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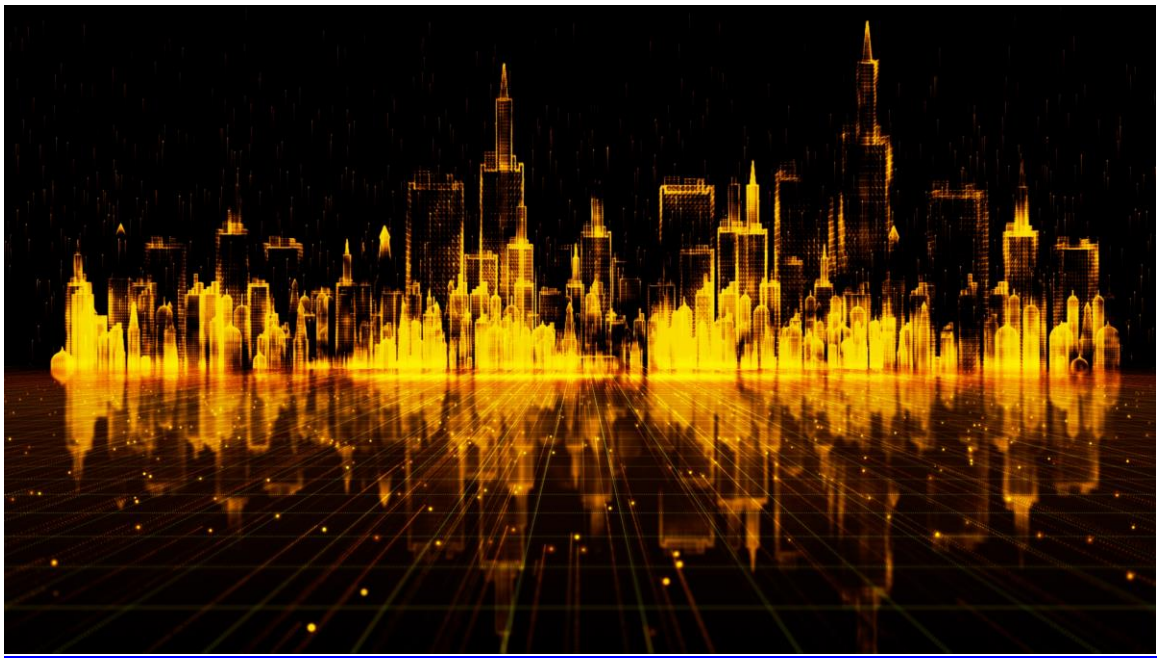


Basel iii News, April 2021

Dear members and friends,

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

Central bank digital currencies: putting a big idea into practice

Introduction

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

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

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

In the United States, the Federal Reserve System is doing extensive research on CBDCs, including work with MIT. At the Bank for International

Settlements (BIS), our new Innovation Hub is complementing this work with multiple projects on CBDCs.

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

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

CBDCs appear similar to payment vehicles provided by other infrastructures, such as retail fast payment systems. These systems are being rolled out around the world and make funds available to the payee in real, or near-real, time.

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

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

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

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

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

Basel Committee on Banking Supervision

Principles for Operational Resilience

I. Introduction

1. In the years that followed the Great Financial Crisis (GFC) of 2007–09, the Basel Committee's reforms of its prudential framework have enhanced the supervision of the global banking system and resulted in a number of structural changes to strengthen banks' financial resilience.

While significantly higher levels of capital and liquidity have improved banks' ability to absorb financial shocks, the Committee believes that further work is necessary to strengthen banks' ability to absorb operational risk-related events, such as pandemics, cyber incidents, technology failures and natural disasters, which could cause significant operational failures or wide-scale disruptions in financial markets.

In light of the critical role that banks play in the operation of the global financial infrastructure, increasing their resilience would provide additional safeguards to the financial system.

2. Even prior to the Covid-19 pandemic, the Committee considered that significant operational disruptions would inevitably test improvements to the financial system's resilience made since the GFC.

As the Covid-19 pandemic progressed, the Committee observed banks rapidly adapting their operational posture in response to new hazards or changes in existing hazards that occurred in different parts of their organisation.

Recognising that a range of potential hazards cannot be prevented, the Committee believes that a pragmatic, flexible approach to operational resilience can enhance the ability of banks to withstand, adapt to and recover from potential hazards and thereby mitigate potentially severe adverse impacts.

