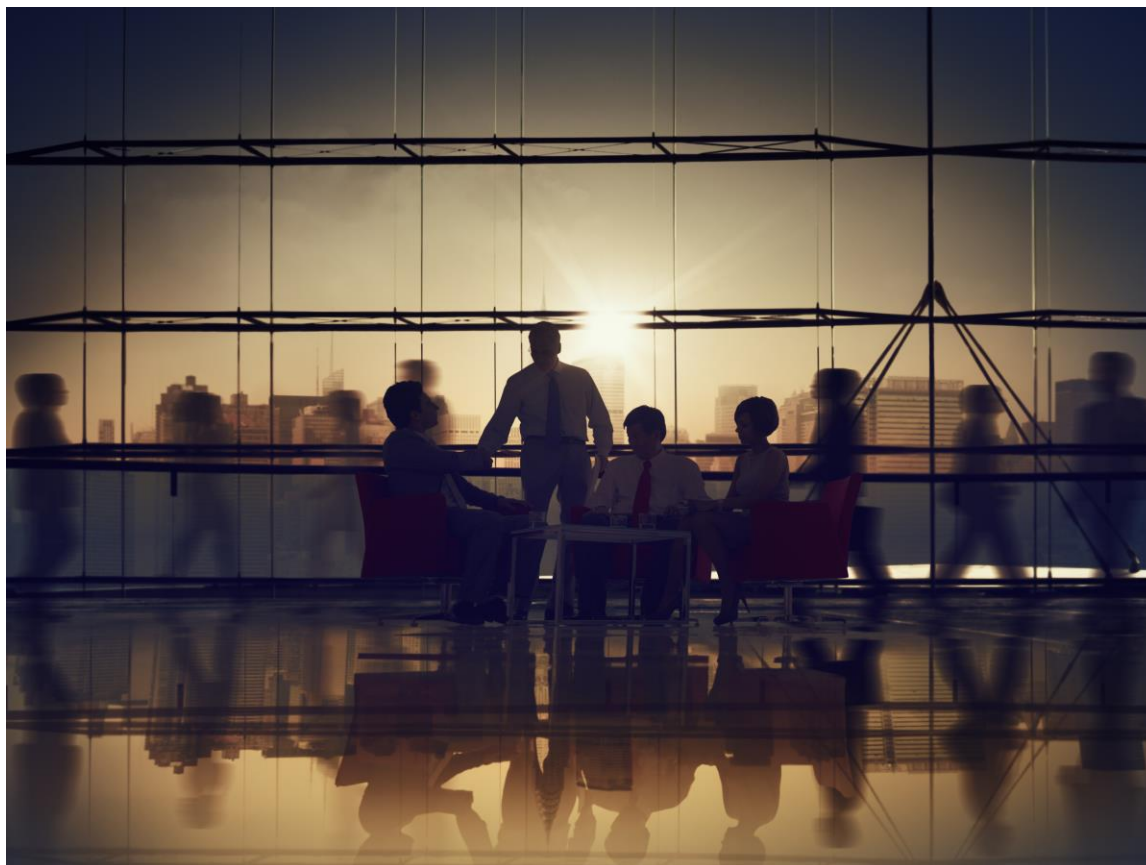


International Association of Potential, New and Sitting Members  
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*News for the Board of Directors, April 2021*

Dear members and friends,

Today we will start with the BIS Working Paper No 932.

**Macroeconomic consequences of pandexit**

by Phurichai Rungcharoenkitkul, Monetary and Economic  
Department



*Abstract*

This paper proposes a quantitative framework to analyse the interactions between epidemiological and economic developments, and assesses the macroeconomic impact of managing the late stage of the Covid-19 pandemic.

The framework features a susceptible-exposed-infectious-recovered (SEIR)-type model that describes the pandemic evolution conditional on society's mobility choice, and a policy unit that chooses mobility optimally to balance lives and livelihood objectives.

The model can be matched to daily data via a fast and robust empirical procedure, allowing a timely policy analysis as situations evolve.

As of 10 March 2021, the projected median output loss across 27 advanced and emerging market economies in 2021 is about 21/4% of pre-pandemic trends.

This projected outcome hinges on a sustained progress in vaccination and no major epidemiological setbacks. Vaccination impediments or a third-wave surge in infection rate could raise median output loss to 3 – 33/4%.

In the most severe scenario, virus mutations that compromise existing immunity could require more protracted lockdowns. In this case, median output loss may reach 5% in 2021 alone, with further repercussions in subsequent years.

### *Introduction*

The Covid-19 pandemic is both a global health and economic crisis. As of 10 March 2021, more than 2.6 million lives have been lost to the disease, more than one million of which occurred since December 2020 as a result of a second wave of infections.

Authorities around the world have put in place drastic measures to restrict human interaction and curb the virus spread, extending them as needed to suppress a resurgence of cases.

These measures, while necessary from a public health standpoint and enacted as a means to end the crisis, have led to macroeconomic consequences of truly historic proportions.

Output losses during the `great lockdown' of 2020 are as high as 8% on average, exceeding even the sharp contraction associated with past financial crises.

The macroeconomic damages are higher still for those reliant on the most affected sectors, such as tourism and services.

The arrival of vaccines in late 2020 ushered in a new phase of the pandemic and opened up the possibility of a quick and smooth `pandexit'.

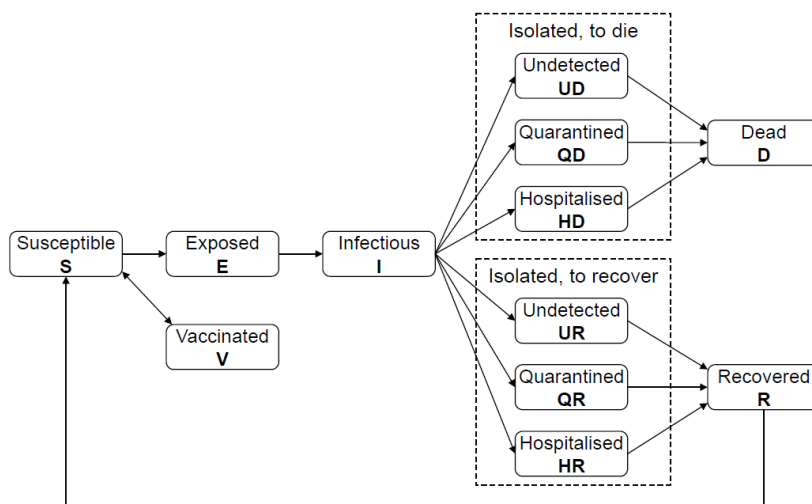
After showing high efficacy in trials, several vaccines are being quickly rolled out in a number of countries, particularly in advanced economies that have secured most of the available dosages.

At the same time, significant challenges and risks remain in the months ahead. If the production and take-up of vaccines disappoint, economic activity could suffer again.

Virus mutations could also present unpredictable new challenges, possibly negating the effects of vaccines.

Should these downside risk scenarios play out, what would be the resulting macroeconomic consequences? How long should lockdowns and mobility restrictions be expected, and to what extent? These questions are of first-order importance for macroeconomists and those in charge of fiscal, monetary and regulatory policies.

To read more: <https://www.bis.org/publ/work932.pdf>



Note: Boxes represent 12 key states of the SEIR model, with arrows denoting the direction of population flows between states. See Table 1 for further explanation of notations.

## Integrating information and financial systems- beyond as-a-service

Haruhiko Kuroda, Governor of the Bank of Japan, at the FIN/SUM 2021



### *Introduction*

I am delighted to be given this opportunity to speak to you at the FIN/SUM 2021 through a video message.

### *Rise of As-a-Service*

The main theme of this year's FIN/SUM is "Fintech as a Service, in search for a platform for digitalized society." The term "as-a-Service," appearing more frequently nowadays, seems to indicate servitization of product functions or, to put it simply, a business model for providing "services" on customer demand, instead of "sales" to sell products out to customers.

For example, a software service used to consist of a combination of purchase and usage. In the internet society, however, we only have to call for necessary services when they are needed. When we make a restaurant reservation on a smartphone, we only receive a reservation service.

As for business activities, various business applications are available - for services such as accounting, ordering and invoicing, customer management and sales support, and human resources and labor management - as Software as a Service (SaaS) to be called on demand.

These developments are not limited to software. Various types of as-a-Service are appearing one after another, partly with the shift toward a service economy.

These include Mobility as a Service (MaaS) - where a user purchases a mobility service instead of owning a car - and Infrastructure as a Service (IaaS) - where a user purchases a service to use IT infrastructure, including servers, instead of owning the hardware. These are sometimes collectively referred to as "Everything as a Service" (XaaS).

### *As-a-Service in Finance*

The trend of as-a-Service is also emerging in Finance.

The financial businesses of banking, securities, and insurance are industries that require large fixed costs and strict compliance with regulations. For this reason, instead of recreating financial businesses from scratch, it has become mainstream for fintech providers to utilize deposit and loan services of traditional financial institutions through an open Application Programming Interface (open API) to create new customer services and convenient and comfortable user experiences.

The bearers of these services are wide-ranging. They are not limited to startups but include large firms with core businesses in telecommunications, media, transport, and electronic commerce and internet business firms who are managing touchpoints with a large-scale customer base.

Conversely, there are also financial institutions that actively adopt services of fintech providers. As for Fintech as a Service - the theme of this year's FIN/SUM - there are cases where financial institutions utilize the advanced electronic know-your-customer (e-KYC) and fraud detection services of fintech providers in their applications.

