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Monday, March 12, 2018

Top 10 risk and compliance management related news stories and world events that (for better or for worse) shaped the week's agenda, and what is next

Dear members and friends,

If Sam Woods (deputy governor for Prudential Regulation of the Bank of England) is right, I had a week full of fun and joy. Most of the time I was reading regulations, including the implementation challenges of the Solvency II directive.

Sam started his speech at the Association of British Insurers (Annual Conference 2018) with the words:
"I will begin this speech with a bold claim: insurance regulation is fun!"

Walt Disney has said that it's kind of fun to do the impossible. And Walt was not affected by these low interest rates for so long. Also, Scrooge McDuck always had a well diversified portfolio.

Just kidding. This is a great speech. Especially because Sam's whole phrase was: "I will begin this speech with a bold claim: insurance regulation is fun! This is just as well, because it is half of what we do at the PRA. Parliament very wisely decided to put prudential regulation of banks and insurers together in one institution following the financial crisis."

I believe this is great British humor, but I don't know if Sam means it, as in British humor there is usually almost undetectable sarcasm that lightens even the most unfortunate, miserable moments.

Sam continued: “I think this works very well, because there are many synergies. Both sectors provide critical services to the real economy, bringing customers' money directly onto their balance sheets. And I would argue, for instance, that the basic qualities which make a good chairperson aren't materially different between banking and insurance.

But there are also very big differences. An annuity writer is nothing like a building society. London Market underwriters I have sat next to do a very, very different thing to what goes on in banks. The eighty actuaries we employ as part of our insurance division speak a different language from our risk specialists sat on the floor above them at 20 Moorgate.”

This is very interesting. I have heard that *a computer is an actuary with a heart.* No, Sam Woods didn’t say that. He also didn’t say that an actuary is someone who brings a fake bomb on a plane, because that decreases the chances that there will be another bomb on the same plane.

Read more at Number 3 below. Welcome to the Top 10 list.

Best Regards,

George Lekatis

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Number 1 (Page 8)

Supervision in a post-Basel III world

Keynote address by Mr Agustín Carstens, General Manager of the BIS, at the 13th Asia-Pacific High-level Meeting on Banking Supervision, Singapore.

“One key development in the past year has no doubt been the finalisation of Basel III. It is a landmark achievement that significantly strengthens the capital and liquidity shock absorbers within the global banking system and at individual banks.”

Number 2 (Page 15)

The European Cyber Security Challenge: Lessons Learned report

Both the growing need for IT security professionals and skills shortage are widely acknowledged.

To help solve this, multiple countries have initiated national cybersecurity competitions for students, security professionals and even non-IT professionals, all with a common goal: find cyber talents and encourage all of them to pursue a career in cybersecurity.

The European Cyber Security Challenge (ECSC) builds upon these competitions adding a pan-European layer.

Number 3 (Page 17)

Looking out for the policyholder

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 Annual Conference 2018, London.

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This is just as well, because it is half of what we do at the PRA. Parliament very wisely decided to put prudential regulation of banks and insurers together in one institution following the financial crisis."

Number 4 (Page 20)

Brief thoughts on the financial regulatory system and *cybersecurity*

Randal K Quarles, Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System, at the Financial Services Roundtable 2018 Spring Conference, Washington DC.

"As I have said before, we have an opportunity to improve the efficiency, transparency, and simplicity of regulation. We have spent the past decade building out and standing up the post-crisis regulatory regime, and as a result we have made critical gains. The financial system is undoubtedly stronger and safer. We have robust capital and liquidity levels, an effective stress testing regime, and improved resolvability of our largest firms."

Number 5 (Page 23)

PCAOB - William D. Duhnke III was sworn as Chairman

The Public Company Accounting Oversight Board announced that William D. Duhnke III was sworn as Chairman. The ceremony took place at the Securities and Exchange Commission.

"I am pleased to lead the PCAOB in its mission to protect Main Street investors and promote public trust in quality audits of public companies whose securities trade in U.S. markets," said Chairman Duhnke. "As the other new Board members join the PCAOB, I look forward to developing a collaborative and consensus-based approach to PCAOB's programs and operations and advancing sustainable audit quality that benefits the capital markets."

Number 6 (Page 24)

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

Mario Draghi, President of the European Central Bank, before the Hearing at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels.

"The two issues you have chosen for today's debate are very topical and I will address them in turn. I will first discuss the euro area inflation outlook and the main factors impacting on the relationship between growth and inflation. I will then emphasise the relevance of financial market infrastructures for monetary policy."

Number 7 (Page 31)

EIOPA recommends further simplifications and improvements to the calculation of capital requirements

- EIOPA issued its second and final set of Advice to the European Commission on the Solvency Capital Requirement (SCR) standard formula.

- EIOPA recommends further simplifications and improvements to the calculation of capital requirements.

Number 8 (Page 34)

Prospects for, and obstacles to, greater proportionality in regulation - a supervisor's perspective

Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the second Regional Banking Conference of the State of Hesse, Brussels.

When I was asked to speak to you here today about the prospects for, and obstacles to, greater proportionality in banking regulation, I jumped at the opportunity - and I did so because this is a topic that is especially close to my heart.

Number 9 (Page 42)

Ransomware infects Colorado Department of Transportation IT system

International media reports suggest that ransomware infected computers at the Colorado Department of Transportation (CDOT) on 21 February, encrypting files and requesting payment in Bitcoin to restore them.

CDOT is responsible for managing and maintaining roads as well as monitoring traffic in the US state of Colorado, but no critical operational IT systems are believed to have been affected.

The organisation has taken 2,000 computers offline as a precaution to isolate those infected and prevent the malware spreading.

Employees are making use of personal devices as well as cloud services to continue to work, although reports suggest that some processes, such as contract bids/tendering and payment of employee wages, are being delayed.

Number 10 (Page 44)

Slowing Biological Time to Extend the Golden Hour for Lifesaving Treatment

Biostasis aims to prevent death following traumatic injury by slowing biochemical reactions inside cells

When a Service member suffers a traumatic injury or acute infection, the time from event to first medical treatment is usually the single most significant factor in determining the outcome between saving a life or not.

Number 1

Supervision in a post-Basel III world

Keynote address by Mr Agustín Carstens, General Manager of the BIS, at the 13th Asia-Pacific High-level Meeting on Banking Supervision, Singapore.

Introduction

Ladies and gentlemen, good morning.

I am delighted to join you today at my first Asia-Pacific High-level Meeting on Banking Supervision. I would like to thank the organisers for the invitation. Let me also take this opportunity to extend my gratitude to the Monetary Authority of Singapore for their warm hospitality and superb organisational arrangements.

One key development in the past year has no doubt been the finalisation of Basel III. It is a landmark achievement that significantly strengthens the capital and liquidity shock absorbers within the global banking system and at individual banks.

The finalisation of Basel III is a reminder of the public good that can be achieved with international cooperation, but this does not mean that we can now let our guard down and be complacent. Indeed, the heavy lifting for banking organisations and prudential authorities - that is, effective implementation of the new rules and robust supervision in the post-crisis environment - has only just begun.

