*Monday, November 26, 2018*

Top 10 risk and compliance 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,

Hans Selye, the endocrinologist that examined the response of organisms to stressors, has said that *adopting the right attitude can convert a negative stress into a positive one.*

Sometimes I wonder if the increasing importance of financial stress testing after the 2007 crisis has any connection to the above theory. Turning a negative situation (a challenge) into a positive one (we can weather the storm) is good for the stock price.

There are only two problems:
a. We "passed" one stressed scenario out of over a billion other possible scenarios. We could have failed if we tested other scenarios.
b. We "passed" one "severe but plausible" scenario, making assumptions that … are assumptions, not facts.

Randal K. Quarles, Vice Chairman for Supervision and member of the Board of Governors of the Federal Reserve System, gave an interesting presentation with title "*Beginning Stress Testing's New Chapter"* in Cambridge, Massachusetts. He said:

"In the depths of the financial crisis, the first regulatory stress tests were designed under intense scrutiny with high-stakes consequences. Their contribution--an independent public view of the capital adequacy of the largest firms--helped reinforce the banking system at a critical juncture.

Since then, stress testing has meaningfully increased the post-stress resiliency of large financial institutions, and become a critical tool in keeping the system strong.

Those accomplishments are real, and we should aim to do more than simply preserve them. Now is a prudent time to consolidate the gains we have made, and to promote the efficiency and transparency of our processes."

He continued:

"Today, I want to highlight three elements in particular.

Foremost among these is the volatility of stress test results. Some volatility in annual results is necessary to preserve the dynamism of the stress test, and to reflect changes in macroeconomic conditions, salient economic risks, and the composition of firm balance sheets.

However, when the largest banks in the system are fully meeting their capital requirements, a highly variable capital requirement from year to year can present a significant management challenge.

I believe there is an important balance to strike in this area, which will let us preserve dynamism while reducing volatility, and we plan to seek comment on a relevant proposal in the not-too-distant future.

The second is the sequencing of stress test results with capital plan submissions. Currently, and under the SCB proposal, a firm must decide whether to increase or decrease its planned dividends and share repurchases for the upcoming year without knowledge of a key constraint: the results of the stress test.

Initially, this phasing reflected the view that firms should think rigorously about their capital uses and needs, rather than relying primarily on the results of the supervisory stress test to guide those plans.

However, now that we all have several years' experience with this system, firms have told us that they would be able to engage in more thoughtful capital planning if they had knowledge of that year's stress test results before finalizing their distribution plans for the upcoming year.

I am sympathetic to their concerns, and will ask the Board to adjust the operation of the rule, so that firms know their SCB before they decide on their planned distributions for the coming year.

Of course, we expect firms to continue to maintain robust stress testing practices and use those results to inform their capital distribution plans, and we will continue to use the supervisory process to reinforce this expectation.

The third is the post-stress leverage requirement. As the Federal Reserve has long maintained, leverage requirements are intended to serve as a backstop to the risk-based capital requirements. By definition, they are not intended to be risk-sensitive.

Thus, I am concerned that explicitly assigning a leverage buffer requirement to a firm on the basis of risk-sensitive post-stress estimates runs afoul of the intellectual underpinnings of the leverage ratio, and I would advocate removing this element of the stress capital buffer regime."

The presentation is excellent. Read more at Number 9 below.

I am always amused when I hear the words "severe but plausible" scenario. I remember Francis Bacon, who believed that *truth is so hard to tell, it sometimes needs fiction to make it plausible.*

This fiction is called "assumptions" in stress testing.
Welcome to the Top 10 list.

*Best regards,*

George Lekatis

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*Number 1 (Page 9)*

## 8th annual conference
## Insurance and pensions: Securing the future


According to Gabriel Bernardino, Chairman, European Insurance and Occupational Pensions Authority:

"It gives me great pleasure to welcome you to this year's annual conference, which examines the theme Insurance and Pensions: Securing the Future.

A good supervisor is forward-looking, proactive and preventive. A key trait is to ask not only 'what has happened', but also 'what could happen?' In this context, our conference will look at the key challenges for the insurance and pension industries and how to address these issues."

*Number 2 (Page 11)*

## Cybersecurity – The Right Medicine for the eHealth Sector

ENISA organised the fourth eHealth Security Conference "Towards a medical cybersecurity landscape" in cooperation with the Dutch Ministry of Health.

enisa European Union Agency for Network and Information Security

From regulatory aspects, such as the implementation of the NIS Directive by the EU member states, to the regulations regarding GDRP and medical devices, and the intricacies of cybersecurity incidents in healthcare technologies, the conference offered interesting information to everyone within the area of eHealth – be it policy, operations, manufacturing or information security topics.

## Number 3 (Page 14)

## From extraordinary to normal - reflections on the future monetary policy toolkit

Dr Jens Weidmann, President of the Deutsche Bundesbank and Chairman of the Board of Directors of the Bank for International Settlements, at the European Banking Congress, Frankfurt am Main.

“In October 1929, the great US economist Irving Fisher declared that stock prices had reached what looked like a permanently high plateau. Just days later, the stock market crashed.

This vividly underlines that the present can be a poor guide to the future. When thinking about an economic "new normal", we should always be mindful of possible pitfalls like this one.”

## Number 4 (Page 21)

## Comment Period Extended for Glossary of Key Information Security Terms

Comment Period Extended: Comments on Draft NISTIR 7298 Rev. 3 and the Online Glossary are now due by December 21, 2018 (the original due date was Nov. 30).

NIST
National Institute of Standards and Technology
U.S. Department of Commerce

*Glossary of Key Information Security Terms* - NIST has created an easily accessible repository of terms and definitions extracted verbatim from NIST’s FIPS, Special Publications (SPs), and Internal or Interagency Reports (IRs), as well as from the Committee on National Security Systems Instruction 4009 (CNSSI-4009).

This repository—an online database whose methodology is described in Draft NIST Internal Report (NISTIR) 7298 Revision 3, Glossary of Key

Information Security Terms—is intended to help users understand terminology, recognize when and where multiple definitions may exist, and identify a definition that they can use.

*Number 5 (Page 22)*

## PCAOB Approves Five-Year Strategic Plan and 2019 Budget

PCAOB
Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board approved its 2018-2022 strategic plan and fiscal year 2019 budget in an open meeting. The strategic plan serves as the foundation for the budget and guides the PCAOB's programs and operations.

*Number 6 (Page 26)*

## The outlook for the euro area economy

Mario Draghi, President of the European Central Bank, at the Frankfurt European Banking Congress, Frankfurt am Main, 16 November 2018.

“The euro area economy has now been growing for five years, and we expect the expansion to continue in the coming years. Yet we have recently seen a loss in growth momentum.

In both of the last two quarterly ECB growth projections, our staff has revised down its estimates. Actual data have also been weak. The flash estimate for euro area growth in the third quarter was just 0.2%.

The slowdown has raised questions about the strength of the growth outlook and, in turn, about whether the ongoing convergence of inflation towards our objective will be sustained. I would like to address these questions in my remarks this morning.”