3. Through the publication of this document, the Committee seeks to promote a principles-based approach to improving operational resilience. The approach builds on updates to the Committee's Principles for the Sound Management of Operational Risk (PSMOR) and draws from previously issued principles on corporate governance for banks, as well as outsourcing-, business continuity- and relevant risk management-related guidance.

4. Recognising the work undertaken by several jurisdictions and standard-setting bodies (SSBs) to bolster the operational resilience of the financial sector, the Committee aims to strengthen operational resilience by furthering international engagement and seeks to promote greater cross-sectoral collaboration over this body of work.

II. An evolving operational risk landscape

5. Banks and their customers have benefited from the application of technology to financial services, although the increased use of technology presents new risks.

Until recently, some of the most predominant operational risks that banks faced resulted from vulnerabilities related to the rapid adoption of and increased dependency on technology infrastructure for the provision of financial services and intermediation, as well as the sector's growing reliance on technology-based services provided by third parties.

The Covid-19 pandemic has exacerbated these operational risks and increased economic and business uncertainty. Technology and relationships with third parties have at the same time supported the continued delivery of products and services to customers and promoted the ability of banks to continue operations during the pandemic.

6. Pandemic-related disruptions have affected information systems, personnel, facilities and relationships with third-party service providers and customers.

In addition, cyber threats (ransomware attacks, phishing, etc) have spiked, and the potential for operational risk events caused by people, failed processes and systems has increased as a result of greater reliance on virtual working arrangements.

The Committee's guidance on operational resilience will continue to be informed by its monitoring of the impact of the Covid-19 pandemic and any lessons learned. To read more: https://www.bis.org/bcbs/publ/d516.pdf

BIS Innovation Summit 2021: How can central banks innovate in the digital age? – watch the videos.

Hear from global leaders on key issues around cross-border and retail payments, central bank digital currencies, banking and the new digital ecosystem, decentralised finance, data, analytics, AI and cloud technologies as well as cultural and organisational changes that may be needed within central banks to meet the challenges of this digital age.

How can central banks innovate in the digital age? (00:46:35)
by **Agustín Carstens**, **Gillian Tett**, **Jens Weidmann** and **Jerome H Powell**

22 Mar 2021 | BIS Innovation Summit 2021

Cross-border "multi-CBDC" arrangements (00:07:16)
by **Raphael Auer**

23 Mar 2021 | BIS Innovation Summit 2021

Cross-border "multi-CBDC" arrangements: what is different from current payment systems, what are the opportunities and what challenges remain?

Fast, cheaper cross-border payments - is wholesale CBDC the answer? (00:56:32)
by **Cecilia Skingsley**, **Javier Perez-Tasso**, **Jon Cunliffe**, **Tobias Adrian** and **Umar Farooq**

23 Mar 2021 | BIS Innovation Summit 2021

Banking on a new digital ecosystem - new opportunities, business models and regulation
(00:49:20)
by **Douglas Arner**, **Henry Ma**, **Kahina Van Dyke** and **Noah Pepper**

23 Mar 2021 | BIS Innovation Summit 2021

The videos:
https://www.bis.org/events/bis_innovation_summit_2021/agenda.htm

Liquidity to solvency: transition cancelled or postponed?

Ryan Banerjee, Joseph Noss and Jose Maria Vidal Pastor

Key takeaways

• Since the start of the Covid-19 pandemic, a "bankruptcy gap" has emerged between measures of expected and realised bankruptcies globally.

• The ample supply of credit to make up for short-term losses has been an important factor decoupling bankruptcies from the sharp reduction in firms' cash flows.

• Firms' reliance on credit suggests that it may be too early to dismiss future solvency risk.

Significant increases in leverage and weak earnings forecasts in some sectors suggest that for some firms, greater credit extension may have only postponed, rather than cancelled, their insolvency.

Not too long ago it was conventional wisdom that the global economy would transition from the "liquidity phase" to the "solvency phase" of the Covid-19 economic crisis. A large wave of insolvencies was expected.

So far, however, insolvencies have remained very low, and even fell in many jurisdictions during 2020 (Banerjee, Cornelli and Zakrajšek (2020), IMF (2021)). As a result, a gap has opened between previously reliable predictors of bankruptcy rates based on economic activity and actual realised bankruptcies.

We refer to this phenomenon as the "Covid-19 bankruptcy gap". This bulletin aims to shed light on the drivers of this bankruptcy gap and identifies two important determinants.