In that context, my remarks will not be about the regulatory reforms but will give emphasis to the less glamorous yet equally important subject of day-to-day supervision. As all of you are undoubtedly aware, no amount of financial buffers - even those under Basel III - can ever be a substitute for effective supervision. The overall theme that I would like to convey will

therefore be "going back to basics" - that is, alongside the new regulatory framework, effective supervision remains essential for fostering the safety and soundness of both individual banks and the broader financial system.

Indeed, the demands placed on supervisors are greater than ever. On the one hand, they must be able to digest and oversee a complex set of new rules. On the other, they must also have a nuanced understanding of each regulated entity's overall risk profile and be able and willing to take actions at an early stage, perhaps well before there is tangible evidence of deterioration in a bank's financial condition.

The latter responsibility, in particular, is critical because effective supervision is countercyclical in nature and can be much more powerful than any regulatory-oriented countercyclical tools that have been developed post-crisis.

With this in mind, I will talk about three key challenges in the conduct of effective supervision:

- first, the need to maintain and, if necessary, improve the monitoring of the main traditional sources of risks, such as asset quality deterioration and provisioning;

- second, to adjust the scope of supervisory reviews to address new risks, such as those associated with technological developments; and

- third, to develop and utilise new forward-looking supervisory tools to enhance the supervisory review of both traditional and emerging sources of risk.

Asset quality

One key area of supervisory focus is asset quality and credit risk - that's the single biggest form of risk in most banking systems, including in Asia.

Loans typically comprise the largest portion of bank assets in most jurisdictions; therefore, the quality of the loan portfolio drives an institution's earnings capacity and is a good barometer of its financial health.

With this in mind, the supervisory review of asset quality plays a key role in assessing a firm's overall risk profile and in determining whether the

minimum regulatory capital requirements are sufficient in relation to a bank's identified risks.

As an example, during cyclical upswings - as is the case in many Asian countries that have benefited from favourable economic conditions, low real rates of interest, continued capital inflows, rapid credit growth and rising asset prices - loan underwriting standards and credit administration practices of banks may come under pressure.

Strong, proactive supervision can flag degradations in credit origination standards to a bank's board and senior management at an early stage. Through thematic reviews, supervisors can also determine whether a relaxation of credit underwriting has become an industry-wide issue. In these cases, the insights provided by supervisors can help inform whether changes to prudential policy or possibly macroprudential measures are needed.

When problem assets do build up, supervisors also play a crucial oversight role in ensuring the timely identification and measurement of non-performing assets. It is hard to believe but, until April 2017, when the Basel Committee on Banking Supervision (BCBS) issued guidance on the prudential treatment of problem assets, there was no globally harmonised definition of a "non-performing exposure".

With this publication, supervisory authorities now have a basis to adopt a uniform definition for a non-performing asset (NPA) - and to enforce its application through on-site supervision - which should, one hopes, foster an early identification of NPAs.

Another crucial aspect of dealing promptly with problem loans is to ensure that loan loss provisions are adequate to absorb incurred and expected losses. Indeed, unless there is integrity in the loan loss provisioning process, it is meaningless to assess capital adequacy, even under Basel III.

This is because underfunded provisions necessarily overstate both reported earnings and regulatory capital. Consider also that a 5% decline in loan values will eliminate the minimum Common Equity Tier 1 capital requirements under Basel III.

For these reasons, supervisors play a critical oversight role to ensure that banks conduct rigorous provisioning practices on NPAs. At the same time, I am aware that in many jurisdictions - although less so in Asia - provisions are governed solely by applicable accounting rules and there are limits to

what supervisors can do unless they have sufficient powers. From my vantage point, there is a case for prudential supervisors to seek powers, if not yet available, to impose adjustments to regulatory capital when accounting provisions are insufficient to cover expected losses from a prudential perspective.

Fintech and cyber-security

While supervisors need to stay focused on traditional risks, such as poor asset quality, they also need to be mindful of innovations that can have a bearing on prudential supervision.

Fintech - the use of technology in the delivery of financial services - provides a unique opportunity to democratise finance, while it also raises a range of old risks and introduces new ones.

In this regard, it may be useful to note that a recent BCBS paper on the implications of fintech developments on banks and supervisors assesses how technology-driven innovation in financial services may affect the banking industry and the activities of supervisors.

I am aware that fintech issues will be covered extensively at this High-level Meeting. Therefore, I will limit my remarks to three issues that can have an effect on existing supervisory processes as a means to highlight the broader supervisory implications unleashed by fintech.

1. Credit underwriting: Our traditional view of credit underwriting standards is being transformed in the fintech space, where players use "big data" and mine information from social media to develop algorithms in evaluating creditworthiness.

Supervisors need to understand these methodologies not only to perform backward-looking analysis when a loan turns sour, but also to spot evolving problems. A key question here is how supervisors will judge the quality of credit underwriting under these new methodologies.

2. Scale and speed of fintech: Fintech by its nature has both a need (small-sized, high-volume transactions) and ability to scale much faster than traditional banks. Therefore, the notion of what constitutes "rapid growth" - a traditional area of concern for supervisors - will be challenged by the fintech model.

In this regard, supervisors need to be particularly astute in their supervisory risk assessments, as any underlying problems that go undetected can multiply much more quickly than what supervisors may be accustomed to.

3. Cyber-security: Cyber-risk is a key area of concern, particularly as more consumers and businesses rely on digital platforms to transact financial services. Authorities are taking different approaches to regulating and supervising cyber-risks.

On the regulatory front, differences begin at a fundamental level, starting with whether the nature of cyber-risk is amenable to specific regulatory requirements. Supervisory approaches are also evolving and practices appear to be an extension of their existing risk-based supervisory frameworks that cover technology and cyber-risks.

Whether existing approaches are sufficient to address the growing threat posed by cyber-attacks must now become a key area of supervisory focus. Designing a "fit for purpose" regulatory and supervisory regime applicable to technological developments is a formidable challenge.

Regulators have a difficult balancing act, as they need to ensure all relevant risks are contained, provide a level playing field, and at the same time foster an innovative, competitive and secure financial ecosystem that can be trusted.

Back to basics: make supervision more forward-looking

I mentioned at the beginning of my remarks that effective supervision is an essential complement to the regulatory reforms. One simple way to think about the Basel III reforms is to view them as enhanced capital and liquidity buffers that need to be contextualised against the various risks a banking organisation is inherently exposed to (that is, credit, market, interest rate, liquidity, operational, business and other material risks). An assessment of these risks - and how well they are managed - can only be addressed through the practice of supervision.

Indeed, it is only through the supervisory review process that supervisors can form opinions of an institution's overall risk profile, which, in turn, drives a range of supervisory actions designed to address problems at an early stage, before earnings and capital of the bank are affected.

Arriving at such decisions, however, is easier said than done. It requires the exercise of sound judgment backed by critical analysis. Let me provide one example to illustrate.

Perhaps the leading indicator of a bank's future risk profile is the quality and effectiveness of a bank's governance and risk management practices. Supervisors are usually expected to take actions when risk management shortcomings are identified, depending on the nature of their findings. But what exactly constitutes "sound risk management"? And at what point do weaknesses in risk management become a supervisory concern?