*Number 7 (Page 35)*

## Torrie Miller Matous Named PCAOB Director of Newly Formed Office of External Affairs

The Public Company Accounting Oversight Board announced that Torrie Miller Matous has been named director of the newly formed Office of External Affairs.

*Number 8 (Page 37)*

## National Cybersecurity Career Awareness Week November 13, 2018 to November 17, 2018

National Cybersecurity Career Awareness Week (NCCAW), by the National Initiative for Cybersecurity (NICE), is a week-long campaign focused on increasing awareness about careers in cybersecurity and building a national cybersecurity workforce to enhance America's security and promote economic prosperity.

*Number 9 (Page 39)*

## Beginning Stress Testing's New Chapter

Randal K. Quarles, Vice Chairman for Supervision
"An International Perspective on the Future of Bank Stress Testing"
Symposium sponsored by Harvard Law School Program on International Financial Systems, Cambridge, Massachusetts.

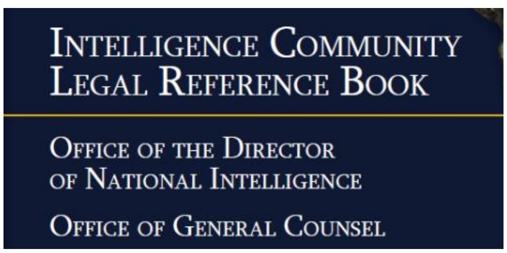
"Looking around the room, I see a mix of past and current colleagues, from academics, to supervisors and central bankers, to researchers and practitioners in industry.

All of you have seen, felt, and lived different aspects of the transition to the post-crisis regulatory framework, and I am grateful to hear your perspectives on such a critical aspect of it.

In the depths of the financial crisis, the first regulatory stress tests were designed under intense scrutiny with high-stakes consequences."

*Number 10 (Page 44)*

Office of the Director of National Intelligence
Legal reference book




The Intelligence Community draws much of its authority and guidance from the body of law contained in this collection. We hope this proves to be a useful resource to professionals across the federal government.

The documents presented in this book have been updated to incorporate all amendments made since the Summer 2009 version through January 3, 2012, at which point the documents were, where possible, verified against the United States Code maintained by The Library of Congress and Westlaw.

*Number I*

## 8th annual conference
## Insurance and pensions: Securing the future


According to Gabriel Bernardino, Chairman, European Insurance and Occupational Pensions Authority:

"It gives me great pleasure to welcome you to this year's annual conference, which examines the theme Insurance and Pensions: Securing the Future.

A good supervisor is forward-looking, proactive and preventive. A key trait is to ask not only 'what has happened', but also 'what could happen?' In this context, our conference will look at the key challenges for the insurance and pension industries and how to address these issues.

The conference includes speeches from distinguished guests as well as panel discussions on the following:

- Supervision of cross-border business: Have the lessons learnt from the crisis been implemented?

- Insurance, pensions and sustainable finance: A long-term relationship.

- Cyber risk and cyber insurance: A new risk or a new opportunity?

As cross-border business increases, the European dimension of supervision becomes increasingly important.

Through our conference, we aim to create a forum for debate, exchanges of information and new ideas.

In this way, bringing together high-level experts and representatives from the financial services industry, national supervisory authorities, consumer representatives, academia and the European Union institutions, we can be sure that a common European approach prevails, benefiting Europe's economy, businesses, policy holders and beneficiaries.

I very much look forward to welcoming you to our conference and hearing your views on the future of insurance and pensions in Europe."

To read more:
https://eiopa.europa.eu/Publications/Events/Annual%20conference%20programme_FINAL.pdf

*Number 2*

## Cybersecurity – The Right Medicine for the eHealth Sector

ENISA organised the fourth eHealth Security Conference "Towards a medical cybersecurity landscape" in cooperation with the Dutch Ministry of Health.

enisa European Union Agency for Network and Information Security

The conference, which was hosted by the Erasmus Medical Centre in Rotterdam, the Netherlands, had around 100 participants and over 20 speakers and panelists.

It tackled various topics related to cybersecurity in the healthcare sector.

From regulatory aspects, such as the implementation of the NIS Directive by the EU member states, to the regulations regarding GDRP and medical devices, and the intricacies of cybersecurity incidents in healthcare technologies, the conference offered interesting information to everyone within the area of eHealth – be it policy, operations, manufacturing or information security topics.

The Executive Director of ENISA, Udo Helmbrecht, said: "Based on our studies, currently, there is a low level of cybersecurity in the healthcare sector.

Some hospitals do not have a Chief Information Security Officer, and there is a general lack of security policies and access control mechanisms.

We need to do our utmost to protect critical healthcare systems, in particular hospitals, and work towards improving the safety of the patients. ENISA has allocated increased resources in the last years to help EU member states identify and overcome threats.

The agency has produced several studies, reports and guidelines on how to improve the cybersecurity level of the eHealth ecosystem. In addition, it has become a tradition to bring together operators of essential services for the 'eHealth Security Conference'.

I want to thank the Dutch authorities for their invaluable support in organising the event this year."

The first session focused on the regulatory framework with healthcare organisations in scope, and mainly covered the following topics:

- the implications of the NIS Directive for hospitals and the added value it brought to the whole ecosystem;

- good practices on how to enable the implementation of GDPR across a state-wide healthcare system;

- facilitating healthcare providers from the regulators' perspective;

- the challenges faced by the industry due to the new requirements of their customers.

The discussions revealed that the primary goal across the sector should be harmonisation.

During the second session, discussions moved to the topic of medical devices' cybersecurity, and speakers and panelists covered the different perspectives of the whole ecosystem and shared their views on the following topics:

- the cybersecurity challenges regarding medical devices are increasing, as they become increasingly interconnected, difficult to patch and directly tied to cyber-physical security;

- the Medical Devices Regulation, and how it changes the landscape of cybersecurity of medical devices;

- good practices on how national competent authorities can introduce cybersecurity guidelines for manufacturers of medical devices;

- how the development of standards is guiding the industry towards more cybersecurity practices.

A third session of the conference focused on cybersecurity incidents regarding healthcare technologies, and on how vendors integrate such incidents in their product lifecycle management processes.

The Dutch HealthCERT shared their experiences with incident handling for hospitals in their country. In addition, DutchSec presented a live demo of an incident in hospital systems as an illustrative example.

The conference ended with the mutual conclusion that the healthcare sector is particularly vulnerable to cybersecurity incidents and that cybersecurity is a shared responsibility: all stakeholders have to work together to increase safety for the patients.

ENISA will continue its work on supporting to increase cybersecurity in eHealth over the next years.

The agency will focus on the priorities of the sector, such as supporting the implementation of the NIS Directive and the overall development of the regulatory framework and publishing good practices for healthcare organisations as a guideline.

*Number 3*

## From extraordinary to normal - reflections on the future monetary policy toolkit

Dr Jens Weidmann, President of the Deutsche Bundesbank and Chairman of the Board of Directors of the Bank for International Settlements, at the European Banking Congress, Frankfurt am Main.

### 1 Introduction

Dear Mr Sewing,
Ladies and gentlemen,

It is always a pleasure to be here at the European Banking Congress; thank you for having me back.

In October 1929, the great US economist Irving Fisher declared that stock prices had reached what looked like a permanently high plateau. Just days later, the stock market crashed.