There is also a recent trend toward unbundling financial services that financial institutions used to provide as tightly coupled, thereby enabling componentized financial services to be combined with services of non-financial firms.

This is referred to as "Banking as a Service" (BaaS), also known as embedded finance. It allows, for example, consumer firms issuing discount coupons or providing loyalty points on their applications to enhance the usability of the coupons or points by plugging in cashless payment services provided as BaaS to their applications.

There are also non-financial firms that seek to improve customer convenience and customer marketing by providing banking services under their own brands together with their businesses through BaaS.

### *Integrating Information and Financial Systems*

In this way, a broad range of enterprises and entrepreneurs is creating new businesses through neue Kombination (new combinations). The term neue Kombination was originally introduced by Schumpeter in his book *The Theory of Economic Development*, and it was later interpreted as describing innovation. According to Schumpeter, innovation is not necessarily about invention but is more about creating or changing combinations. Needless to say, it is digitalization in various fields that is currently accelerating the creation of neue Kombination.

Neue Kombination 2.0, brought about by digitalization, is reinforced by linking what were traditionally two separate systems: (1) the information systems assisting people's livelihoods and business activities and (2) the systems supporting financial services.

For example, most economic activities involve payments as financial activities. While commercial data such as billing and payments have been leveraged to improve the business efficiency of a supply chain, they have not been shared with financial services. This means that neue Kombination, or innovation, could occur if the matching of commercial and payment data is enabled by linking commercial systems and payment services.

For example, large volumes of invoice receipts could be automatically matched with payment records, thereby improving business efficiency, and potentially enabling real-time visualization of business management. These developments could further enable a grasp of business conditions, cash flow management, the production of credit information, automated lending, and management consultation.

The benefits of linking these two systems are not limited to improving the efficiency of economic activities. For example, data on deposit account activities contain various kinds of information on the account holder's livelihoods.

Elaborating on the information on the customer's lifestyle obtained from these business data could help identify where there is a hidden potential demand for financial and non-financial services. In this regard, online businesses and consumer businesses have taken the lead in adopting personalized marketing, or a strategy to increase customer satisfaction.

It is likely that financial institutions will accelerate their efforts to utilize the information that they have as a business asset and find neue Kombination with other business categories.

Thus, linking the information systems assisting people's livelihoods and business activities and the systems supporting financial services, which were traditionally separated, could improve the convenience of both financial and non-financial services, thereby leading to the creation of new services.

On this basis, it is important to understand as-a-Service - which I introduced as a business model earlier - not merely as a methodology, but as a concept that provides the perspective of creating new services and expanding demand through continuous improvements to achieve economic growth and an affluent society.

For example, some may think that banks are only playing a behind-the-scenes role to assist actors, or their partner firms, to provide financial services in BaaS. There is also a potential, however, for banks to play a role as a director who manages the production of a digitalized neue Kombination 2.0, by being actively involved in the creation of new services and maximizing the potential of the platforms.

### *Digital Transformation*

Integrating information and financial systems first requires advances in the digitalization of each system. A system needs to be put in place that supports end-to-end automatic processing, from information input on a smartphone or a business system screen, to service completion as well as database preparation for the analysis and high value-added conversion of information for the subsequent information business.

To this end, changes need to be made in the current way of work that remains bound to paper-based processes or manual transcription of information. Moreover, the way work is transformed should aim at not only improving business efficiency but also creating new business models by linking information. Neue Kombination 2.0 is only possible if this digital transformation takes place.

In BaaS, the componentization and loose coupling of a bank's internal systems have enabled its systems to be linked in a costless, fast, and flexible manner. In other words, the loose coupling within a bank at the micro level has enabled service creation in coordination with other industries, which leads to a redesign of the industrial structure at the macro level.

Moreover, improvements in development costs and speed through technological innovation and development method innovation have enabled high-speed cycles of Continuous Integration and Continuous Delivery (CI/CD). The advantage of these IT systems that tolerate trial and error has also become the trigger for transforming the corporate culture of the financial industry.

Originally, the financial industry was an information industry as well as an equipment industry. Financial institutions and the financial service industry therefore have the potential to leverage the benefits of digitalization to their fullest. I believe that we are currently facing digital transformation challenges in the move toward neue Kombination 2.0.

### *Central Bank Digital Currency*

Finally, I would like to touch upon central bank digital currency (CBDC). Since the release of "The Bank of Japan's Approach to Central Bank Digital

Currency" in October 2020, the Bank of Japan has been preparing to conduct experiments in accordance with this approach. We are finally scheduled to begin these experiments in spring 2021.

While there is no change in the Bank's stance that it "currently has no plan to issue CBDC," from the viewpoint of ensuring the stability and efficiency of the overall payment and settlement systems, we consider it important to prepare thoroughly to respond to changes in circumstances in an appropriate manner.

Central banks share the view that it is not an appropriate policy response to start considering CBDC only when the need to issue CBDC arises in the future. According to a recent survey of 65 central banks conducted by the Bank for International Settlements (BIS), 86 percent were exploring the benefits and drawbacks of CBDC issuance for some forms of work and about 60 percent were conducting experiments or a Proof-of-Concept (PoC).

As for the Bank, amid significant changes that are occurring with the advent of the digital society, we will take this opportunity to carefully consider the way in which we should provide central bank money, or, using expressions from today's theme, "Central Banking as a Service."

### *Closing Remarks*

We are delighted to see a rich variety of participants attending this year's FIN/SUM, including those from the financial and technology sectors with the help of online technology despite being in the midst of the COVID-19 infection, as in FIN/SUM 2020. I would like to close my remarks by expressing my hope that interactions between the participants will lead to many neue Kombination. Thank you for your attention.



## Brave new world

Sam Woods, Deputy Governor for Prudential Regulation of the Bank of England and Chief Executive of the Prudential Regulation Authority (PRA), at the Association of British Insurers.



Thank you for the invitation to speak today, and for coming along to this session. Although I can see nobody on my screen the ABI assures me that an implausibly large number of leaders of the insurance industry are in fact present, and that some of you may even be listening to this speech.

As a prudential regulator we oversee a large and vibrant insurance sector supplying vital financial services to the wider economy.

I will not bore you with another list of the magnificent variety, size and importance of those services – that is the job of the ABI. But safeguarding the stability of their supply is the whole point of our role. That role is about to change in two ways.

First, the Solvency II review is well under way – I will come back to that.

But I want to begin with the second change, which is more fundamental – the proposed reforms to the architecture of financial regulation as we enter the brave new world of post-Brexit Britain – and explain why we favour a shift towards more rule-making by the regulator, and the enhanced accountability that needs to come with that.

### *The future regulatory framework: rules and statutes*

Now you may be thinking: “quelle surprise, the regulator wants to have more control over the rules!” In fact, I can tell you that the PRA has no proactive desire to increase its responsibilities. We have enough on our plate already.

It’s just that it seems clear that, for our market, putting the details in the regulator’s rules rather than in statute (as the EU typically does) is a better approach.

I say better for our market, but in fact this is the norm in all major jurisdictions apart from the EU and Switzerland.

As a point of principle, it is consistent with the established model of an independent regulator taking time-consistent decisions in pursuit of long-term objectives given to it by Parliament.

This follows the same logic as the arrangements in this country and many others for setting monetary policy. And on a purely practical level, it ensures that rule-making is closely informed by the day-to-day risk assessments that we have to make as supervisors.

This approach also helps ensure that rule-making keeps pace with developments and supports innovation.

A changing world requires a tough but flexible regulatory regime that can adapt itself rapidly as needed – both to remove unnecessary barriers to innovation and to give policyholders reasonable protection from any new risks that arrive with it.

The alternative is a more sluggish regime, more conservatively calibrated to compensate for its lack of manoeuvrability.

A regime largely contained in the PRA's rulebook is also easier to update when it seems that a rule is not working properly.

The most obvious current example is the current implementation of the risk margin – no one here can be unaware of this issue, or if you are you've come to the wrong webinar!

At a more granular level, while we will always take a very close interest in internal models given they set capital requirements, I have long wanted to simplify the bottom-up process for approving them, which entails assessing compliance with more than 300 tests and standards – all of them currently set out in legislation.

That is just one example of our more general, longterm aspiration to condense and reduce the volume of material that defines the regime – the original Solvency II came in at nearly 1000 pages of legislation plus many hundreds more of technical standards.

Having a streamlined set of rules all in one place would substantially ease the burden of compliance on firms and on us, without reducing resilience.

In short, now that we have left the EU we have no interest whatsoever in lowering levels of resilience or policyholder protection, but we can and should make changes to tailor regulation so it fits our market better and is more efficient and coherent.

That process will take some time but it will work better if the detailed rules are placed into our rulebook.

### *Risks of changing the regulator's role*

If you accept the case for detailed rules being made by regulators, the next debate then is over what checks and balances are needed to give stakeholders confidence in the operation of the new framework.

Might we pursue the stability of the graveyard by imposing ever more stringent rules? Or might we go the other way, becoming captured by industry and not protecting policyholders enough? Put bluntly, can we be trusted with more power?

To address the point about the graveyard head on: I do not for one moment accept the caricature of a rampant regulator intent on crushing the industry under a slow-motion avalanche of new capital requirements, heedless of the wider consequences.