There are no simple answers. Yet, given the significance of these assessments in constraining excessive risk-taking at banks, opportunities exist to share methodologies and exchange views among supervisors and - I might add - risk managers at banks, to achieve mutually desired outcomes.

Since the financial crisis, more emphasis has been placed on the development of new supervisory tools that have come to be labelled as "forward-looking supervision".

These tools include supervisory scrutiny of the sustainability of business models; a review of compensation arrangements to ensure that incentives do not encourage excessive risk-taking; and an assessment of the culture and behaviour of banks, in some cases through the use of behavioural psychologists.

Collectively, these new supervisory methodologies are welcome developments, but only time will tell whether these tools can be effective in applying early intervention measures while a bank's financial condition remains sound.

Concluding remarks

Let me conclude with three key messages:

- First, completion of the Basel III reforms is a significant milestone and provides much needed regulatory certainty to the banking sector.

- Second, effective supervision continues to be an important, but sometimes forgotten, element of the post-crisis reforms. It provides context to, and reinforces, Basel III. In a post-crisis world, supervisors will need to stay focused on traditional risks such as asset quality. At the same time, they must keep an eye on emerging risks, such as the

evolving fintech landscape and the way it can transform our traditional approaches to identifying and assessing risk. In both cases, they will need to utilise new forward-looking assessment tools and to better employ existing ones to identify and resolve problems at an early stage.

- And third, although it may not be sufficiently emphasised, perhaps the most powerful countercyclical tool available to prudential authorities is their army of front-line supervisors. They are the eyes and ears of policymakers and they see first-hand the impact of, for instance, monetary policy decisions on bank behaviour and risk-taking. Working in concert with risk managers at banks, supervisors are best positioned to say "no", even when society and indeed some governments are saying "yes".

With these considerations in mind, I believe that our Financial Stability Institute (FSI) can play a key role in advancing the supervisory agenda. Through its publications and outreach events such as this High-level Meeting, the FSI facilitates the exchange of supervisory experiences and approaches on a range of prudential issues. It also contributes to capacity-building for supervisors around the world.

I therefore wish you a productive meeting with fruitful discussions. Thank you very much for your attention.

Number 2

The European Cyber Security Challenge: Lessons Learned report

Both the growing need for IT security professionals and skills shortage are widely acknowledged.

To help solve this, multiple countries have initiated national cybersecurity competitions for students, security professionals and even non-IT professionals, all with a common goal: find cyber talents and encourage all of them to pursue a career in cybersecurity.

The European Cyber Security Challenge (ECSC) builds upon these competitions adding a pan-European layer.

The ECSC is an initiative of multiple European countries supported by the European Union Agency for Network and Information Security (ENISA) that aims at engaging cybersecurity talent across Europe and connecting high potentials.

This report contains a detailed list of the lessons learned from previous ECSCs, of which the key takeaways are:

- The quality of the ECSC is crucial in meeting the participants' expectations. The scenario, stability and complexity of the platform used during the ECSC are key success factors in order to provide a challenging competition that attracts top cyber talent from all over Europe.

- Public relations and communication activities are key in order to meet the objectives on participation and sponsorship.

- The event agenda should be tailored to the participants needs and expectations, and include activities that relate to their interests and subject matter expertise.

- Given the current growth objectives of the ECSC (plus five countries per year), solid back-office processes regarding the organisation of the event are necessary to meet the rising quality expectations from stakeholders. This includes, amongst others, a proper governance structure with clear roles, responsibilities, decision-making, agreed-upon principles and rules with regard to fair play and transparency.

- Sharing lessons learned and recommendations between organisers and participating states is crucial in order to improve the quality of the event and implement best practices.

To read more:
https://www.enisa.europa.eu/publications/the-european-cyber-security-challenge-lessons-learned-report

Number 3

Looking out for the policyholder

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 Annual Conference 2018, London.

I will begin this speech with a bold claim: insurance regulation is fun!

This is just as well, because it is half of what we do at the PRA. Parliament very wisely decided to put prudential regulation of banks and insurers together in one institution following the financial crisis.

I think this works very well, because there are many synergies. Both sectors provide critical services to the real economy, bringing customers' money directly onto their balance sheets. And I would argue, for instance, that the basic qualities which make a good chairperson aren't materially different between banking and insurance.

But there are also very big differences. An annuity writer is nothing like a building society. London Market underwriters I have sat next to do a very, very different thing to what goes on in banks. The eighty actuaries we employ as part of our insurance division speak a different language from our risk specialists sat on the floor above them at 20 Moorgate.

Much of the time, this insurance activity goes on underneath the radar, relative to banking. But in recent months, the spotlight of the Treasury Select Committee (TSC) has swung onto this area, and we have all been enjoying the debate!

Many hours have been spent highlighting the biblical scale of the reporting requirements, the wickedness of the risk margin calculations, the mystical nature of the Ultimate Forward Rate...I could extend this list tenfold.

Then we have had a rather more pointed exchange about whether we at the PRA have been over-zealous in our implementation of Solvency II, perhaps

damaging competition, or making life too difficult for insurance companies, or denying the nation of vital new infrastructure by being too cautious about insurers' investment strategies, or all three!

All of these are important topics, and in the course of the debate I am as guilty of focusing on them as anyone else. Indeed, I will double-down by talking about some of them again today. So for those of us inside the insurance beltway, this is a very useful and timely debate and I think it is a great thing that the TSC has taken an interest.

Can we make our implementation of Solvency II work better? In my opinion, despite some inevitable differences of view, there is in fact a strong degree of agreement between us, the TSC and the industry about the answer to that question.

Where is the policyholder?

However, in all the blizzard of insurance and regulatory jargon, I think something has been missing from our discussions. Where is the policyholder? Through our statutory objectives, Parliament has asked us to look out for the policyholder – but in an environment where insurance is provided by private sector firms.

This means that other actors – particularly firms' management, employees, shareholders and creditors – have an important role and a valid claim on our deliberations. As the regulator we need somehow to balance these various interests as best we can, but we do have a particular duty to represent the interests of the policyholder.

How should we go about delivering this responsibility? The best way into that question is to ask another one: why do we bother to regulate insurance companies at all?

We all in this room probably take for granted that we need prudential regulation of insurers; but every now and then I think it is worth reminding ourselves why this is so.

Insurance comes in many different forms and many people rely on insurance for their livelihoods. Some rely on insurance proceeds to ensure they have a comfortable retirement. Some rely on insurance pay-outs following a serious accident, for example from a workplace injury or a car crash.

Insurance allows us to go about our daily lives secure in the knowledge that there is a financial safety net should we get into trouble. And this is a huge business – for instance, in the UK there are around 6 million pension annuities in force and around 27 million motor insurance policies.

We give money to insurance companies trusting that they will make good on their promise to us, in the event that an insured risk crystallises. 'Trust' is the key word here, as many people cannot reliably assess whether an insurer will be able to fulfil its financial promise if the need ever arises.