First, the impact of the pandemic has been highly asymmetric. Although it has hit consumer facing sectors exceptionally hard, other sectors less affected by the pandemic (and its associated containment measures) experienced a strong recovery in Q3 2020.

Moreover, the ability to recoup missed revenues has alleviated insolvency stresses, particularly in the durable goods sector. That said, this falls short of a satisfactory explanation of why bankruptcies have been so low, even falling in some economies.

The second and, arguably, more important factor suppressing bankruptcies has been the ample supply of credit, facilitated by unprecedented monetary and fiscal support.

This has been pivotal in preventing insolvencies, because it is ultimately insufficient cash flows that give rise to bankruptcies (Banerjee and Kharroubi (2020)).

After all, firms go bust when they cannot pay their bills. Ample credit during 2020 stands in sharp contrast to the Great Financial Crisis (GFC) when credit conditions were exceptionally tight.

Whilst the increase in credit has prevented business firms' insolvency in the short term, it has also increased their indebtedness. In an optimistic scenario, with the global vaccine roll-out being successful, business models of the vast majority of firms in the hardest hit sectors will continue to be fundamentally sound and cash flows will recover to pre-Covid-19 levels.

The risk of a significant rise in "zombification" will be low under this scenario. However, firms' indebtedness will be higher, and this might result in changes of firm ownership from equity holders to creditors. Perhaps the more worrying scenario is the combination of higher debt levels and depressed earnings for credit dependent firms in some sectors, as suggested by consensus forecast estimates for 2021.

Under this scenario, firms in the airline, hotels, restaurants and leisure sectors would remain highly dependent on additional support to avoid insolvency. These risks could be compounded if vaccines are less successful in containing the spread of Covid-19. Prolonged weakness in these sectors could in turn spill over into the more leveraged commercial real-estate sector.

The uncertain outlook for firms' cash flow and the role of credit in containing bankruptcies to date shines a spotlight on banks' loss-absorbing buffers and provisioning strategies, as well as on accommodative financial conditions and government guarantees that have sustained credit to struggling firms.

To read more: https://www.bis.org/publ/bisbull40.pdf

EBA consults on changes to its Guidelines on Risk-based AML/CFT supervision

The European Banking Authority (EBA) launched today a public consultation on changes to its Guidelines on Risk-Based Supervision of credit and financial institutions' compliance with anti-money laundering and countering the financing of terrorism (AML/CFT) obligations.

The proposed changes address the key obstacles to effective AML/CFT supervision that the EBA has identified during its review of the existing Guidelines, including the effective use of different supervisory tools to meet the supervisory objectives.

The Guidelines are central to the EBA's mandate to lead, coordinate and monitor the EU financial sector's fight against money laundering and terrorist financing.

The consultation runs until 17 June 2021.

The Guidelines on risk-based AML/CFT supervision were originally published by the European Supervisory Authorities (ESAs) in 2016 and set out steps that competent authorities should take to ensure compliance by credit and financial institutions with their AML/CFT obligations.

Since their publication, the EBA has observed that supervisors across the EU were finding the implementation of the risk-based approach to AML/CFT supervision difficult, which meant that AML/CFT supervision was not always as effective as the legal framework set out in Directive (EU) 2015/849 (AMLD) and the ESAs' Guidelines had envisaged.

The changes the EBA is proposing include practical step-by-step approaches to addressing those aspects of AML/CFT supervision that competent authorities have found particularly challenging.

The revised Guidelines focus on helping the supervisors identify and manage ML/TF risks more effectively, including the risks that may arise from de-risking practices in some sectors or Member States by providing greater detail on ML/TF risk assessments and by requiring to develop a robust supervisory strategy and plan that are based on those risk assessments.

The Guidelines also set out how supervisors can choose the most effective supervisory tools to support different supervisory needs and objectives, and stress the importance of cooperation between different supervisory

authorities, and between supervisors and other stakeholders, such as Financial Intelligence Units and financial institutions.

In addition, the Guidelines emphasise the importance for supervisors to develop a good understanding of ML/TF risks associated with tax crimes, which may involve a cooperation with tax authorities in their Member State.

Once implemented, the proposed changes will foster greater convergence of supervisory practices in areas where supervisory effectiveness has been hampered, so far, by divergent approaches in the implementation of the same European legal requirements. This means that they will significantly strengthen Europe's AML/CFT defences.

Consultation process

Comments to the draft Guidelines can be sent by clicking on the "send your comments" button on the EBA's consultation page. The deadline for the submission of comments is 17 June 2021.

