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Monday, September 25, 2017

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 Member,

In this work, Walter Bagehot gives the following characterisation of London's bankers:

"The name 'London Banker' had especially a charmed value. He was supposed to represent, and often did represent, a certain union of pecuniary sagacity and educated refinement which was scarcely to be found in any other part of society."

Carl-Ludwig Thiele, Member of the Executive Board of the Deutsche Bundesbank, reminded us the words of Walter Bagehot, in his presentation "From Bitcoin to digital central bank money - still a long way to go".

He continued:

"Credit means that a certain confidence is given, and a certain trust reposed. Is that trust justified? And is that confidence wise? These are the cardinal questions. To put it more simply, credit is a set of promises to pay; will those promises be kept?

That brings us to the nub of the matter. Money, ladies and gentlemen, is all about trust. The key to a stable currency is trust.

The original promise of Bitcoin was to forge a "trustless" payment system - that is, one that required no trust. I quote from Satoshi Nakamoto's paper from 2008 (Bitcoin: A Peer-to-Peer Electronic Cash System):

"What is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party."

I feel that too little attention is being paid to Nakamoto's primary goal of constructing a groundbreaking, trustless electronic payment system which, like cash, would facilitate peer-to-peer (P2P) transactions.

At the same time, Nakamoto was looking to create a currency which was not based on trust. This aspect - forging a new currency that does away with central banks - has become a major talking point in the current debate.

I have come here today to explain why a trustless currency is not feasible, and I will also argue that the merits of blockchain can be harnessed more readily with trustworthy institutions than without."

This is a very interesting speech. Ronald Reagan had said: "Trust, but verify". Would he use Bitcoin? Should we use it?

Read more at Number 6 below. Welcome to the Top 10 list.

Best Regards,

George Lekatis

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Number 1 (Page 8)

Challenges for regulators and supervisors after the post-crisis reforms

Jaime Caruana, General Manager of the BIS, at the FSI Conference on "Supervisory policy implementation in the current macro-financial environment - 'a cross-sectoral journey'", Basel.

"Let me start with the obvious. The Great Financial Crisis triggered a substantial regulatory reform effort worldwide to better internalise systemic risk and strengthen the international financial system. The two main objectives are crystal clear: to reduce as much as possible the probability of financial crises going forward; and to minimise the real costs of such crises should they nevertheless occur at some point."

Number 2 (Page 17)

Dinner speech, 5th conference on global insurance supervision

Gabriel Bernardino, Chairman, European Insurance and Occupational Pensions Authority (EIOPA)

"The theme of our conference is "The Future (Re)Insurance Landscape:

Different Perspectives, Inspiring Dialogue" and today's programme has shown how crucial our dialogue is to promote mutual understanding and to build trust for the benefit of consumers, policy holders and the industry.

Given the global and international scope of the conference, let me start by referring to the importance of global cooperation."

First, EIOPA is proud of its cooperation with international partners, whether on practical issues through memoranda of understanding, or on more strategic issues, through participation in international fora."

Number 3 (Page 24)

FAQs on Basel III definition of capital published by the Basel Committee, 19 September 2017

BANK FOR INTERNATIONAL SETTLEMENTS

The Basel Committee on Banking Supervision published answers to a fourth set of frequently asked questions (FAQs) on the Basel III definition of capital. These aim to promote consistent global implementation of Basel III, by providing clarifications and interpretative guidance on the Committee's standards.

Number 4 (Page 25)

Macro-financial risk management

Philip R Lane, Governor of the Central Bank of Ireland, at the Central Bank of Ireland Economics Roundtable, Dublin.

It is a pleasure to welcome you to the Bank for the annual economics roundtable. Our interactions with the external economics community help

us in shaping our analysis and policy positions; I hope the roundtable also enables the participants to gain an improved understanding of the work of the Bank. This afternoon's thematic sessions promise to provide new insights on the topics of labour market conditions, non-performing loans, and the European monetary environment.

In these opening remarks, I will first review current macro-financial conditions. Subsequently, I will discuss some current policy issues in relation to macro-financial risk management, focusing on the potential stabilising contributions from counter-cyclical macroprudential and fiscal policies. My discussion of fiscal policy reflects the content of the pre-Budget letter that I recently sent to the Minister of Finance, which is published today.

Number 5 (Page 33)

FSB and IMF report on progress with G20 Data Gaps Initiative

The Financial Stability Board (FSB) and International Monetary Fund (IMF) published the second progress report on the implementation of phase two of the G20 Data Gaps Initiative (DGI-2).

The report updates on the work undertaken since September 2016 to advance implementation of the twenty recommendations aimed at addressing the data gaps identified after the global financial crisis and promote the regular flow of timely and reliable statistics for policy use.

The report has been delivered to the G20 Finance Ministers and Central Bank Governors ahead of their meetings in Washington D.C. in October.

The report shows substantial progress has been achieved during the first year of the DGI-2, despite challenges in the implementation of some recommendations.

Number 6 (Page 35)

From Bitcoin to digital central bank money - still a long way to go

Carl-Ludwig Thiele, Member of the Executive Board of the Deutsche Bundesbank, at the Official Monetary and Financial Institutions Forum (OMFIF) roundtable discussion, London.

“London has always been one of my favourite destinations, and it is an ideal venue for discussing new virtual currencies. Not just on account of London's immense importance as a financial centre, but mainly because of the City's understanding of markets and market trends.

This understanding encompasses the major role played by central banks and financial market infrastructures. It was, after all, Walter Bagehot, who, in his 1873 treatise Lombard Street, laid the very foundations of how we see central banks nowadays.”

Number 7 (Page 43)

PCAOB to Hold Open Meeting Sept. 26 to Consider Supplemental Request for Comment on New Requirements for an Auditor’s Use of Other Auditors

PCAOB
Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board will hold an Open Meeting on Tuesday, September 26, at 9 a.m., to consider issuing a supplemental request for comment on certain revisions to new requirements proposed last year that would apply to audits that involve auditors outside the firm issuing the audit report.

Number 8 (Page 44)

Treasury Targets Supporters of Iran's Islamic Revolutionary Guard Corps and Networks Responsible for Cyber-Attacks Against the United States

U.S. DEPARTMENT OF THE TREASURY

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) designated 11 entities and individuals for engaging in support of designated Iranian actors or malicious cyber-enabled activity.

Number 9 (Page 48)

Equifax Careers

43 security careers

Number 10 (Page 49)

Statement on the Equifax cyber incident

Update to the NCSC statement on the Equifax cyber incident.

Equifax has confirmed that around 400,000 UK citizens have been affected by the recent Equifax data breach.

At this moment in time, password-related data does not appear to have been involved in this breach. As a result the NCSC does not believe there is a need for UK citizens to reset their passwords on other services.

The main risk to UK citizens affected by this data breach is that they could be on the receiving end of more targeted and realistic phishing messages.

Number 1

Challenges for regulators and supervisors after the post-crisis reforms

Jaime Caruana, General Manager of the BIS, at the FSI Conference on "Supervisory policy implementation in the current macro-financial environment - 'a cross-sectoral journey'", Basel.

Introduction

Good afternoon, everyone. Let me join Fernando Restoy in welcoming you to the BIS and to this Financial Stability Institute conference. Thank you for your participation.

The main theme of this conference is implementation. I would like to offer a few reflections on this topic.

Let me start with the obvious. The Great Financial Crisis triggered a substantial regulatory reform effort worldwide to better internalise systemic risk and strengthen the international financial system. The two main objectives are crystal clear: to reduce as much as possible the probability of financial crises going forward; and to minimise the real costs of such crises should they nevertheless occur at some point.

The emphasis on enhancing resilience for the whole system - not just individual institutions - is critical. It also implies a very broad-based endeavour. During the past nine years, major financial reforms have taken place in multiple areas.

In the crisis prevention domain, a number of new standards were developed to increase the resilience of financial institutions and market infrastructures, to make financial transactions safer and to reduce the scope for key entities to generate systemic risks. In the crisis management

domain, authorities have developed ways to make the resolution of unviable institutions more orderly in future, ideally without involving government finances - in contrast to what happened in many countries during the crisis.