This vividly underlines that the present can be a poor guide to the future. When thinking about an economic "new normal", we should always be mindful of possible pitfalls like this one.

The lead question of today's conference - "Back to normal - what does it mean?" - can be applied to various aspects of monetary policy. In my remarks today, I will focus on the Eurosystem's future toolkit, the instruments designed to enable us to achieve price stability.

Where do we come from? Where are we going?

Dan Brown has written a suspense-packed novel of 500 pages around these questions. Within the operational framework of monetary policy, I will stay on this thread for the next quarter of an hour.

In Brown's novel "Origin", the character who set out to answer these questions in a presentation was assassinated right after the salutation. Thankfully, I seem to have already cleared that particular hurdle.

## 2 Where do we come from?

Prior to the financial crisis, the Eurosystem's framework was based on refinancing operations with competitive bidding procedures and limited allotment volumes, a wide and symmetric standing facilities corridor around the main policy rate and a relatively small balance sheet.

Then the financial crisis occurred, and in its wake a sovereign debt crisis ensued, followed by a period of subdued inflation.

The monetary policy response to these challenges was unprecedented. It entailed not only a series of interest rate cuts, which eventually moved the deposit rate into negative territory, but also the introduction of a broad range of non-standard measures. The Eurosystem switched into crisis mode.

The most recent and most significant of these measures is certainly the so-called Asset Purchase Programme (APP). In the opinion of the Governing Council, the APP was warranted by the risks implied by an overly prolonged period of low inflation.

Today, ten years after the financial crisis escalated, policy rates are still at historic lows. The Eurosystem has accumulated a huge portfolio of securities of various kinds, and refinancing operations offered to banks have remained more than generous.

As a result, excess liquidity stands at a level nine times higher than after the Lehman collapse, and monetary policy is roughly as expansionary as it was when the crisis was raging. Put differently, the remaining policy space is rather limited.

## 3 Where are we going?

Given where we are now, a well-known joke comes to mind: A tourist in a big city asks one of the locals for directions to the train station. The local replies, "Well Sir, if I were you, I wouldn't start from here".

But where are we going? Or to be more precise, where should we be going?

To some observers, our destination, the "new normal", should not look that different from the status quo. Among other things, they argue that non-standard measures such as large-scale asset purchases proved their worth during the crisis. Therefore, they should remain in the monetary policy toolbox and be applied under normal conditions as well.

## 3.1 Guiding principles

Ladies and gentlemen,

The Scottish philosopher David Hume postulated that we cannot derive the "ought" from the "is", the so-called Hume's law. Admittedly, we all know that "the normative force of the factual" can be strong. But this force arises from a general acceptance of the current state.

Instead of pre-determining details of the new normal or ruling out potentially relevant alternatives based on the status quo, we need to resort to guiding principles which are well-established and generally agreed upon.

Admittedly, acting in accordance with a principle should not be viewed as an end in itself. But at a time when many European citizens seem to be falling prey to scepticism about the historical project of European integration, I would like to highlight the positive and optimistic guidance that is laid out in the European Treaties.

The European Union aims at promoting the well-being of its citizens, ensuring economic and social progress, and improving the living and working conditions of our peoples. To achieve these broader aims, the Treaties provide guidance for policymakers by setting objectives and principles such as price stability, sound public finances, and market orientation.

In particular, the Treaties set two essential cornerstones for the design of the monetary policy framework.

The first cornerstone is the mandate. The primary objective of the Eurosystem is to maintain price stability. This establishes the criterion of effectiveness, as it implies that the monetary policy toolkit has to be designed in a way that allows the Eurosystem to achieve its goal.

Aiming at other objectives would risk blurring responsibilities and overburdening monetary policy. Moreover, central banks have been granted independence only with a view to achieving price stability. Thus, independence also calls for a narrow interpretation of the mandate.

Otherwise, this would undermine the principle of democracy and, ultimately, call independence into question.

In addition, the Treaties set a second cornerstone for the Eurosystem: It has to act in line with the principle of an open market economy with free competition. The Treaties even provide a reason why - because respecting market principles favours an efficient allocation of resources, helping to promote prosperity and achieve the broader aims of the European Union.

When it comes to evaluating the appropriateness of monetary policy measures, this means that effectiveness is the primary criterion. But the set of monetary policy instruments we use has to leave enough room for private sector market activities.

I would formulate that in the following rule: The balance sheet should be as large as necessary to give monetary policy sufficient power to ensure price stability and as lean as possible so that, in pursuit of its goal, it does not overly impede market activity.

From my point of view, therefore, the pre-crisis framework represents a normative orientation in the normalisation process. Under normal monetary policy conditions, it struck a sound balance between the effectiveness of instruments and the efficiency of markets.

## 3.2 Changing environment

Of course, the immediate question then is: Can we expect to return to the pre-crisis environment - or have the events of the past few years changed the environment fundamentally?

Some are concerned that monetary policy may not be sufficiently effective if the Eurosystem reverts towards the pre-crisis approach of a lean central bank balance sheet and steering only short-term rates. Such concerns are primarily based on the assumption that structural changes and frictions in financial markets call for a broader toolkit in order to maintain monetary policy effectiveness.

In particular, it is argued that the so-called natural real rate of interest has fallen significantly over the past decade. If this were true, it would imply a higher probability of hitting the lower bound of short-term interest rates.

The room for manoeuvre for conventional monetary policy would thus be narrowed. In addition, fragmented interbank markets could hamper the pass-through from conventional policy rates to longer-term interest rates.

Another argument points to non-banks playing a more important role in the transmission of monetary policy and highlights the divergence of short-term rates for banks and non-banks. And, finally, the demand for safe assets is said to have risen markedly.

Ladies and gentlemen,

I do not rule out the possibility that structural shifts and frictions in financial markets and the broader economy may require some tinkering with the operational framework.

But it is too early to draw such conclusions now at the beginning of the normalisation process.

It is quite obvious that the non-standard monetary policy measures themselves have created - or at least added to - the perceived challenges I have just highlighted.

Let me give you three examples.

With the APP, the Eurosystem itself reduced the amount of safe assets in the hands of the non-bank private sector.

Secondly, by creating large quantities of excess liquidity, the Eurosystem has contributed to persistently weak interbank market activity.

And, thirdly, the ultra-expansionary monetary policy compressed long-term interest rates for a prolonged period of time, which may also feed into natural rate estimates.

Apart from that, a Bundesbank analysis has stressed - and other studies have come to the same finding - that those natural rate estimates are highly uncertain.

For a figurative comparison, let's look at hospitals. Critically ill patients often receive mechanical ventilation. After some time, this can weaken their respiratory muscles.

In order to prevent this, best practice suggests not prolonging support unnecessarily, as it involves increasing risks for the patient and a reduced quality of life. Instead, physicians apply a gradual liberalisation from mechanical ventilation, the so-called "weaning".

Admittedly, medical reality is much more complex than economists and bank managers may think. Hence, my wife - a practising physician - has advised me to refrain from medical analogies because we are prone to misinterpreting them.

Thus, I risk trouble at home - kind of disregarding her advice -, but I think you get the point.