All contributions received will be published following the close of the consultation, unless requested otherwise.

The EBA will hold a virtual public hearing on the draft Guidelines on 22 April 2021 from 14:00 to 16:00 Paris time. The dial-in details will be communicated to those who have registered for the meeting.

The scope of the EBA's consultation is limited to the amendments and additions to the original risk-based supervision Guidelines, which will be repealed and replaced with the revised Guidelines.

Legal basis and background

Directive (EU) 2015/849 (AMLD) puts the risk-based approach at the centre of the EU's AML/CFT regime.

It recognises that the risk of money laundering and terrorist financing may vary between countries, sectors and financial institutions and that Member States, competent authorities and credit and financial institutions should identify and assess these risks in order to decide how to best manage them.

Article 48(10) of AMLD mandates the EBA to issue Guidelines addressed to competent authorities on the characteristics of a risk-based approach to supervision and the steps to be taken when conducting supervision on a risk-based basis.

The mandate requires the EBA to take specific account of the nature and size of the business, and, where appropriate and proportionate, specific measures shall be laid down.

The revised Guidelines also propose to take into consideration changes in the EU legal framework that came into force since the original guidelines were first issued, as well as new international guidance by the Financial Action Taskforce (FATF) and the Basel Committee on Banking Supervision on this topic.

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

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

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

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

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

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

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

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

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

The Federal Reserve's holdings of U.S. government debt has risen to around $7 trillion, with about $2.5 trillion of that total resulting from its asset purchase program aimed at smoothing credit market functioning and providing monetary accommodation.

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

(1) to keep interest rates low to help service the debt and

(2) to maintain asset purchases to help finance the federal government.

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

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

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

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

My objective today is to reinforce that message.

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

Financial Stability Institute - FSI Insights on policy implementation No 31

Supervising cryptoassets for anti-money laundering

Rodrigo Coelho, Jonathan Fishman and Denise Garcia Ocampo

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Given the importance of public and transparent enforcement actions to

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

International cooperation to oversee this sector effectively is key.

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

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

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

ESAs publish Joint Opinion on jurisdictional scope under the Securitisation Regulation

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

The European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) published a Joint Opinion on the jurisdictional scope of the obligations of the non-EU parties to securitisations under the Securitisation Regulation (SECR).

The purpose of the Joint Opinion is to facilitate the understanding of certain SECR provisions in cases where third-country entities become parties to a securitisation.

The Joint Opinion aims to clarify the potential obligations of those third-country parties, as well as related compliance aspects of a transaction under SECR, and is intended to help improve the functioning of EU securitisation markets.

The ESAs, in their Joint Opinion, set out their common view on the practical difficulties faced by market participants in connection with the jurisdictional scope of application of various provisions in the SECR in the following four scenarios:

a) securitisations where some, but not all, of their sell-side parties i.e. originator, original lender, sponsor and special purpose entity issuer etc., are located in a third country;

b) securitisations where all sell-side parties are located in a third country and EU investors invest in them;

c) investments in securitisations by subsidiaries of EU regulated groups, where those subsidiaries are located in a third country; and

d) securitisations where one of the parties is a third country investment fund manager

The Joint Opinion recommends that these difficulties should be addressed, where possible, through interpretative guidance from the European Commission.

The ESAs also invite the European Commission to undertake a comprehensive review of the SECR jurisdictional scope framework as part of the upcoming overall reform of this Regulation, as a means of thoroughly addressing market participants' concerns regarding proper market functioning.

To read more:
https://www.eiopa.europa.eu/content/esas-draft-opinion-european-commission-jurisdictional-scope-of-application-of_en

International Financial Hub Initiatives

The Japanese Government is committed to expanding Japan's role as an international finance hub.

New policies will help foreign asset managers and other financial institutions enter the Japanese market so that they may contribute to improve Japan's financial and capital markets in tandem with local players and eventually we may better serve as an international financial center in Asia and the world.