It can be very expensive to switch insurers and so people can find themselves 'locked in' with the same insurer. And depending on the nature of the contract and claim, it may be months or years before a claim either arises or is fully settled.

Even if they do have the right information, it would be unreasonable to expect individuals to be able to exert a strong disciplining effect on insurers. Even the best-informed retail policyholder would not be able to make sure that an insurer holds adequate reserves to pay claims, that it does not grow excessively by taking on too much risk, or that it does not under-price in an unsustainable manner to attract new business.

We have seen the significant human cost that can be associated with insurance failures. A prominent example is the fate of over a million policyholders when Equitable Life came to the brink of collapse in 2000.

Equitable was forced to close to new business, after it found it could no longer honour its promises on offering guaranteed annuity rates on its products.

Many of its customers, aged 75 and over, had invested their life savings into these products but were left with significantly reduced retirement income.

Ten years later, the Government agreed to pay compensation amounting to £1.5 billion. But many policyholders and their families suffered over the decade when their fate remained uncertain, and some of those affected were no longer alive to benefit personally from the compensation.

To read more:
https://www.bis.org/review/r180302d.pdf

Number 4

Brief thoughts on the financial regulatory system and *cybersecurity*

Randal K Quarles, Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System, at the Financial Services Roundtable 2018 Spring Conference, Washington DC.

Thank you very much for having me here at the Financial Services Roundtable's spring meeting. I am pleased to speak with you all about our financial regulatory system: both the broad principles that have been directing my approach to evaluating the regulatory system, as well as cybersecurity, which is a topic of great import to financial system participants and their regulators.

Efficiency, Transparency, and Simplicity of Regulation

As I have said before, we have an opportunity to improve the efficiency, transparency, and simplicity of regulation. We have spent the past decade building out and standing up the post-crisis regulatory regime, and as a result we have made critical gains. The financial system is undoubtedly stronger and safer. We have robust capital and liquidity levels, an effective stress testing regime, and improved resolvability of our largest firms.

But at the same time, it is our responsibility to ensure that those rules are effective. And if we identify rules that are not working as intended, we should make the necessary changes. With the benefit of hindsight and with the bulk of our work behind us, now is a natural and expected time to evaluate the effectiveness of that regime.

Our efforts toward implementing those principles are underway. Federal Reserve Board staff members continue the review that I have previously outlined. The goal is to consider the effect of past regulatory initiatives on the resiliency of our financial system, on credit availability and economic

growth, and more broadly, their costs and benefits. I am confident that that review will reveal some clear ways that we can improve the core post-crisis reforms.

Cybersecurity

Let me now turn from regulation to supervision, and more specifically, to the topic of cybersecurity, which continues to be a high priority for the Federal Reserve.

The Federal Reserve is committed to strategies that will result in measureable enhancements to the cyber resiliency of the financial sector.

Given the dynamic and highly sophisticated nature of cyber risks, collaboration between the public sector and private sector toward identifying and managing these risks is imperative.

While we know that successful cyber attacks are often connected to poor basic information technology hygiene, and firms must continue to devote resources to these basics, we also know that attackers always work to be a step ahead, and we need to prepare for cyber events.

Many of you provide services that are critical to maintaining the functionality of the financial system. Those critical services should be highly resilient. But at the same time, some of the solutions in place to improve the resiliency of those critical services may actually contribute to a cyber event.

One example would be the replication of bad data across data centers. As the Federal Reserve thinks about its financial stability mandate, this concern will be a particular focus. Solutions will not come easily, but I am confident that with strong public and private efforts, solutions will emerge.

The Federal Reserve also focuses on the sharing of threat information and collaborates with a number of partners toward protective mechanisms. We work with other domestic agencies as well as international authorities, and we have partnerships between the public and private sectors to introduce and participate in programs that combat the increasingly frequent and sophisticated cyber threats.

Specifically, we collaborate with government and industry partners to plan and execute cybersecurity tabletop exercises focused on identifying areas where sector resilience and information sharing can be enhanced. We also

participate in community and industry outreach forums and actively share threat intelligence with sector partners including the Financial Services Information Sharing and Analysis Center (FS-ISAC). And we encourage financial institutions to work collectively through arrangements such as FS-ISAC so that threat information can be shared promptly and effectively.

Collaboration among many stakeholders on cybersecurity is critical to progress. The Federal Reserve has been working with, and will continue to work with, other financial regulatory agencies on harmonizing cyber risk-management standards and regulatory expectations across the financial services sector.

Specifically, we are focused on aligning our expectations with existing best practices, such as the National Institute of Standards and Technology's Cybersecurity Framework, and identifying opportunities to further coordinate cyber risk supervisory activities for firms subject to the authority of multiple regulators.

We support industry efforts to improve harmonization across the sector, which are complementary to achieving our regulatory safety and soundness goals.

Conclusion

The Federal Reserve continues to work toward improving both post-crisis regulation and our approach to cybersecurity.

I hope that my intention to lay out the broad principles guiding us as we move forward was helpful. And while many of the areas will require additional work and may not have fast results, the Federal Reserve is committed to getting it right, and I look forward to those efforts.

Number 5

PCAOB - William D. Duhnke III was sworn as Chairman

The Public Company Accounting Oversight Board announced that William D. Duhnke III was sworn as Chairman. The ceremony took place at the Securities and Exchange Commission.

"I am pleased to lead the PCAOB in its mission to protect Main Street investors and promote public trust in quality audits of public companies whose securities trade in U.S. markets," said Chairman Duhnke. "As the other new Board members join the PCAOB, I look forward to developing a collaborative and consensus-based approach to PCAOB's programs and operations and advancing sustainable audit quality that benefits the capital markets."

Immediately prior to joining the PCAOB, Chairman Duhnke served as majority staff director and general counsel of the U.S. Senate Committee on Rules and Administration under Chairman Richard C. Shelby. The committee has jurisdiction over the rules and administration of the Senate and leads the strategic planning and implementation process for the functional and technical infrastructure support of the Senate.

Earlier, Chairman Duhnke twice served as the staff director and general counsel for the Senate Committee on Banking, Housing, and Urban Affairs. The committee has oversight and legislative jurisdiction over a wide array of matters affecting financial services, including oversight responsibility for financial regulators such as the SEC and the PCAOB.

A Wisconsin native, Chairman Duhnke served in the U.S. Navy, rising to Lieutenant and serving in The White House.

You may read Chairman Duhnke's full biography at:
https://pcaobus.org/About/Board/Pages/WilliamDDuhnke.aspx

Number 6

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

Mario Draghi, President of the European Central Bank, before the Hearing at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels.

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

I am glad to be back at the European Parliament for my first hearing of this year before your Committee.

The two issues you have chosen for today's debate are very topical and I will address them in turn. I will first discuss the euro area inflation outlook and the main factors impacting on the relationship between growth and inflation. I will then emphasise the relevance of financial market infrastructures for monetary policy.

In doing so, I will explain why the central bank of issue needs to have the necessary tools to address possible risks in a limited number of areas which are crucial from the perspective of its monetary policy mandate.