History gives the lie to this caricature. Take the topical example of the matching adjustment (MA), which I read in the trade press last month is to be a 'key battleground' in the review of Solvency II.

The primary effect of the MA is to reinforce the incentives that life insurers have to make longterm investments. It is something that the PRA had to fight hard for in EIOPA, often with little support from other countries.

This matching is prudentially beneficial and may make annuities cheaper than they would otherwise be, but of course it also involves taking more risk because it boosts capital levels and lowers capital requirements.

Another way to consider the graveyard question is to look at the returns of the insurance firms that we oversee and ask whether or not they resemble tombstones.

Empirically, returns on equity can be volatile thanks to things like competitive pricing pressures, catastrophe risk losses and asset market volatility, but they have remained healthy in recent years. Since the introduction of Solvency II, returns have been in ranges of about 8 to 10% in general insurance, and 10% to 15% in the life sector.

Our insurance sector is clearly alive and kicking. Moreover, the PRA does not aspire to a zero failure regime – more than fifty insurers regulated by the PRA are currently in some form of run off, for example – and even our primary objective of safety and soundness is in some ways just a means to end.

Policyholders are not well served by firms that are so safe and cautious that they might apparently be able to live forever, but never grow or change.

Such firms are more likely to be broken by a storm than to bend with it.

On the contrary, policyholders are better protected by firms that: first, are sufficiently profitable and attractive to external capital to be able to change and grow in response to the changing external environment; and second, are able, if their business models do fail, to exit the market in an orderly fashion, paying their remaining liabilities as they fall due.

To read more:

<https://www.bankofengland.co.uk/speech/2021/march/sam-woods-association-of-british-insurers-executives-neds-and-chairs-network-webinar>

## APRA urges life insurers and superannuation funds to address sustainability of insurance in superannuation



The Australian Prudential Regulation Authority (APRA) has written to life insurers and registrable superannuation entity (RSE) licensees, urging them to address concerning trends and practices in the provision of insurance to superannuation members.

APRA has noted significant deterioration in group life insurance claims experience in 2019 and 2020, with the potential for the re-emergence of unpredictability and volatility in insurance premiums.

APRA is concerned that, if the observed trends and practices continue, members are likely to be adversely affected by further substantial increases in insurance premiums and/or reductions in the value and quality of life insurance offered through superannuation.

APRA expects life insurers and superannuation funds to take steps to ensure that insurance offerings and benefits are sustainably designed and priced, provide appropriate value for members, and adequately reflect the underlying risks.

APRA has identified the need for:

- superannuation trustees to maintain, and make available to insurers, high quality and sufficiently granular data to facilitate sustainable insurance design and pricing;
- clear insurance strategies developed and maintained by trustees, that reflect a scheme design for default insurance which carefully considers and appropriately balances their members' needs and the cost of insurance; and
- tender processes that provide adequate information and time to all participants, to enable them to consult on scheme design and appropriately price the risks and benefits.

APRA Deputy Chair Helen Rowell said the provision of insurance by superannuation funds is an important component of the value provided by trustees to their members.

“For most people, the life insurance they receive through their super fund is the only cover they have to protect themselves and their family.

“It’s critical that these issues are addressed so sustainable and affordable insurance is available to members through their superannuation fund over the medium to long-term.

“APRA will continue to engage closely with life insurers and superannuation trustees to monitor their progress as they respond to these issues, with a focus on the interests of current and future superannuation members,” Mrs Rowell said.

The letter to life insurers and superannuation funds is available on the APRA website at: <https://www.apra.gov.au/sustainability-of-life-insurance-superannuation>

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9 March 2021

**TO: ALL RSE LICENSEES AND GROUP LIFE INSURANCE CHIEF EXECUTIVE OFFICERS**

**SUSTAINABILITY OF LIFE INSURANCE IN SUPERANNUATION**

Recently, the Australian Prudential Regulation Authority (APRA) has seen a re-emergence of some concerning developments in group life insurance in superannuation in relation to premium volatility, availability and provision of data, and tender practices. APRA’s view is that these developments, if unaddressed, are likely to result in poor member outcomes, and adversely impact the availability and sustainability of life insurance through superannuation.

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

Christine Lagarde, President of the European Central Bank, before the Hearing at the Committee on Economic and Monetary Affairs of the European Parliament, Frankfurt am Main, 18 March 2021.



Madam Chair,  
Honourable members of the Economic and Monetary Affairs Committee,  
Ladies and gentlemen,

I am very happy to appear again before the Committee in our first regular hearing this year.

Today marks the one-year anniversary of the extraordinary Governing Council meeting during which we decided to launch the pandemic emergency purchase programme (PEPP).

Standing where we are today, the economic situation looks brighter now than it did back then and we can expect it to improve over 2021.

In the short term, however, the economic outlook for the euro area remains surrounded by uncertainty due to the dynamics of the pandemic and the speed of vaccination campaigns.

The severe impact that the pandemic continues to have on not just the economy, but on all aspects of the lives of many Europeans, does not allow us to "celebrate" the anniversary of the PEPP.

It is nevertheless important to look back and proudly acknowledge our collective efforts in shielding European citizens from even worse outcomes.

In my remarks today, I will focus on the euro area economic outlook and the ECB's monetary policy stance in the light of the Governing Council's decisions taken on Thursday of last week. I will conclude by discussing the policy mix required to secure a solid path to economic recovery.

*The current macroeconomic outlook*

The rebound in global demand and additional fiscal measures are supporting global and euro area activity.

At the same time, persistently high coronavirus (COVID-19) infection rates, the spread of virus mutations, and the associated extension and tightening of containment measures continue to have a negative impact on euro area economic activity.

As a result, real gross domestic product (GDP) is likely to contract again in the first quarter of the year after declining by 0.7 per cent in the fourth quarter of 2020.

Looking ahead, the ongoing vaccination campaigns, together with the gradual relaxation of containment measures underpin expectation of a firm rebound in economic activity in the second half of 2021.

Over the medium term, we expect the recovery in demand, as containment measures are lifted, to be supported by favourable financing conditions, and an expansionary fiscal stance.

This assessment is also reflected in the March 2021 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP growth at 4.0 per cent in 2021, 4.1 per cent in 2022 and 2.1 per cent in 2023, broadly unchanged compared with the December 2020 Eurosystem staff macroeconomic projections.

The risks surrounding the euro area growth outlook over the medium term have become more balanced owing to better prospects for the global economy and progress in vaccination campaigns.

However, downside risks remain in the near term, mainly related to the spread of virus mutations and the implications of the ongoing pandemic for economic and financial conditions.

Euro area annual inflation has picked up over recent months, mainly on account of some transitory factors.

Headline inflation is likely to increase in the coming months, but some volatility is expected throughout 2021 reflecting the changing dynamics of the idiosyncratic factors which are currently pushing inflation up but which can be expected to fade out early next year.

Underlying price pressures are expected to increase somewhat this year due to current supply constraints and the recovery in domestic demand.

Nevertheless, we judge that these pressures will remain subdued overall, also reflecting low wage dynamics and the past appreciation of the euro.



Once the impact of the pandemic fades, the unwinding of the high level of slack, supported by accommodative fiscal and monetary policies, will contribute to a gradual increase in inflation over the medium term. Survey-based measures and market-based indicators of longer-term inflation expectations remain at subdued levels.

While our latest staff projection exercise foresees a gradual increase in underlying inflation pressures, the medium-term inflation outlook – with projected annual inflation at 1.5 per cent in 2021, 1.2 per cent in 2022 and 1.4 per cent in 2023 – remains broadly unchanged from the staff projections in December 2020 and below our inflation aim.

### *The ECB's monetary policy stance and effectiveness*

Against this background, preserving favourable financing conditions over the pandemic period remains essential to reduce uncertainty and bolster confidence, thereby underpinning economic activity and safeguarding medium-term price stability.

Let me further elaborate on our assessment of financing conditions. This is defined by a holistic and multifaceted set of indicators.

It is holistic because we consider a broad array of indicators, spanning the entire transmission chain of monetary policy from risk-free interest rates and sovereign bond yields to corporate bond yields and bank credit conditions.

It is also multifaceted, because we take a sufficiently granular view that enables us to detect movements in specific market segments in a timely manner.

Last week, as it received a new round of staff projections, the Governing Council conducted a joint assessment of these multiple set of indicators against the evolution of our inflation outlook since the last projection exercise.

We concluded that the increase in risk-free market interest rates and sovereign bond yields that we have observed since the start of the year could spur a tightening in the wider set of financing conditions, as banks use them as key reference points for determining credit conditions.

Therefore, if sizeable and persistent, increases in those market interest rates, when left unchecked, may become inconsistent with countering the downward impact of the pandemic on the projected path of inflation.

Based on this joint assessment, the Governing Council announced that it expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of this year.

While records of our weekly purchases will continue to be distorted by short-term noisy factors – such as occasionally lumpy redemptions – the step-up in the run-rate of our programme will become visible when ascertained over longer time intervals.

Purchases will be implemented flexibly according to market conditions and always with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation.

In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue to support the smooth transmission of monetary policy.

If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full.

Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.

The PEPP is not the only tool the ECB is using to support favourable financing conditions over the pandemic period for all sectors of the economy.

The third series of targeted longer-term refinancing operations (TLTRO III) remains an attractive source of funding for banks.

The TLTROs' built-in incentive structure ensures that banks have access to ample funding at very favourable conditions if they maintain their lending to the real economy. This supports bank-based financing conditions for firms and households.