Japan as an International Financial Hub

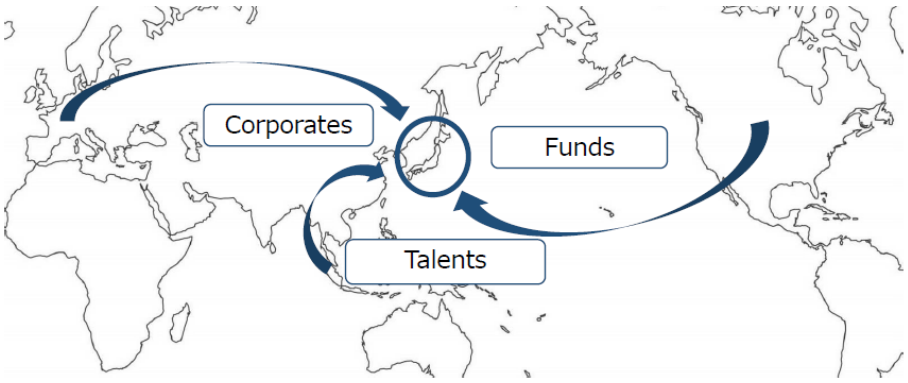
Japan's strengths / potential

- Political stability, good public security, favorable living environment
- Sizable domestic economy, over 18 trillion USD household assets

Japanese Government's Initiatives

- Provide convenience/accessibility through easing regulatory measures
- Enhance the tax system and provide life support by collaborating with other ministries

Japan aims to become an international financial hub that attracts talents, corporates, and funds...



...to make Japan an attractive place for foreign professionals to do business in addition to a tourism destination

Summary of Japanese government's initiatives

Policy package through cross-ministerial collaboration

Tax policy	✓Revision/clarification of corporate, inheritance, and income tax
Regulatory policy	✓One-stop English service for application and registration for newly entering overseas asset managers ✓Introduction of simplified market entry procedures for overseas asset managers
Residence status	✓Special immigration measure for newly entering asset managers as a temporary visitor to commence business without returning to their home country ✓Relax employment requirements for domestic helpers and increase convenience for working spouses for Highly-Skilled Professionals
Company setup and livelihood support	✓One stop company setup support for free ✓Livelihood support such as international school hunting, medical matters, and housing
Information sharing	✓Collectively share related policy measures information through a dedicated website and contact points of diplomatic missions

(1) Tax policy

Revision/clarification

	Current Status	Solution
Corporate tax For Asset management firms	**30%** Performance-based compensation of directors Listed companies : deductible **Private companies : not deductible**	A private, non-family company including a 100% subsidiary of a listed company which mainly operates asset management business should be able to deduct its performance-based compensation with a number of conditions, including where the calculation methods are described in its business reports filed under the Financial Instruments and Exchange Act and disclosed publicly through the JFSA website. (Sequentially applied after relevant law enters into force in 2021 December, expected)
Inheritance tax For heirs of foreign residents in Japan	**0~55%** Living in Japan over 10 years: worldwide assets Living less than 10 years …tax on only assets in Japan	Assets outside of Japan that a foreign national who entered Japan with a valid working visa holds should be exempt from Japanese inheritance tax regardless of their years of residence in Japan when the heir receives the assets as a non-resident. (2021 April 1st)
Income tax For fund managers	**0~55%** Carried interests - distribution allocated returns in excess of their capital contribution ratio → **Unclear if it is a capital gain or not**	When a profit distribution of a carried interest has an economic rationality, that profit should be taxed as a capital gains tax (20%). (2021 Spring)

（2） Regulatory policy

One-stop and all-in-English regulatory services

Current Status

- Foreign asset management companies must have discussions with different contact points in JFSA and Local Finance Bureaus
- High regulatory compliance cost due to the requirement to file application/registration in Japanese

Solution

"Financial Market Entry Office" was launched in JFSA in January 2021

→ **One-stop English services** for pre-application consultation, registration procedures, and supervision

※ Financial administrative services in English through AI powered translation technology from March 2021

（2） Regulatory policy

Simplified market entry procedure

Current status

In principle, even an asset management firm that serves overseas professional investors (institutional investors) is required to be registered with JFSA in order to conduct asset management business in Japan.

Moreover, registration procedures could take some time even for an asset management firm with a proven track record overseas

Solution

Facilitate overseas asset managers' entry by introducing the following schemes:

- **Pre-registration entry scheme** (5 years) for those with authorization by regulatory bodies and a proven track record in specified foreign countries
- **Simplified entry scheme for GP managers** with overseas qualified clients

※ The bill will be submitted to the 2021 Diet session

(3) Residence status

Relax residence status requirements

Working visa

○ Introduce an exceptional measure enabling foreigners entering Japan as a "temporary visitor (short-stay)" for the purpose of preparing for company setup to obtain residential status **without returning to their home country** before commencing business under certain conditions

Highly-Skilled Professionals

○ **Add bonus point category for those engaged in asset management business** to be subject to preferential treatment for Highly-Skilled Professionals