Inflation, growth and the ECB's monetary policy

As I said in my introductory statement to the European Parliament plenary earlier this month, the euro area economy is expanding robustly.

Growth is stronger than previously expected and more evenly distributed across sectors and geographies than at any time since the financial crisis. According to the latest data, the euro area economy grew by 2.5% in 2017,

reflecting strong domestic momentum in private consumption and investment.

These positive developments have been fostered and supported by the pass-through of the ECB's monetary policy measures, which have significantly eased borrowing conditions for households and firms, notably also for small and medium-sized enterprises.

Considering all of the monetary policy measures taken between mid-2014 and October 2017, the overall impact on euro area growth and inflation is estimated, in both cases, to be around 1.9 percentage points cumulatively for the period between 2016 and 2020.

Our measures have put the euro area economy on a solid growth pathway, driven by endogenous domestic dynamics and thus more resistant to a potential slowdown in global demand.

At the same time, inflation has yet to show more convincing signs of a sustained upward adjustment.

After lingering at levels well below 1% for three years, with occasional dips into negative territory, euro area headline inflation has fluctuated between 1.3% and 1.5% since May last year.

Annual inflation stood at 1.3% in January.

The changes in headline inflation have been driven by movements in the more volatile components, namely energy prices and, to a lesser extent, food prices.

Measures of underlying inflation - which we monitor for their information content concerning inflation dynamics - have remained subdued. Inflation excluding energy and food was 1% in January, and has ranged between 0.9% and 1.2% since April 2017.

Let me now focus on the factors behind these moderate inflation developments from a longer-term perspective.

The recent period of low inflation may appear surprising from a cyclical perspective given that we have seen positive economic growth over the past four years, supporting a steady and gradual absorption of economic slack. This has raised the question of which factors, cyclical or structural, may have played a role in the growth-inflation relationship.

A comprehensive analysis by the Eurosystem has concluded that adverse cyclical factors have played a crucial role in explaining low underlying inflation.

These notably consisted of dampened economic activity and high unemployment in the aftermath of the sovereign debt crisis, and subsequently subdued foreign demand and low oil prices.

Yet, these factors are of a temporary nature and should not affect inflation over a medium-term horizon, even though they might impact on the speed of adjustment in inflation.

Moreover, given the uncertainty surrounding the measurement of economic slack, the true amount may be larger than estimated, which could slow down the emergence of price pressures.

This is particularly visible in the labour market, where wage growth has remained subdued despite strong employment gains. Nonetheless, these factors should wane as the economic expansion continues and unemployment further declines.

In fact, wage growth in the euro area has already picked up recently and the labour market is expected to improve further.

On the structural side, globalisation may have reduced the responsiveness of inflation to domestic cyclical conditions but empirical evidence for the euro area is not clear-cut.

Other potential factors include demographic trends or changes in behaviour triggered by technological developments, which may contain price pressures, for instance through increased price transparency. However, even if these factors are somewhat more persistent, they should still not exert a permanent impact on inflation.

Overall, the analysis indicates that the relationship between growth and inflation remains largely intact, even if it has temporarily weakened in recent years to the extent that the speed of adjustment in inflation towards our aim has been affected.

Looking ahead, we anticipate that headline inflation will resume its gradual upward adjustment, supported by our monetary policy measures. At the same time, uncertainties continue to prevail. In particular, the recent volatility in financial markets, notably also in the exchange rate, deserves

close monitoring with regard to its possible implications for the medium-term outlook for price stability.

Therefore, while the strong momentum of the euro area economy has clearly strengthened our confidence in the inflation outlook, patience and persistence with regard to monetary policy is still needed for inflation to sustainably return to levels of below, but close to, 2%.

In fact, the evolution of inflation remains crucially conditional on an ample degree of monetary stimulus provided by the full set of our monetary policy measures: our net asset purchases, the sizeable stock of acquired assets and the forthcoming reinvestments, and our forward guidance on policy interest rates.

The relevance of central clearing for monetary policy and the role of the central bank of issue

Let me now turn to the interactions between financial market infrastructures and monetary policy, which you have chosen as a topic for today's hearing.

This is indeed an important and timely issue, particularly in relation to central clearing, on which I will focus today.

Allow me to recall the important role played by central counterparties - or CCPs - in financial markets: by interposing themselves in a network of financial transactions, CCPs reduce counterparty credit risk and increase market transparency.

However, under crisis conditions, the disruption of clearing activities can have a significant negative impact on our ability to conduct monetary policy tasks.

For instance, it may cause significant liquidity strains for CCP users, which in many cases are also our monetary policy counterparties.

In particular, these strains may arise from large and sudden calls to provide additional resources to a CCP under stressed market conditions.

In addition, disturbances affecting a CCP active in the money markets can impair normal monetary policy transmission channels. These are just two examples of the links between the operation of CCPs and the transmission of monetary policy.

While these links are not new, they now warrant closer attention for two reasons.

First, the financial system has come to rely more on central counterparties.

The introduction of mandatory central clearing requirements in response to the crisis has made financial markets safer and more transparent.

This is in large part thanks to the European Parliament's push for stronger financial regulation, such as the European Market Infrastructure Regulation (EMIR).

While this strengthening is of course welcome, it also means that CCPs have become more systemic.

Second, the United Kingdom's decision to leave the EU means that, under the current legislative regime, several CCPs clearing significant volumes of euro-denominated business will be operating outside the framework of EU regulation and the safeguards this provides.

In this context, the Commission's EMIR II proposal, currently being discussed by this committee, is a welcome and necessary initiative.

The existing regime was never intended to cope with large-scale euro-denominated clearing activities being carried out in a country outside the EU.

The EMIR II proposal would enable EU authorities to directly supervise systemically important third-country CCPs on the basis of EU regulatory requirements using EU supervisory instruments.

The proposal provides for an enhanced role for the central bank of issue in this context, reflecting the strong links between clearing and monetary policy.

The indispensable corollary to the EMIR II proposal is the recommendation to amend Article 22 of our Statute, which was unanimously adopted by the ECB's Governing Council last June.

The General Court in Luxembourg held in its judgment in 2015 that it would be for the ECB to request the EU legislature to amend Article 22, should the ECB consider that having the power to regulate CCPs is necessary for the proper performance of its tasks under the Treaties.

In particular, revising Article 22 is a necessary step for us to carry out the tasks foreseen under EMIR II. Considering the risks the ECB faces with regard to the implementation and transmission of its monetary policy, it is imperative that it be equipped with the necessary tools vis-à-vis CCPs, particularly in a crisis situation.

I want to make clear that such measures would aim to address risks in a limited number of areas which are crucial for the implementation of the single monetary policy and the smooth operation of payment systems, which ultimately affect our primary objective of maintaining price stability as mandated by the Treaties.

Areas of particular relevance from this perspective are liquidity arrangements, settlement processes, collateral, margins and interoperability arrangements.

Let me add that such measures would only be triggered in the event of a clear threat to the conduct of our monetary policy, and would in no way encroach upon the prerogatives of CCP supervisors or the frameworks established by EU legislators.

The ECB will act only within its competence, which is to formulate and implement the monetary policy of the euro area.