On this occasion, I will refrain from listing the whole catalogue of reforms and their implementation status. Should there be any need to assess the breadth and depth of these reforms, I believe you are familiar with the multiple and detailed progress reports produced by the individual standard setters and the Financial Stability Board (FSB).

For an overview, I recommend the latest FSB annual report on implementation and effects of the G20 financial regulatory reforms.

Although there are still a few important pending issues, it is fair to recognise that a huge amount of work has taken place over the past nine years. These efforts have contributed to making the financial system more resilient and better equipped to facilitate sustainable economic growth.

Also worth highlighting is that this progress is largely the consequence of an impressive, possibly unprecedented, international cooperation effort, involving authorities from jurisdictions around the world.

Designing the reforms is only the first step. After developing a comprehensive reform package that affects almost all aspects of the financial system, there is still the need to complete what is pending and concentrate efforts on proper implementation and monitoring effects.

Completing the elements that are pending is, of course, essential. Basel III comes to mind - and I expect that it will soon be finalised. Stabilising the regulatory framework will help the financial sector adjust and adapt to these changes.

At this point in the regulatory cycle, one of the best contributions that the international regulatory community could make in support of financial stability is to promote the comprehensive, consistent and timely implementation of the reforms.

Before turning to implementation, my main topic today, let me add a couple of thoughts that we at the BIS believe to be important to bear in mind.

First, it would be a mistake to declare victory too soon. The world economy is still subject to risks and vulnerabilities, most notably those relating to the generalised increase in indebtedness and the rich valuations of assets. As

we know from experience, debt is an extremely powerful mechanism that can amplify the destabilising impact of adverse shocks.

Second, financial stability is a very elusive, multifaceted objective. Its pursuit requires the contribution of other policies. Monetary, fiscal and structural reform policies also need to contribute to limiting financial stability risks both at the national level and globally. I don't think that prudential policies, not even together with macroprudential ones, can do the job alone.

Against this background, let me turn to my main topic.

We all agree that proper implementation is essential to reaping the full benefits of the global regulatory reforms. It is crucial to ensure consistency among the different segments of the regulated financial sector. It is also vital to promote a level playing field both within and across jurisdictions.

Policy implementation: three dimensions

In talking about implementation, I would like to adopt a relatively wide definition, under which good policy implementation covers three different but related dimensions.

The first relates to adopting the new standards into national regulation in a proper, consistent and timely way.

The second is about assessing whether these standards, once implemented, are achieving their objectives.

The third is about putting in place supervisory frameworks that help maximise the benefits of the new standards.

Let me address each of these in turn.

Adopting new standards in a proper, consistent and timely way

First and foremost, implementation requires the proper adoption of the new regulatory standards. As documented in the progress reports of the various standard setters and the FSB, significant progress has been made in implementing the new standards in all domains.

This general progress, however, is uneven.

The various standard setters have identified some areas where more expeditious implementation is desirable in some jurisdictions. This is the case, for example, for the standards relating to counterparty credit risk in the banking sphere.

This is also the case for the standards relating to margin requirements for non-centrally cleared derivatives, even though implementation has taken place in the major financial centres.

The FSB, for its part, has identified in its latest review of post-crisis reforms that substantial work remains to be done before an adequate implementation of resolution regimes can take place in a number of jurisdictions.

This is particularly the case regarding resolution powers. The key missing powers are those that enable bail-in and those that allow for a temporary stay on the exercise of early termination rights.

In other words, the adoption of new rules is still very much a work in progress.

In talking about implementation, we often emphasise the need for consistency. However, consistency does not necessarily require uniform application of standards to all entities and in all jurisdictions. For instance, as you know, the Basel Committee standards are minimum standards.

There is scope for supervisors to ask for more than the minimum if necessary. And these standards are in principle meant to apply to large international banks. We need to be sensitive to the compliance costs.

Following the principle of proportionality, it may be appropriate to apply simpler standards to banks with simpler business models - as long as this does not result in less stringent requirements for these institutions.

Indeed, ever since its Market Risk Amendment in 1996, the Basel Committee has envisaged the use of both standardised and advanced methods for determining capital charges, with the former applying to less complex businesses.

In fact, this simpler, standardised approach is associated with higher capital requirements. And a number of jurisdictions currently apply specific rules to purely domestic banks.

Yet, when applying the principle of proportionality, we should give due consideration to the potential consequences that may result from heterogeneous regulatory requirements.

For example, we should consider what impact such heterogeneity might have on the resilience of individual institutions, or on the domestic competitive environment.

Assessing whether standards, once implemented, achieve their objectives

The second dimension of implementation relates to assessing the reforms' impact once we gain some experience with operating under the new rules. Given the wide scope of the reforms, spanning virtually all segments of financial activity, it is necessary to assess their combined impact on the financial system and on the real economy.

Since the early stages of designing the current reforms, there have been significant efforts to assess their potential impacts. As these reforms are being implemented, more valuable information is becoming available to assess whether the new rules are working as intended and whether they generate adverse unintended effects.

These can include the excessive shift of risks towards less regulated areas, the reduced liquidity in some securities markets or the retrenched provision of correspondent banking services to some countries. Such assessments no doubt require a comprehensive and inter-sectoral approach to grasp the whole range of effects that the new standards could generate.

This comprehensive analysis should build on the extensive impact assessments conducted by each standard setter. For instance, the Basel Committee began conducting impact assessments more than a decade ago, when finalising Basel II. Ever since, it has developed and refined its methodologies, conducting increasingly elaborate assessments of its standards.

The next logical step is to systematically conduct and generalise these types of assessments. Indeed, the FSB, in cooperation with the relevant standard setters, has recently launched a methodological framework6 for the evaluation of the post-crisis reforms so as to analyse their overall effects and to compare these with their objectives.

In this context, two elements seem to be critical to me:

The first is about the need for fact-driven analysis as well as data availability and quality. To assess the impact of reforms, we will need sufficient practical experience with the reforms and long enough series of robust data.

The usefulness of these assessments for policy recommendations will depend on the extent to which they can identify and measure the effects of regulation.

Gaining experience and gathering good data will take time. Good collaboration with the private sector will thus be crucial. It may also require an additional effort by private sector stakeholders to ensure the quality of their IT systems and the information they can provide.

The second critical point about assessment methodology - and perhaps the biggest challenge in this regard - is the need to establish some kind of reference point, some kind of measurable benchmark that helps to capture the social benefits and costs of the reforms.

This will help determine whether the actual outcomes are satisfactory and sufficient to meet the reforms' intended objectives.

In any case, this collaborative effort at the FSB, when combined with all of the ongoing impact assessments conducted by the individual standard setters, will no doubt help address concerns about potential imperfections in the different standards.

At the same time, we should be careful to avoid the impression that there will be frequent adjustments to the regulatory standards.

Otherwise, we would be contradicting our objective to achieve soon a sufficiently stable and predictable regulatory environment. This stability is also critical for an evidence-based assessment of the impact of the reforms over time.

Putting in place supervisory frameworks that maximise the benefits of new standards

The third dimension of policy implementation is to have supervisory frameworks that help support and maximise the positive effects of the regulatory reforms on the proper functioning of the financial system. This is a broad topic that includes resources, powers, methodologies, cooperation, etc. Let me focus on a few specific observations.

First, the crisis has confirmed the need for supervisors to take a more comprehensive approach to address the build-up of vulnerabilities at financial institutions. Accordingly, they are now increasing their efforts to directly assess asset quality, proper classifications, valuations and provisions.

At the same time, supervisors are combining this traditional focus with greater attention to corporate culture and governance, including the framework for risk appetite and the compensation system.

All these elements must be part of their comprehensive efforts to identify vulnerabilities. Importantly, authorities are now complementing the traditional microprudential focus of their supervisory programmes with a macro perspective. This allows them to better assess system-wide risk concentrations, the build-up of financial imbalances and procyclical effects.