● Finance professionals can obtain a Highly-Skilled Professionals visa within the **prioritized administrative review period (around 10 days)**

Domestic helpers/nannies

○ With regard to Highly-Skilled Professionals, under certain conditions,
  - allow them to hire domestic helpers **even if they do not meet the conditions such as having a child under the age of 13**
  - increase the maximum number of domestic helpers they can hire from one to **two**

Spouse

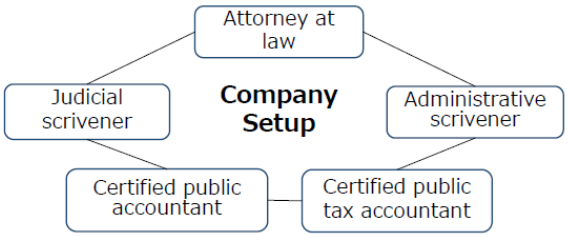
● Spouses of highly-skilled professionals can **work full-time without working visa** under certain conditions

Note: Bullets starting with ○ are preferential treatments for asset managers
"Certain conditions" are under discussion

(4) Company setup and livelihood support

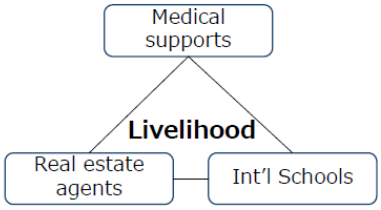
Company setup support

- Company setup in Japan
- Acquisition of Residence status
- Obtaining license and/or registration etc.



Livelihood support

- Medical supports
- Housing
- International Schools



Support by private companies

Implement a trial business project offering a **free one-stop** seamless support service for foreigners and overseas asset management businesses that are considering setting up companies in Japan

Support by the Government

Enhance "Financial Market Entry Office" (slide 5) to cover total relocation support including settling in and establishing a livelihood (in corporation with local governments and Foreign Residents Support Center)

（5） Information sharing

Enhancement of information sharing

Launch a dedicated page under JFSA's website to collectively share information on the following policy measures and total relocation support

(1) Tax policy initiatives
(2) Regulatory policy initiatives
(3) Residence status
(4) Company setup and livelihood support

Contact information

Financial Market Entry Office
marketentry@fsa.go.jp
https://www.fsa.go.jp/en/policy/marketentry/index.html

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U.S. Economic Outlook and Monetary Policy

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

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

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

Current Economic Situation and Outlook

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Concluding Remarks

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

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

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

Introduction

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

Rise of As-a-Service

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

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

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

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

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

As-a-Service in Finance

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

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

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

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

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

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

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

Integrating Information and Financial Systems

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

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

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

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

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

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

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

Thus, linking the information systems assisting people's livelihoods and business activities and the systems supporting financial services, which were traditionally separated, could improve the convenience of both financial and non-financial services, thereby leading to the creation of new services.
On this basis, it is important to understand as-a-Service - which I introduced as a business model earlier - not merely as a methodology, but as a concept that provides the perspective of creating new services and expanding demand through continuous improvements to achieve economic growth and an affluent society.

For example, some may think that banks are only playing a behind-the-scenes role to assist actors, or their partner firms, to provide

financial services in BaaS. There is also a potential, however, for banks to play a role as a director who manages the production of a digitalized neue Kombination 2.0, by being actively involved in the creation of new services and maximizing the potential of the platforms.

Digital Transformation

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

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

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

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

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

Central Bank Digital Currency

Finally, I would like to touch upon central bank digital currency (CBDC). Since the release of "The Bank of Japan's Approach to Central Bank Digital Currency" in October 2020, the Bank of Japan has been preparing to conduct experiments in accordance with this approach. We are finally scheduled to begin these experiments in spring 2021.

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

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

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

Closing Remarks

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

Brave new world

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

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

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

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

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

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

The future regulatory framework: rules and statutes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks of changing the regulator's role

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

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

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

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

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

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

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

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

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

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

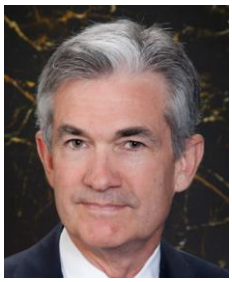
Such firms are more likely to be broken by a storm than to bend with it.

