software packages. NIST provided the company with the CCM and SBA-developed algorithms, which together allowed Adobe to run reliability tests on its code that were demonstrably both successful and thorough.

While the SBA Research algorithm is not an official part of the ACTS test suite, the team has plans to include it in the future. In the meantime, Kuhn said that NIST will make the algorithm available to any developer who requests it.

"The collaboration has shown that we can handle larger classes of problems now," Kuhn said. "We can apply this method to more applications and systems that previously were too hard to handle. We'd invite any company that is interested in expanding its software to contact us, and we'll share any information they might need."

The ACTS test suite contains research tools, not commercial products, and the toolkit is not intended to compete with products in the private sector, Kuhn said.

To read more: https://www.nist.gov/news-events/news/2019/04/nist-tool-enables-more-comprehensive-tests-high-risk-software

Cybersecurity: Where We Are; What More Can be Done? A Call for Auditors to Lean In

Kathleen M. Hamm, Board Member, Baruch College 18th Annual Financial Reporting Conference, New York, NY

I. Introduction

Good afternoon, everyone. Thank you for that kind introduction. And thank you to Baruch College's Robert Zicklin Center for Corporate Integrity for inviting me to speak here today. It is wonderful to be part of the 18th Annual Financial Reporting Conference.

This center and the Public Company Accounting Oversight Board (PCAOB) have much in common. We were both created at a time when corporate and accounting scandals dominated the headlines, and public confidence in U.S. business was shaken.

By sponsoring forums like this one, the center helps private-sector executives and public-policy makers probe a broad range of complex contemporary issues confronting U.S. corporations and the capital markets.

We at the PCAOB wrestle with many of the same issues. Our mission calls on us to protect investors and the public interest by overseeing one particular aspect of the financial reporting ecosystem: the preparation of informative, accurate, and independent audit reports.

Today, I'd like to discuss an emerging area for our oversight: cybersecurity. Specifically, I'd like to explore the dangers posed by cyber and how cybersecurity presents a threat to our financial reporting system and capital markets.

I'd also like to share my thoughts on what more audit professionals can do to strengthen the cybersecurity and resiliency of our financial reporting system.

But before I do, let me give you a brief update on what the PCAOB accomplished last year and where we are heading.

II. Update on the PCAOB

This April marked the first full year with an entirely new PCAOB board in place.

A board that by design brought together members with diverse expertise, skill sets, and perspectives.

Over much of the past year, my colleagues and I have worked hard, individually and collectively, to understand and assess the PCAOB's core programs and operations.

We have also probed whether and how we can improve the PCAOB's ability to more effectively accomplish our mission.

Last month the PCAOB published our 2018 annual report, the first annual report reflecting the oversight of the new board.

Some of the significant highlights were:

- We completed and approved two long-awaited standards – accounting for estimates, including fair value measurements, and the use of specialists. The public comment period with the Securities and Exchange Commission (SEC) ended last week on both. If approved by the Commission, these two standards will apply to audits of financial statements for fiscal years ending on or after December 15, 2020.

- On our research agenda, we prioritized data and technology and quality control. We tapped into our two advisory groups, the Standing Advisory Group and the Investor Advisory Group, to provide their insights on each topic.
  We also convened a task force of private-sector experts to advise us on emerging technologies and data analytics and their effects on the audit.

- We helped practitioners, investors, and other stakeholders prepare for implementing the last and most significant phase of the new auditor's report, the reporting of critical audit matters.

- We issued our first post-implementation review of a PCAOB standard – AS 1220, Engagement Quality Review.

- We created a new Office of External Affairs to spearhead our efforts to increase our accessibility and engagement with our stakeholders, especially investors, audit committees, and preparers.

- We also began the process of revisiting our approach to conducting and communicating the results of our inspections.
- We awarded $3.32 million in scholarships to 332 accounting students, with funds from penalties collected in our enforcement actions.

These results reflect some of the key priorities identified during a far-reaching strategic planning process that we began last year. That process

started with the board querying our personnel bottom to top on what the PCAOB did well and where we could do better.

We also reached out to a broad, diverse set of external stakeholders for their views and suggestions. We conducted a public survey, one-on-one interviews, and board members embarked on listening tours.

After extensive consultation and deliberation inside and outside, last November we published our five-year strategic plan.

That plan has five goals.

Two look inward – becoming more efficient and effective with our resources, and empowering our people for success and prudent risk-taking to promote our mission. The remaining three goals look outward.

These external strategies are:

- One: We are committed to driving audit quality forward through a combination of prevention, detection, deterrence, and enforcement.

- Two: We have pledged to enhance our transparency and accessibility through proactive stakeholder engagement, with a particular focus on reaching out to investors, audit committees, and preparers.

- Three: We have dedicated ourselves to anticipating and responding to a changing environment, and in particular to preparing for the opportunities and risks that emerging technologies present to financial reporting and auditing.

III. The Promise; the Threat

Why is technology a key strategic imperative for us? While we don't know precisely how or when, we do know that emerging technologies and data analytics will fundamentally change the way financial information is reported, how audits are conducted, and ultimately how we at the PCAOB perform our work.

Companies now perform more and more finance tasks using algorithms and robotic process automation.
They are also increasing their use of advanced analytics and artificial intelligence in their financial reporting.

Auditors in turn are exploring new approaches to technology and analytics to perform their assurance function. Today some auditors use drones for inventory observations.

Tomorrow data analytics could replace sampling techniques with analysis of all transactions and accounts. Eventually blockchain and distributed ledger technology could make confirmations a thing of the past.

Technology offers the promise of combining increased efficiencies with improved effectiveness, resulting in enhanced audit quality. Freed from time-consuming manual reviews, technology may provide auditors with more time to exercise their business and financial expertise.

That time could help auditors sharpen their professional skepticism and their ability to more effectively identify indicators of error or fraud. That additional time could also allow auditors to more deeply probe the potential root causes of identified issues and concerns.

But, for all their promise, emerging technologies present real risks. Coding errors present inherent threats. Some occur during development. Others can occur when changes are made after deployment.

Still other errors may lay dormant for extended periods of time. Some experts estimate that between 15 and 50 coding errors exist in every one thousand lines of code.

Given the complexity of many software applications and solutions, many of which contain millions or tens of millions of lines of code, the risk of material errors is not trivial.

A threat also exists of unintended, or algorithmic, bias. This bias occurs when systematic, repeatable errors in software or computer systems cause unfair outcomes, arbitrarily favoring one result over another.

Bias can emerge from the design of an algorithm itself or through unintended or unanticipated uses of the algorithm.

For example, software designed to automate the analysis of real-estate leases may prove feeble at analyzing equipment leases.
Bias can also occur from the way data is coded, collected, selected, or used to train algorithms. These algorithms underpin machine learning and related artificial intelligence solutions.

Unauthorized access to information systems and data also presents a significant threat. Amplifying this threat is how interconnected we all are to one another through technology and communication networks and systems. This interconnection occurs through domestic and international telecommunication, financial, retail and wholesale payment, and clearing and settlement systems; it also occurs through the internet.

IV. Setting the Stage

a. The Internet and the "Internet of Things"

Today we communicate and engage in commerce through the internet. Organizations of all types – energy, transportation, healthcare, financial services, nonprofits and humanitarian groups, governments – operate on the internet. Vast amounts of personal and other data are accessible there too.

Initially designed in the late 1960s to provide known, trusted users access to one another, interoperability was a key characteristic of the internet: That is, the ability for different networks, systems, devices, and applications to connect, exchange, and use data across organizations and sovereign borders. Security was an afterthought at best.

And now everyday objects, so-called "Internet of things" or "IoT" devices, are connected to the internet as well. Personal computers, smartphones, cars, thermostats, wearable gadgets, lights, and cardiac monitors to name a few – send and receive huge amounts of data largely unfettered by country boundaries.