Furthermore, any measures taken on this basis would need to be proportionate, and fully justified by the need to fulfil our monetary policy tasks.

I also want to stress that, as a rule, the implementation of the regime for non-EU countries should continue to rely as much as possible on cooperation with, and deferral to, local authorities.

Let me also stress the crucial importance of finalising the adoption of key pieces of EU legislation - such as EMIR II - well in advance of Brexit, in order to be prepared for all possible contingencies, including a no-deal scenario.

Failing to do so could leave central banks and supervisors without the appropriate tools to handle the risks linked to systemic euro CCPs operating outside the umbrella of EU regulation.

Naturally, we are available to provide any assistance in the context of these discussions.

Finally, we should not overlook the systemic cross-border implications of central clearing within the EU. We should therefore also strive to achieve enhanced supervisory convergence within the Union.

This would contribute to ensuring the integrity of the Single Market and a level playing field, consistent with the objectives of the capital markets union. The European Parliament can play a key role in furthering these objectives.

Conclusion

Let me conclude.

Our monetary policy measures have had tangible benefits for the euro area economy. Further policy initiatives are however needed to reduce vulnerabilities, strengthen resilience in crisis situations and increase growth potential. Only ambitious policies will deliver concrete benefits for the people of Europe.

This is also what our common history tells us. This year marks the 25th anniversary of the Single Market and of the Maastricht Treaty's entry into force.

Those were bold decisions and we continue to benefit from them today: goods, people, services and capital can move freely and EU legislation ensures that commensurate rights and obligations apply throughout our Union. With the creation of Economic and Monetary Union (EMU) we went further by adopting the single currency.

It is in this spirit that I look forward to the coming months and the pivotal discussions we will have on reforming EMU governance.

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

Number 7

EIOPA recommends further simplifications and improvements to the calculation of capital requirements

- EIOPA issued its second and final set of Advice to the European Commission on the Solvency Capital Requirement (SCR) standard formula.

- EIOPA recommends further simplifications and improvements to the calculation of capital requirements

- EIOPA's ultimate goal is to ensure a proportionate and technically robust, risk-sensitive and consistent supervisory regime for the insurance sector

The European Insurance and Occupational Pensions Authority (EIOPA) submitted its second and final set of Advice to the European Commission.

Previously, EIOPA submitted a first set of Advice to the European Commission in October 2017.

Reflecting developments in the insurance sector and in the wider environment, EIOPA recommends a mixture of revised calibrations, simplifications and, where needed, proposals to achieve greater supervisory convergence.

The availability of more recent data requires revised calibrations in a number of areas such as natural catastrophe risks, assistance and medical expenses, as well as legal expenses risks.

EIOPA advises to further simplify calculations for natural, man-made and health catastrophes, in particular fire risk and mass accident.

Other simplifications include the treatment of look-through to underlying investments.

With respect to the treatment of unrated debt and unlisted equity, EIOPA outlines circumstances and recommends objective criteria, such as financial ratios, when these important asset classes can be given the same treatment as rated debt and listed equity.

In the area of the calculation of interest rate risk, where the current approach does not cater for negative interest rates and is not effective when interest rates are low, EIOPA recommends new calibrations that take recent evidence such as negative rates into account.

In some areas the analyses of recent developments do not provide for sufficient reason to change the calibrations.

That is the case for mortality and longevity risks, but also for the cost-of-capital, the latter one of the key elements of the risk margin.

Other elements of the risk margin should be assessed in the upcoming overall review of the Solvency II regime due in 2021.

As a follow-up to its analysis of the loss-absorbing capacity of deferred taxes (LACDT), which showed divergent supervisory practices of 25% of LAC DT, EIOPA has developed a set of key principles to strike a reasonable balance between flexibility and to foster greater supervisory convergence.

For example, these principles specify the assumptions for projecting future profits after a loss based on credible evidence.

The Advice is accompanied by a full impact assessment, which considers the overall impact of both sets of Advice and provides an assessment of the components of this second Advice.

It also reflects the intensive engagement with stakeholders since the start of the exercise in 2016.

Gabriel Bernardino, Chairman of EIOPA, said: “EIOPA’s goal is to simplify the supervisory regime to remove technical inconsistencies and at the same time to ensure that Solvency II remains fit for purpose, proportionate, technically robust, risk sensitive and consistent.
In changing economic circumstances the proposed adjustments to the capital requirements are necessary.

With the SCR review, EIOPA has started a rigorous, evidence-based and transparent review of the Solvency II regime."

Number 8

Prospects for, and obstacles to, greater proportionality in regulation - a supervisor's perspective

Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the second Regional Banking Conference of the State of Hesse, Brussels.

1. Introduction

Ladies and gentlemen

I would like to start by thanking you very much for the warm welcome and for inviting me to this event.

When I was asked to speak to you here today about the prospects for, and obstacles to, greater proportionality in banking regulation, I jumped at the opportunity - and I did so because this is a topic that is especially close to my heart.

Let's take a look back: when the debate first started in 2016, I sought to have the Bundesbank review whether smaller credit institutions were unduly burdened by regulation. And once we were able to show clear signs of this, I decided that the Bundesbank should be quick to turn the debate towards potential solutions.

This is all the more important to us because we regard diversity as a key attribute, not only in nature and our society but also in our economy and the banking sector.

After all, diversity is crucial to economic development, too - it means increased competition for the best approaches, more choice in decision-making, and greater innovation.

Today, I have been presented with the task of talking about regulatory proportionality from a supervisor's perspective.

As you have already heard what the credit institutions have to say, I need only give a rough overview of the reasons for greater proportionality and the burdens weighing on smaller institutions.

Instead, I will focus on the prospects for, and obstacles to, greater proportionality, before wrapping things up by outlining what greater proportionality in the EU might look like.

2. Why do we need greater proportionality?

The arguments in favour of greater proportionality are myriad - you have doubtless spoken about many of the reasons for it at this conference already. And, as far as banking supervisors are concerned, too, there are strong arguments as to why greater regulatory proportionality is needed.

Now that the financial crisis is over, we have stricter rules and a common European approach to supervision in the form of Basel III and the banking union. These rules are mainly geared towards large banks with international ties, which is not exactly surprising considering these banks were the ones at the epicentre of the crisis.

In Europe, however, the international standards since Basel I have been applied to all banks. In this sense, we have a single rulebook for the EU that is designed to guarantee a level playing field. That's one side - the bright side - of the coin.

On the flip side - the tarnished side, so to speak - this unity has come at much too a high cost to smaller and medium-sized institutions ever since Basel II.

The Basel III reforms have made it even harder for these banks, as the rules are getting more and more complicated and explicit, and the list just keeps getting longer.

This is increasing the compliance workload - that is, the effort associated with meeting the requirements as well as demonstrating that they have been met.

In fact, these rules are well suited to the lion's share of increasingly complicated banking business - but the reality is that not all banks and

savings banks have as complex a set-up as is assumed under the new framework.

After almost a decade of regulatory reform, the international community of banking supervisors has been asking itself a number of questions for some time now.
In which areas are reforms counterproductive? Where are they disproportionate? To come to the point straight away, we can only answer these questions if we start by looking at the excessive strain placed on smaller and less complex institutions.