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

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

Closing remarks – "Pushing the frontiers of payments: towards faster, cheaper, more transparent and more inclusive cross border payments"

Jerome H Powell, Chair of the Board of Governors of the Federal Reserve System, at "Pushing the frontiers of payments: towards faster, cheaper, more transparent and more inclusive cross border payments", a conference hosted by the Committee on Payments and Market Infrastructures, Basel, Switzerland.



I would like to thank Sir Jon Cunliffe and the Committee on Payments and Market Infrastructures (CPMI) for inviting me to close out the first day of this conference on pushing the frontiers of payments.

Last year, the Group of Twenty (G-20) asked the Financial Stability Board (FSB) to coordinate the development of a roadmap on how the global community could enhance cross-border payments.

It has long been acknowledged that the existing system, while safe and dependable, suffers from frictions, including processes that make it difficult to comply with anti-money-laundering and countering-terrorist-financing requirements, difficulty in managing payments across time zones, and, in certain areas, a reliance on outdated technology.

Moreover, these frictions contribute to higher costs for cross-border transactions.

As with many aspects of life these days, the COVID-19 pandemic has shined a light on the less efficient areas of our current payment system and accelerated the desire for improvement and digitalization.

Even before the pandemic, advancements in the private sector served as a catalyst to get the attention of consumers and to prompt more engagement by the public sector.

The goal of the FSB roadmap is simple-to create an ecosystem for cross-border payments that is faster, cheaper, more transparent, and more inclusive.

A year into the process, I am encouraged that we are making meaningful progress. The stage 3 report released in October laid out a practical set of

steps for moving ahead on the 19 building blocks that will bring about an improved system.

Indeed, the themes discussed in the four sessions of the conference today correspond well to approaches described in the building blocks.

The title of the first panel sets up a choice between "improving existing rails or laying new tracks."

As the roadmap makes clear, one of the keys to moving forward will be doing both-improving the existing system where we can while also evaluating the potential of and the best uses for emerging technologies.

As an example, the Federal Reserve is working to improve the current system through the introduction of instant or fast payments via the FedNow Service.

The service will be designed to maintain uninterrupted processing-24 hours a day, 7 days a week, 365 days a year-with security features that will ensure payment integrity and data security. The target launch date is sometime in 2023.*

The Federal Reserve is also doing its part to examine the role of new technologies. Experiments with central bank digital currencies (CBDCs) are being conducted at the Board of Governors, as well as complementary efforts by the Federal Reserve Bank of Boston in collaboration with researchers at MIT.

In addition, a recent report from the Bank for International Settlements and a group of seven central banks, which includes the Fed, assessed the feasibility of CBDCs in helping central banks deliver their public policy objectives.

Relevant to today's topic, one of the three key principles highlighted in the report is that a CBDC needs to coexist with cash and other types of money in a flexible and innovative payment system.

Improvements in the global payments system will come not just from the public sector, but from the private sector as well.

As today's second panel, "Of Lions and Unicorns," described, the private sector has the experience and expertise to develop consumer-facing infrastructure that improves and simplifies how the public engages with the financial system.

Digitalization of financial services, combined with an improved consumer experience, can help increase financial inclusion, particularly in countries or areas with a large unbanked population.

And the last two panels of the day, "Addressing Legal Barriers to Cross-Border Payments" and "Harmonised Data to Oil the Cross-Border Payments Machinery," highlight that improving the system must be a collaborative effort.

By definition, cross-border payments involve multiple jurisdictions. So it will only be through countries working together, via all of the international forums-the Group of Seven, the G-20, the CPMI, the FSB, and others-that solutions will be possible.

And, finally, it is only by engaging all stakeholders-policymakers, private-sector participants, and academia-as this conference is doing, that we will achieve the improved payments ecosystem we are striving toward.

The COVID crisis has brought into even sharper focus the need to address the limitations of our current arrangements for cross-border payments. And as this conference amply demonstrates, despite the challenges of this last year, we still have been able to make important progress.

I again thank the CPMI and Jon Cunliffe for their leadership and look forward to working together as we improve these payments for businesses and individuals alike.

* This sentence was updated after publication: the phrase "sometime in late 2023 or 2024" was updated to "sometime in 2023".

BIS Working Papers No 932

Macroeconomic consequences of pandexit

by Phurichai Rungcharoenkitkul, Monetary and Economic Department

Abstract

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

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

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

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

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

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

Introduction

The Covid-19 pandemic is both a global health and economic crisis. As of 10 March 2021, more than 2.6 million lives have been lost to the disease, more than one million of which occurred since December 2020 as a result of a second wave of infections. Authorities around the world have put in place drastic measures to restrict human interaction and curb the virus spread, extending them as needed to suppress a resurgence of cases.