Supervisory priorities and practices are also becoming more forward-looking. Over the last few years, national supervisors have increasingly combined the analysis of financial statements, supervisory reporting and on-site inspections with stress testing exercises to assess banks' resilience under different risk scenarios.

Supervisors are also assessing and challenging the sustainability of banks' business models in order to anticipate difficulties.

More cooperation across authorities when conducting stress tests could enhance the analysis. This would help, for instance, to improve the assessment of cross-border spillover effects. It would also help to take these effects into consideration in a more consistent manner across jurisdictions.

Another key lesson reconfirmed by the crisis is the need for supervisory intervention to be more proactive. This generally means earlier and perhaps more forceful interventions that address problems well before the situation deteriorates to the point of non-viability.

Proactive supervisory interventions have long been a known challenge because they involve delicate trade-offs. In particular, they rely not only on early identification of problems, but also on the exercise of just enough supervisory discretion and supervisory powers to solve the problems at stake. Doing too much would risk arbitrary intervention. Doing too little would risk complacency.

Last but not least, technological innovations are facilitating the emergence of new players in the market for financial services. That in turn is forcing supervised institutions to change and to adapt their business models. These changes can increase the efficiency of the industry. In some jurisdictions, they may also encourage financial inclusion.

But at the same time, innovations and new players also mean that the nature of the risks affecting the financial system is evolving. All these developments require specific policy attention by both conduct of business supervisors and prudential supervisors. The Basel Committee's current public consultation on the implications of fintech for the financial sector is one recent case in point.7

Concluding remarks

Let me conclude. I started my intervention by highlighting the magnitude of the post-crisis regulatory reforms and their progress. These reforms will help the orderly functioning of the financial sector. They will promote systemic stability and, therefore, sustainable growth. That being said, there is no room for complacency.

We certainly need to work more, especially - but not exclusively - on policy implementation. Avoiding watering down what we have achieved so far, completing Basel III and implementing the reforms in a consistent and timely manner are top priorities.

I want to reiterate, however, that the task of maintaining financial stability goes beyond ensuring effective regulation and supervision. The vulnerabilities in the financial system often have multiple causes.

It is therefore important to recognise the interactions across policy domains in order to deliver an adequate combination of policy actions - a combination that helps to meet all objectives effectively.

This can only be achieved through the work of the international regulatory community. Without the dedicated spirit of cooperation across national authorities, the substantial strengthening of regulations governing the functioning of the financial system would not have been possible.

We should certainly maintain this attitude and level of commitment in order to deal effectively with the challenges that lie ahead of us.

One key aspect of this cooperation is the exchanges of practices and experiences among regulators and supervisors to help ensure that sound policy approaches are adopted worldwide. I believe that the Financial Stability Institute can support the standard setters in this regard and should continue to play a key role in promoting the adoption of good policy practices across jurisdictions.

This work goes well beyond the dissemination of standards. It also includes, as the FSI is now doing, facilitating information-sharing and providing analysis that helps financial sector authorities identify the appropriate policy approaches. I believe that this conference organised by the FSI fits very well with the objective to promote reflection and cooperation, across countries and sectors, in the field of policy implementation.

Number 2

Dinner speech, 5th conference on global insurance supervision

Gabriel Bernardino, Chairman, European Insurance and Occupational Pensions Authority (EIOPA)

On behalf of EIOPA and the co-organisers, the International Center for Insurance Regulation (ICIR), the Research Center SAFE - Sustainable Architecture for Finance in Europe, and the World Bank Group, I would like to thank you for having accepted our invitation to attend the 5th Conference on Global Insurance Supervision and tonight's dinner.

On this occasion let me also thank our co-organisers for the constructive team work and support which is crucial for the success of this conference.

The theme of our conference is "The Future (Re)Insurance Landscape: Different Perspectives, Inspiring Dialogue" and today's programme has shown how crucial our dialogue is to promote mutual understanding and to build trust for the benefit of consumers, policy holders and the industry.

Given the global and international scope of the conference, let me start by referring to the importance of global cooperation.

First, EIOPA is proud of its cooperation with international partners, whether on practical issues through memoranda of understanding, or on more strategic issues, through participation in international fora.

While we are a European organisation, we are committed to ensuring the highest standards of supervision across the globe through the creation of global, consistent international standards and their effective implementation.

Let me start by presenting a short snapshot of where we are now.

From a macro-economic perspective there are some positive developments: Volatility has decreased and global inflation rates are fluctuating near the 2% medium-term inflation target.

Despite these positive signs, the continuing low-yield environment and the observation that market fundamentals might not properly reflect the underlying credit risk are still important concerns.

A material re-pricing of risk is a scenario that we cannot rule out, especially in the context of the current geopolitical situation.

This would put extra pressure on insurers' asset portfolios.

From a micro-supervisory perspective, the insurance sector in the European Union is in its first years of implementation of Solvency II.

Within a very difficult macro-economic reality with historically low interest rates, the application of Solvency II was carried out smoothly as a result of timely preparation and appropriate transitional periods.

In an industry with € 11 trillion of assets under management and € 8.7 trillion in technical provisions, this success is remarkable and has contributed significantly to the stability of the European financial sector.

Overall the European insurance sector is adequately capitalised.

Specific transition periods are used mostly by life insurance companies with long-term guarantees business.

The use of transitional measures is transparent and insurance companies published their solvency ratios with and without the application of these measures.

Transitional measures form an integral part of Solvency II and are intended to limit the procyclicality of the regulatory changes and to facilitate the entry into the new regime by giving companies the time needed to adapt to the new solvency requirements.

I continue to believe that this "transparent and constrained forbearance" is an appropriate way to balance micro- and macro-prudential considerations.

I believe that the European insurance industry is much stronger with Solvency II: It is stronger

• because it has its capital better aligned to the risks it runs

• because it uses a more realistic basis to assess and mitigate risks and thus can better price them

• because it has upgraded its governance models, with a complete different emphasis on the role of the Boards, the setting up of key functions and the implementation of the ORSA

• because the updated group solvency requirements and the clear powers assigned to the group supervisor ensure a better level playing field

With Solvency II we also have the basis for a more transparent industry, with harmonised templates for supervisory reporting and enhanced public disclosure.

We now have an industry that is better prepared to face the new challenges and to be on the front line in the necessary adaptation of business models prompted by three main factors:

• the macroeconomic environment with the prolonged low interest rates;

• the advent of new technologies and the growing pace of digitalisation; And

• demographic changes

Prudential and conduct of business regulation and supervision needs to cope with these evolutions and should incentivise a virtuous and stable transition.

A transition towards simpler and transparent products, priced according to risks, sold through cost-efficient channels using the highest ethical standards.

A successful transition could also help to bring an increased role for the insurance sector in the management of growing societal risks like the savings and the protection gap.

The development of truly long-term simple, transparent and cost-effective retirement products could contribute to minimise the impact of the current savings gap and the development of transparent public-private

partnerships could significantly help to reduce the cost of catastrophic events to citizens and governments.

So, in a nutshell, I see the business model changes in the insurance industry as more of an opportunity than a risk.

Talking about opportunities let me specifically mention Insurtech.

All stages of the insurance value chain are being impacted by InsurTech and more broadly digitalisation.

Insurance products are increasingly capable of being purchased through smartphones at any time and from any place.

Consumers may benefit from the design of more personalised products and services adapted to their evolving and specific needs.

New products can also incentivise consumers and society to reduce their risks.

All of this is driven by the greater availability of data and an improved capacity for processing it, which also enables the development of increasingly efficient underwriting and claims management processes, thereby reducing costs.

In order to harness the benefits of digitalisation, providers have embarked on ambitious digital transformation projects and increasingly cooperate with InsurTech start-ups to benefit from their cutting-edge data analysis tools and technology.

Nevertheless, we should remain attentive to the possible fragmentation of the insurance value chain, which could result in a number of potential supervisory challenges.