To fully appreciate the magnitude, scope, and speed of this change, think about this: In 2003 – just a year after the PCAOB and this center were established – a half a billion devices were connected to the internet around the globe.

Fast forward 17 years. By next year, internet-connected devices are expected to have increased 60 fold to almost 31 billion.

This translates into nearly four devices for every man, woman, and child on the planet.

With this unprecedented access and interoperability comes peril. Until recently though, much like the internet itself, little thought was typically given to the security of these devices. This means 31 billion potential access point for criminals, hacktivists, independent digital malcontents, and rogue nation states.

b. Cyber threat

Earlier this year, the U.S. Director of National Intelligence released a report outlining the gravest dangers facing the United States and our intelligence community's proposed response to those dangers.

One of those threats was cybersecurity and resiliency. The threat includes the loss of proprietary and sensitive information, the manipulation and

destruction of data, systems, and networks, and even the harming of physical assets, as well as the related costs and undermining of confidence in our institutions.

While acknowledging heightened awareness of cyber threats and improved cyber defenses, the report was sobering in its conclusion that "nearly all information, communication networks, and systems will be at risk."

The report continues that our adversaries – both state and non-state actors – are using cyber access and capabilities to advance their own strategic and economic interests.

As we integrate technology into everything we do – critical infrastructures, communication networks, and consumer devices – the report notes that cyber threats will pose increasing risk to our economic prosperity and public health and safety.

Similarly, last January the World Economic Forum highlighted the rising dependencies of economies on internet connectivity and digital information, citing data fraud or theft and cyber-attacks as the fourth and fifth most likely sources of global risk in 2019.

In its prior year report, the forum highlighted a study that projects that cybercrime will cost businesses $8 trillion over the next five years.

On a related point, reinsurer Munich Re estimates that the market for cyber-risk insurance could reach $8 to $9 billion in premiums by 2020, double the amount of premiums written just two years earlier.[18]

Now let's put a finer point on specifically how cyber threats can affect financial reporting.

i. Data breaches and disclosure obligations

One example: Just over a year ago, the SEC brought a settled enforcement action against the company formerly known as Yahoo! Inc. for misleading investors by failing to disclose one of the world's largest data breaches.[19] Yahoo's successor, Altaba, paid a $35 million penalty. This was the SEC's first action against a company for a cybersecurity disclosure violation.

To recap, in late 2014, hackers associated with the Russian Federation infiltrated Yahoo's systems and stole personal data relating to hundreds of millions of user accounts.

Within days of the intrusion, Yahoo's information security team understood that the company's so-called "crown jewels" had been ex-

filtrated. This stolen data included: the usernames, email addresses, phone numbers, birth dates, encrypted passwords, and security questions and answers for the compromised accounts.

While information on the breach was reported to Yahoo's senior management and legal department, the company failed to properly investigate the incident or adequately consider whether the breach needed to be disclosed to investors. The company also kept its auditors and outside lawyers in the dark.

The breach was only disclosed publicly more than two years later, when Yahoo's operating business was being sold to Verizon Communications, Inc. Ultimately, because of the breach, Verizon lowered its purchase price for Yahoo by $350 million, representing a 7.25 percent discount.

Among other things, the SEC found that Yahoo failed over a two-year period to make required disclosures about the breach and its potential business impact and legal implications in its quarterly and annual reports.

In those filings, instead of disclosing that an actual breach had occurred, the company merely stated that it faced the risk of, and potential negative effects from, data breaches.

Importantly, the SEC also found that Yahoo failed to appropriately design and maintain effective disclosure controls and procedures to ensure the timely assessment and escalation of cyber-incidents.

Relatedly, earlier this year, $29 million was paid to settle a private, derivative lawsuit alleging that the former directors and officers of Yahoo violated their fiduciary duties of care by failing to properly oversee the company's handling of a series of cyberattacks from 2013 to 2016.

These cyberattacks allegedly involved as many as three billion user accounts and included the data breach that formed the basis of the SEC's enforcement action.
Of note, this settlement also represented another first: It was the first monetary recovery in a derivative action involving a data breach.

Until then, settlements of data breach-related derivative lawsuits included governance changes and modest attorney fees, but no cash awards.

ii. Cyber-enabled fraud

Another example: Last October, the SEC issued an investigative report highlighting a specific type of cyber-enabled fraud that victimized nine public companies.

It involved criminals using manipulated – or spoofed – email addresses and domains to impersonate company executives and vendors to dupe employees into making unauthorized payments.

Over the course of weeks or months, each of the nine companies lost at least $1 million, with one losing more than $45 million. Collectively, the companies lost nearly $100 million.

Most of the money was not recovered. In some instances, the frauds were only detected after inquiry from law enforcement or an outside party.

What exactly happened?

The scams came in two varieties. The first type involved criminals masquerading as company executives sending emails to mid-level finance employees with authority to transmit funds.

The emails typically made urgent requests for funds to be wired to the purported foreign bank accounts of well-known law firms to facilitate supposed fast-moving mergers.

The emails also instructed employees to keep the requests secret. Then instead of going to the law firms, the funds were wired to bank accounts controlled by the criminals.

The second more sophisticated variant involved criminals hacking into the actual email accounts of companies' foreign vendors.

After fooling company employees into revealing actual purchase order and invoice information, the hackers then tricked employees into replacing the vendors' payment information with routing information to bank accounts controlled by the hackers.

While declining to bring enforcement actions against the companies, the SEC used the report to underscore the obligations of public companies to devise and maintain sufficient systems of internal accounting controls.

By statute, those systems must provide reasonable assurance that access to company assets and execution of company transactions are only done in accordance with the general or specific authorization of management.

According to the SEC, the hackers succeeded in large part because company personnel were unaware of, or did not understand, their companies' internal controls.

Those employees also failed to recognize multiple red flags indicating that a fraudulent scheme was underway. The Commission further cautioned

public companies to be mindful of cyber threats when designing and maintaining internal accounting controls.

To put these threats in context, the FBI estimates that business email compromises have cost companies more than $5 billion over the past five years.

Given the likelihood of underreporting, the actual figure might be higher. In fact, some empirical evidence suggests that companies withhold information from investors on more severe cyberattacks, especially when management appears to believe that the attacks will not be discovered independently.

V. Role of Auditors

What is the role of the auditor as it relates to these and other cybersecurity threats facing our financial reporting system?

a. Limited but important role

First, let's level set.

Today, based on our current standards, an auditor of public company financial statements plays an important, but limited, role with respect to cybersecurity.

The auditor does not broadly evaluate the company's overall cybersecurity risk or the design and effectiveness of operational and other non-financial controls adopted by the company to mitigate that risk.
Instead, as it relates to cybersecurity, the auditor focuses on information technology (IT) that the public company uses to prepare its financial statements.

The auditor also focuses on automated controls around financial reporting, such as the controls around the reliability of underlying data and reports.

When doing integrated audits, the auditor also separately evaluates those companies' internal controls over financial reporting (ICFR).

With respect to cybersecurity disclosures by a public company, the financial statement auditor plays two distinct, but likewise limited, roles.

For cybersecurity-related incidents reflected in the financial statements themselves, the auditor evaluates whether those statements taken as a whole are fairly presented in accordance with generally accepted accounting principles, in all material respects.

For example, if a company establishes a material contingent liability for an actual cyber-incident, then the auditor would need to evaluate, in the overall context of the financial statements, the appropriateness of the disclosure of that liability in the footnotes to those statements.

The auditor plays an even more limited role when cyber-related information is not contained in the financial statements themselves but elsewhere in a company's annual report.