Likewise, the remaining monetary policy instruments in place – ranging from our key ECB interest rates to the Governing Council's forward guidance and the Asset Purchase Programme – make a crucial contribution to the ample degree of monetary accommodation that is necessary to support economic activity and the robust convergence of inflation to our definition of price stability.

We will also continue to monitor developments in the exchange rate regarding their possible implications for the medium-term inflation outlook.

We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation moves towards our aim in a sustained manner, in line with our commitment to symmetry.

### *The path to a solid economic recovery*

Looking ahead, decisive action in other policy areas to support the recovery remains essential and should build on the favourable financing conditions prevailing in the euro area.

When appearing before the European Parliament last month, I pointed out that the strength of Europe's crisis response over the last twelve months crucially depended on the strength of national and European responses across all policy areas: monetary, fiscal, supervisory and regulatory.

We should continue to rely on the same recipe when it comes to securing a path to a solid economic recovery.

An ambitious and coordinated fiscal stance remains critical. National fiscal policies should continue to provide critical and timely support to firms and households most exposed to the pandemic and the associated containment measures.

At the same time, these measures should, as much as possible, remain temporary and targeted in nature to address vulnerabilities effectively and support a swift recovery.

By brightening economic prospects for firms and households, fiscal policy would also strengthen the transmission of our monetary policy measures. Fiscal policy can also act as a catalyst to transform our economies in the recovery phase.

This is why the NextGenerationEU package should become operational without delay.

In the coming weeks, Member States should ensure a timely ratification of the Own Resources Decision and should finalise their recovery and resilience plans.

The European Parliament can play an important role in making sure that these plans are well-designed and that they include productivity-enhancing structural policies to address long-standing weaknesses and accelerate the green and digital transitions.

All of us, across all policy levels, should ensure that we use the thrust of the recovery to transform our economies and make them fit for the world of tomorrow, for instance by reducing and preventing climate risks. The ECB is ready to play its part in line with its mandate.

This morning we published the preliminary results of our first economy-wide climate stress test to help both authorities and financial institutions assess the impact of climate risks over the next 30 years.

### *Conclusion*

When we announced the PEPP one year ago, the Governing Council declared that it would do everything necessary within its mandate and explore all options and all contingencies to support the economy through this shock.

Looking back at the past year, I think we can affirm that we have delivered on this commitment.

But there is no room for complacency – the ECB will continue to deliver on its mandate and support the recovery with all appropriate measures.

I now stand ready to take your questions.

## The IFSB Issues Two New Working Papers on: Assessing the Stability of Islamic Banking Amid COVID-19, and Digital Transformations in Islamic Banking



The Islamic Financial Services Board (IFSB) has issued its 18th and 19th research papers in the Working Paper series.

WP-18 empirically assesses the preliminary effect and implication of the abrupt and pervasive COVID-19 pandemic for the stability of the global Islamic banking industry.

Data extracted from the IFSB Prudential and Structural Islamic Finance Indicators (PSIFIs) from 1Q 2018 to 3Q 2020 for eight jurisdictions is used for the analysis.

Specific focus is on the quarter-on-quarter changes in five core prudential indicators: capital adequacy, asset quality, earnings, leverage, and liquidity.

Findings indicate that while the Islamic banking sector across jurisdictions in the sample still records prudential indicators well-above the minimum regulatory and their historical average thresholds, preliminary impact of the COVID-19 pandemic is also observed across indicators and countries.

WP-19 investigates the operational activities and regulatory approaches relating to the Islamic banking digital transformation process across IFSB member jurisdictions.

Specifically, this paper investigates the current status, technology adopted, and rationale for digitalisation among Islamic banks.

The paper also investigates the regulatory approaches, challenges, prudential risks and the financial stability implications of digitalisation of Islamic banking.

Findings reveal that most Islamic banks' digitalisation process is still in progress but have gained more traction especially since the outbreak of the COVID-19 pandemic.

Amongst many other pertinent reasons cited in the paper, strengthening competitiveness, enhancing operational efficiency, and improving customer satisfaction are the main rationale for IBs digitalisation drive. To achieve these, mobile and digital wallet, biometric authentication, and artificial programming interface are the main technologies adopted.

Regarding the WP-18, the Secretary-General of the IFSB, Dr. Bello Lawal Danbatta stated that, “notwithstanding uncertainty in terms of its effect and duration, it is pertinent that the preliminary implication of the COVID-19 pandemic for the stability of the Islamic banking industry is assessed.

This is because while the policy response measures generally apply to both the Islamic banks and their conventional counterparts, there may be peculiar implications for the former due to among other factors the size and portfolio components of their balance sheet relative to the latter. It is from these concern that the paper is derived” he further added.

Dr. Bello stated that “the WP-19 describes the views of Islamic banks about their digital transformation processes, drivers, and challenges.

He noted further that digitalisation is indispensable for Islamic banks if they want to enhance their competitiveness by broadening outreach, exploring new horizons, identifying untapped potentials, and unlocking opportunities.

The paper also stated the implication of both the benefits and risks of digitalisation for the stability of the Islamic banking industry as well as recommendations on way forward” he further added.

WP-18 and WP-19 are available for download from the IFSB website:  
[www.ifsb.org](http://www.ifsb.org)

## FinCEN Informs Financial Institutions of Efforts Related to Trade in Antiquities and Art



The Financial Crimes Enforcement Network (FinCEN) is issuing this Notice to inform financial institutions about:

- (1) the Anti-Money Laundering Act of 2020 (the AML Act) efforts related to trade in antiquities and art,
- (2) select sources of information about existing illicit activity related to antiquities and art, and
- (3) provide specific instructions for filing Suspicious Activity Reports (SARs) related to trade in antiquities and art.

FinCEN encourages financial institutions to continue filing SARs regarding these topics.

### *New AML Act Measures*

- *Antiquities Regulations:* Section 6110(a) of the AML Act amends the definition of “financial institution” under the Bank Secrecy Act (BSA) to include persons “engaged in the trade of antiquities” and directs FinCEN to promulgate implementing regulations.

The BSA obligations imposed by Section 6110(a) will take effect on the effective date of those final regulations.

- *Art Study:* Section 6110(c) of the AML Act requires the Secretary of the Treasury, in coordination with the Director of the Federal Bureau of Investigation, the Attorney General, and the Secretary of Homeland Security, to perform a study of the facilitation of money laundering and the financing of terrorism through the trade in works of art.

The study will include an analysis of, among other things, which markets should be subject to regulations and the degree to which the regulations, if any, should focus on high-value trade in works of art, and on the need to identify the actual purchasers of such works, in addition to other persons engaged in the art trade.

### *Illicit Activity Associated with Trade in Antiquities and Art*

Financial institutions with existing BSA obligations, including the reporting of suspicious activity, should be aware that illicit activity associated with the trade in antiquities and art may involve their institutions.

Crimes relating to antiquities and art may include looting or theft, the illicit excavation of archaeological items, smuggling, and the sale of stolen or counterfeit objects.

Crimes relating to antiquities and art also may include money laundering and sanctions violations, and have been linked to transnational criminal networks, international terrorism, and the persecution of individuals or groups on cultural grounds.

### *SAR Filing Instructions*

Financial institutions' SAR reporting, in conjunction with effective implementation of their other BSA compliance requirements, is crucial to identifying and stopping money laundering and other crimes related to trade in antiquities and art.

- FinCEN requests that financial institutions reference "FIN-2021- NTC2" in SAR field 2 (Filing Institution Note to FinCEN) and the narrative portion of the SAR to indicate a connection between the suspicious activity being reported and the activities highlighted in this notice.
- Financial institutions should also select SAR field 36(z) (Money Laundering - other ) as the associated suspicious activity type, and note if the suspicious activity relates to "Antiquities," "Art," or both (in some instances, an object could be considered both an antiquity and a work of art).

### *SAR Narrative.*

FinCEN also requests that filers detail the reported activity in the narrative portion of the SAR, explaining how the suspicious activity relates to "Antiquities," "Art," or both. Filers should provide any available details that may assist in the identification of:

- (1) the objects connected to the financial transactions,
- (2) other transactions or proposed transactions that may involve antiquities or art, and
- (3) any other relevant information.



Filers should provide all available details (such as names, identifiers, and contact information—including Internet Protocol (IP) and email addresses and phone numbers) regarding:

- (1) the actual purchasers or sellers of the property, and their intermediaries or agents,
- (2) the volume and dollar amount of the transactions involving an entity that is—or may be functioning as—a dealer in antiquities or art, and
- (3) any beneficial owner(s) of entities (such as shell companies).

In the case of stolen art or antiquities, filers should provide a detailed and specific description of the stolen item(s) and indicate whether photographs of the items are available. Filers should also provide information about the place(s) where the reported individuals or entities are operating.

To read more:

<https://www.fincen.gov/>

*Note:*

FinCEN is a bureau of the U.S. Department of the Treasury. The Director of FinCEN is appointed by the Secretary of the Treasury and reports to the Treasury Under Secretary for Terrorism and Financial Intelligence.

FinCEN's mission is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

FinCEN carries out its mission by receiving and maintaining financial transactions data; analyzing and disseminating that data for law enforcement purposes; and building global cooperation with counterpart organizations in other countries and with international bodies.