The relevance of Big Data for the insurance sector is no surprise; data has always been a highly valuable commodity for the sector. There are multiple potential benefits linked to the use of Big Data analytics and processes, such as the development of tailored products or more granular risk assessments.

But there are also a number of growing risks, such as privacy issues, potential discrimination through price optimisation and cyber threats.

The above developments have the potential to significantly reshape the

insurance landscape in the coming years. Regulatory and supervisory authorities have a role to play, by encouraging financial innovation while, at the same time, ensuring a well-functioning consumer protection framework and financial stability.

In doing so I believe that it is necessary to respect key supervisory principles such as proportionality, market integrity and technological neutrality.

InsurTech and digitalisation are of strategic importance for the insurance sector and are therefore topics that EIOPA is following closely.

Recently in April we organised a roundtable to discuss with stakeholders the benefits and risks of digitalisation for the industry and consumers as well as potential obstacles to effective innovation.

During the event, representatives from supervisory authorities, consumers, providers, start-ups, consultancy firms and IT experts exchanged their different experiences and points of views on the impact of digitalisation in the insurance sector.

Another roundtable will be organised later this year.

EIOPA's immediate work in the area of InsurTech will focus on three main issues: the use of Big Data by the insurance industry; cyber risks and supervisory approaches to financial innovation where we intend to analyse initiatives such as regulatory sandboxes and innovation hubs.

As this is a global phenomenon, we are also very keen on ensuring a strong cooperation with our colleagues all over the world, be it in the framework of the IAIS or in the context of the EU-US insurance project.

Talking about challenges let me mention Brexit which is now an item on the agenda of many industry participants and supervisors.

In a first step EIOPA published in July an Opinion with the aim to foster supervisory convergence and consistency in the relocation of insurance undertakings from the United Kingdom.

The Opinion provides guidance and sets out principles in the areas of authorisation and approvals, governance and risk management, outsourcing of critical and important activities as well as ongoing supervision including monitoring.

EIOPA expects undertakings to show an appropriate level of corporate substance and not display characteristics of an empty shell.

The supervisors should carefully scrutinise any transfer of risks and require a minimum retention of risks from the authorised undertaking.

As an indication, a minimum retention of 10 % of the business written could be envisaged.

Outsourcing of undertakings' important functions should be subject to the full responsibility of the management body for the outsourced activity and shall not materially impair the quality of governance, increase operational risk, impair the ability of supervisors to monitor compliance or undermine continuous and satisfactory service to policyholders.

The principles set out in this Opinion will support national supervisory authorities to secure sound and convergent practices.

Sound supervision demands the appropriate location of management and key functions.

Empty shells or letter boxes are not acceptable.

In a second step we are now looking at elements related to the possible impact of Brexit on market stability and consumers.

Issues like contract continuity, data flows and supervisory cooperation will be thoroughly analysed.

To conclude, I would like to reinforce the message that international dialogue and cooperation between regulators, supervisors, the industry, academia and consumers is a key element to ensure financial stability and consumer protection globally.

We face similar challenges and can only benefit from sharing experiences, strengthening the commonalities and understanding the differences.

From our side at EIOPA we will continue to do the utmost to foster an open and transparent dialogue.

And as already said this conference is an important part of this important dialogue and approach.

Let me thank you again thank you for your participation, constructive contributions to and interest in this conference and your attention.

Number 3

FAQs on Basel III definition of capital published by the Basel Committee, 19 September 2017

BANK FOR INTERNATIONAL SETTLEMENTS

The Basel Committee on Banking Supervision published answers to a fourth set of frequently asked questions (FAQs) on the Basel III definition of capital. These aim to promote consistent global implementation of Basel III, by providing clarifications and interpretative guidance on the Committee's standards.

Today's publication updates the third set of FAQs on the definition of capital, which was published in December 2011.

To read it:
http://www.bis.org/bcbs/publ/d417.pdf

Number 4

Macro-financial risk management

Philip R Lane, Governor of the Central Bank of Ireland, at the Central Bank of Ireland Economics Roundtable, Dublin.

It is a pleasure to welcome you to the Bank for the annual economics roundtable. Our interactions with the external economics community help us in shaping our analysis and policy positions; I hope the roundtable also enables the participants to gain an improved understanding of the work of the Bank. This afternoon's thematic sessions promise to provide new insights on the topics of labour market conditions, non-performing loans, and the European monetary environment.

In these opening remarks, I will first review current macro-financial conditions. Subsequently, I will discuss some current policy issues in relation to macro-financial risk management, focusing on the potential stabilising contributions from counter-cyclical macroprudential and fiscal policies. My discussion of fiscal policy reflects the content of the pre-Budget letter that I recently sent to the Minister of Finance, which is published today.

The macro-financial environment

The near-term and medium-term projections for the Irish economy are for significant expansion. The economy continues to grow at a strong pace, supported by the buoyancy of domestic economic activity. Underpinning the recovery has been broad-based growth in employment, which has helped incomes recover and supported solid growth in consumer spending, while domestic investment has gained traction.

Modified domestic demand, a measure of domestic spending which excludes investment in intangibles and aircraft leasing, grew by 4.7 per cent in 2016.

Looking ahead, the outlook is favourable, although external uncertainty persists.

The main impetus to growth will continue to come from domestic demand, driven by continuing gains in employment and incomes. Reflecting this, prospects for consumption and investment remain positive and modified domestic demand is forecast to grow by 4.5 per cent this year and by 4.0 per cent next year.

Although the pace of employment growth is projected to moderate, unemployment is set to fall towards 5 per cent, with growth in compensation likely to average around 3 per cent.

At the same time, there are clear downside risks to the growth outlook at both global and domestic levels. At a generic level, Ireland is especially exposed due to the sensitivity of small, highly-open economies to international shocks.

In particular, the state of global economic and trading conditions and the configuration of major exchange rates are important determinants of Irish economic performance, given the dominant role of global firms in our tradable sector.

In addition, the legacy of high public and private sector debt levels means that Ireland is vulnerable to shifts in funding conditions. The low interest rate environment that has persisted in recent years has generated a positive financial terms of trade shock for debtors.

In the other direction, any upward shifts in policy rates, term premia or risk premia will pose adjustment challenges for indebted sectors and may have a material impact on asset valuations.

Finally, disorderly versions of Brexit would disproportionately affect Ireland relative to other European economies. As the EU-UK negotiations proceed, scenarios in which trading frictions between the EU and UK are increased would be damaging for the productivity of the Irish economy.

Macro-financial risk management: policy issues

There are two basic elements in macro-financial risk management. First, the capacity to withstand adverse shocks is enhanced by improving the resilience of the macro-financial system through the strengthening of sectoral balance sheets and the design of a legal and regulatory architecture

that lowers the costs associated with dealing with unsustainable debts and failing institutions. Second, counter-cyclical policy measures can dampen cyclical fluctuations in conditions.

At global, European and domestic levels, financial regulatory reforms in recent years have been directed at improving the resilience of banking systems. Banks are now required to satisfy tougher capital and liquidity requirements, while recovery and resolution regimes have been introduced to make it easier to deal with distressed institutions. These regulatory reforms are backed by a more intrusive supervisory system, including more extensive on-site inspections and enhanced enforcement powers. Legal systems have also been reformed to improve insolvency frameworks, even if much remains to be done.

In addition, under the domestic implementation of the European macroprudential policy framework, the Central Bank of Ireland now sets additional capital buffers for banks and also specifies borrower-based measures to mitigate the risks associated with boom-bust financial cycles.

In relation to capital ratios, the Bank sets an additional buffer for each systemically-important institution (the so-called O-SII buffer).

In addition, the counter-cyclical capital buffer (CCyB) is a policy tool that can be activated in response to cyclical credit dynamics by raising the minimum capital ratio for banks during periods of above-normal credit growth and lowering it during periods of below-normal credit growth.

A primary objective is to increase the resilience of banks to unexpected reversals in credit dynamics; in addition, depending on circumstances, it is possible that the credit cycle might also be dampened by such counter-cyclical measures.