3. Opportunities and obstacles: reduce operational burden, retain minimum capital and liquidity requirements

What, then, do the burdens faced by smaller and medium-sized institutions look like? There is one point I would like to make quite clear. The problem is not so much capital or liquidity requirements but rather the high operational burden as a result of implementing these regulations and complying with them.

This burden is considerable for all institutions, regardless of their size. However, small institutions, owing to their smaller staff sizes, are far less able to spread the costs of compliance across their employees and have to either hire additional staff or enlist external help. This tends to lead to proportionally higher burdens.

The diagnosis is therefore clear: small and medium-sized institutions are, to a certain extent, groaning under the weight of increasingly complex regulation, which often goes above and beyond the level of complexity seen in their business models.

But what is the right course of action? Before we administer any form of medication, I would like to outline three principles that need to govern treatment.

First, financial stability must remain our primary concern. In concrete terms, this means that institutions that are systemically important or pursue a risky business model cannot expect any easing of requirements.

Second, the concept of the rule of law means, in short, that all relief measures must conform to the principle of equal treatment.

Third, treatment is likely to be most effective where discomfort is greatest - in other words, it should target the day-to-day burden for institutions with low-risk business models. Any easing of solvency or liquidity rules is out of the question.

Allow me to expand on the last point: virtually all smaller institutions already meet capital and liquidity requirements. Recently, when finalising Basel III, we saw to it that smaller institutions, in particular, would not be unduly burdened. While globally systemically important institutions are now subject to slightly stricter requirements commensurate with risk, small and medium-sized banks have scarcely been affected - in fact, requirements have been eased for many small German institutions.

To put it in no uncertain terms, sufficient capitalisation and liquidity is the most important line of defence for banking supervision and financial stability. With that in mind, there can be no leeway as far as this is concerned.

4. Greater proportionality in the EU

Within the framework of the principles I just mentioned, new treatments are providing considerable scope for banking regulation that is more proportionate for, and thus more reconcilable with, smaller and less complex institutions.

In the EU, work on this was kicked off in 2016 with an initiative launched by the finance ministers of the United Kingdom and Germany. As this topic has also kept us at the Bundesbank very busy, we had our say a short time later by presenting initial concrete proposals for increasing proportionality in Europe. We have been working on improving and fine-tuning our proposals ever since.

As part of its general overhaul of EU banking regulation, the European Commission put forward proposals for strengthening the principle of proportionality.

The European Parliament then produced a draft report, on which it was possible to submit comments until recently. While completing the report is not the final step, it's nevertheless an important step for the legislative process.

At this point, I would like to say a special word of thanks to rapporteur Peter Simon for his excellent work. The proposals for eased requirements in

the areas of disclosure and reporting are highly extensive and, to my mind, a very welcome development.

Furthermore, we consider it a good thing that the thresholds are to be raised for trading book institutions. It is much to my regret, however, that a general approach - such as the small banking box - was rejected. I'll come back to this shortly.
Without wishing to anticipate the final result of the legislative process, I would like to paint a picture of how we, as German banking supervisors, need to tackle the issue of proportionality in the EU. With that in mind, let's turn our attention to three key questions: who, how, and what?

Let's begin with "who", as in who should be subject to eased requirements. As I have already mentioned, we are focusing on small institutions. In other words, the target group comprises institutions with a manageable level of total assets.

The problem is that the definition of "manageable" varies from country to country in the EU. In order to account for this heterogeneity, we will probably set an absolute threshold value for total assets combined with a relative threshold value that takes national GDP into account.

This quantitative threshold value will be accompanied by additional criteria in order to prevent institutions with riskier business models from benefiting from simplified rules.

Thus, banks to which reduced requirements apply are not permitted to use internal models; they ought to have a small trading book and carry out derivatives transactions to a limited extent only; and they may not participate to any meaningful extent on the capital market or in cross-border activities.

But as experience has taught us that it is all but impossible to draw up an exhaustive list of criteria covering all eventualities, the final decision must rest with the supervisors. And, of course, banks should ultimately also have the opportunity to reject their classification as such an institution.

Now let's turn to "how". There are basically two potential ways of improving proportionality here.

First, we could take a small-scale approach and introduce simplifications and exceptions for individual rules.

Second, we could create a whole new framework that is specifically tailored to small banks and low-risk institutions. The second solution would be further-reaching and clearer-cut. But at present, the majorities in Europe appear to favour the small-scale solution.

And then we still have to consider "what". It is important the emphasis lies on reducing the administrative workload and minimising the red tape. The measures we are currently reviewing include exceptions to disclosure requirements, reductions in the granularity of reporting requirements and a simplified form of the net stable funding ratio (NSFR).

In deciding which areas could potentially be simplified, we must weigh up the benefits of regulation - that is to say, the preservation of financial stability - against the costs generated for the private sector. Essentially, all regulations that are non-essential to effective supervision are up for discussion.

Conversely, that also means that many rules are not up for debate, however. As I have already mentioned, no concessions can be made, in particular, when it comes to the risk-weighted capital ratio, the leverage ratio or the short-term liquidity coverage ratio.

One other aspect, I believe, is particularly crucial. The business models of small banks are neither generally simple nor automatically low-risk - and that is especially true when seen in their entirety.

A supervisory system that works according to the principle of proportionality therefore needs to be simple but also robust. Financial stability must not be jeopardised under any circumstances.

5. Finalised Basel III standard must be implemented proportionately

For the same reason - that is, to strengthen financial stability - it is very important that we implement the recently finalised Basel III package fully in the EU. After all, that's no less than we expect of the US and the other member countries of the Basel Committee.

But as I see it, full implementation of the Basel III rules doesn't mean that all banks need to be affected by these highly complex rules to the same extent. To recap, the Basel standards are primarily aimed at internationally active banks.

In this regard, member countries of the Basel Committee are free to apply other rules to smaller banks that are only active in their own home markets and do not pose a threat to international financial stability. And this is the framework we should largely use when revising the EU rules.

For instance, when it comes to a review of the trading book, we at the Bundesbank are in favour of retaining the simple, standardised approaches that are currently in place for small institutions with small trading books. Although the new, complex standardised approach is all well and good for institutions that engage in substantial trading activity, I don't think they are suited to locally based savings banks or people's banks.

We also support the idea put forward by the European Commission and the European Parliament of excluding development banks from the scope of the CRD/CRR regulatory framework.

Given, above all, the particularities of the business models of German development banks and their public mandate, I fail to see why these institutions should be subject to complex international regulation.

In this respect, we at the Bundesbank strongly support the concept of a criteria-based exemption rule for development banks.

We are also calling for institutions with total assets in excess of €30 billion to be covered by an exemption.

In doing so, we are going beyond the European Commission's draft proposal. The report published by the European Parliament, too, follows a similar train of thought under certain conditions - which means that it's now up to the German negotiators in Brussels to set the right course.

So what I am saying is that when implementing the Basel III reforms in the EU, the rules must be applied in full to internationally active banks.