Here the auditor need not corroborate the information in the report. Instead, the auditor need only read and consider whether the cyber-related information in that report, or its presentation, is a material misstatement of fact or materially inconsistent with the information in the financial statements.

b. Risk assessments

Can auditors do more?

Unless an organization runs entirely on manual processes without using technology or the internet, I believe auditors should consider cybersecurity as part of their audit risk assessment.

While Benedictine nuns and monks in a monastery atop a mountain copying the Bible by hand on vellum, using quills, and natural-made inks comes to mind, few other enterprises are totally devoid of cybersecurity risk, particularly public companies.
We know some auditors are laser focused on cybersecurity and have taken steps to specifically consider cyber when assessing the risk of material misstatements in the financial statements of public companies.

Whether or not a cyber-incident has occurred, during the planning process an auditor must perform a risk assessment, and I believe that assessment should consider any cybersecurity risks that could have a material effect on the company's financial statements.

If the auditor identifies a risk related to cybersecurity that could have a material effect on a company's financial statements, the auditor should then design and execute procedures to address those risks.

For an integrated audit, this work would include testing relevant controls.

To begin the risk assessment, an auditor must obtain an understanding of the company and its external and internal environment.

This understanding, of course, includes the company's IT systems relevant to financial reporting, along with any related subsystems.

This also includes understanding the potential access points into these systems, as well as the logical access controls over the systems.

As part of the risk assessment, I believe the auditor should also understand the methods used by the company to prevent and detect cyber-incidents that could have a material effect on the financial statements: the company's processes that block and identify attempted unauthorized transactions or access to assets, as well as employees' familiarity with those processes.

Other areas of focus should include the company's processes to assess and address material cyber-incidents once identified.

This includes understanding, for example, how the company ensures timely evaluation and reporting up the management ladder of material cyber-incidents.

It also includes how the company ensures appropriate escalation to the board and timely consideration of disclosure obligations to investors and others.

When performing these risk assessments, I encourage auditors to think broadly. Why? As companies become more and more digitally linked with their vendors, customers, and employees, the potential entry points and attack surfaces multiple.

We also know that threat actors usually target the weakest link to gain entry, a website or an email account. And once inside, threat actors typically seek to move laterally throughout an organization's IT architecture looking to gain access to systems they can exploit.

As a result, an auditor should be clear-eyed about the risk that attackers can operate under the guise of legitimate users, ultimately accessing a company's systems or subsystems that support the financial reporting process.

c. Responding to cyber-incidents

Even if a specific cybersecurity incident has not been identified, it is important for an auditor to remain professionally skeptical throughout the audit. Why? According to a recent study, the average time to identify a breach is 196 days – more than six months.

Therefore, a real possibility exists that a breach has occurred and has not yet been identified or disclosed to the engagement team.

What is the auditor's responsibility if a company experiences a cyber-incident? Of course, the auditor must assess the nature and extent of the breach, including what was stolen, altered, or destroyed.

The auditor should also consider the expected effect of the breach on the company's operations. Armed with this information, the auditor should consider the financial implications of the breach.

The financial effects could include the loss of revenue from disrupted operations and the costs associated with securing, reconfiguring, and replacing systems.

Costs could also include the fees associated with conducting forensic inquiries and defending against enforcement investigations and civil actions, as well as the payment of regulatory fines and monetary penalties to harmed private parties.

Beyond that, the auditor should also assess whether the incident resulted from a deficiency in the company's internal controls over financial reporting and whether the company has put in place procedures to prevent similar future incidents.

The auditor should also explore with management and the audit committee the nature and type of disclosures that the company is considering in its financial statements or the notes to those statements.
The auditor's obligation to assess the risk of material misstatement continues throughout the audit.

Therefore, if during the audit, the auditor obtains information about a cyber-incident, then the auditor should evaluate whether that incident has an effect on the previously performed risk assessment.

If so, the auditor would need to revise the risk assessment and appropriately modify the planned audit procedures; potentially performing additional procedures.

Regardless of the effect on the risk assessment, the auditor would need to document relevant considerations of the cyber-incident on the audit.

Finally, even when a cyber-incident may appear not to be material to the financial statements, if the auditor becomes aware of a possible illegal act related to the incident, the auditor would need to assure themselves that the company's audit committee was adequately informed as soon as practical.

Such an instance could occur if management, notwithstanding a legal requirement, failed to timely disclose a breach of customers' personally identifiable information.

VI. Conclusion

Cybersecurity represents one of the most significant economic, operational, and national security threats of our time. It is a key risk to investors and our capital markets as well.

So, how do we respond? One thing is for sure: We all must take responsibility. The government, private institutions, and individuals each share responsibility for protecting our individual and collective assets and each other from cyber threats.

Public companies and their officers and directors have important roles as well. So do auditors.

Thank you for giving me the opportunity to share my views on this important topic.

Risk sharing, flexibility and the future of mortgages

Stephen S Poloz, Governor of the Bank of Canada, to the Canadian Credit Union Association and Winnipeg Chamber of Commerce, Winnipeg, Manitoba

Introduction

When people think about the Bank of Canada, the first thing that comes to mind is usually interest rates. But we do have other responsibilities, including issuing safe and secure bank notes-such as the new $10 note, which features Viola Desmond and Winnipeg's spectacular Canadian Museum for Human Rights, and which was just named the best new bank note in the world for 2018.

Another of our core responsibilities is ensuring that Canadians can conduct their affairs in a safe and efficient financial system. As one of the pillars of that system, Canada's credit unions share in this responsibility.

By safe, we mean a system that is resilient to risks, and where those risks are shared in a desirable way. By efficient, we generally mean competitive, and credit unions bring an important competitive edge to Canada's financial marketplace.

The forces of competition drive pricing for financial services, but they also drive consumer choice in financial services. More choice means more flexibility and a greater ability to adjust when conditions change.

This concept of flexibility is very important to the functioning of our economy, and therefore important to us at the Bank of Canada.

The most important financial decision most Canadians make is the decision to purchase a home and to take out a mortgage in order to do so. After you sign on the dotted line, circumstances can change, posing risks for borrowers, for lenders and for the financial system as a whole. Financial flexibility and optimal risk sharing can help people adapt to changes in their circumstances and help the overall economy adjust to shocks. Recent changes to our mortgage system have brought these issues to the fore in public debate.

In my time with you today, I want to talk about how Canada's housing markets have been adjusting to economic forces and recent administrative changes. I will then speculate on how our mortgage market could evolve to offer more choice for Canadians, more flexibility for the economy and less risk overall.

Recent developments in housing

We do not have a single housing market in Canada; rather, we have several regional markets. Each has certain national forces in common-such as changes to mortgage lending guidelines and past increases in interest rates-but each also has unique local influences on supply and demand, including provincial and municipal housing policies.

For the past four years we have been following three different housing stories here in Canada. In Alberta and Saskatchewan, we have seen a significant slowdown in housing coupled with falling prices, as the economy works through adjustments to lower oil prices.

In sharp contrast, we saw housing booms in Toronto and Vancouver, both of which were experiencing strong population and employment growth and supply constraints on new housing. Low interest rates were of course supporting strong housing demand.

Rising house prices fuelled even stronger demand, as first-time homebuyers feared missing out. Foreign buyers were attracted to both markets, adding more fuel. All this helped create extrapolative expectations that prices would keep rising rapidly, a situation that was clearly not sustainable.

The third housing story-taking place everywhere else-attracted little attention because it basically looked normal, driven by solid employment growth and historically low interest rates.

Since early 2016, policy-makers in Ontario and British Columbia have implemented a series of provincial and municipal policies to discourage foreign buying and speculative activity.

Policy-makers at the federal level-including the Office of the Superintendent of Financial Institutions (OSFI)-expanded the use of interest rate stress tests on mortgages in both 2016 and 2018. And, with the economy growing strongly, the Bank of Canada began raising interest rates to keep inflation on target. In the wake of all these developments, housing resale activity has fallen sharply in Vancouver and Toronto.