While new lending is picking up, our assessment is that the credit cycle remains subdued, which is reflected in the current zero value for the counter-cyclical capital buffer. Still, since the counter-cyclical capital buffer is reviewed on a quarterly basis, this policy tool provides a high-frequency (compared to the typical duration of financial cycles) mechanism to respond to cyclical shifts in credit conditions.

A small but increasing number of EU countries have raised the counter-cyclical capital buffer in recent times.

Of course, the bedrock of our macroprudential policy framework is formed by the borrower-based measures we have introduced in relation to mortgage loans. We view our mortgage measures that put ceilings on loan-to-income (LTI) and loan-to-value (LTV) ratios as essential in limiting systemic financial risk emanating from the mortgage market, while acting to protect consumers from the risks associated with overborrowing.

Such borrower-based measures are intended to improve the resilience of the financial system and the overall economy by improving the sustainability of mortgage loans, leading to a lower probability of default and smaller losses in the event of defaults. Moreover, such measures are reinforced by the higher capital requirements facing banks, which improves their capacity to absorb loan losses.

An important property of the mortgage measures is that the LTI rule acts as an automatic stabiliser in relation to house price dynamics: house prices cannot persistently rise faster than the income levels among the pool of potential purchasers.

In addition, the differential LTV ratios for first-time and second-and-subsequent buyers recognises the asymmetric impact of house price increases on these different groups: whereas a rise in house prices requires extra savings to meet the deposit requirement for a first-time buyer, an incumbent house owner experiences a decline in the LTV ratio on her existing property which expands her borrowing capacity in further housing market transactions.

In similar vein, the additional LTV requirement for buy-to-let (BTL) investors limits the feedback loop between house price rises and the conversion of increases in home equity values into borrowing capacity in the BTL category.

The operation of these mechanisms means that the combination of the LTI ceiling and the ladder of differentiated LTV ceilings provides some in-built brakes in housing price dynamics.

A further stabilising mechanism is that our macroprudential regulations can be tightened if there is evidence of materially-elevated risks in the mortgage market, especially in relation to adverse feedback loops between the rate of credit growth and house price increases.

Our commitment to an annual review process ensures that a rigorous evaluation of the mortgage measures is conducted each year, such that

indicators of a combination of excess credit growth and unsustainable house price levels can be met by a revision in the rules.

Given this policy regime, participants in the housing market can be confident that the feedback loop between credit growth and house prices will no longer operate in an unbounded fashion.

It is critically important to appreciate that our framework sets limits on the size of mortgages: the LTI and LTV ratios are not targets but ceilings. In buying a home, a household should take into account the protections offered by putting down a higher deposit in terms of limiting repayment burden and risks associated with excessive debt levels.

Equally, lenders are required to assess the loan-bearing capacity of each mortgage customer and restrict the size of the mortgage if indicated by the analysis of the borrower's credit risk.

While the November 2016 revisions to the mortgage rules did raise the maximum loan size for first-time buyers seeking to buy homes above €220,000 in value, it is important to take into account several considerations.

First, borrowers also have to satisfy the LTI requirement, which remains unchanged at a cap on loans of 3.5 times income. For many households, this will limit the capacity to increase the mortgage size.

Second, the scope for exemptions to the LTV limit for first-time buyers has been restricted to just 5 percent of lending to this group, whereas the previous regime allowed 15 percent of lending above the LTV ceilings and did not restrict the allocation of exemptions between the first-time and second-and-subsequent buyer pools: in our analysis, many first-time buyers above the €220,000 threshold were receiving exemptions (or were looking for loans below the LTV ceiling) so that previous rule was not fully binding.

Third, to the extent that the revision is contributing to an increase in aggregate mortgage credit volumes, this should be interpreted in the context of the subdued level of lending in recent years.

Finally, it is important to appreciate that many factors influence the dynamics of house prices. Moreover, there is no fixed relation between credit conditions and the evolution of house prices: the importance of

credit conditions is clearly diminished in settings in which a significant proportion of purchasers do not require mortgage finance.

While rising incomes, low interest rates, high rents and post-crisis adjustment dynamics are currently contributing to significant house price pressures, the prospect of future expansion in housing supply should restrain house prices over the medium term.

In particular, an expansion in the housing stock would simultaneously relieve pressure in both the rental and home ownership categories.

In addition, as discussed earlier, the highly-open nature of the Irish economy means that income and employment levels are highly sensitive to external shocks.

For instance, slowdowns in global output growth, major currency movements, adverse shifts in international trading regimes and a tightening in funding conditions could trigger a reversal in the currently benign growth and employment environment.

Given these considerations, there are no one-way bets in the housing market and our macroprudential framework is fundamental to mitigating these risks.

A resilient macro-financial system also depends on stable public finances, especially in view of the feedback loops between fiscal stability, financial stability and macroeconomic stability.

In terms of the public finances, a long-term public debt target can provide an important anchor. Indeed, the greater the commitment to attaining a long-term debt target, the more is it possible to run a flexible, counter-cyclical fiscal policy in response to temporary shocks.

The case for a prudent target for public debt is further reinforced by the trend implications of an ageing population for expenditure on pensions and healthcare.

While the European fiscal framework prescribes a target ceiling for the stock of public debt (at 60 percent of GDP), there are compelling reasons to develop a national target for the stock of public debt. In this respect, I welcome the commitment in the Summer Economic Statement to maintain a long-term debt target of 45 percent of GDP.

At the most basic level, the new CSO calculations indicate that the underlying size of the Irish economy (as captured by GNI*) is about one-third smaller than GDP, such that a debt ratio of 60 percent of GNI* maps to a debt ratio of 40 percent of GDP.

More generally, the prudent stock of public debt naturally varies across countries in line with different risk exposures: the volatile nature of the Irish macro-financial system and the history of crises suggests a debt target that should be materially below the appropriate level for a larger, more stable economy.

Of course, a target for the stock of public debt should be appropriately interpreted in the context of the wider public sector balance sheet, with due allowances for the dynamics of various types of financial and non-financial assets (including public capital) and the range of contingent and implicit liabilities.

In relation to the cyclical budgetary stance, the pursuit of macro-financial stability requires that the government runs a counter-cyclical fiscal policy. In addition to the mechanical operation of the automatic stabilisers that are embedded in the dynamics of tax revenues and transfers, a government may need to take further discretionary measures to tighten budgetary policy during phases of robust economic growth.

The development of a counter-cyclical fiscal strategy should also strike the balance in the allocation of surplus revenues between the proposed rainy day fund and reducing the gross stock of public debt. In addition to ensuring that the fiscal balance is set at a cyclically-appropriate level, the government can use additional tools to mitigate overheating pressures, including the deployment of cyclically-varying expenditure taxes.

Determining the optimal counter-cyclical fiscal stance may soon be quite relevant for budgetary policy if the economy hits full employment. For instance, the macroeconomic implications of the projected further expansion in public investment during 2019-2021 that is signalled in the Summer Economic Statement depend on whether and when the economy attains full employment.

While additions to the public capital stock can be expected to raise the productive capacity of the economy and/or assist in the attainment of social objectives over the medium term, the process of public investment acts to raise aggregate demand in the near term.

While the demand-raising impact of public investment can be stimulative during periods of economic slack, a surge in public investment under conditions of full employment requires counter-vailing measures to limit the risk of costly over-heating dynamics. Alternatively, stretching out a planned public investment programme over a longer horizon can limit pressures on the absorptive capacity of the economy.

Finally, it is important to note the complementarities between counter-cyclical macroprudential and fiscal policies. In one direction, a robust macroprudential policy framework mitigates credit-driven cyclical shocks, easing the burden on fiscal policy.

In the other direction, counter-cyclical fiscal policy moderates the income volatility that is an important source of credit shocks, reducing the strain on the macroprudential stance.

Conclusions

At the current juncture, Ireland faces two types of risks. In one direction, there remain many legacy issues from the crisis, with the elevated stocks of private and public debt implying significant vulnerability to adverse shocks to incomes or interest rates.