FinCEN exercises regulatory functions primarily under the Currency and Financial Transactions Reporting Act of 1970, as amended by Title III of the USA PATRIOT Act of 2001 and other legislation, which legislative framework is commonly referred to as the "Bank Secrecy Act" (BSA).

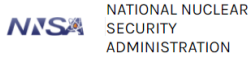
The BSA is the nation's first and most comprehensive Federal anti-money laundering and counter-terrorism financing (AML/CFT) statute.

In brief, the BSA authorizes the Secretary of the Treasury to issue regulations requiring banks and other financial institutions to take a number of precautions against financial crime, including the establishment

of AML programs and the filing of reports that have been determined to have a high degree of usefulness in criminal, tax, and regulatory investigations and proceedings, and certain intelligence and counter-terrorism matters.

The Secretary of the Treasury has delegated to the Director of FinCEN the authority to implement, administer, and enforce compliance with the BSA and associated regulations.

## NNSA's 2020 Cities Initiative helped U.S. cities prevent radiological terrorism



Radioactive materials can be used to do a lot of good. They are used to treat cancer, sterilize blood, and build economies worldwide, including here in the United States.

However, if lost or stolen, these materials can pose a significant risk to our people and our cities.

For instance, a terrorist could use these materials to set off a radiological dispersal device (RDD), or “dirty bomb,” in a major U.S. city, an act of terrorism that would have devastating economic and psychological consequences.

### *2020 Cities Initiative*

In response to that threat, NNSA's Office of Radiological Security (ORS) enhances security by preventing high-activity radioactive materials (that could injure someone exposed to them for a short amount of time) from being used in acts of terrorism.

In 2017, ORS launched the 2020 Cities Initiative to enhance radiological security in our most heavily populated cities, such as by providing security enhancements to sites with high-activity radioactive materials. And it provided technology and training tools to law-enforcement professionals responsible for responding to a radiological theft.

### *Securing Our Businesses, Communities, and Country*

To secure high-activity radioactive materials in U.S. cities where the consequences of radiological terrorism would be greatest, ORS worked to protect, remove, and reduce these materials.

The initiative offered federally funded security enhancements, disposal of disused sources, and financial incentives to users interested in removing and replacing their cesium irradiators with X-ray devices.

For example, through the Cesium Irradiator Replacement Project , participating businesses were able to replace cesium-137 based irradiators (which are used in medical applications) with alternative technologies, thereby achieve permanent radiological risk reduction.

For law enforcement, ORS provided centralized monitoring systems that integrated critical alarms and video from local sites into operations centers along with response training tools.

### *Significant Progress in Securing Our Cities*

The ORS 2020 Cities Initiative was successful thanks to the support of, and collaboration with, a wide range of partners including businesses, law enforcement, city and state leaders, and federal agencies.

The initiative resulted in enhanced radiological security in our major cities and across our Nation including:

- Enhanced security of 604 buildings that use or store radioactive materials;
- Replacement of 104 radiological devices with alternative technologies, thereby eliminating the risk of radiological theft at those locations;
- Establishment of radiological security training programs for law enforcement in 17 cities resulting in more than 2,000 officers trained;
- Training of an additional 4,000 response officials through the ORS Alarm Response Training program in Oak Ridge, Tennessee; and
- Carrying out of numerous workshops in major cities bringing together radiological sites, local homeland security and regulatory officials, and law enforcement personnel. Events in Boston and San Francisco brought together partners from cities across the United States.

While the onset of the COVID-19 pandemic limited vital in-person collaboration, ORS adapted and collaborated with its partners through virtual training and assessment tools to reduce the risk of radiological terrorism.

According to Kasia Mendelsohn, NNSA's Acting Deputy Administrator for Defense Nuclear Nonproliferation, "The commitment of all of our state and local community, industry, medical, and law-enforcement partners to collaborate with ORS to take strong and sustained actions to enhance radiological security has made our cities safer."

### *A Model Partnership*

The ORS partnership with the city of Denver is an excellent example of the impact this work has in reducing the danger of radiological terrorism in our major cities. ORS partnered to enhance security with all Denver medical and industrial facilities using high-activity radioactive materials.

Additionally, ORS worked extensively with the Denver Police Department (DPD) to ensure appropriate law-enforcement officials are notified of any attempted radiological material theft. The program also ensured that first responders have the plans, training, and tools to contain any adversary taking the material. Actions taken included:

- Establishing remote monitoring at the Real Time Crimes Center, Special Operations Office, and 911 monitoring centers;
- Developing a training program that included a mobile trailer with educational tools and that trained over 1,000 response personnel;
- Developing a training video to be delivered to all DPD officers at roll call sessions for multi-year sustainability training on radiological response; and
- Issuing policies promote a coordinated response to radiological theft events.

“Our partnership with ORS has strengthened the Denver Police Department’s ability to prevent and prepare for potential terrorism events, while enhancing relationships with our local hospitals and blood clinics that use radioactive material for lifesaving purposes,” said Cmdr. Patrick Phelan, Special Operations Division, Denver Police.

“The Denver Police are proud to be recognized as a leader in Radiological Security and are committed to assisting other law enforcement agencies in the prevention of terrorism events.”

“The Denver 911 Communications Center is committed to its long-term partnership with the Office of Radiological Security and is proud to host new innovative notification and response tools to prevent a terrorism event in our community,” added Andrew Dameron, Director of Denver 911 Communications Center.

### *Building on Success*

While the 2020 Cities Initiative resulted in tremendous progress, threats continue to evolve and more work remains to be done across the country to keep the public safe.

ORS will build on this successful initiative by expanding its collaboration and partnerships into the many mid-size and small cities across the country.

To read more: <https://www.energy.gov/nnsa/articles/nnsa-s-2020-cities-initiative-helped-us-cities-prevent-radiological-terrorism>



## Abuse of power: Coordinated online harassment of Finnish government ministers.



This report is an explorative analysis of abusive messages targeting Finnish ministers on the social media platform Twitter.

The purpose of this study is to understand the scope of politically motivated abusive language on Finnish Twitter, and to determine if, and to what extent, it is perpetrated by inauthentic accounts.

To this end, we developed a mixed methodology, combining AI-driven quantitative visualisations of the networks delivering messages of abuse with a qualitative analysis of the messages in order to understand the themes and triggers of abusive activity.

We collected Twitter data between 12 March and 27 July 2020, a period spanning the state of emergency declared in response to the COVID-19 pandemic.

This report is informed by the findings of three recent Finnish studies, one of which investigated the extent and effects of online hate speech against politicians while the other two studied the use of bots to influence political discourse during the 2019 Finnish parliamentary elections.

The first study, released by the research branch of the Finnish government in November 2019, found that a third of municipal decision-makers and nearly half of all members of Finnish Parliament have been subjected to hate speech online.

The two studies tracking inauthentic activity during the 2019 parliamentary elections identified bot interference but concluded that the impact of these bots on Finland's political environment appeared limited.

Based on these findings, and on our comprehensive literature review, we developed two hypotheses:

1. We expect to observe abusive language targeting Finnish politicians, with female politicians receiving gendered abuse;
2. We expect to observe low levels of coordinated inauthentic activity in the Finnish information space, with increased levels of inauthentic

activity during periods of political significance.

Our quantitative and qualitative analyses confirmed both hypotheses and yielded multiple findings.

Our investigation demonstrated that the messaging directed at Finnish government officials is largely free from automated activity.

When it comes to abusive messaging, we find a number of users singularly focused on harassing the government.

While both left- and right-leaning communities engaged in abusive activity, the bulk of abusive messaging originated from clusters of right-wing accounts.

Overall, we observed very low levels of both bot and coordinated activity. The majority of bots we identified were operating in foreign languages and either not generally focused on Finland or used to push certain causes in multiple languages.

We repeatedly came across a cluster of accounts throughout our monitoring period that posted the same messages about animal cruelty and climate change.

These accounts predominantly post in English and appear in some cases to be automated or semi-automated. However, they represent a very small part of the conversation.

Likewise, a small cluster of automated accounts amplified messaging by a number of right-wing voices. Again, there was a degree of coordination here, but these amplifications looked more like attempts at self-promotion rather than systematic manipulation of the information space.

If large-scale inauthentic coordination exists in the Finnish information environment, we are either looking in the wrong place, or it is so sophisticated or so small in scale that it evades our detection methods.

We found that the main topics triggering abusive messages were the COVID-19 pandemic, issues of immigration, Finnish-EU relations, and socially liberal politics.

We observed that female Finnish ministers received a disproportionate number of abusive messages throughout our monitoring period. A startling portion of this abuse contained both latent and overtly sexist language, as well as sexually explicit language.



Although we found large volumes of offensive and abusive messaging, we did not observe threats of physical violence.

### *Introduction*

Lipstick brigade. Lipstick girls. Feminist quintet. Tampax team. These are all phrases used on Twitter to refer to the current coalition in Finland, in which all five party leaders are women, led by Prime Minister Sanna Marin of the Social Democratic Party.

When the remarkably young and female leadership came into power in December 2019, they made international headlines as pioneers of gender equality in governance.

Their election also provoked online resistance in the form of abusive messages. Many assumptions about their political inexperience were accompanied by sexist and misogynistic language.

The paper: <https://www.stratcomcoe.org/abuse-power-coordinated-online-harassment-finnish-government-ministers>

## An Honest Conversation about ESG Regulation

ESG (Environmental, Social, Governance) regulation - Commissioner Elad L. Roisman, U.S. Securities and Exchange Commission



Good morning. I will start by noting that my remarks are my own and do not necessarily represent the views of my fellow Commissioners or the Securities and Exchange Commission (“SEC”).