Last month, the Bank published staff research that attempts to untangle the factors behind the huge run-up and subsequent drop in housing activity. It is important to do this because we need to understand well the sensitivity of the economy to higher interest rates. We believe that sensitivity has gone up because of the debt loads people are carrying.

Our research shows that the big rise and fall in housing resale activity in British Columbia and Ontario can mostly be explained by shifts in house price expectations.

When house prices are rising rapidly, people tend to extrapolate that experience and buy houses early to avoid further price increases, or to profit from them if they are speculators. In other words, markets become frothy.

However, when those price expectations are revised down, demand for houses can cool suddenly. And this is what has happened.

The trigger could be anything, including new taxes on foreign buyers, stricter mortgage guidelines, rising interest rates, or simply that rising prices create an affordability roadblock for more and more people.

What we take from this is that it is not higher interest rates and changes to mortgage lending guidelines that have had the greatest effect on housing demand. Rather, it is their interaction with froth that matters most. How much a housing market adjusts depends on how much froth there is.

Supporting this conclusion is the fact that many other markets across the country look quite healthy. Resale activity has been solid in places as diverse as Halifax, Moncton, Montréal, Ottawa and, more recently, right here in Winnipeg.

This is what we would expect in an economy that is growing, with a rising population and strong labour market, and when interest rates remain very low by historical standards.

Meanwhile, housing markets continue to struggle in Alberta and, to a lesser extent, Saskatchewan. The primary cause appears to be the ongoing process of adjustment to the 2014-15 oil price shock, as well as the renewed weakness we saw late last year.

Before 2014, people and businesses were making long-range plans based on continued high oil prices. A lot has changed since then. Most importantly, US oil production has expanded dramatically, causing many to revise downward their long-term expectations for world oil prices.

Companies have reduced their investment budgets and worked to reduce their costs. Ultimately, the adjustments are seen in areas that have real consequences for people, such as layoffs, lower wages and lower house prices.

I do not mean to suggest that the new mortgage guidelines have had no effect on housing markets, for they certainly have. The purpose of these changes was to increase the resilience of our financial system in the face of an extremely high debt load.

The stress test is designed to ensure that new borrowers can still handle their mortgage payments even if their circumstances change, such as a decline in income or a modest increase in interest rates.

Evidence suggests that the new guidelines have been working as designed. The quality of new loans continues to improve, and fewer mortgages are going to highly indebted buyers.

From the house buyer's perspective, the guidelines look like a cut in purchasing power. But many are adapting by buying less expensive housing or delaying their purchase until they have built up more savings.

To the extent that the new guidelines have helped stop the speculative rises in house prices in Vancouver and Toronto, they presumably have also worked to help keep houses from becoming even less affordable.

We conclude from all this that the fundamentals of the Canadian housing market remain solid, and growth will resume once the effects of reduced expectations for house price inflation and the new mortgage guidelines have been absorbed.

Bank staff have also been monitoring the impact of the new mortgage guidelines and higher interest rates on cash flow as households renew their loans.

From our initial look at individual loan-level data in 2019, we see that mortgage payments did not rise for most borrowers who recently renewed a five-year, fixed-rate mortgage.

Despite increases in our policy interest rate, bond yields and mortgage rates have declined this year along with global interest rates.

The Bank will present its complete analysis of housing and other issues in our next Financial System Review, which will be out in a couple of weeks. We will also post information on our Financial System Hub-a section of our website featuring the latest analysis of key financial issues.

Toward a more flexible mortgage market

Given how different the various regional housing markets can be, it is worth looking to see whether Canada's mortgage market could become more flexible, giving people more choices and increasing the economy's ability to adjust.

Canadian homeowners and financial institutions have been well-served by our mortgage market. But it is still important to think about ways to innovate and make a good system better so that borrowers and lenders can make choices that better suit their circumstances.

Of course, there have been innovations in Canada's mortgage market over the years. Mortgage brokers have appeared on the scene. Financial institutions are doing more business online and reducing the time between application and approval.

And mortgages combined with home equity lines of credit, or HELOCs, have become popular.

These give Canadians ready access to the equity they have built in their homes, helping people make major purchases and smooth their consumption over time.

Still, there has been significantly less innovation in terms of the actual mortgage product itself.

We could look at ways to develop a more flexible mortgage market that gives more choice to customers, lenders and investors, while making the market safer and more efficient.

Diversify mortgage durations

One basic idea would be to encourage more diversity in mortgage durations. It is true that most financial institutions offer fixed-rate mortgages longer than five years.

But 45 per cent of all mortgage loans have a fixed interest rate and a five-year term. In comparison, just 2 per cent of all mortgages issued last year were fixed-rate loans with a term longer than five years.

There are historical reasons why the five-year fixed-rate mortgage has been so dominant in Canada. These include legislation from the 1800s that gives borrowers the right to prepay loans after five years without penalty.

This provision means that lenders will charge more for longer loans to guard against the risk of a loan being paid back early. And the trend toward five-year loans was reinforced by the Canada Mortgage Bond (CMB) program, which mainly provides five-year funding for financial institutions.

Still, there are compelling reasons why it would be helpful to make more use of longer-duration mortgages.

From the consumer point of view, a longer term means they face the risk of having to renew at higher interest rates less often-the longer the term, the fewer renewals take place over the life of the mortgage.

Of course, a longer-term mortgage will carry a higher interest rate, but some homebuyers may be willing to pay more to lower their risk.

And a longer-term mortgage might not be much more expensive in the long run depending on the details of the loan and the prepayment penalties that apply.

At a minimum, we could do more to make people aware of the longer-term options that are available-many people I talk to do not know that longer-term mortgages exist.

As a policy-maker, I see how longer-term mortgages can contribute to a safer financial system and more stable economy. Simple math tells you that of all those five-year mortgages, roughly 20 per cent will be renewed every year. That is a lot of households.

If all the mortgages were 10-year loans, only 10 per cent of these homeowners would renew every year.

Another point with longer-term mortgages is that more equity is built up by the homeowner between renewals. This equity position gives the borrower more options at renewal. Therefore, the longer the original mortgage term, the less relevant a mortgage interest rate stress test becomes. In other words, longer-term mortgages shift the risks shared by the lender, the borrower and the system as a whole. All of these dimensions are worth further study.

Develop a private market for mortgage-backed securities

One obstacle to financial institutions offering longer-term mortgages relates to their funding costs. The textbook example of funding is a bank that takes in deposits from customers and turns them into mortgages and other loans. The reality is more complicated.

Many institutions seek out wholesale deposits in addition to their regular retail consumer deposits. The biggest banks also get funding by issuing bonds.

And, since 1987, Canadian institutions have had the ability to issue government-supported mortgage-backed securities (MBS).

A mortgage-backed security lets institutions package mortgages they have made and sell them to other investors. The investors receive the income from the mortgage payments. The proceeds of the sale become funding that the original institution can use to write more mortgages, or for other purposes.

This process is basically invisible to homeowners-they keep making mortgage payments as before.

Current rules say that only insured mortgages can be used in government-supported MBS. Since 2001, the Canada Housing Trust-which was set up by Canada Mortgage and Housing Corporation (CMHC)-has been buying insured mortgages from institutions to use in the Canada Mortgage Bonds that I mentioned a moment ago.

CMBs have been highly successful-more than $230 billion worth of CMBs are outstanding, equal to about 15 per cent of total mortgage debt.

With CMBs and other forms of government support for mortgage financing, the cost for funding insured mortgages is quite low. This has lowered mortgage rates for consumers. However, funding for uninsured mortgages, particularly at smaller banks and mortgage finance companies, is comparatively expensive.