In the other direction, upside shocks may provide a new type of challenge in addressing potential overheating risks in the economy. The responsibility of policymakers is to maintain a vigilant and agile stance in order to ensure that Ireland can cope with either type of shock.

Number 5

FSB and IMF report on progress with G20 Data Gaps Initiative

The Financial Stability Board (FSB) and International Monetary Fund (IMF) published the second progress report on the implementation of phase two of the G20 Data Gaps Initiative (DGI-2).

The report updates on the work undertaken since September 2016 to advance implementation of the twenty recommendations aimed at addressing the data gaps identified after the global financial crisis and promote the regular flow of timely and reliable statistics for policy use.

The report has been delivered to the G20 Finance Ministers and Central Bank Governors ahead of their meetings in Washington D.C. in October.

The report shows substantial progress has been achieved during the first year of the DGI-2, despite challenges in the implementation of some recommendations.

A new monitoring framework to help assess and track progress in implementing the twenty DGI-2 recommendations has been agreed with the G20 economies and a traffic light monitoring dashboard, included in the report, provides a concise overview of such progress.

Country notes explain in more detail specific accomplishments and challenges in each jurisdiction.

To facilitate further progress, the 2018 DGI-2 work program will continue to include thematic workshops to support participating economies' efforts on the implementation of the most challenging recommendations.

It is intended that all DGI-2 recommendations are fully implemented by 2021.
To this end, high-level political support is crucial to ensure that adequate resources are allocated to DGI-2 implementation and more complex work streams are thoroughly and timely addressed.

To read it:
http://www.fsb.org/wp-content/uploads/P210917.pdf

Number 6

From Bitcoin to digital central bank money - still a long way to go

Carl-Ludwig Thiele, Member of the Executive Board of the Deutsche Bundesbank, at the Official Monetary and Financial Institutions Forum (OMFIF) roundtable discussion, London.

David

Ladies and gentlemen

I am delighted that the Official Monetary and Financial Institutions Forum has invited me to share my thoughts with you here today. The OMFIF - an independent think tank for central banking, economic policy and public investment - has made quite a name for itself. Independence, especially, but also freedom from political responsibility, is a precious asset.

London has always been one of my favourite destinations, and it is an ideal venue for discussing new virtual currencies. Not just on account of London's immense importance as a financial centre, but mainly because of the City's understanding of markets and market trends.

This understanding encompasses the major role played by central banks and financial market infrastructures. It was, after all, Walter Bagehot, who, in his 1873 treatise Lombard Street, laid the very foundations of how we see central banks nowadays.

In this work, Walter Bagehot gives the following characterisation of London's bankers:

"The name 'London Banker' had especially a charmed value. He was supposed to represent, and often did represent, a certain union of pecuniary sagacity and educated refinement which was scarcely to be found in any other part of society."

1. Trust - the foundations underpinning our money

That quote is taken, as I said, from Bagehot's book Lombard Street: A Description of the Money Market, in which he also mentions the main questions facing the financial system:

"Credit means that a certain confidence is given, and a certain trust reposed. Is that trust justified? And is that confidence wise? These are the cardinal questions. To put it more simply, credit is a set of promises to pay; will those promises be kept?"

That brings us to the nub of the matter. Money, ladies and gentlemen, is all about trust. The key to a stable currency is trust.

The original promise of Bitcoin was to forge a "trustless" payment system - that is, one that required no trust. I quote from Satoshi Nakamoto's paper from 2008 (Bitcoin: A Peer-to-Peer Electronic Cash System):

"What is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party."

I feel that too little attention is being paid to Nakamoto's primary goal of constructing a groundbreaking, trustless electronic payment system which, like cash, would facilitate peer-to-peer (P2P) transactions. At the same time, Nakamoto was looking to create a currency which was not based on trust. This aspect - forging a new currency that does away with central banks - has become a major talking point in the current debate. I have come here today to explain why a trustless currency is not feasible, and I will also argue that the merits of blockchain can be harnessed more readily with trustworthy institutions than without.

To get a grasp of Bitcoin, we need to put our minds to the essence of money. There are two types of money. Money as a commodity, and money as a claim.

Money as a commodity, that could be a commonly used consumer good which is mostly non-perishable. Cigarettes, for instance, were used as a money substitute in Germany after the Second World War.

But equally, money could be a durable good - gold being the most prominent example of this. Gold is extraordinarily durable, and it has an intrinsic value as a sought after industrial metal, say, or as jewellery.

Indeed, for centuries, delivering gold was regarded as the ultimate form of settling a claim.

Consumer and durable goods which can be used as money substitutes both have an intrinsic, consumption or utility value.

Virtual currencies, meanwhile, which are transferred much like goods, are a fabrication. That is not to consign them straight to the category of "fraud". Yet they have no intrinsic value, just an exchange value. You can't consume or use them, only exchange them.

On the other hand, there is money as a claim. The bulk of our money - central bank money and commercial bank money - is a claim on either the central bank or a commercial bank.

Every euro in cash and every euro in credit balances in TARGET2 represents a liability for the Eurosystem. And the euro is backed by the Eurosystem with its constituent central banks, one of which is the Bundesbank.

Unlike consumer or durable goods, central bank money does not have any consumption or utility value. And the issuing central bank's credit quality and integrity is reflected in the value of its currency. The value of a currency, then, hinges on trust in the central bank.

Not just that: the issuer - so in the euro's case, the Eurosystem - takes collateral from its monetary policy counterparties as a "deposit" for providing euro currency. That indirectly anchors the euro in the real economy.

Virtual currencies, by contrast, have no issuer, no footing in the real economy. No one has to redeem them. They are a fabrication and propagate according to a fictitious set-up in virtual systems which, in some cases, can be altered or newly created at the whim of a small group of participants. What is more, their governance regime is opaque, if not to say obscure - not to mention the fact that the identity of the participant or participants - no one knows for sure how many there are - behind the pseudonym Satoshi Nakamoto remains shrouded in mystery.

Virtual currencies are exchanged in the same way as goods, but they have no intrinsic value of their own. That is undoubtedly one reason why their value is highly volatile. Over the long term, that naturally also exposes Bitcoin holders to the risk of total loss. For us, Bitcoin is not money, it is a

speculative plaything. The great number of sometimes dubious initial coin offerings is a clear indication that Bitcoin is more of a funding instrument.

To repeat: it is more of a speculative plaything than a form of payment. Hence my repeated warnings against investing in virtual currencies. We are witnessing a remarkable increase in the value of some virtual currencies. But that does not alter the risk of total loss.

2. Blockchain/DLT in the world of payments

For us, Bitcoin's most important contribution is the underlying blockchain technology, or to put it more broadly, distributed ledger technology (DLT). This technology could help boost efficiency in payment and settlement processes.

That is why we have been looking at this technology from three different perspectives.

First, the Bundesbank develops and runs major payment and settlement systems, often in conjunction with other central banks, and in this context we explore innovative technical capabilities which can contribute to their stability and efficiency.

Second, the Bundesbank acts as a catalyst to forge improvements in payment operations and settlement structures. The better the Bundesbank grasps the practical implications of technologies or processes, the more forcefully it will be able to present its arguments, which always aim to preserve the stability and enhance the efficiency of payment and settlement systems.

Third, the Bundesbank monitors the stability of systems and tools used in the field of payments and settlement. Being able to gauge the relative merits of state-of-the-art technology is a key skill in this regard. That is why the Bundesbank - much like other central banks worldwide - has been putting a great deal of thought into DLT, even though this technology is still very much in its infancy.

Potentially, distributed data storage means that DLT can simplify reconciliation processes associated with complex work-sharing value added chains. DLT is seen as having disruptive potential since it generally allows transactions to be carried out directly - that is, without intermediaries.

Developed originally for the virtual currency Bitcoin, DLT will nonetheless require extensive modifications if it is to be adapted to the needs of the financial sector. For one thing, the legal framework as it stands requires participants to be identifiable, transactions to be kept secret from third parties, and transactions to be settled with finality.