## 3.3 Reconciling effectiveness and efficiency

It goes without saying that monetary policy implementation should not ignore relevant changes in its environment but may have to adapt to new economic and financial market conditions, digitalisation, or changes in the regulatory framework.

However, I am not convinced that monetary policy should routinely respond to changes in the environment by intervening in a growing number of market segments.

If and how monetary policy should adapt its toolbox can only be assessed after we have progressed on the path of normalisation. And even if a problem should persist, it would have to be demonstrated that central bank intervention was superior to other solutions. Finally, any intervention must be covered by our mandate.

For example, I would not consider the provision of safe assets a task for monetary policy. I would like to suggest that it is up to governments to make sovereign bonds safe assets again, especially by reducing the heavy burden of public debt in the euro area.

In a monetary union with independent national fiscal policies, a clear separation between monetary and fiscal policy is particularly important.

As I have stressed many times before, sovereign bond purchases blur the line between the two policy areas.

Their risks and side effects need to be taken into account when considering whether to add them to the regular toolkit.

In my view, sovereign bond purchases are - if rightly designed - a legitimate instrument, but in the specific context of the euro area an instrument which should only be used in exceptional cases to fend off a deflationary spiral.

A lean balance sheet in normal times would also help the Eurosystem to retain or regain sufficient policy space for cases of future need, i.e. future emergencies.

# 4 Conclusion

Ladies and gentlemen,

"It's hard to make predictions, especially about the future." - This is a truism that is so full of common sense that it has been attributed to personalities as diverse as Niels Bohr, Mark Twain, and the legendary US baseball player Yogi Berra.

Economic cycles progress, trends can shift, and markets evolve. We cannot know what lies in store for monetary policy once non-standard measures have been cut back.

However, our monetary union should rest on sound principles that will guide us on our way forward.

For me, a monetary policy framework that achieves effectiveness in reaching our primary mandate and that, at the same time, leaves enough room for market activities is the most desirable. Until it is proven that a return to the pre-crisis framework constrains effectiveness of monetary policy in a non-trivial way, I see no reason to depart from the pre-crisis framework.

Thank for your attention.

*Number 4*

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*Glossary of Key Information Security Terms*

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This repository—an online database whose methodology is described in Draft NIST Internal Report (NISTIR) 7298 Revision 3, Glossary of Key Information Security Terms—is intended to help users understand terminology, recognize when and where multiple definitions may exist, and identify a definition that they can use.

We encourage careful review of the online glossary database as well as the methodology described in the draft NISTIR. Specifically, we request feedback on any areas that may need changes to improve their accuracy and long-term usability.

A public comment period for this document—including the associated database and online glossary—is open until December 21, 2018.

Publication details:
https://csrc.nist.gov/publications/detail/nistir/7298/rev-3/draft

Online Glossary:
https://csrc.nist.gov/glossary

*Number 5*

## PCAOB Approves Five-Year Strategic Plan and 2019 Budget

PCAOB
Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board today approved its 2018-2022 strategic plan and fiscal year 2019 budget in an open meeting. The strategic plan serves as the foundation for the budget and guides the PCAOB's programs and operations.

"The Board's adoption of the strategic plan and accompanying budget paves the way for fulfilling our shared vision for the PCAOB," said PCAOB Chairman William D. Duhnke. "I look forward to working with my fellow Board members and our talented staff to achieve the goals and objectives we've set forth."

The PCAOB's 2018-2022 strategic plan reflects five new values and five core strategies that the Board will advance in the coming years to effectively fulfill its mission. Those values and strategies seek to implement the Board's vision to be a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight.

The 2019 budget includes core investments in personnel, processes, and technology, and will provide the Board with the resources necessary to make progress toward implementing its strategic vision. The budget is $273.7 million and provides funding for up to 838 positions.

The PCAOB budget is subject to approval by the Securities and Exchange Commission. The 2019 budgetPDF and the 2018-2022 strategic planPDF are available on the PCAOB website.

To read the plan:
https://pcaobus.org/About/Administration/Documents/Strategic%20Plans/PCAOB-2018-2022-Strategic-Plan.pdf

### INTEGRITY

We adhere to the highest standards of ethical and professional conduct. We engage internally and externally in a manner that is consistent, honest, and fair.

### EXCELLENCE

We pursue excellence in all we do. We are committed to further developing the many talents of our people so that we can improve our oversight and operations.

### EFFECTIVENESS

We manage our resources effectively and efficiently. We respond to a changing environment by implementing relevant, timely, and innovative solutions to achieve our mission.

### COLLABORATION

We are dedicated to a culture of collaboration and inclusiveness, which we foster by encouraging openness, accessibility, trust, and respect. We embrace a diverse set of experiences, skills, perspectives, and backgrounds, which enriches our work and enhances the effectiveness of our efforts.

### ACCOUNTABILITY

We depend on the diligence and dedication of our people to accomplish our mission and implement our vision. We owe each other our very best effort and expect to be held accountable. We recognize and reward outstanding performance.

## Message from the Chairman

Each year since 2007, the Public Company Accounting Oversight Board has drafted a strategic plan with at least a five-year outlook.

Traditionally, that plan has been developed and updated through an inward-facing process, based on input from the top leadership of our organization.

Like most strategic plans, those plans did not change materially from year to year, except as necessary to reflect changes in the external environment and the emergence of new opportunities and threats.

While that approach has served the PCAOB in the past, as a Board we elected to take a markedly different approach this year.

Let me highlight a few of the most significant changes to our process, which has been both broader and deeper than in past years.

First, the Board decided to reach far beyond our own walls for input. We engaged a strategic planning consultant, who hosted an anonymous public survey seeking views on our strategic priorities.

We received an incredible response. Hundreds weighed in, including dozens of investors, audit committee members and directors, academics, foreign audit regulators, auditors, and others.

Our consultant also engaged more than three dozen external parties in a series of one-on-one facilitated interviews, collecting feedback from key stakeholders on a non-attribution basis.

Second, we sought feedback from all of our employees, not just our leadership, and received incredible insight in response.

Our outreach revealed thoughtful consideration of the current state of audits and the audit profession, the evolving risk landscape, the rapidly changing environment in which we operate, and how we can improve our oversight activities and operations.

Third, after developing a draft strategic plan, we published the draft and sought comments from the public on the specific goads and objectives we laid out.

We received thoughtful responses from various parties who have an interest in the PCAOB's strategic direction or operations, including investors and our other stakeholders. Most responses supported our overall direction and we made several responsive changes to our plan based on the feedback received.

Based on the input we received and our own analysis, we have identified the following four primary strategic priorities for 2018-2022:

• Effective Oversight. We will drive continuous improvement in the quality of audit services and more clearly communicate our assessment of the quality we observe.

• Innovation. We will be more innovative in our oversight activities — particularly with respect to our approach to inspections and standard setting—and at the same time prepare for significant market-driven changes in the audit profession.

• Improved Engagement. We will engage more often and more directly with a broader array of investors, as well as with audit committees, preparers, and our other stakeholders to promote robust and timely dialogue regarding the quality of audit services.

• Process and Culture Optimization. We will optimize our operations and enhance the culture of our organization.