### *AMAC’s Careful and Collaborative Approach*

Thank you, Ed [Bernard] and members of this Committee, not only for your work, but for the thoughtful process you have undertaken to develop recommendations for the Commission.

AMAC’s approach has been methodical, iterative, and transparent: discussing complex issues, developing subcommittee recommendations in draft form, presenting those ideas to the full Committee, and inviting a lot of engagement.

While such an approach may not yield quick results—and it likely demands increased time and attention from each of you—it provides opportunities to consider new perspectives and new information.

Ultimately, I believe it should make any final recommendations you adopt more comprehensive and useful for the Commission itself.

### *New Potential Recommendations from the Diversity and Inclusion and Private Investments Subcommittees*

Today, I look forward to hearing new potential recommendations, including ideas from the subcommittee on Diversity and Inclusion on how the Commission can help advance diversity and inclusion in the asset management industry.

I am especially interested in whether our securities laws or rules inadvertently create barriers and what we can do overcome those. From the Private Investments subcommittee, I look forward to hearing your ideas on increasing retail investors’ access to investing opportunities in the private market.

Over this past year, we have seen retail investors embrace trends, such as SPAC investments and day trading.

While some will always want to “go-it-alone” in their search for growth opportunities, I am interested in how professional managers can provide more guided access.

### *Exploring the ESG Subcommittee’s Preliminary Recommendation*

For the remainder of my remarks, I will focus on ESG, in anticipation of the panel discussing the subcommittee’s preliminary recommendation from December 1, 2020.

Many thanks to Ed and the ESG subcommittee for engaging with my team over the past several months.

Like many others at the Commission, I am passionate about our capital markets and want to ensure that investors are getting the material information they need to make investment decisions—regardless of whether the information is characterized as “ESG” or not.

Before I go through several questions I would like to pose for our panelists, let me express my hope that today’s atmosphere will foster an open-minded dialogue about the substance of the subcommittee’s preliminary recommendation.

ESG is a topic that can feel polarizing. I have heard from some, who feel inclined to question the propriety of SEC regulation in this area, that they fear the reputational risk of being painted as “anti-climate,” “anti-social justice,” or other shades of immoral if they express their critiques publicly.

On the flip side, proponents of this agency’s intervention sometimes offer rationales for action that are entirely outside the realm of securities law.

A letter recently arrived at my office advocating for mandatory ESG disclosures and ended by saying: “There is no Planet B.”

It is entirely reasonable for a person to feel that climate change deserves immediate attention from lawmakers and still question whether the SEC mandating new disclosures from U.S. public companies is an appropriate step for the agency.

In this forum, I feel confident that we all recognize the fundamental questions here are about the SEC’s authority as a regulator and whether this agency’s intervention is appropriate to address the problems people have identified in our markets.

This is an entirely healthy and necessary conversation, and it will be critical for us to have the full spectrum of market participants engaged.

If the only people who feel safe to comment are those who want the agency to join the fight against climate change and those whose business models would benefit from new regulation, we will miss hearing from those voices who can alert us to the hidden costs and unintended consequences of our actions.

With that said, I am happy to hear from our expert Committee members today and welcome new panelists to join the dialogue.

### *Questions for the asset managers*

I will start with my questions for those panelists who represent asset managers:

- How have you gauged what investors are looking for when it comes to ESG products? People have invested now around \$2 Trillion into funds labeled “ESG,” “green,” and the like.

But, it is not clear to me that we understand these investors’ objectives, which (as the subcommittee’s preliminary recommendation states) may fall outside risk/return alone.

How do you design and market products tailored to investors’ interests?

- To the extent you are focusing on minimizing risk and achieving high returns, what E, S, and G information specifically do you believe you need from issuers, and why?

How is this information related to valuing potential targets for investment and valuing portfolio companies on an ongoing basis?

- I would like to understand how asset managers are currently seeking out this information.

I know some request companies provide SASB or TCFD disclosures, or they seek the information in a different manner. How do you choose which approach to take?

- How have European disclosure mandates, such as the Sustainable Finance Disclosure Regulation, factored into this decision-making?
- To the extent that you are looking to increase comparability of issuers’ disclosure, why is this important in the case of ESG? In other contexts,

we do not demand perfect comparability across all categories of material information.

These questions are all relevant to the concept of materiality—figuring out exactly which ESG information is material is a threshold issue for me as I think about the SEC considering new disclosure requirements.

### *For Everyone*

The next questions are for all panelists and our moderator.

The subcommittee’s preliminary recommendation contemplates that the SEC rely on a third-party standard setter to identify what information is material.

How should the SEC oversee such a third party?

Should we extend our oversight further, for example, to ESG-index providers and ESG-rating agencies, since so many “ESG” funds and investment products are derivative of their work?

### *For Companies*

The remainder of my questions are for those panelists who represent public companies. The bulk of the obligations in the subcommittee’s preliminary recommendation would fall on your shoulders.

How could the burden could be mitigated for companies who are working with investors to provide them with ESG information?

I understand that liability is one concern, and there may be others.

Were the SEC to require new ESG disclosures, should we consider allowing them to be furnished rather than filed? Should we consider a safe harbor, dependent on particular conditions such as the presence of cautionary language?

### *Conclusion*

While I am nowhere near the end of my questions, I will stop here for now. I look forward to the discussion today, but also encourage everyone to consider sharing your views in the public comment file, which Acting Chair Lee recently opened on these topics.

Finally, my door is open to anyone who wants to discuss these matters directly with me.

## COVID-19: a watershed for the FSB's work agenda

Launch of the International Regulatory Strategy Group report 'Global Solutions to Global Problems: Promoting Regulatory Coherence in Financial Services for Pandemic Recovery' - Remarks by Dietrich Domanski, Secretary General, Financial Stability Board



Thank you for the invitation to be with you today. This is a timely event, coming almost a year to the day that global equity markets experienced the worst drop since Black Monday in 1987, triggered by the epic shock of the COVID-19 pandemic.

Since then, the pandemic has fundamentally altered our lives, at a very personal level as well as professionally. COVID-19 has also marked a watershed in the work of the Financial Stability Board.

As the first serious test of the resilience of the global financial system since the 2008 financial crisis, COVID19 has provided us with a real-life assessment of the global regulatory framework put in place after 2008 and of international cooperation on financial stability through the FSB.

I would like to elaborate on what this watershed means for the FSB's work in 2021 and beyond.

I'll focus on three themes:

- first, the need to address the lessons learned from COVID-19 for financial stability;
- second, the need to harness the benefits of innovation to support a strong and sustainable recovery from the pandemic; and
- third, the importance of global cooperation, not least to preserve an integrated global financial system.

### *Addressing the lessons learned from COVID-19 for financial stability*

To an important extent, this greater resilience is due to the regulatory reforms enacted post 2008.

The Basel III framework, the shift to mandatory central clearing, and steps taken to end too-big-to-fail have all helped to make the core of the global financial system more resilient.

At the same time, the market turmoil last March has underscored the need to strengthen resilience in non-bank financial intermediation, or NBFIs.

With the overall growth of NBFI – due to market driven adjustments and the G20 regulatory reforms – market liquidity has become more central to financial resilience.

Last March, the ‘dash for cash’ resulted in liquidity mismatches that overwhelmed key funding markets.

Public authorities needed to take a wide range of measures to support liquidity and the supply of credit to the real economy.

These developments define the key areas of a very active FSB policy work agenda for 2021: The first is to draw lessons from COVID-19 for financial stability, including whether the reforms the G20 put in place following the 2008 financial crisis are working as intended, and where they may not be.

We will look at the use of capital and liquidity buffers by financial institutions, and how well crisis management and operational resilience arrangements have functioned.

This work will also examine whether and how procyclicality has affected the financial system.

We will work on these issues in coordination with standard-setting bodies (SSBs), and provide the G20 with an interim report on initial lessons learned in July and a final report in October.

Any lessons learned at this stage will be preliminary, but it is important for us to critically assess our actions.

The second area is CCP financial resources. Recent periods of market turmoil have further demonstrated the positive effect that central clearing can offer for global financial stability.

However, the shift to central clearing has also further increased the systemic importance of central counterparties, as we knew it would.

To this end, the FSB will collaborate with the Committee on Payments and Market Infrastructures and International Organization of Securities Commissions on work that will consider the need for – and develop as appropriate – international policy on the use, composition and amount of financial resources necessary to strengthen the resilience and resolvability of CCPs further, in default and non-default loss scenarios.

Last, but certainly not least, one area where we have already started to draw lessons is NBFI. We have embarked on a comprehensive and ambitious work programme to strengthen the resilience of the NBFI sector while preserving its benefits.

The work programme includes:

- (i) work to address specific risk factors that contributed to amplification of the shock;
- (ii) work to enhance our understanding of systemic risks in NBFI; and
- (iii) investigating policies to address systemic risks in NBFI.

A key focus this year is to develop policy proposals to enhance the resilience of money market funds (MMFs).

The structural vulnerabilities in some types of MMFs relate to the greater role of liquidity risk I mentioned before: liquidity mismatches in MMFs and investors' perception of these funds as being equivalent to cash.

Identifying policy options to enhance MMF resilience will include consideration of the appropriate structure of the MMF sector itself and the role of potential vulnerabilities in the underlying short-term funding markets.