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

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

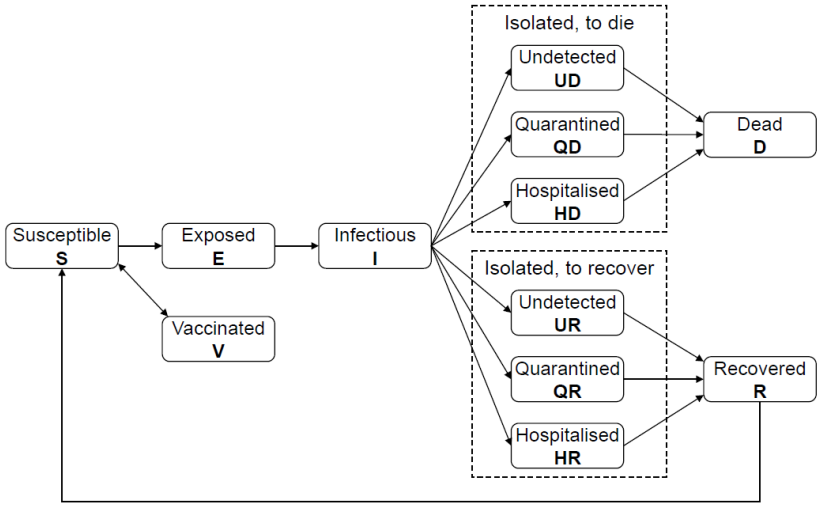
The macroeconomic damages are higher still for those reliant on the most affected sectors, such as tourism and services.

The arrival of vaccines in late 2020 ushered in a new phase of the pandemic and opened up the possibility of a quick and smooth `pandexit'. After showing high efficacy in trials, several vaccines are being quickly rolled out in a number of countries, particularly in advanced economies that have secured most of the available dosages.

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

Virus mutations could also present unpredictable new challenges, possibly negating the effects of vaccines. Should these downside risk scenarios play out, what would be the resulting macroeconomic consequences? How long should lockdowns and mobility restrictions be expected, and to what extent? These questions are of first-order importance for macroeconomists and those in charge of fiscal, monetary and regulatory policies.

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



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

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

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

(1) the Anti-Money Laundering Act of 2020 (the AML Act) efforts related to trade in antiquities and art,

(2) select sources of information about existing illicit activity related to antiquities and art, and

(3) provide specific instructions for filing Suspicious Activity Reports (SARs) related to trade in antiquities and art.

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

New AML Act Measures

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

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

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

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

Illicit Activity Associated with Trade in Antiquities and Art

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

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

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

SAR Filing Instructions

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

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

SAR Narrative.

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

(1) the objects connected to the financial transactions,

(2) other transactions or proposed transactions that may involve antiquities or art, and

(3) any other relevant information.

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

(1) the actual purchasers or sellers of the property, and their intermediaries or agents,

(2) the volume and dollar amount of the transactions involving an entity that is—or may be functioning as—a dealer in antiquities or art, and

(3) any beneficial owner(s) of entities (such as shell companies).

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

To read more:
https://www.fincen.gov/

Note:

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

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

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

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

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

In brief, the BSA authorizes the Secretary of the Treasury to issue regulations requiring banks and other financial institutions to take a number of precautions against financial crime, including the establishment of AML programs and the filing of reports that have been determined to have a high degree of usefulness in criminal, tax, and regulatory investigations and proceedings, and certain intelligence and counter-terrorism matters.

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

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

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

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

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

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

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

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

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

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

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

The current macroeconomic outlook

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The ECB's monetary policy stance and effectiveness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The path to a solid economic recovery

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

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

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

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

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

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

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

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

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

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

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

Conclusion

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

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

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

I now stand ready to take your questions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WP-18 and WP-19 are available for download from the IFSB website: www.ifsb.org

The issues – cultural property

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

Cultural property in conflict zones

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

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

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

Cultural heritage is also underwater

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

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

Which objects are most frequently stolen?

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

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

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

Illicit excavation of items

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

Fake art and artifacts on the market

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

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

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We invite you to connect with the global community of experts working for the implementation of the Basel III framework, to gain insight into the G20 efforts to regulate the global financial system, to explore new career avenues, and most of all, to acquire lifelong skills.

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https://www.basel-iii-association.com/Reading_Room.html

3. Training and Certification – You may visit:
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