The Board welcomes and embraces feedback. We are committed to working with those who seek to continuously improve the state of audit quality.

Respectfully,
William D. Duhnke III
Chairman

*Number 6*

## The outlook for the euro area economy

Mario Draghi, President of the European Central Bank, at the Frankfurt European Banking Congress, Frankfurt am Main, 16 November 2018.

The euro area economy has now been growing for five years, and we expect the expansion to continue in the coming years. Yet we have recently seen a loss in growth momentum.

In both of the last two quarterly ECB growth projections, our staff has revised down its estimates. Actual data have also been weak. The flash estimate for euro area growth in the third quarter was just 0.2%.

The slowdown has raised questions about the strength of the growth outlook and, in turn, about whether the ongoing convergence of inflation towards our objective will be sustained. I would like to address these questions in my remarks this morning.

The key issue at stake is as follows: are we witnessing a temporary "soft patch" or a more lasting deterioration in the growth outlook?

There is certainly no reason why the expansion in the euro area should abruptly come to an end. A gradual slowdown is normal as expansions mature and growth converges towards its long-run potential. But the expansion in the euro area is still relatively short in length and small in size.

Since 1975 there have been five periods of rising GDP in the euro area. The average duration from trough to peak is 31 quarters, with GDP increasing by 21% over that period.

The current expansion in the euro area, however, has lasted just 22 quarters and GDP is only around 10% above the trough. In contrast, the expansion in the United States has lasted 37 quarters, and GDP has risen by 21%.

In light of this, it is important to understand the sources of the growth slowdown we have witnessed this year. At present there are two main sources.

The first is one-off factors, which have clearly played an important role in the underperformance of growth since the start of the year. In the first half of 2018, weather, sickness and industrial action affected output in a number of countries.

And in the third quarter, we saw a significant disruption of car production created by the introduction of new vehicle emissions standards on 1 September.

Production slowed as carmakers tried to avoid building up inventory of untested models, which weighed heavily on economies with large automobile sectors, such as Germany.

Indeed, the German economy actually contracted in the third quarter, removing at least 0.1 percentage points from quarterly euro area growth.

But this effect should be temporary. As the testing backlog clears, car production should return to normal by the end of the year and the effect on output should dissipate. The latest data already show production normalising.

The second source of the slowdown has been weaker trade growth, which is broader-based. Net exports contributed 1.4 percentage points to euro area growth in 2017, while so far this year they have removed 0.2 percentage points. World trade growth decelerated from 5.2% in 2017 to 4.6% in the first half of this year.

We are witnessing a long-term slowdown in world trade. Some of the factors that previously drove its rapid expansion, such as trade liberalisation and the creation of global value chains, have waned since the financial crisis.

We are also witnessing a cyclical correction from the very strong trade growth recorded last year. Trade dynamics are now normalising as global growth retreats towards potential.

Insofar as world trade stabilises at a lower level, its drag on growth could also be temporary. But there are two conditions that could make it longer-lasting.

The first is if trade uncertainty rises and dampens euro area export performance, in particular owing to protectionism.

The preliminary trade agreement reached between the US, Canada and Mexico reduces some uncertainty, but other disputes remain. Some indicators suggest this is feeding into the trade outlook.

The manufacturing PMI for the euro area fell to a two-year low in October, with export-oriented economies recording particularly large drops. New export orders contracted for the first time since 2013.

The second condition is if uncertainty about external demand spills over into domestic demand through confidence and investment channels.

For now, there is little tangible evidence that the moderation in growth has affected business investment. But there is some evidence that those euro area firms that are most likely to be affected by proposed tariffs have reduced their rate of capital spending.

Moreover, the slowdown in imports has particularly affected capital and intermediate goods, which might signal that firms are scaling back their investment decisions.

So we need to monitor these trade risks very carefully over the coming months. However, we still see the overall risks to the growth outlook as broadly balanced, in large part because the underlying drivers of domestic demand remain in place.

Most important is the virtuous circle between employment, labour income and consumption, which has been the motor of growth throughout the recovery. Various indicators suggest this cycle has not been disrupted by the loss of growth momentum this year.

Employment growth remains relatively strong, even though the latest data suggest some slowdown. The contribution of labour income to household income growth in the first half of this year was the strongest in a decade. And consumer confidence remains above its long-run average in the euro area and across most economies.

Perceptions about the general economic climate have declined somewhat this year, but consumers' assessments of their personal situation - which tend to be more correlated with consumption - have remained steady.

There are three considerations that underpin our view that this cycle is resilient.

First, an important force behind employment growth in the euro area is longer-term structural changes, and these are less sensitive to cyclical swings.

Over the past five years, employment has increased by 9.5 million people, rising by 2.6 million in Germany, 2.1 million in Spain, 1 million in France and 1 million in Italy.

This growth is similar to the five years before the crisis, when employment grew by 10 million people. In that period, however, close to 70% of employment growth was "prime age", meaning it came from the 25-54 age group.

But since 2013 more than 70% of employment growth has come from those aged 55-74. This partly reflects the impact of past structural reforms, such as to pension systems.

Indeed, the participation rate of people aged 55-74 has almost doubled, from around 20% in 1999 to 38% in 2017. The share of women in work has also risen by more than 10 percentage points since the start of EMU to almost 60% - its highest level ever.

In addition, countries that have implemented structural reforms have in general seen a rise in labour demand in recent years compared with the pre-crisis period. Germany, Portugal and Spain are all good examples.

The second consideration that points to the resilience of domestic demand is the strong link between consumption and job growth in the euro area.

Consumption is much more conducive to jobs than exports, reflecting the higher labour-intensity of services, which are the bulk of consumers' expenditure.

In contrast, exports have a higher manufacturing content and are less labour intensive. This is one reason why the labour market recovery was not affected by the contraction in world trade in 2015-16.

In fact, the continued strength of consumption may explain why firms are still hiring even as growth slows, with permanent contracts accounting for the vast majority of the increase in employment this year. But clearly this could change if firms start to see the slowdown as more persistent.

The third consideration is the still very favourable financing conditions in the euro area, underpinned by our accommodative monetary policy.

The cost of bank borrowing for firms fell to record lows in the first half of this year across all large euro area economies, while the growth of loans to firms stood at its highest rate since 2012.

The growth rate of loans to households is also the strongest since 2012, with consumer credit now acting as the most dynamic component, reflecting the ongoing strength of consumption. Household net worth remains at solid levels on the back of rising house prices and is adding to continued consumption growth.

But there are some risks to financing conditions as well.

Lack of fiscal consolidation in high-debt countries increases their vulnerability to shocks, whether those shocks are autonomously produced by questioning the rules of EMU's architecture, or are imported through financial contagion. So far, the rise in sovereign spreads has been mostly restricted to the first case and contagion across countries has been limited.

Such developments feed into tighter bank lending conditions for the real economy. To date, though some repricing in bank lending is happening where the rise in spreads has been more significant, overall bank funding costs remain near historical lows in all large countries, thanks to a steady deposit base.

To protect their households and firms from rising interest rates, high-debt countries should not increase their debt even further and all countries should respect the rules of the Union.