We are working in close collaboration with SSBs and plan to publish a consultative report, with policy proposals to enhance MMF resilience, in July.

To read more: <https://www.fsb.org/wp-content/uploads/S180321.pdf>



## U.S. Economic Outlook and Monetary Policy

Vice Chair Richard H. Clarida, at the 2021 Institute of International Finance Washington Policy Summit, Washington, D.C.



It is my pleasure to meet virtually with you today at the 2021 Institute of International Finance (IIF) Washington Policy Summit. I regret that we are not doing this session in person, but I do hope next time we will be gathering together in Washington.

I look forward, as always, to a conversation with my good friend and one-time colleague Tim Adams, but first, please allow me to offer a few remarks on the economic outlook, Federal Reserve monetary policy, and our new monetary policy framework.

### *Current Economic Situation and Outlook*

In the second quarter of last year, the COVID-19 pandemic and the mitigation efforts put in place to contain it delivered the most severe blow to the U.S. economy since the Great Depression.

Gross domestic product (GDP) collapsed at a roughly 31.5 percent annual rate in the second quarter of 2020, more than 22 million jobs were lost in March and April, and the unemployment rate rose from a 50-year low of 3.5 percent in February to almost 15 percent in April.

Since then, economic activity has rebounded, and it is clear that the economy has proven to be much more resilient than many forecast or feared one year ago. GDP grew by almost 8 percent at an annual rate in the second half of last year, and private forecasters project that GDP will grow roughly 6 percent—and possibly 7 percent—this year.

As shown in the latest Summary of Economic Projections (SEP), the median of Federal Open Market Committee (FOMC) participants' projections for 2021 GDP growth is 6.5 percent.

If these projections are realized, GDP will grow at the fastest four-quarter pace since 1984. And, as this is a virtual meeting of the IIF, I would be remiss if I did not highlight that if these projections for U.S. economic activity are realized, rising U.S. imports will serve as an important source of external demand to the rest of the world this year and beyond.

As with overall economic activity, conditions in the labor market have recently improved. Employment rose by 379,000 in February, as the leisure and hospitality sector recouped about two-thirds of the jobs that were lost in December and January. Nonetheless, employment is still 9.5 million below its pre-pandemic level for the economy as a whole.

The unemployment rate remains elevated at 6.2 percent in February, and once one factors in the decline in the labor force since the onset of the pandemic and the misclassification of some workers on temporary layoff as employed, the true unemployment rate is closer to 10 percent.

It is worth highlighting that in the baseline projections of the FOMC presented in the latest SEP released last week, my colleagues and I substantially revised up our outlook for the economy, projecting a relatively rapid return to levels of employment and inflation consistent with the Federal Reserve's statutory mandate as compared with the recovery from the Global Financial Crisis. In particular, the median FOMC participant now projects the unemployment rate to reach 4.5 percent at the end of this year and 3.5 percent by the end of 2023.

With regards to inflation, the median inflation projection of FOMC participants is 2.4 percent this year and declines to 2 percent next year before moving back up to 2.1 percent in 2023.

Over the next few months, 12-month measures of inflation are expected to move temporarily above our 2 percent longer-run goal, owing to a run of year-over-year comparisons with depressed service-sector prices recorded in the spring of 2020 and supply bottlenecks limiting how quickly production can respond in the near term.

However, I expect most of this increase to be transitory and for inflation to return to—or perhaps run somewhat above—our 2 percent longer-run goal in 2022 and 2023.

This outcome would be entirely consistent with the new framework we adopted in August 2020 and began to implement at our September 2020 FOMC meeting. In our new framework, we aim for inflation outcomes that keep inflation expectations well anchored at 2 percent.

This means that following periods when inflation has been running below 2 percent—as has been the case for most of the past decade—monetary policy will aim for inflation to moderately exceed 2 percent for some time. And this brings me to the next topic.

**Recent FOMC Decisions and the New Monetary Policy Framework**  
At our most recent FOMC meetings, the Committee made important changes to our policy statement that upgraded our forward guidance about

the future path of the federal funds rate and asset purchases, and that also provided unprecedented information about our policy reaction function.

As announced in the September statement and reiterated in the following statements, with inflation running persistently below 2 percent, our policy will aim to achieve inflation outcomes that keep inflation expectations well anchored at our 2 percent longer-run goal.

We expect to maintain an accommodative stance of monetary policy until these outcomes—as well as our maximum-employment mandate—are achieved. We also expect it will be appropriate to maintain the current target range for the federal funds rate at 0 to 1/4 percent until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment, until inflation has risen to 2 percent, and until inflation is on track to moderately exceed 2 percent for some time.

In addition, in our December FOMC statement, the Committee combined our forward guidance for the federal funds rate with enhanced, outcome-based guidance about our asset purchases.

We indicated that we will continue to increase our holdings of Treasury securities by at least \$80 billion per month and our holdings of agency mortgage-backed securities by at least \$40 billion per month until substantial further progress has been made toward our maximum-employment and price-stability goals.

The changes to the policy statement that we made over the past few FOMC meetings bring our policy guidance in line with the new framework outlined in the revised Statement on Longer-Run Goals and Monetary Policy Strategy that the Committee approved last August. In our new framework, we acknowledge that policy decisions going forward will be based on the FOMC's estimates of "shortfalls [emphasis added] of employment from its maximum level"—not "deviations."

This language means that going forward, a low unemployment rate, in and of itself, will not be sufficient to trigger a tightening of monetary policy absent any evidence from other indicators that inflation is at risk of moving above mandate-consistent levels. With regard to our price-stability mandate, while the new statement maintains our definition that the longer-run goal for inflation is 2 percent, it elevates the importance—and the challenge—of keeping inflation expectations well anchored at 2 percent in a world in which an effective-lower-bound constraint is, in downturns, binding on the federal funds rate.

To this end, the new statement conveys the Committee's judgment that, in order to anchor expectations at the 2 percent level consistent with price

stability, it will conduct policy to achieve inflation outcomes that keep long-run inflation expectations anchored at our 2 percent longer-run goal.

As Chair Powell indicated in his Jackson Hole remarks, we think of our new framework as an evolution from "flexible inflation targeting" to "flexible average inflation targeting."

While this new framework represents a robust evolution in our monetary policy strategy, this strategy is in service to the dual-mandate goals of monetary policy assigned to the Federal Reserve by the Congress—maximum employment and price stability—that remain unchanged.

### *Concluding Remarks*

While our interest rate and balance sheet tools are providing powerful support to the economy and will continue to do so as the recovery progresses, it will take some time for economic activity and employment to return to levels that prevailed at the business cycle peak reached last February. We are committed to using our full range of tools to support the economy until the job is well and truly done to help ensure that the economic recovery will be as robust and rapid as possible.

## Central bank digital currencies: putting a big idea into practice

Agustín Carstens, General Manager, Bank for International Settlements, Peterson Institute for International Economics (PIIE) discussion on Central Bank Digital Currencies



### *Introduction*

Thank you very much to Adam Posen and to the Peterson Institute for the invitation to speak here today. It is a pleasure to be here, even if virtually. I am grateful for the role the Peterson Institute has played through the years in promoting both domestic and international policy dialogue.

Central bank digital currencies, or CBDCs, are the topic of my talk today, and indeed the talk of the town. Many central banks are hard at work on research and development.

The Central Bank of the Bahamas recently launched its Sand Dollar, and the People's Bank of China is conducting a large-scale pilot of the so-called electronic yuan, or e-CNY.

In the United States, the Federal Reserve System is doing extensive research on CBDCs, including work with MIT. At the Bank for International Settlements (BIS), our new Innovation Hub is complementing this work with multiple projects on CBDCs.

We are also conducting research on the economics of CBDCs, and supporting dialogue among central banks through the BIS committees. And certainly, there is a lively public and academic debate on CBDCs, including in the United States on proposals for a digital dollar. Yet, once we scratch the surface of this debate, there are fundamental questions.

How does a CBDC differ from today's money? What would a CBDC mean for users, central banks, financial institutions and the international monetary system? I will outline how we can put this big idea into practice. I will argue that CBDCs are a technologically advanced representation of central bank money. If well designed, they could offer a safe, neutral and final means of settlement for the digital economy.

CBDCs appear similar to payment vehicles provided by other infrastructures, such as retail fast payment systems. These systems are

being rolled out around the world and make funds available to the payee in real, or near-real, time.

Indeed, retail CBDCs, retail fast payment systems, and supporting 24/7 wholesale payment systems form a continuum of potential improvements to the payment system. However, I will argue that the unique characteristics of central bank money distinguish CBDCs both from commercial bank money and from cryptocurrencies and stablecoins.

Building on that, I will discuss CBDCs from the user perspective. I will outline the operations involved in a system with CBDCs, and the role of financial institutions.

Finally, I will discuss the possible impact on the international monetary system, where I feel that some clarifications are in order.

Contrary to some of the hyperbole around international currency competition, central banks' work on CBDCs is a global collaborative effort.

To read more: <https://www.bis.org/speeches/sp210331.pdf>

## Treasury-Federal Reserve cooperation and the importance of central bank independence

Christopher J Waller, Member of the Board of Governors of the Federal Reserve System, at the Peterson Institute for International Economics, Washington DC.



By way of introduction, I spent the first part of my career as an economics professor and researcher. One of my main fields of inquiry was monetary policy theory. I have long been a strong believer in the virtues of central bank independence, and today I will devote my remarks to that topic.