But when it comes to smaller banks that are not internationally active, first, we should focus specifically on reducing the operational burden by scaling back or removing inappropriately complex rules.

And second, we need to check whether it would be possible to exempt entire groups of institutions such as development banks from the European regulation.

6. Conclusion

Ladies and gentlemen, the euro area is experiencing impressive economic growth again for the first time in a decade.

A differentiated banking system is a key pillar of the economy - and I am convinced that this diversity makes our economy more dynamic and more resilient.
And we must be careful not to burden this differentiated banking system unnecessarily through regulation. For us, as supervisors and regulators, this means addressing parts of the banking regulation that have become overly complex.

We should not place any disproportionate obstacles in the way of small institutions and savings banks. It is now up to the European Parliament, the EU Council of Ministers and the European Commission to pave the way for substantial improvements.

Together with my banking supervision colleagues at the Bundesbank, I will continue to strive for greater proportionality in banking supervision. The current developments in Brussels give us reason to be optimistic.

Number 9

Ransomware infects Colorado Department of Transportation IT system

International media reports suggest that ransomware infected computers at the Colorado Department of Transportation (CDOT) on 21 February, encrypting files and requesting payment in Bitcoin to restore them.

CDOT is responsible for managing and maintaining roads as well as monitoring traffic in the US state of Colorado, but no critical operational IT systems are believed to have been affected.

The organisation has taken 2,000 computers offline as a precaution to isolate those infected and prevent the malware spreading.

Employees are making use of personal devices as well as cloud services to continue to work, although reports suggest that some processes, such as contract bids/tendering and payment of employee wages, are being delayed.

CDOT have stated that they do not intend to pay the ransom and that data can be recovered using backups.

It remains unclear how CDOT's systems became infected, although the malware involved is believed to be a variant of the SamSam (or Samas) ransomware.

This ransomware has previously affected the education and healthcare sectors in the US, with an Indiana hospital recently paying $55,000 in Bitcoin to get their files back.

We are unaware of any UK organisations being affected by SamSam.

However, these cases highlight the importance of having adequate measures in place to mitigate against the risks associated with such malware infections.

NCSC has published new guidance on how organisations and home users can reduce the likelihood of malware infection:
https://www.ncsc.gov.uk/guidance/mitigating-malware

Number 10

Slowing Biological Time to Extend the Golden Hour for Lifesaving Treatment

Biostasis aims to prevent death following traumatic injury by slowing biochemical reactions inside cells

When a Service member suffers a traumatic injury or acute infection, the time from event to first medical treatment is usually the single most significant factor in determining the outcome between saving a life or not.

First responders must act as quickly as possible, first to ensure a patient's sheer survival and then to prevent permanent disability.

The Department of Defense refers to this critical, initial window of time as the "golden hour," but in many cases the opportunity to successfully intervene may extend much less than sixty minutes, which is why the military invests so heavily in moving casualties as rapidly as possible from the battlefield to suitable medical facilities. However, due to the realities of combat, there are often hard limits to the availability of rapid medical transport and care.

DARPA created the Biostasis program to develop new possibilities for extending the golden hour, not by improving logistics or battlefield care, but by going after time itself, at least how the body manages it.

Biostasis will attempt to directly address the need for additional time in continuously operating biological systems faced with catastrophic, life-threatening events.

The program will leverage molecular biology to develop new ways of controlling the speed at which living systems operate, and thus extend the window of time following a damaging event before a system collapses. Essentially, the concept aims to slow life to save life.

"At the molecular level, life is a set of continuous biochemical reactions, and a defining characteristic of these reactions is that they need a catalyst to occur at all," said Tristan McClure-Begley, the Biostasis program manager.

"Within a cell, these catalysts come in the form of proteins and large molecular machines that transform chemical and kinetic energy into biological processes. Our goal with Biostasis is to control those molecular machines and get them to all slow their roll at about the same rate so that we can slow down the entire system gracefully and avoid adverse consequences when the intervention is reversed or wears off."

The program will pursue various approaches to slowing down biochemical processes in living cells. Ideally, these approaches will scale from simple biological treatments such as antibodies to more holistic treatments applicable to whole cells and tissues, eventually scaling all the way up to the level of a complete organism.

Successful approaches will meet the conditions that the system be slowed across all measurable biological functions and that it do so with minimal damage to cellular processes when the system reverts and resumes normal speed.

"Our treatments need to hit every cellular process at close to the same rate, and with the same potency and efficacy," McClure-Begley said. "We can't focus treatments to interrupt just a subset of known critical processes."

For example, cellular respiration is critical for many cellular processes, but those other processes do not shut down in tandem if respiration is blocked. The maladaptive responses from such an intervention would ultimately kill the cell.

Instead, DARPA is looking for biochemical approaches that control cellular energetics at the protein level. Proteins are the workhorses of cellular functions, and nature offers several examples of organisms that use proteins to help them survive extreme environmental conditions.

Creatures such as tardigrades and wood frogs exhibit a capability known as "cryptobiosis," a state where all metabolic processes appear to have stopped, yet life persists.

In the case of tardigrades—microscopic invertebrates colloquially known as "water bears"—they can survive freezing, near total dehydration, and extreme radiation.

Wood frogs, meanwhile, can survive being frozen completely solid for days on end. And while the specific molecular mechanisms involved in these

animals are very different, they share a common biochemical concept: they selectively stabilize their intracellular machinery.

"Nature is a source of inspiration," McClure-Begley said. "If we can figure out the best ways to bolster other biological systems and make them less likely to enter a runaway downward spiral after being damaged, then we will have made a significant addition to the biology toolbox."

Biostasis is initially aimed at generating proof-of-concept, benchtop technologies and testing their application in simple living systems for experimental validation.

To support eventual transition to patients, DARPA will work with federal health and regulatory agencies as the program advances to develop a pathway for potential, future human medical use.

By the end of the five-year, fundamental research program DARPA hopes to have multiple tools for reducing the risk of permanent damage or death following acute injury or infection.

Similar Biostasis technologies could also extend the shelf-life of blood products, biological reagents, and drugs by reducing reaction times. Early program research is aimed at identifying approaches that can be tested in simple biological systems such as enzyme complexes or cell lines.

If this aspect of the program is successful, these technologies would help to reduce the Defense Department's logistical burden of transporting biological products into the field.

DARPA will hold a Proposers Day webinar on March 20, 2018, at 12:30 PM EDT to provide more information about Biostasis and answer questions from potential proposers. For details of the event, including registration requirements, visit: https://go.usa.gov/xnzqE

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5. Approved Training and Certification Centers (IARCP-ATCCs) - In response to the increasing demand for CRCMP training, the International Association of Risk and Compliance Professionals is developing a world-wide network of Approved Training and Certification Centers (IARCP-ATCCs).

This will give the opportunity to risk and compliance managers, officers, and consultants to have access to instructor-led CRCMP and CISRCP training at convenient locations that meet international standards.

ATCCs use IARCP approved course materials and have access to IARCP Authorized Certified Trainers (IARCP-ACTs).

To learn more:
www.risk-compliance-association.com/Approved_Centers.html