It is true that since 2007, Canadian institutions have been able to fund uninsured mortgages by issuing covered bonds. But it can be difficult for smaller institutions to do so because they do not have the same economies of scale as the big banks.
What is more, OSFI has capped the percentage of covered bonds that any single institution can have among its assets.

So, it could be helpful for both lenders and borrowers for Canada to develop a private market for mortgage-backed securities. This could be a more flexible source of longer-term funding for uninsured mortgages, particularly those issued by smaller banks, credit unions and mortgage-finance companies.

This is an increasingly important point because the market share for uninsured mortgages is increasing, and they cannot be used in CMBs.

Further, CMBs are mostly issued as five-year bonds, matching the dominant five-year mortgage term. If we develop more diversity in mortgage duration, lenders will want different types of funding to help match that. Private MBS could help in this regard.

Finally, private MBS could become another option for investors. Such investors include large institutions like pension funds and insurance companies that need long-term assets to match their liabilities.

They also include mutual funds and, perhaps, regular individuals looking for a fixed-income investment that pays more than a regular guaranteed investment certificate.

There is some momentum in Canada toward developing a private MBS market. However, for these securities to be successful investments, they must be designed carefully.

After all, many people remember that mortgage-backed securities were at the heart of the sub-prime debacle that preceded the global financial crisis over a decade ago.

A private MBS market in Canada would need to be transparent to give investors more confidence about the quality of mortgages they are investing in.

This would allow investors to accept a lower yield, reducing the price difference with regular CMBs. One way to ensure transparency is to develop a public database of mortgages used in securitization.

Ideally, this database would include general characteristics about the borrower, property and loan, and data on how the loan has performed over time. An anonymized database would also preserve the privacy of the mortgage holder.

It is worth pointing out that other jurisdictions, including the European Union, the United Kingdom and Australia, already have this type of arrangement in place or are working toward it.

We hope that all financial institutions in Canada, from the Big Six banks to the smallest credit union, will co-operate here. After all, such a database could benefit all institutions, not just those that might issue MBS.

If institutions can use the information to show how solid their mortgages are, they could lower their funding costs, no matter how they obtain their funding.

New mortgage designs?

The last idea I want to discuss is the design of the mortgage itself. In its most recent budget, the federal government announced the creation of a shared equity mortgage, to be administered by CMHC. The final details will be put in place later this year.

This proposal is intended mainly to address housing affordability for first-time homebuyers by giving them an interest-free loan to add to their down payment. The plan will also promote increased housing supply.

Another interesting aspect of the plan is that it should help improve the resilience of the financial system and improve the economy's ability to adjust to shocks. Although there are many possible variants, this type of mortgage has been analyzed in some depth by two US economists, Atif Mian and Amir Sufi.

Basically, the idea is a rewrite of how the risks around a mortgage are shared between borrower and lender.

Because the mortgage is shared, like equity in a company, the risks are shared.

Of course, a shared equity mortgage does not make risk go away.

The important point is that lenders are better placed than borrowers to carry risk because they can diversify risks across many borrowers.

Borrowers are willing to pay to reduce risk, either through a higher interest rate or through sharing their capital gains or losses with their lender.
In Canada's case, with our strong standards for mortgage underwriting, the net result of such a reallocation of risk would likely be a safer financial system.

Of course, there are many other possible variations on mortgage design, so many that it makes me wonder why so little has happened in our mortgage market in my lifetime.

I hope that some of the innovative spirit that credit unions have shown in the past will be applied to the mortgage market in the future. After all, one of the founding principles of credit unions is the concept of risk sharing.

Conclusion

It is time for me to conclude.

The Bank of Canada's mandate is to encourage a safe and efficient financial system-one that evolves to foster resilience, promote flexibility and allow people to make choices that are right for them.

Housing and mortgages are the heart of our system. The Bank of Canada is continuing to watch closely how housing markets are adjusting to the combination of recent provincial and municipal housing policy changes, the revised guidelines for mortgage lending and past increases in interest rates.

Some previously frothy markets are still adjusting to a significant shift in price expectations, while other markets appear to be operating in a manner consistent with market fundamentals.

As markets stabilize in Toronto and Vancouver, the Canadian housing sector should return to growth overall later this year.

The regional nature of our housing market highlights that all of us should be looking at ways to improve the safety and efficiency of our mortgage market.

More choice for borrowers and more ways for lenders to diversify risks are desirable. To be clear, the system is not broken-it has served Canadians and financial institutions well. But we should not stop looking for improvements. And I invite all of you to join this effort.

I would like to thank Ron Morrow, Jason Allen, Brian Peterson, Adi Mordel and Nigel Stephens for their help in preparing this speech.

Study of the Effects of Size and Complexity of Financial Institutions on Capital Market Efficiency and Economic Growth

Section 123 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203) (the "Dodd-Frank Act") requires the Chairperson of the Financial Stability Oversight Council (the "Council") to carry out a study of the economic impact of possible financial services regulatory limitations intended to reduce risks to financial stability and to make recommendations regarding the optimal structure of any limits considered.

This report has been prepared in response to this mandate.

Section II of this report addresses each of the topics identified in section 123.

Section II.A discusses explicit or implicit limits on the maximum size of banks, bank holding companies, and other large financial institutions.

Section II.B discusses limits on the organizational complexity and diversification of large financial institutions.

Section II.C discusses requirements for operational separation between business units of large financial institutions in order to expedite resolution in case of failure.

Section II.D discusses limits on risk transfer between business units of large financial institutions.

Section II.E discusses requirements to carry contingent capital or similar mechanisms.

Section II.F discusses limits on commingling of commercial and financial activities by large financial institutions.

Section II.G discusses segregation requirements between traditional financial activities and trading or other high-risk operations in large financial institutions.

Finally, Section II.H discusses stress tests and capital and liquidity requirements as other limitations on the activities or structure of large financial institutions that may be useful to limit risks to financial stability.

Section 123 of the Dodd-Frank Act calls for a report to be issued every five years. This report updates the inaugural 2011 report and addresses the literature published over the last five years as well as the regulatory developments and implementation of the Dodd-Frank Act.

The remainder of this overview section reproduces portions of the introduction and historical background sections of the 2011 report with updates as relevant, as these continue to provide context for the developments and the types of costs and benefits of financial regulation discussed in this report.

Introduction

A healthy financial system is essential to economic growth and stability. By mobilizing savings and channeling funds to borrowers, the financial system promotes investment in plant and equipment, new technologies, human capital, and housing.

Banking institutions (including commercial banks, credit unions, savings associations, bank holding companies, and savings and loan holding companies, together referred to as "banks") perform two special roles in the financial system.

First, they engage in maturity and liquidity transformation by investing in long-term, illiquid assets created by borrowers and issuing short-term, liquid liabilities to investors.

Second, they extend credit, using their expertise in screening credit risk ex ante and monitoring borrower behavior ex post to help direct funds to the highest valued uses.

Because of the importance of banks and other financial institutions (including securities firms, investment banks, and other financial intermediaries) in facilitating credit flows, adverse shocks to these firms can have an outsized impact on the overall economy.

Insolvencies of banks and other financial institutions, and investor panic triggered by insolvency concerns, were important causes of the 2007 to 2009 recession; a similar dynamic also contributed to the Great Depression.

These crises also showed the risks posed by under-regulated financial systems.

Maturity transformation, by its nature, exposes banks to credit risk and liquidity risk.

Even in the absence of regulation, investors have incentives to monitor bank behavior and withdraw funds from institutions that are viewed as too risky.

This market discipline encourages banks to limit risk and to hold adequate buffers of capital and liquid assets.

But from a public policy perspective, unregulated banks tend to carry too much risk because they do not internalize the costs that their distress imposes on the financial system.