Other risks stem from the possibility of a disorderly increase in global risk premia. The reaction of asset prices to surprise inflation in other jurisdictions at a more advanced stage in the business cycle, a return to the financial deregulation that was the primary cause of the financial crisis, and fragilities in several emerging market economies exposed to currency mismatches, are all risks that warrant close monitoring.

## Outlook for inflation and monetary policy

So, how is the growth picture affecting the outlook for inflation? Here we need to assess to what extent wage growth will be robust to slowing growth momentum, and to what extent wage increases will pass through to prices.

The link between output growth and wage growth in the euro area has strengthened compared with recent years. As the domestic expansion continues, wage pressures have started to build and have surprised on the upside this year.

Annual growth in compensation per employee reached 2.3% in the second quarter. This increase is broad-based and present across most sectors and euro area economies.

Two factors suggest wage growth should be resilient to a period of slower growth.

The first is that the labour market is already showing signs of tightness, and this should remain the case so long as growth continues at or above potential. Labour shortages have become more prominent and widespread across the euro area.

Broader measures of slack - that include underemployed workers - have also fallen substantially, although there is still some heterogeneity across countries.

The second factor is the changing composition of wage growth. The initial pick-up in wages from the trough in 2016 was driven by wage drift, which includes components such as bonuses and overtime and tends to react more quickly to the cycle.

But more recently negotiated wages have strengthened, rising from the trough of 1.4% in mid-2016 to 2.2% in the second quarter of 2018. Negotiated wage agreements frequently last two or three years, suggesting that higher rates of wage growth are likely to persist.

However, the next leg of the inflation process - the pass-through of wage growth to prices - remains relatively muted. Measures of underlying inflation, such as core inflation, continue to hover around 1% and have yet to show a convincing upward trend.

To some extent, this lagged response is in line with the standard pattern of demand-driven expansions in the euro area.

As demand picks up, employment initially reacts slowly, which boosts overall productivity and lifts margins. Firms therefore have little need to increase prices.

But as the expansion matures, businesses increase wages more strongly to attract labour, and unit labour costs rise, squeezing margins and putting upward pressure on prices.

This pattern has been visible in the euro area since the start of 2017. Unit labour cost growth fell initially last year, but rose measurably this year to reach 1.6% in the second quarter, its strongest rate since the start of 2013.

There is evidence that margins are now being squeezed, with unit profit growth decreasing substantially from 2.7% in the third quarter of 2017 to 0.7% in the second quarter of 2018. We should therefore expect price pressures in the euro area to mount.

However, the speed of this process is state-dependent. Preliminary ECB research finds that the recent history of inflation is a key factor in the speed and strength of the pass-through from wages to prices.

The pass-through is systematically faster and stronger in periods of higher inflation than in periods of lower inflation.

Thus, following several years of low inflation in the euro area, a more tentative pass-through of wages to prices is understandable. But as labour costs rise, the buffer room for absorbing cost increases through margins will eventually vanish.

As price increases become more widespread and firms become more confident about their pricing power, we should see a higher degree of pass-through.

That said, if firms start to become more uncertain about the growth and inflation outlook, the squeeze on margins could prove more persistent.

This would affect the speed with which underlying inflation picks up and therefore the inflation path that we expect to see in the quarters ahead.

When the Governing Council met in October, we confirmed our confidence in the economic outlook.

The underlying strength of domestic demand and wages continues to support our view that the sustained convergence of inflation to our aim will proceed. But in the light of the lags between wages and prices after a period of low inflation, patience and persistence in our monetary policy is still needed.

With monetary policy providing a significant degree of stimulus through our interest rate policy, stock of acquired assets and reinvestments of maturing bonds, the Governing Council assessed that inflation convergence could be maintained even after a gradual winding-down of our net asset purchases.

Subject to incoming data confirming this assessment, we anticipate that net asset purchases will come to an end in December.

However, the Governing Council also noted that uncertainties surrounding the medium-term outlook have increased.

When the latest round of projections is available at our next meeting in December, we will be better placed to make a full assessment of the risks to growth and inflation.

We have conveyed that we expect interest rates to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure that inflation continues to move towards our aim in a sustained manner.

And we have stated that reinvestments will continue for an extended period of time after the end of net purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The nature of this forward guidance is contingent on economic developments and therefore acts as an automatic stabiliser.

If financial or liquidity conditions should tighten unduly or if the inflation outlook should deteriorate, our reaction function is well defined. This should in turn be reflected in an adjustment in the expected path of future interest rates.

Our forward guidance has been effective in anchoring expectations about the future path of interest rates and preventing an undue tightening of monetary policy caused by premature expectations of policy normalisation. It has also helped shield financial conditions in the euro area from policy changes in other jurisdictions.

## Conclusion

In conclusion, I want to emphasise how completing Economic and Monetary Union has become more urgent over time not less urgent - and not only for the economic reasoning that has always underpinned my remarks, but also to preserve our European construction.

This is my last speech at this conference as President of the ECB, and in preparing for it, I looked back at the speech I gave here in November 2011.

There I lamented that the economic crisis would require a faster pace in strengthening the Monetary Union, especially for decisions that had already been taken.

This perhaps has a familiar ring today. Since then, the work has been remarkable, but it is still far from finished.

The completion of the banking union in all its dimensions, including risk reduction, and the start of the capital markets union through implementing all ongoing initiatives by 2019, have now become as urgent as the first steps were in euro area crisis management seven years ago.

These are urgent today not because of an economic crisis that we have successfully addressed, but because they are the best response to the threats that are being levied at our monetary union: to these threats, more Europe is the answer.

*Number 7*

## Torrie Miller Matous Named PCAOB Director of Newly Formed Office of External Affairs

PCAOB
Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board announced today that Torrie Miller Matous has been named director of the newly formed Office of External Affairs.

Ms. Matous will lead the new office, which combines the offices of public affairs, government relations, and outreach and small business liaison.

It also will include new liaison staff for the investor and business communities, who will further assist the board in achieving the transparency and accessibility goals outlined in its draft strategic plan.

"Torrie brings deep experience and proven leadership from all areas of communications, government relations, and outreach, and is a welcome addition to our team," said PCAOB Chairman William D. Duhnke.

Prior to joining the PCAOB, Ms. Matous served as chief of staff for Congressman Martha Roby (R-Ala.), where she was her top adviser and led all policy, communications, and political strategy activities since March 2017.

From 2014 to 2017, she was the communications director for Senator Richard Shelby (R-Ala.), also serving as majority or minority communications director for several of his committees during that time – the Committee on Appropriations, the Committee on Banking, Housing and Urban Affairs, and the Committee on Rules and Administration.

"A key objective of the PCAOB's draft strategic plan is to enhance proactive communication with stakeholders," said Ms. Matous. "I look forward to leading the newly formed Office of External Affairs as the board strengthens its external engagement to more effectively fulfill its statutory mandate."

Ms. Matous worked for Congressman Pete Sessions (R-Texas) from 2009 to 2014, rising to communications director in 2011.

From 2013 to 2014, she also served as communications director for the House Committee on Rules, which is chaired by Congressman Sessions.

Ms. Matous earned her B.A. with honors from Southern Methodist University in Dallas.