As a result of the COVID-19 crisis, tremendous monetary and fiscal measures have been taken to provide economic relief to American households and businesses.

The Federal Reserve took a host of actions, including lowering its policy rate to zero and purchasing securities to support market functioning and provide monetary accommodation.

The Congress enacted several packages that funded the health response to the pandemic, expanded unemployment insurance, and provided economic assistance payments to households and businesses.

The virus also created uncertainty and turbulence in financial markets, which led the Federal Reserve to establish emergency lending programs to serve as lending backstops and support the flow of credit to households, businesses, nonprofits, and state and local governments.

Establishing these programs under section 13(3) of the Federal Reserve Act required substantial cooperation between the Department of the Treasury and the Federal Reserve.

The Congress has provided spending of roughly \$5.8 trillion during the past year to deal with the pandemic and its effects on the economy. This action has pushed the ratio of publicly held U.S. debt to nominal gross domestic product to more than 100 percent for the first time since World War II.

The Federal Reserve's holdings of U.S. government debt has risen to around \$7 trillion, with about \$2.5 trillion of that total resulting from its

asset purchase program aimed at smoothing credit market functioning and providing monetary accommodation.

Because of the large fiscal deficits and rising federal debt, a narrative has emerged that the Federal Reserve will succumb to pressures:

- (1) to keep interest rates low to help service the debt and
- (2) to maintain asset purchases to help finance the federal government.

My goal today is to definitively put that narrative to rest. It is simply wrong.

Monetary policy has not and will not be conducted for these purposes.

My colleagues and I will continue to act solely to fulfill our congressionally mandated goals of maximum employment and price stability. The Federal Open Market Committee (FOMC) determines the appropriate monetary policy actions solely to move the economy towards those goals.

Deficit financing and debt servicing issues play no role in our policy decisions and never will. Chair Powell made this same point in his recent comments to the Economic Club of New York.

My objective today is to reinforce that message.

To read more: <https://www.bis.org/review/r210330a.pdf>



Financial Stability Institute - FSI Insights on policy implementation No 31  
**Supervising cryptoassets for anti-money laundering**  
Rodrigo Coelho, Jonathan Fishman and Denise Garcia Ocampo



*Supervision of cryptoasset service providers (CSPs) remains nascent globally.*

While AML/CFT international standards are in place, most jurisdictions have just begun to implement and enforce them.

Across the countries surveyed for this study, there is a range of stages of development, with some countries still finalising their regulations and a small number performing more active supervision, such as conducting examinations and taking enforcement actions.

In most cases, however, effective implementation remains a work in progress. As a result, the state of supervision could be best described as in flux, and this study constitutes a snapshot in time.

*As jurisdictions finalise regulation, the key question remains as to who and which activities fall within the regulatory perimeter.*

Regulatory treatment for CSPs is contingent on the risks posed by both the type of cryptoasset(s) offered by the CSP and the activity in which firms engage.

Authorities have chosen different criteria for categorising cryptoassets across various jurisdictions and differed in definitions of related activities that would fall into the regulatory scope.

Notwithstanding this heterogeneity, authorities largely agree on the application of the basic principle of “same business, same risks, same rules”.

*The question in turn depends on the authorities’ assessment of which risks posed by cryptoassets and related activities should be captured by regulation and, in such case, whether those risks are captured by existing regulation or whether there is a gap that needs to be addressed.*

For gaps in AML/CFT regulation, implementing international standards, particularly those issued by the Financial Action Task Force (FATF), should provide a solid basis for effective AML/CFT compliance and guidance.

An additional challenge relates to the identification of the underlying economic function of the financial services that providers offer, particularly when novel instruments and operating models do not conform to existing definitions.

*Overall, most supervisors have an open dialogue with the private sector and provide an “on-ramp” period for service providers.*

The continuing difficulty for supervisors and the private sector in defining which natural or legal persons are covered by cryptoasset regulation and the generally limited level of knowledge of AML/CFT regulatory requirements in the private sector compared with what exists in more traditional financial services requires partnership between the public and private sectors.

While providers are ultimately responsible for understanding and implementing their obligations, extensive outreach and a gradual “on-ramp” of supervision are consistent with the launch of new regulations and a rapid evolution in this industry. Such an approach helps to prevent widespread lack of effective compliance.

*While much work remains on implementation, most jurisdictions have performed or are in the process of performing an AML/CFT national risk assessment.*

These assessments largely conclude that the risks associated with cryptoassets are relatively high or have grown over the last few years, and such assessments should provide a strong basis for calibrating regulation and supervision.

However, some assessments could use greater depth and others have not been made public. Where jurisdictions do not publicise at least the key conclusions of their assessments, they miss an opportunity to educate the public, especially in such a new and evolving sector.

In addition, the lack of published risk assessments may make AML/CFT risk decisions, such as customer risk scoring in onboarding processes, more difficult for supervisors and the private sector.

*Enforcement actions remain limited in number and have been undertaken by very few jurisdictions, leaving room for improvement.*

This is partly because of the recency of regulation in most jurisdictions. In jurisdictions where such actions have been taken, the sanctioned conduct often has an element of unregistered activity or fraud.

Given the importance of public and transparent enforcement actions to

demonstrate authorities' commitment to implementing regulations and the role of these actions in helping the overall AML/CFT system to mature, further attention is needed in this area.

Having said that, more enforcement actions are expected in the future as the supervisory frameworks in many jurisdictions mature.

*The travel rule is a binding FATF obligation, but most jurisdictions have not effectively implemented it.*

A number of jurisdictions question whether they can reasonably impose the travel rule on CSPs until there are technological solutions available that would make compliance less onerous, as SWIFT does for correspondent banking.

Surveyed authorities also raised concerns that if these technological solutions were not commonly accepted or interoperable, compliance with the travel rule would remain burdensome.

Other jurisdictions, however, are implementing the rule now since it is currently feasible, albeit difficult.

Those that have implemented this requirement could offer an example for those that have yet to do so.

*P2P transactions pose challenges, but views differ as to their magnitude.*

Some jurisdictions consider these transactions as the equivalent of cash exchange and believe the risk they pose falls within the risk tolerance of the FATF standards and national regulation.

This is particularly the case where authorities expect P2P transactions to remain limited in number, with most of these assets passing through CSPs before they can be used.

The availability of ledger analytic tools to track these assets also partially tempers the concern among some authorities regarding P2P transactions as it suggests transparency is achievable. However, others believe the comparison to cash is not exactly apt and have concerns related to the disintermediation P2P transactions may represent.

Moreover, there is a distinct risk that P2P transactions will grow rapidly in scale, especially as cryptoassets become more widely accepted. The potential risks posed by P2P transactions seem to suggest that additional mitigation measures may be needed. In any case, many jurisdictions need a clearer assessment of the risks to guide their decisions going forward.

*There is an opportunity to adopt new approaches that take advantage of the inherently data-rich nature of the cryptoasset sector.*

Authorities are committed to supporting responsible financial innovation while also ensuring adequate supervision. New supervisory methods and suptech applications could help pursue this balance and maximise their resources.

That should allow them to make more intensive use of data and technological tools like blockchain analytics to improve the effectiveness of their supervisory frameworks.

*International cooperation to oversee this sector effectively is key.*

The inherently crossborder nature of cryptoassets, as well as the uneven global implementation of international standards in this area, make international cooperation a critical component for effective supervision.

This is especially true in view of how new the sector is. Supervisors appear to have the necessary legal authorities and channels for international cooperation in place, but actual use of them is another area requiring improvement.

To read more: <https://www.bis.org/fsi/publ/insights31.pdf>

## The issues – cultural property

There is a lucrative black market in cultural property with strong links to organized crime



### *Cultural property in conflict zones*

During the last decade, our world has witnessed a considerable increase in the destruction of cultural heritage due to armed conflict.

This has been accompanied by the organized looting, illicit trafficking and sale of cultural objects that were an integral part of a country's heritage, history and identity.

Crimes against cultural heritage do not just strike at objects. The destruction of heritage is linked to persecution of individuals and communities on cultural grounds. This can also represent a security and stability issue, and a war crime.

### *Cultural heritage is also underwater*

Underwater cultural heritage includes monuments, shipwrecks and artefacts, which have been under water for at least 100 years.

These sites are exposed daily to a range of critical challenges, notably plunder, trade, fishing and the extraction of natural resources. In addition, underwater archaeological sites are regulated by extremely different national legislations worldwide.

### *Which objects are most frequently stolen?*

The majority of art thefts are carried out from private homes but museums and places of worship are also common targets.

The type of objects stolen varies from country to country but generally speaking, paintings, sculptures, statues and religious items are very sought after by thieves.

However, no category is spared, including such antique items as artifacts, books, furniture, coins, weapons and gold and silverware.

### *Illicit excavation of items*

Another phenomenon is the illicit excavation of archaeological and paleontological items. This is especially disturbing since it can damage historical sites and reduce the opportunity to know more about them – when an item is removed from its site, its scientific value is lost and it holds only economic value.

*Fake art and artifacts on the market*

Fake works of art pollute the legitimate market. The problem of the enormous amount of forgeries flooding into the market is an extremely complex phenomenon, and disrupting networks involved in it requires a high level of expertise.

To read more: <https://www.interpol.int/Crimes/Cultural-heritage-crime/The-issues-cultural-property>

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