For example, if one bank is forced to sell a significant amount of illiquid assets quickly, other banks holding similar assets will experience mark-to-market balance sheet losses.

And the failure of one bank can trigger investor concerns about the solvency of other banks that hold similar assets or are counterparties to the failed institution.

Such concerns can trigger runs and pose a threat to financial stability.

Banks do not have a market incentive to incorporate these external costs when weighing the marginal benefits and costs ex ante of holding additional capital or liquidity.

The need to mitigate risks to financial stability is a compelling rationale for financial regulation.

Public credit guarantees and liquidity provisioning—such as deposit insurance and access to the discount window—are essential backstops for preventing bank runs.

However, by reducing banks' downside risk, such backstops can reduce the incentive of investors to monitor bank behavior.

Public backstops must thus be accompanied by regulations, such as limits on activities and minimum capital requirements that are designed to reduce excessive risk-taking.

Financial regulation must strive to limit excessive risk while not hindering efficient financial intermediation.

There are two main channels through which financial regulation can affect the economy.

First, regulations can affect the supply and cost of credit.

Regulation affects credit supply in part through its effect on allocative efficiency.

Ideally, the financial system should equalize the marginal social benefit of credit across different borrowers and should equalize the marginal benefit of credit to its social marginal cost.

Financial regulation can promote allocative efficiency by narrowing differences between marginal costs and marginal benefits, but it can also exacerbate such differences.

Promoting allocative efficiency does not always reduce the cost of credit.

If credit is priced below its social cost, regulation should aim to raise the price of credit.

Regulation can also affect credit supply through its impact on technological efficiency.

Regulations that prevent innovation or preclude banks and other financial institutions from achieving economies of scale or scope may increase the cost of credit.

Second, financial regulation can affect the riskiness of individual banks and other financial institutions and the resilience of the financial system as a whole.

Banks and other financial institutions may take on too much risk if they are not required to account for costs imposed on other institutions in the event of distress, and this tendency is magnified to the extent that public backstops reduce market discipline.

Reducing default risk reduces the expected cost of resolutions and benefits the economy by making financial crises less likely.

Therefore, regulations that reduce excessive risk can benefit the economy and enhance financial stability.
However, poorly designed regulations may unintentionally increase risks to financial institutions or reduce the resilience of the financial system.

The study: https://www.treasury.gov/initiatives/fsoc/studies-reports/Documents/Final%20Section%20123%20Report%20March%2025%202016.pdf

SEC Proposes Amendments to More Appropriately Tailor the Accelerated and Large Accelerated Filer Definitions

U.S. SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission has voted to propose amendments to the accelerated filer and large accelerated filer definitions.

The proposed amendments would reduce costs for certain lower-revenue companies by more appropriately tailoring the types of companies that are categorized as accelerated and large accelerated filers while maintaining effective investor protections.

As a result of the proposed amendments, smaller reporting companies with less than $100 million in revenues would not be required to obtain an attestation of their internal control over financial reporting (ICFR) from an independent outside auditor.

The proposed amendments would not change key protections from the Sarbanes-Oxley Act of 2002, such as independent audit committee requirements, CEO and CFO certifications of financial reports, or the requirement that companies continue to establish, maintain, and assess the effectiveness of their ICFR.

"The proposed rules build on the JOBS Act of 2012 and are aimed at a subset of smaller companies where the additional requirement of an ICFR auditor attestation may not be an efficient way of benefiting and protecting investors," said SEC Chairman Jay Clayton.

"Investors in these lower-revenue companies will benefit from more tailored control requirements. Many of these smaller companies – including biotech and health care companies – will be able to redirect the savings into growing their companies by investing in research and human capital."

The public comment period will remain open for 60 days following publication of the proposing release in the Federal Register.

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To read more:
https://www.sec.gov/rules/proposed/2019/34-85814.pdf

Evidence-based policy - potentials, infrastructures and the role of international organizations

Speech by Prof Claudia Buch, Vice-President of the Deutsche Bundesbank, at the School of International Studies (ZIS), Dresden.

The paper has been prepared for the symposium on the occasion of the 20th anniversary of the studies of international relations at the University of Dresden. It has benefited greatly from comments and inputs by Edgar Vogel and Regina Riphahn. All errors and inconsistencies are my own.

1 The Role of Evidence-Based Policy

Policy decisions in today's world have to be taken in a dichotomous state between good evidence and public distrust in expert opinion.

On the one hand, the conditions for evidence-based policy have seen excellent progress.

Availability of and access to high-quality data have improved, academic research provides a range of methodologies to conduct causal impact assessments, academic curricula incorporate these methods, and administrations are staffed with highly qualified personnel.

Overall, trust in scientists appears to be strong. Surveys for the US show that trust in scientists has been at a fairly high and stable level since the 1970s.

Surveys for the US and the UK reveal areas where the public trusts scientific experts more than the government. Most importantly, trust is not only inspired by the perceived quality of policy outcomes: rather, citizens want a transparent and objective decision-making process.

On the other hand, trust in governments and political institutions in particular seems to have eroded since the Global Financial Crisis. Many public policy debates are characterized by skepticism via-a-vis experts and expert knowledge.
Populism is on the rise in many countries. 83% of the respondents to a Eurobarometer poll see "fake news" and online disinformation as a threat to democracy.

Against this background, evidence-based policy is an undogmatic concept. Rather than taking a normative approach to policy, it adopts a positive perspective: Defining policy objectives remains within the realm of the democratic policy process.

But, given the policy objectives, better evidence can contribute to selecting the right policy instruments, assessing the impact of these instruments, and potentially, revising them.

The potential benefits of applying good analysis to problems facing today's societies are in fact large. Historically, the interaction between scientific knowledge, policy-making, and entrepreneurial activity catalysed by the Enlightenment has brought significant improvements in human well-being.

Notwithstanding the huge challenges facing us globally in terms of inequalities, environmental risks, climate change, and global tensions, societal conditions have improved across many dimensions. Improving information on which to base policy decisions thus promises large potential gains.

However, putting evidence-based policy into practice is a challenging task and requires efforts and contributions from several stakeholders.

The remainder of this text presents examples of evidence-based policy, discusses the role of international institutions in facilitating evidence-based policy, and presents thoughts on how setting up the right infrastructures can reduce the costs of evaluations and improve their quality.

2 Evidence-based policy can "work"

One way to promote an evidence-based agenda is to show that evidence-based policy in fact works and that its challenges are common to many fields. Here are three examples from financial regulation and supervision.

a) Evaluation of financial sector reforms

The global financial crisis has exposed the fault lines in the regulatory system for financial markets. In 2011, G20 members thus agreed on reforms addressing the "systemic and moral hazard risks associated with systemically important financial institutions".

Policies have been implemented in order to improve loss absorbency and resilience, recovery and resolution, and supervision.

These reforms target more narrowly defined objectives - by focusing on the responses of individual banks - and more broadly defined objectives in terms of aggregate outcomes such as the functioning of financial markets.

Many of these reforms have been implemented to date, and a first evaluation of their effects becomes feasible. Such evaluations have to take a structured approach in order to balance an assessment of costs and benefits, and to take a societal rather than private perspective.

What appears to be a cost of financial regulation to individual market participants may well be of benefit to society overall by making the system more efficient and resilient.

As an instrument to operationalize such complex evaluation projects, the G20 leaders endorsed a framework for the post-implementation evaluation of G20 financial regulatory reforms in 2017.

The framework provides an umbrella for the Financial Stability Board's (FSB) policy evaluation projects and serves as an orientation for the practical conduct of post-implementation evaluations. It rests on two pillars.

First, the framework contains provisions regarding the decision-making process and the interaction of relevant stakeholders such as regulators or market participants. This is an important element of transparency and accountability of the FSB.