*Number 8*

## National Cybersecurity Career Awareness Week
## November 13, 2018 to November 17, 2018

NIST
National Institute of
Standards and Technology
U.S. Department of Commerce

National Cybersecurity Career Awareness Week (NCCAW), brought to you by the National Initiative for Cybersecurity (NICE), is a week-long campaign focused on increasing awareness about careers in cybersecurity and building a national cybersecurity workforce to enhance America's security and promote economic prosperity.

NICE brings to the forefront information of local, regional, and national interest to inspire, educate and engage citizens to pique their interest in cybersecurity careers. National Cybersecurity Career Awareness Week takes place during November's National Career Development Month, and each day of the week-long celebration provides for an opportunity to learn about the contributions, innovations, and opportunities that can be found by choosing a career in cybersecurity.

Join us in encouraging awareness and exploration of cybersecurity careers by promoting cybersecurity careers through written or online announcements and resources, conducting outreach to share your career insights with youth or adults, or hosting or participating in an event near you!

Throughout the week, stakeholders can also help us spread the word by posting to Twitter, Instagram and other social media platforms using #CYBERCAREERWEEK and #MYCYBERJOB.

*Need Ideas to Help You Promote National Cybersecurity Career Awareness Week?*

Join the national campaign by registering yourself, your students, and sharing with others the two fantastic resources below to introduce students and young adults to the cybersecurity field.

*Comic-BEE: Interactive Cybersecurity Careers Conversation Starter*

Comic-BEE is a web-based technology designed to assist cybersecurity educators and subject matter experts, who are neither programmers nor artists, to develop web-based branching, graphic stories that are closely aligned with instructional goals.

Use a comic as a 'conversation starter' for your NCCAW activity – learners can read comics individually or in pairs, explore different cybersecurity scenarios and see what happens with different choices, and explore the skills of a cybersecurity practitioner.

Explore at Comic-BEE: https://comic-bee.com/nccaw2018/

*Start Engineering: Cybersecurity Career Guide*

To engage students who fit within the broad spectrum of cybersecurity workforce needs will require more substantive, nuanced ways of talking about the field. Discussion will need to move beyond the common approach of focusing on hardware, networks, and operating systems--it will take integration of cybersecurity content across multiple disciplines. Use the Cybersecurity Career Guide to help students discover and learn:

- What cybersecurity is and why it is an exciting field;
- What cybersecurity career options are available; and
- What are possible pathways to enter the cybersecurity workforce.

Read more about increasing the cybersecurity workforce through the Start Engineering Cybersecurity Careers Blog.

Explore at start-engineering.com:
http://start-engineering.com/cybersecurity-career-guide/

Learn more about events and resources in support of National Cybersecurity Career Awareness Week:
https://www.nist.gov/itl/applied-cybersecurity/nice/events/national-cybersecurity-career-awareness-week

*Number 9*

## Beginning Stress Testing's New Chapter

Randal K. Quarles, Vice Chairman for Supervision
"An International Perspective on the Future of Bank Stress Testing"
Symposium sponsored by Harvard Law School Program on International Financial Systems, Cambridge, Massachusetts.

Professor Scott, and our hosts from Harvard and the Program on International Financial Systems, thank you for the chance to participate in today's meeting.

Looking around the room, I see a mix of past and current colleagues, from academics, to supervisors and central bankers, to researchers and practitioners in industry.

All of you have seen, felt, and lived different aspects of the transition to the post-crisis regulatory framework, and I am grateful to hear your perspectives on such a critical aspect of it.

In the depths of the financial crisis, the first regulatory stress tests were designed under intense scrutiny with high-stakes consequences.

Their contribution--an independent public view of the capital adequacy of the largest firms--helped reinforce the banking system at a critical juncture.

Since then, stress testing has meaningfully increased the post-stress resiliency of large financial institutions, and become a critical tool in keeping the system strong.

Those accomplishments are real, and we should aim to do more than simply preserve them. Now is a prudent time to consolidate the gains we have made, and to promote the efficiency and transparency of our processes.

Today, I will review some of our efforts along those lines, focusing on proposed changes to our stress-testing program.

These changes, which I described in more detail in remarks last week, are intended to improve the program, maintaining its dynamism and flexibility while providing adequate notice to regulated firms, without altering materially the stringency of the tests or the overall level of capital in the system.

I share these views with a deep appreciation of the decades of international experience represented in this room.

The crisis came with a reminder that the financial system is global, that risks in one country can quickly spread to another, and that in keeping the system and the economy safe, we have no choice but to work together.

I look forward to hearing your thoughts on the changes I outline, and on how to improve our stress testing processes in the years ahead.

## Stress Capital Buffer

Many of you are familiar with the Federal Reserve's proposed stress capital buffer (SCB), which would replace the current fixed buffer requirement of 2.5 percent of risk-weighted assets with one based on each firm's stress test results.

I believe the proposal represents an important milestone in crafting an integrated capital regime, and in keeping with its importance, we have received extensive and thoughtful public comments, identifying elements of it that could benefit from further refinement.

I described several of these elements last week, including my views on some areas which I believe we should revisit: improving measurement of risks in the trading book; encouraging less sticky forms of capital distribution without requiring dividend pre-funding; and reevaluating the interaction of the capital buffer with capital distributions.

Today, I want to highlight three elements in particular.

Foremost among these is the volatility of stress test results. Some volatility in annual results is necessary to preserve the dynamism of the stress test, and to reflect changes in macroeconomic conditions, salient economic risks, and the composition of firm balance sheets.

However, when the largest banks in the system are fully meeting their capital requirements, a highly variable capital requirement from year to year can present a significant management challenge.

I believe there is an important balance to strike in this area, which will let us preserve dynamism while reducing volatility, and we plan to seek comment on a relevant proposal in the not-too-distant future.

The second is the sequencing of stress test results with capital plan submissions. Currently, and under the SCB proposal, a firm must decide whether to increase or decrease its planned dividends and share repurchases for the upcoming year without knowledge of a key constraint: the results of the stress test.

Initially, this phasing reflected the view that firms should think rigorously about their capital uses and needs, rather than relying primarily on the results of the supervisory stress test to guide those plans.

However, now that we all have several years' experience with this system, firms have told us that they would be able to engage in more thoughtful capital planning if they had knowledge of that year's stress test results before finalizing their distribution plans for the upcoming year.

I am sympathetic to their concerns, and will ask the Board to adjust the operation of the rule, so that firms know their SCB before they decide on their planned distributions for the coming year.

Of course, we expect firms to continue to maintain robust stress testing practices and use those results to inform their capital distribution plans, and we will continue to use the supervisory process to reinforce this expectation.

The third is the post-stress leverage requirement. As the Federal Reserve has long maintained, leverage requirements are intended to serve as a backstop to the risk-based capital requirements. By definition, they are not intended to be risk-sensitive.

Thus, I am concerned that explicitly assigning a leverage buffer requirement to a firm on the basis of risk-sensitive post-stress estimates runs afoul of the intellectual underpinnings of the leverage ratio, and I would advocate removing this element of the stress capital buffer regime.