For another, transaction throughput needs to be high. That said, some of the consensus mechanisms, as they are known, absorb so much time and energy that efficient settlement seems barely possible. Furthermore, they require substantial additional data transfers, which adds to the costs.

For comparison purposes, the Bitcoin network, at its peak, settles roughly 350,000 transactions worldwide every day, and given its current configuration, appears to be running at almost full capacity. The German payment system alone, meanwhile, processes more than 75 million transactions on average every business day, according to the data for 2016.

The traditional answer to the problem of mounting complexity in the interactions of a multitude of independent participants has been to use a central bank - an institution which centralises the settlement of payment transactions. Hence the name: Central. Bank. This arrangement channels the many different bilateral payment flows and order books into larger flows which are then routed via or by the central bank and posted in a central bank account. That was a huge step towards greater stability and efficiency in the world of payments.

As a matter of fact, that is why we are seeing a trend towards centralisation and hierarchical structures in the development of basic blockchains as well. There are multiple reasons why a pure P2P settlement arrangement does not appear viable.

A pure P2P world appears unfeasible without trusted institutions. I call this factor the lack of a real reference framework. Bitcoins, you see, are merely virtual, and they change hands between virtual participants. They never leave the Bitcoin blockchain, and they will never have a real point of reference until they are exchanged for real currency, which takes place outside the blockchain.

Once real transactions come into play, a real point of reference is needed. You can trade a house on the blockchain in the form of a virtual token. But on the blockchain, that tells you nothing about whether the house even exists, whether it has the features it is said to possess, and whether it

belongs to the seller in the first place. To verify all those things, there needs to be a trustworthy outside third party.

The basic matter of a participant's personal identity needs to be verifiable outside the blockchain. Only then can we conduct real transactions with that participant.

That is why I feel that the purported goal of settling transactions without trustworthy third parties is a pie in the sky proposition.

All in all, we are highly sceptical about the extent to which DLTcan be put to use in the financial sector. Given the current state of the art, it is somewhat unlikely that DLT will become a widely used application in individual and retail payments.

In the field of securities settlement, though, the shrinking processing times and reconciliation costs might prove to be a more important factor and suggest that DLT does have its uses.

The Deutsche Bundesbank is analysing the pros and cons of DLTin a project it is running with Deutsche Börse. While this project indicates that DLT does indeed have its functional merits, it is still unclear how far DLT also has the edge over today's technology in terms of security, efficiency, costs and speed.

3. Central bank-issued digital currency

When using DLT, the question might arise in future as to whether central bank-issued digital currency could be provided for the safe settlement of larger transactions.

Central bank-issued digital currency would rank alongside cash and credit balances with the central bank as another form of central bank money, and it would also need to be posted as a liability on the central bank's balance sheet.

There are several technical options in terms of the form this would take. Transfers could be value-based (like cash) or account-based (like deposits), anonymous or registered, its use could be restricted - in terms of amount or payment purpose, say - and it could be remunerated or, like cash, earn no interest.

The specific design dictates not just how far the supposed benefits of DLT-based central bank-issued digital currency will come into play, but also the macroeconomic repercussions, which also need to be factored into any overall verdict on its merits.

Arguably, the most important question here concerns who exactly should be allowed to use central bank-issued digital currency, or, to be more specific, whether central bank-issued digital currency should be issued to non-banks as well. Because if that were the case, we would probably see substitution effects between the different forms of money. Confining its use to the settlement of transactions among banks, on the other hand, would not involve any substantial changes over the status quo.

In particular, non-banks could convert their sight deposits at banks into central bank-issued digital currency if storage as an entry on the distributed ledger appears more secure and more convenient than hoarding it as cash.

Significant parts of non-banks' sight deposits being shifted into a blockchain, however, and no longer being available- to the credit institutions as virtually unremunerated funding -might have considerable repercussions for the interest margin, the scale of lending -as well as the business models in the banking system and the banking system's structure.

Moreover, simply expanding the monetary base accompanied by sight deposits being shifted into central bank-issued digital currency would require a larger amount of collateral and would thus have a significant impact on the structure and risk profile of the central banks' balance sheets.

There is a wide variety of potential monetary policy and stability policy implications. And these are currently being investigated by a number of central banks. As things stand, the likely consequences remain to be seen.

In a nutshell, the title of my speech today: "From Bitcoin to digital central bank money - still a long way to go" sums up the status quo of our considerations.

The road to a digital central bank - assuming there would be any benefits in the first place - would be a very lengthy one. At present, there is not even a recognised basic blockchain. Major consortiums are developing different types of basic blockchains, each with their own particular features. Not all of them can be used in the financial sector.

At the same time, applications for payment and settlement systems are being developed on these shifting sands. There is a lot going on in this field. Technology has been advancing at a pace unseen in the past decades.

4. Conclusion

Ladies and gentlemen

For us as a central bank, trust is our most precious asset. When questions of fundamental importance arise concerning the monetary system or the settlement of payments or securities, we cannot stand on the sidelines.

In its capacity as an operator, supervisor and catalyst, the Bundesbank analyses all the key technical issues so that it can actively shape the ongoing conversation about DLT by contributing insights of its own.

Our intention is to proceed in an objective and transparent manner. We wish to neither hype up a "hot topic" nor hinder the development of highly promising innovations. In the field of payments and settlement, for which I am the competent Executive Board member at the Bundesbank, the stability and efficiency of systems alone is our primary concern.

So from that vantage point, healthy scepticism, coupled with curiosity and critical analysis, is warranted when it comes to both DLT and central bank-issued digital currency. Central bank-issued digital currency, I believe, is currently an unrealistic prospect.

Thank you for your attention.

Number 7

PCAOB to Hold Open Meeting Sept. 26 to Consider Supplemental Request for Comment on New Requirements for an Auditor's Use of Other Auditors

PCAOB
Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board will hold an Open Meeting on Tuesday, September 26, at 9 a.m., to consider issuing a supplemental request for comment on certain revisions to new requirements proposed last year that would apply to audits that involve auditors outside the firm issuing the audit report.

In many audits, important audit work is performed by firms or individual auditors outside the firm issuing the audit report.

New requirements proposed on April 12, 2016 (https://pcaobus.org/News/Releases/Pages/PCAOB-proposal-other-auditors-4-12-16.aspx), would address the lead auditor's use of those other auditors that participate in the audit.

This supplemental request for comment would seek additional input on revisions to the proposal.

The meeting is open to the public and will take place in the Board's meeting room at 1666 K Street NW, Washington, DC.

The meeting will be streamed live via a link on the PCAOB website and a recording will be available shortly after the meeting concludes.

To read more:
https://pcaobus.org/News/Events/Pages/open-meeting-other-auditors-9-26-17.aspx

Number 8

Treasury Targets Supporters of Iran's Islamic Revolutionary Guard Corps and Networks Responsible for Cyber-Attacks Against the United States

U.S. DEPARTMENT OF THE TREASURY

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) designated 11 entities and individuals for engaging in support of designated Iranian actors or malicious cyber-enabled activity.

The persons sanctioned in today's actions include one entity engaging in activities in support of Iran's Islamic Revolutionary Guard Corps (IRGC) ballistic missile program; two Ukraine-based entities providing support to designated airlines, including one affiliated with the IRGC-Qods Force (IRGC-QF); and two Iran-based networks responsible for malicious cyber-enabled attacks against the U.S. financial system.

Today's actions were taken pursuant to Executive Order (E.O.) 13382, which targets proliferators of weapons of mass destruction and their means of delivery and their supporters; E.O. 13224, which targets terrorists and those providing support to terrorists and acts of terrorism; and E.O. 13694, which targets persons engaging in significant malicious cyber-enabled activities.