Second, the framework provides guidance on analytical aspects of evaluations and engenders a common understanding of what constitutes "good" evaluations and robust evidence.

Regarding analytical guidance, the framework stipulates that each FSB evaluation should answer three key questions.

First, did the reforms "cause" an outcome ("Attribution")?

Second, did the reform have similar effects across markets, states of the world, or jurisdictions and regions ("Heterogeneity")?

Did the reform achieve its overall objective ("General equilibrium")?

In the spirit of the undogmatic concept outlined above, the answers to these questions should provide detailed information to policymakers on the impact of their policies on observed economic outcomes.

They should enable informed policy discussions without pre-empting decisions regarding adjustments of policies.

The first two evaluations under the framework were delivered to the G20-Summit in November 2018.

The first project investigated to what extent post-crisis reforms incentivized central clearing of OTC-derivatives. The second project evaluated the effect of reforms on the financing of infrastructure.

More projects are underway.

An evaluation of reform effects on SME financing will be delivered to the G20-Summit this year with a consultation report published soon - open to comments from all stakeholders. Another project considering the FSB's reform agenda on ending Too-Big-To-Fail (TBTF) has just started.

This evaluation project will assess whether reforms are effective in reducing the systemic and moral hazard risks associated with systemically important banks. It will also examine the broader effects of the TBTF-reforms on the overall functioning of the financial system. The final report is scheduled for the G20-Presidency in 2020.

b) Macroprudential policy

Macroprudential policy is a relatively new policy field. Its goal is to preserve financial stability and to prevent the build-up of systemic risk that may have adverse effects for the functioning of the financial system and for the real economy.

New institutions have been tasked with the implementation of macroprudential policies, and new policy instruments have been introduced.

Nonetheless, uncertainty about the state of the financial system and the effects and effectiveness of these policy instruments is high. This uncertainty entails two risks: the risk of acting too late (inaction bias) and the risk of choosing an inappropriate instrument or inadequate calibration.

Both risks can be mitigated if macroprudential policy is embedded in a structured policy process. Such a policy process involves four steps.
In a first step, the policy objective(s) of macroprudential policy need to be specified. Macroprudential authorities use different definitions of the policy objective, but all aim at reducing systemic risk arising from externalities for the functioning of the financial system.

In a second step, intermediate objectives need to be specified, and appropriate indicators need to be chosen. Intermediate objectives are

linked to the drivers of systemic risk such as leverage, risk-taking incentives, connectedness, or exposure to common shocks.

In a third step, the activation or recalibration of policy instruments that address systemic risk externalities needs to be considered.

The decision on whether and how to activate policy measures should be based on a structured process of ex-ante policy evaluation.

Such an ex-ante evaluation provides information about the relative performance of different instruments in contributing to reducing systemic risk. In a fourth step, and once sufficient time has elapsed, the effects of the instruments need to be assessed in an ex-post evaluation.

This step provides information about the effectiveness of the measure(s) taken, about intended or unintended side effects, and it also serves as an input into a possible recalibration of the policy instruments. In a nutshell, this is what the FSB evaluations mentioned above is about.

The macroprudential regulation of residential real estate markets in Germany is a good example for how the macroprudential policy cycle can be put into practice.

Currently, macroprudential instruments for the real estate market in Germany are not activated. Before activation of an instrument, authorities are required to perform an in-depth ex-ante evaluation.

The analysis should quantify the expected impact, for instance on the resilience of the financial system or on credit markets.

The output of such an analysis should inform the calibration process and provide an assessment of the expected costs and benefits.

After activation of the instrument, a compulsory ex-post evaluation should provide not only information on the instrument's effectiveness but also on potential unintended consequences.

The results from this step can then feed into a potential re-calibration of the instrument.

c) Learning from other policy areas

With initiatives such as the one by the FSB, evidence-based policy has become part of the policy process in the area of international financial regulation.

There are other policy areas and international initiatives which can inform this process - with regard to potential avenues to success and pitfalls to be avoid.

In order to promote learning from other policy areas and to facilitate a structured dialogue between policymakers and academia, the German National Academy of Science Leopoldina, in cooperation with the Deutsche Bundesbank, organized a workshop in 2018.

Here are examples of issues that were addressed in this workshop.

In Germany, the Federal Ministry of Finance has been conducting so-called "spending reviews" since 2018; analysing revenues and spending decisions and scrutinizing their effectiveness and efficiency.

The German National Regulatory Control Council has developed a concept for structuring ex-post impact assessments applying to all funds spend by the federal government and, more recently, argued in the favor introducing quality standards for such evaluations.

An area in which policy evaluation in Germany has advanced most are labor market reforms.

In the early 2000s, the German government embarked on comprehensive labor market reforms aimed at reducing unemployment, improving access to work, making new job relationships more sustainable, and enhancing the efficiency of the employment agencies.

Public interest in a deeper investigation of the effects of these reforms was sparked by persistently high unemployment rates and the perceived ineffectiveness of policy.

There were a number of critical factors that affected evaluations of these policies.

First, the evaluation was designed with a view to providing a systematic and broad overview.

Second, academic research had a range of appropriate tools available, making it possible to provide robust results within a reasonably short time-span.

Third, a mandatory reform evaluation was enshrined in law. Finally, a common concept developed by participating research institutions provided guidance on practical and analytical aspects of the evaluation.

Another example of evidence-based policy is the "What Works" Network, an initiative launched by the British government in 2013.

The network consists of independent What Works Centres and affiliate members. The What Works Centre for local economic growth, for instance, analyses which policies are most effective in supporting local economic growth.

In practical terms, it reviews and summarizes existing evidence in meta studies, builds databases on relevant work or provides guidance to practitioners on how to meaningfully approach evaluations, for example by providing technical training, supporting piloting and testing local economic schemes or developing case studies which portray particularly useful evaluation techniques.

3 The role of international organizations

Evidence-based policy promises huge gains - better policies at potentially lower costs. But evidenced-based policy is not a holy grail. It does not overturn the political dynamics that shape policy discussions. However, it does promise a better, more structured, and more informed policy debate.

At the national level, electoral cycles have a tendency to work against a structured evaluation of policies. Good institutional design at the national level can thus serve to sustain policies and to ensure bi-partisan support to evaluations.

The advantage of entrusting independent institutions with evaluations is that they can operate outside the perimeter of day-to-day pressure from political debates.

At the same time, the further away responsibility for policy evaluation is placed from the political discourse, the more political accountability becomes an issue.

One mechanism that can be used to overcome this concern is enhanced transparency: public consultations, transparency with regard to evaluation methods, replicability of studies, and clear responsibilities are mechanisms to ensure transparency and thus credibility.

International organizations have an important role to play as well. They can enhance transparency about evaluations and institutional designs. Rather than getting involved in detailed discussions about national policy design - where national constituencies may question their democratic legitimacy - international organizations can help setting up evaluation

frameworks and policy structures. This can be part of their surveillance work.

For instance, the European Commission's "Better Regulation Guidelines"17 provide guidelines on how the impact of EU-regulations should be evaluated. The OECD has published a framework for regulatory policy evaluation.

Obviously, objective cross-country evaluations are challenging, if not infeasible. Can we compare the effects of policies that have been implemented with very different objectives and under very different institutional settings? Despite these hurdles, benchmarking and improving information on evaluations is a low-hanging fruit.

International organizations provide a range of indicators. However, information on the share of the underlying policy programs that are subject to evaluation is not easily available. A survey run by the OECD shows that members have progressed in making regulatory policy more fact-based. Ex-post evaluation has, however, not always become second nature to institutions involved in the design of regulatory policies.