Of course, leverage ratios, including the enhanced supplementary leverage requirements, would remain a critical part of our regulatory capital regime, and we will maintain the supervisory expectation that firms have sufficient capital to meet all minimum regulatory requirements.

To give these issues the careful consideration they deserve, I expect we will adopt a final rule in the near future, settling the basic SCB framework while re-proposing certain elements. I expect that the first SCB would not go into effect before 2020, and that CCAR will remain in place in 2019 for firms with over $250 billion in assets or that are otherwise complex.

However, we will consider whether we can move forward with any aspects of the SCB proposal for CCAR 2019, such as assumptions related to balance sheet growth, and I will ask the Board to exempt firms with less than $250 billion in assets from the CCAR quantitative assessment and supervisory stress testing in 2019.

## Transparency

In the meantime, several initiatives are also underway to provide additional transparency into stress testing.

I expect you will soon see the Federal Reserve issue a policy statement describing governing principles around the supervisory stress testing process--and with it, a commitment to disclosing additional detail about supervisory stress test models and results, along with portfolios of hypothetical loans and associated loss rates.

I expect we will begin providing some of this additional detail starting in early 2019. I also expect the Board will seek comment on the advisability of, and possible approaches to, gathering public input on scenarios and salient risks facing the banking system each year.

Transparency matters not only because it provides additional due process to affected participants; it also creates an opportunity for broader, more insightful comments from the public. As a result, it can allow us to be more nimble and better informed in our scenario design.

However, we want to maintain incentives for firms to conduct their own stress tests rigorously and thoughtfully, and avoid the risk that firms will use this new information to engage in transactions that are solely designed to reduce losses in the test without reducing actual risk.

Firms have indicated that additional disclosure about models would not affect their own stress tests. We expect them to make good on that representation, as the Federal Reserve's stress test is not, and cannot be, a full picture of a firm's resiliency in light of its idiosyncratic risks.

We are confident that we can address these concerns through the regular examination process, by closely monitoring changes in firms' portfolios and ensuring sufficient capital, controls, and governance in light of the risk characteristics of their activities.

## Qualitative Objection

I also want to reiterate a point regarding the role of the qualitative objection. The Federal Reserve eliminated this element of CCAR for large and noncomplex firms in 2017, in part because of improvements in risk management at those firms.

In my view, the time has come to normalize the CCAR qualitative assessment by removing the public objection tool, and continuing to evaluate firms' stress testing practices through normal supervision.

While supervisory assessments would continue to center on a firm's capital plan submissions, examination work would continue on a year-round basis, taking into account the firm's management of other financial risks, and culminating in a rating of the firm's capital position and planning.

Firms with deficient practices would receive supervisory findings through the examination process, and would be at risk of a ratings downgrade or enforcement action if those deficiencies were sufficiently material.

## Conclusion

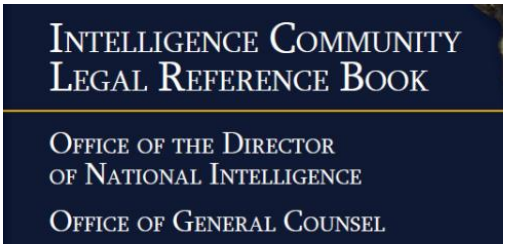
These changes are aimed at preserving the foundation laid over nearly a decade of stress testing experience, including by many of the people in this room.

Our goal is to bolster the program's credibility by increasing its transparency, simplicity, and stability, while maintaining the strength of the supervisory and internal stress testing elements that are central to the program today.

These adjustments will be coupled with our continued commitment to strong supervision, and our expectation that financial institutions manage their risks and hold sufficient capital to continue operations through times of stress. I look forward to hearing your insights into these changes, and I thank you for your time.

*Number 10*

## Office of the Director of National Intelligence
## Legal reference book




The Intelligence Community draws much of its authority and guidance from the body of law contained in this collection. We hope this proves to be a useful resource to professionals across the federal government.

The documents presented in this book have been updated to incorporate all amendments made since the Summer 2009 version through January 3, 2012, at which point the documents were, where possible, verified against the United States Code maintained by The Library of Congress and Westlaw.

The text of these documents should be cited as "as amended."

All documents in this book are UNCLASSIFIED.

This compilation was a significant effort and required many judgments concerning what text to include and how to organize the book.

To read the paper:
https://www.dni.gov/index.php/component/content/article?id=591&Itemid=933

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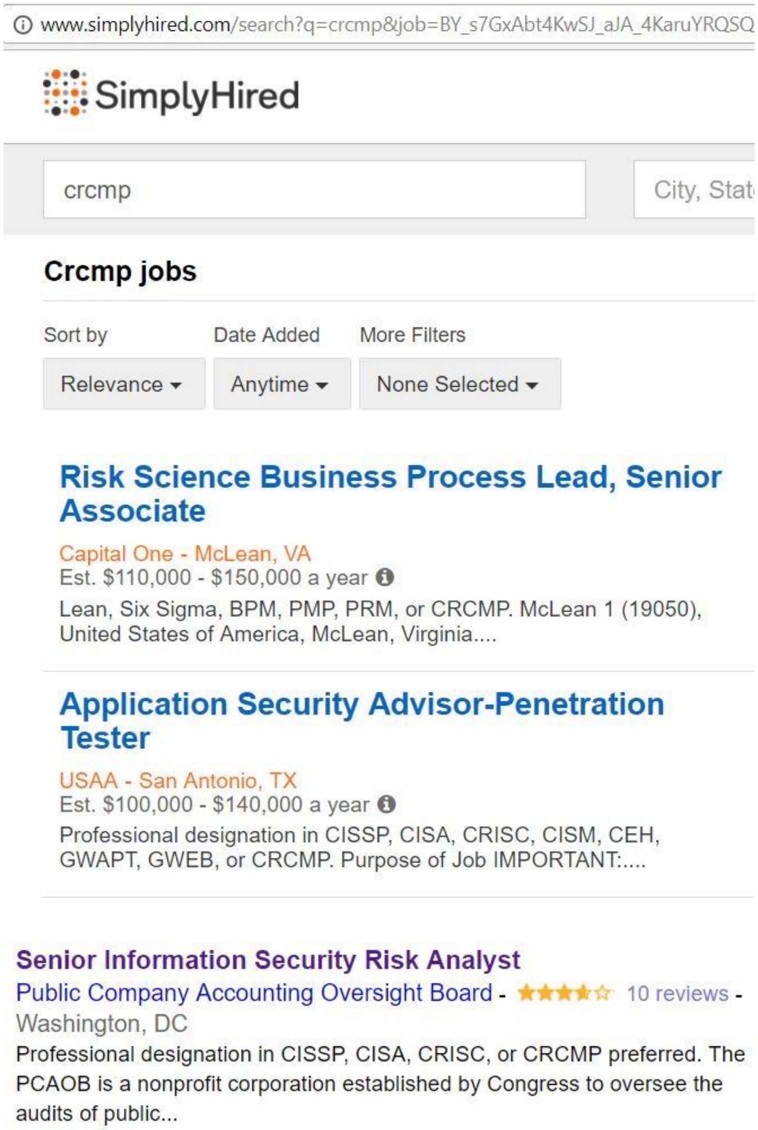
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