"Treasury will continue to take strong actions to counter Iran's provocations, including support for the IRGC-Qods Force and terrorist extremists, the ongoing campaign of violence in Syria, and cyber-attacks meant to destabilize the U.S. financial system," said Treasury Secretary Steven T. Mnuchin. "These sanctions target an Iranian company providing material support to the IRGC's ballistic missile program, airlines that support the transport of fighters and weapons into Syria, and hackers who execute cyber-attacks on American financial institutions."

As a result of today's actions, all property and interests in property of those designated subject to U.S. jurisdiction are blocked, and U.S. persons are generally prohibited from engaging in transactions with them.

In addition, foreign financial institutions that facilitate significant transactions for, or persons that provide material or certain other support to, the entities and individuals designated today risk exposure to sanctions

that could sever their access to the U.S. financial system or block their property and interests in property under U.S. jurisdiction.

Sadid Caran Saba Engineering Company (SABA)

Today, OFAC sanctioned Iran-based SABA for proliferation activities related to Iran's ballistic missile program. SABA has provided, or attempted to provide, financial, material, technological, or other support for, or goods or services in support of, the IRGC.

The IRGC was designated pursuant to E.O. 13382 on October 25, 2007, for being a key Iranian entity of proliferation concern. The IRGC has been outspoken about its willingness to proliferate ballistic missiles.

Since at least 2014, SABA has entered into contracts to procure and install numerous, multi-ton explosion-proof crane systems for the IRGC Research and Self-Sufficiency Jehad Organization (RSSJO).

The RSSJO, which is responsible for researching and developing ballistic missiles on behalf of the IRGC, was designated pursuant to E.O. 13382 on July 18, 2017.

Khors Aircompany and Dart Airlines

OFAC also designated Ukraine-based Khors Aircompany and Dart Airlines pursuant to the global terrorism E.O. 13224 for aiding designated Iranian and Iraqi airlines through the provision of aircraft and services.

Both Khors Aircompany and Dart Airlines help Iran's Caspian Air and Iraq's Al-Naser Airlines procure U.S.-origin aircraft, as well as crew and services.

Iran-based Caspian Air was designated pursuant to E.O. 13224 on August 29, 2014, for providing support to IRGC elements by transporting personnel and illicit material, including weapons, from Iran to Syria.

Al-Naser Airlines was designated pursuant to E.O. 13224 on May 21, 2015, for transferring at least eight Airbus A340 and one Airbus A320 aircraft to Mahan Air in Iran. Iranian airline Mahan Air was designated pursuant to E.O. 13224 on October 12, 2011, for providing financial, material, and technological support to the IRGC-QF.

Khors Aircompany provides material support and services to Caspian Air through a sub-wet-lease of a U.S.-origin aircraft. As recently as late 2016, Khors Aircompany provided material support and services to Al-Naser Airlines through the sub-wet-lease of a separate aircraft. A wet lease is any leasing arrangement whereby a person agrees to provide an entire aircraft and at least one crew member.

Dart Airlines is being designated for providing material support and services to Caspian Air through sub-wet-leases of U.S.-origin aircraft. Dart Airlines has also previously provided the sub-wet-lease of separate U.S.-origin aircraft to Al-Naser Airlines.

Additionally, Khors Aircompany provided the wet lease and sale of multiple aircraft worth millions of dollars and services related to aircraft leases to Mahan Air. Dart Airlines has also provided to Mahan Air U.S.-origin aircraft and parts, which Dart Airlines procured through front companies.

ITSec Team and Mersad Co. Associated Individuals

OFAC designated private Iranian computer security company ITSec Team pursuant to E.O. 13694 for causing a significant disruption to the availability of a computer or network of computers.

Between approximately December 2011 and December 2012, ITSec Team planned and executed distributed denial of service (DDoS) attacks against at least nine large U.S. financial institutions, including top U.S. banks and U.S. stock exchanges. During that time, ITSec Team performed work on behalf of the Iranian Government, including the IRGC.

OFAC also designated three Iranian nationals for acting for or on behalf of ITSec Team. Ahmad Fathi was responsible for supervising and coordinating ITSec Team's DDoS attacks against the U.S. financial sector.

Amin Shokohi, a computer hacker who worked for ITSec Team, helped build the botnet that ITSec Team used in its DDoS attacks against U.S. financial institutions.

Hamid Firoozi, a network manager at ITSec Team, procured computer servers for the botnet that ITSec Team used in its DDoS activities targeting the U.S. financial sector.

Additionally, OFAC today designated four Iranian nationals pursuant to E.O. 13694 for causing a significant disruption to the availability of a

computer or network of computers while working for Mersad Co., a private computer security company based in Iran that was affiliated with the IRGC.

Sadegh Ahmadzadegan was responsible for managing the Mersad Co. botnet, which was used to target 24 corporations in the U.S. financial sector during DDoS attacks in 2012 and 2013.

Sina Keissar, along with others at Mersad Co., placed malicious computer scripts on compromised computers and computer servers within the Mersad Co. botnet that performed several functions during those DDoS attacks against the U.S. financial sector.

Keissar also procured U.S.-based computer servers used by Mersad Co. to access and manipulate the Mersad Co. botnet and performed preliminary testing of the same botnet prior to its use in the DDoS attacks.

Omid Ghaffarinia, along with others at Mersad Co., developed malware and computer scripts, which they installed on the compromised computers and computer servers that constituted the Mersad Co. botnet, which allowed for remote access and control of the compromised computers.

Nader Saedi, along with others at Mersad Co., planned and assisted in the same DDoS attacks. Saedi wrote computer scripts used to locate and exploit vulnerable servers to help build the Mersad Co. botnet used in the attacks.

On March 24, 2016, the Department of Justice announced that a grand jury in the Southern District of New York indicted the seven ITSec Team and Mersad Co. associated individuals being designated today.

Number 9

Equifax Careers

43 security careers

Search

security Search

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TITLE	JOB ID	CATEGORY	LOCATION
Security Policy Program Manager	J00042890	Security Governance and Compliance	Alpharetta, Georgia US
Information Security Architect - Protegrity	J00045482	Security Governance and Compliance	Alpharetta, Georgia US
Security Architect	J00044473	IT Development and Client Services	Alpharetta, Georgia US
Security Contract Review Analyst	J00046327	Security Governance and Compliance	Alpharetta, Georgia US

You may visit:
https://equifax.gr8people.com/index.gp?method=cappportal.showPortalSearch&sysLayoutId=123&page=1&inp2805=security

Number 10

Statement on the Equifax cyber incident

Update to the NCSC statement on the Equifax cyber incident.

Equifax has confirmed that around 400,000 UK citizens have been affected by the recent Equifax data breach.

At this moment in time, password-related data does not appear to have been involved in this breach. As a result the NCSC does not believe there is a need for UK citizens to reset their passwords on other services.

The main risk to UK citizens affected by this data breach is that they could be on the receiving end of more targeted and realistic phishing messages.

Fraudsters can use the data to make their phishing messages look much more credible, including using real names and statements such as:

'To show this is not a phishing email, we have included the month of your birth and the last 3 digits of your phone number'.

These phishing messages may be unrelated to Equifax and may use more well known brands.

It is unlikely that any organisations will ask their customers to reset security information or passwords as a result of the Equifax breach, but this may be a tactic employed by criminals.

The NCSC guidance on protecting yourself from phishing still applies:
https://www.ncsc.gov.uk/guidance/phishing-threat-following-data-breaches

Usually, if you are the target of a phishing message, your real name will not be used. However, in this case, if fraudsters have your name, people will need to be extra vigilant around any message that purports to be from an organisation they deal with - especially when there are attachments or links which take people to sites asking for more personal information.

Fraudsters may also call. If you do receive a phone call that is suspicious - for example by asking you for security information - do not divulge any information, and hang up. You should then contact the organisation the caller claimed to be from – never using the details they provided during the call.

The NCSC, with Equifax and partners including the ICO and FCA, continues to examine this incident and should further information come to light about the extent and nature of the impact on the UK, we will provide further updates and advice as soon as we can.

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You can find more information about the CRCMP program at:
www.risk-compliance-association.com/CRCMP_1.pdf
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