An additional important task for international organizations can be the establishment and maintenance of repositories of evaluation studies. Repositories provide a compact overview of relevant evaluation work in a certain field. Tailored keywords and meta-information allow narrowing down the set of studies to be considered.

In this way, repositories provide relevant information for academics, policymakers, the public, journalists, and industry. This facilitates more efficient evaluation work in the official sector (including international organizations), for academic researchers, and the industry.

Repositories are well-established in some fields such as medicine, where the Cochrane Library or the McMaster Health Forum20 provide structured evidence on medical research, also by compiling meta-studies. Similarly, in the field of development economics, the International Initiative for Impact Evaluation (3ie) collects information on the effects of policies and programs in development economics.

The J-PAL initiative does the same in the case of poverty-reduction projects. The OECD's International Network on Financial Education (INFE) is a platform that facilitates the exchange of experiences on policies promoting financial education.

It does so by collecting data and developing comparative reports. Finally, the Bank for International Settlements (BIS) recently launched a "Financial Regulation Assessment: Meta Exercise (FRAME)", which enhances the

transparency of existing studies and improves efficiency in terms of collecting relevant information.

4 Infrastructures supporting good evaluations

Many projects and initiatives show that policymaking can benefit from sound evaluations and from making the best use of available knowledge.

Evidence-based policy can help improve and continue successful policies, while finding negative or unintended consequences can point to areas for improvement. But evidence-based policy comes at a price.

Rigorous evaluations take time, and they require input of human resources and data. Not least, evaluations require good communication on how to interpret findings and how to put them into perspective.

These costs of evaluations can be reduced by setting up the right infrastructures:

Legal mandates and administrative procedures: There will be a natural tendency of policy evaluations to be in a time and resource conflict with other administrative tasks.

Moreover, unless clear procedures for evaluations have been established, political considerations may dominate the administrative agenda.

Against this background, establishing and strengthening legal mandates for mandatory evaluations can overcome political biases and the tendency toward inaction.

Clear legal mandates can help to identify and agree on policy objectives, indicators, and benchmarks upfront. And they help to embed procedures for policy evaluations into mandates and day-to-day work of administrations, thus helping to avoid conflicts with other tasks.

Repositories and information platforms: Generating, using, and adapting evaluation projects will happen more easily if relevant information is readily available.

One way to facilitate the flow and exchange of information are repositories of evaluation studies.

In addition, an important prerequisite for improving the dialogue between researchers and policymakers is that each side should learn to "speak the language" of the other side, at least to some extent.

This requires clear communication of research results and methods, and the translation of high-level policy objectives into measurable indicators.

Data infrastructures: Evaluations require good data, but data infrastructures can be costly.

The costs of acquiring data can be minimized if data are collected early on and, ideally, if data needs are considered when drafting new legislation.

Notwithstanding the key importance of ensuring strict data confidentiality, broad use of the available data will help to improve the quality of evaluations.

Managing incentives: Ultimately, policy evaluations will be used routinely only if the right incentives for conducting them are in place.

Administrations can be incentivized to conduct evaluations through institutional structures which are conducive to evaluations and legal mandates to evaluate policies.

The incentives of researchers will depend, ultimately, on the research community's criteria for assessing the quality of academic work.

Giving researchers access to data can be an incentive to cooperate. But the academic community can do more: rewarding replication studies can provide additional incentives to cooperate.

Bringing more and better evidence into political decisions is beneficial to society. To make progress, we need commitment from and an open and continuous dialogue with all stakeholders.
The more we can build on available infrastructures, the lower the costs of evaluations will be, and the better we can learn from past experience.

Good policy design and good institutions may, ultimately, increase transparency and accountability, thus countering skepticism about "expert" projects.

Stylish regulation

Sam Woods, Deputy Governor for Prudential Regulation of the Bank of England and Chief Executive of the Prudential Regulation Authority (PRA), at the UBS Financial Institutions Conference, Lausanne.

I met recently with the head of a large foreign bank, who was in London following a visit to the continent.

He had been advised by some of our EU colleagues that with the departure of the UK from the EU, the British public would become alarmed at the size of the financial sector relative to the size of the economy and would therefore demand ever-tougher financial regulation in order to assuage their sense of unease.

Thus it was put to him that it would be sensible for him to move more of his operations to Paris, Frankfurt or Dublin, where things would be easier.

A noisy pro-Brexit demonstration taking place in the next door street seemed to support his case.

But I told him that I thought it somewhat unlikely that the public would take much interest in the size of the financial sector unless it blew up again, and that ten years on from the financial crisis we have largely implemented the reforms and are moving into more of a business-as-usual phase.

I said that we more often heard the opposite concern from EU officials in the context of Brexit - that having escaped the "shackles" of EU regulation we would embark on a course of weakening financial regulation in a way that makes the financial system less resilient.

This, needless to say, would be anathema to the Prudential Regulation Authority and to all of us who have spent the last decade repairing the financial system.

So as far as the stringency of financial regulation goes, we at the Bank have a clear view of what would make sense for the UK in a post-Brexit environment: we should keep it calibrated roughly where it is now and have no desire whatsoever to weaken it.

And despite inevitable tensions between regulator and regulated, my impression is that at the most senior levels most of the people running banks and insurance companies in the UK today would agree with that position, and that it also has support in the Government and Parliament.

We need to keep pace with new developments and continually patch any weak parts of the regulatory system, but overall following 10 years of wrenching reform we should let the new architecture do its job.

But what about the style of regulation in a post-Brexit world?

To read more: https://www.bis.org/review/r190517g.pdf

EU Elections Update: The Long Game

With the European parliamentary elections approaching in less than a month's time, we devote this week's Disinfo Review to a brief summary of the ongoing disinformation trends surrounding the elections.

First, a reminder: Russia's disinformation campaign against the EU – and by extension, its electoral process – has been underway for five years. It is not a new feature of the European political landscape.

The Kremlin's efforts to undermine public support for the EU, promote populist and Eurosceptic parties and candidates, increase polarisation and fragment European unity began in earnest in 2014, and have not relented since.

Russia is playing a long game in Europe: its objective is not merely to influence the outcome of any particular election, but rather to broadly subvert the efficacy of our democratic institutions, fuel widespread social fragmentation and mistrust, and ultimately paralyse our ability to act in our own self-interest and to defend our values.

The Snowball Effect

Using various tactics and disinformation narratives, the Kremlin has been sowing the seeds of this discontent now for nearly half a decade.

It has habitually supported populist, anti-EU parties and candidates on both the far right and the far left, attacked the integrity of mainstream politics and media, and emphasised the illegitimacy and futility of elections in a system it alleges to be fundamentally corrupt.

Through these efforts, the Kremlin has empowered and amplified other venal and anti-democratic actors to grow their influence in Europe, creating a snowball effect for its anti-Western agenda.

Due to this meticulous groundwork and the long-term integration (and normalisation) of anti-EU narratives in the public sphere, the Kremlin's attempted manipulation of the EP elections looks far less sensational than other more infamous cases, such as #MacronGate or the 2016 US presidential election.

But this doesn't mean that no manipulation is taking place – on the contrary, the pro-Kremlin media continues to persistently attack the EU, its values, and its democratic mandate whilst simultaneously promoting Eurosceptic voices.

For example, Sputnik systematically features interviews with and updates of anti-EU parties as well as their candidates and positions.

Sputnik Poland headlines anti-EU politicians, giving them space and promoting their narratives, while Sputnik Italy has given exclusive attention to the national-conservative Fratelli d'Italia (Brothers of Italy) party.

Questioning the legitimacy of European elections on grounds of corruption and the EU's alleged capture by special interests is another common trope aimed at discouraging voter turnout.

To read more:
https://euvsdisinfo.eu/eu-elections-update-the-long-game/

https://euvsdisinfo.eu/methods-of-foreign-electoral-interference/

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