Dear Member,

The Board of Directors of the Bank for International Settlements (BIS) announced the appointment of Agustín Carstens as General Manager. His appointment takes effect on 1 October 2017 and is for a five-year term.

Mr Carstens is Governor of the Bank of Mexico, a position he has held since 2010. He will take over the position of BIS General Manager from Jaime Caruana who will retire from the Bank next year. Mr Caruana will stay on as General Manager for an additional three months, to 30 September 2017.

Jens Weidmann, Chair of the BIS Board of Directors, said: "The Board of Directors is delighted to have secured a person of Mr Carstens's remarkable calibre and international experience to be the next BIS General Manager.

"He is held in high regard in the central banking and international financial communities and already has a strong relationship with the BIS. A member of the BIS Board since 2011, since 2013 he has successfully chaired the Global Economy Meeting of Governors, assessing developments, risks and opportunities in the world economy and the global financial system, as well as the Economic Consultative Council. The Board looks forward very much to working closely with Mr Carstens in his new role."

In selecting the new General Manager, Mr Weidmann was assisted by a Nomination Committee, chaired by himself and made up of members of the BIS Board of Directors (Mark Carney, Mario Draghi, Haruhiko Kuroda, François Villeroy de Galhau, Ignazio Visco and Janet Yellen).
Biographical note: Agustín Carstens

Agustín Carstens is currently Governor of the Bank of Mexico, a position he has held since 2010.

Mr Carstens began his professional career in 1980 at the Bank of Mexico, holding positions in the central bank's International Department, Economic Research Department, and in the Office of the Governor.

From 1999 to 2000, Mr Carstens was Executive Director at the International Monetary Fund (IMF) and from 2000 to 2003 served as deputy finance minister in Mexico. In 2003, he was appointed as the IMF's Deputy Managing Director.

Mr Carstens was Mexico's Minister of Finance from 2006 to 2009. While in this role, he chaired the IMF/World Bank Joint Development Committee.

Mr Carstens has been a member of the Steering Committee of the Financial Stability Board (FSB) since 2010 and chaired the FSB's Standing Committee on Assessment of Vulnerabilities between 2013 and 2015.

Since 2015 he has chaired the International Monetary and Financial Committee, the IMF's policy advisory committee.

Born on 9 June 1958 in Mexico City, Mr Carstens holds an MA and a PhD in economics from the University of Chicago. He received his BA in economics from the Instituto Tecnológico Autónomo de México.
Reflections of a Basel Committee Chairman

Keynote address by Mr Stefan Ingves, Chairman of the Basel Committee and Governor of Sveriges Riksbank, at the 19th International Conference of Banking Supervisors, Santiago

Introduction

Good morning, and welcome to the 19th International Conference of Banking Supervisors (ICBS).

I would like to begin by thanking the Superintendency of Banks and Financial Institutions of Chile, and in particular its Superintendent, Eric Parrado, for hosting the 2016 ICBS. Your hospitality and outstanding organisation of this year's event is greatly appreciated by the international regulatory community. It is a pleasure to be in Santiago this week.

This will be my final ICBS as Chairman of the Basel Committee. I therefore want to spend most of my time today reflecting on how the Committee works - thereby taking a look at the Committee's operations, its Secretariat and its Chairman. After almost six years as Basel Committee Chairman, I thought it would be a good opportunity to share such insights.

I know that many of you are keenly interested in knowing the outcome of the Committee's deliberations over the past two days. Perhaps some of you may even be more interested in the outcome of the Committee meeting than my own reflections!

In the second part of my remarks, I will provide you with a brief update on the Committee's progress towards finalising the Basel III reforms.

Of course, what I am able to say today in this regard is somewhat limited, as the Basel III reforms are ultimately subject to endorsement by the Group of Governors and Heads of Supervision, which should meet in January.

Section 1 - Reflections on the workings of the Basel Committee

Let me start with some thoughts on the workings of the Basel Committee.

In September 2013, the BIS hosted a Symposium to mark 25 years of the Basel I Capital Accord. Two of the distinguished speakers at that event included Paul Volcker and Peter Cooke.
Both men were instrumental in shaping the Basel Committee, as well as in designing the first global bank capital adequacy standard. In my remarks today, I want to recall some of the reflections from that Symposium, and also share with you some of my own thoughts.

In reflecting on the work of the Basel Committee, I want to focus on four challenges that the Committee faces.

I am not talking about challenges related to strengthening banking practices or improving the effectiveness of supervision.

Rather, the challenges, as Paul Volcker and Peter Cooke recalled, relate to:

- The ability to reach consensus across multiple jurisdictions facing many different issues and constraints;

- How best to communicate and engage with the wide range of stakeholders that have an interest in the Committee's work;

- Finding the appropriate balance in terms of representation - how many seats should there be at the Committee table? How should they be distributed globally and how should decisions be made?; and

- Understanding the limits of international standard setting.

Overall, the challenges the Committee faces today are no different and no more difficult than those faced by Paul Volcker, Peter Cooke, and others when Basel I was agreed in 1988.

Forging agreements

One thing that the founders of the Basel Committee clearly understood was the need to compromise. As Peter Cooke eloquently put it at the Symposium I referred to earlier:

"In order to achieve something, everyone must be willing to give up a little."

It is in this spirit of compromise that agreements are ultimately forged. Every member of the Committee should take some credit for reaching agreements (although none might want to take total responsibility).
It is important to note that no single country or region gets everything it wants from the negotiations. If left to their own devices, everyone would write the final rules differently.

But as we know, the financial system is global in nature and highly interlinked across jurisdictions and regions. So there is a collective understanding that the benefits of compromise (and giving up a little) which results in a global standard far outweigh the costs of divergence.

Let me say a few words about compromises. At times there is a view that a compromise should always take the form of a "middle ground" between two positions. For example, if one side of the debate wants a 15% risk weight, while the other side wants a 5% risk weight, one might be tempted to conclude that a 10% risk weight is the best outcome.

I think this is a somewhat simplistic view. To paraphrase the American poet James Russell Lowell, such an approach would "make a good umbrella, but a poor roof". Always placing equal weight on each position would likely lead to sub-optimal outcomes.

Rather, any compromise reached by the Committee should be based on the validity and strength of each position to further the Committee's objective of enhancing global financial stability. Our challenge in reaching compromises is to achieve sensible outcomes.

Communication and engagement

Spreading the Committee's word across the wider supervisory community and the broader public is, of course, critical. Much of the responsibility here rests with the Chairman and Secretariat.

The most significant challenge is how to communicate progress and direction, while the process is ongoing, but before agreements have been formally signed off.

Speaking on behalf of 27 jurisdictions and 45 member organisations (or 54 including Basel Committee observers) in such circumstances is challenging. There is typically a fairly narrow window in which one can provide the public with broad direction but without committing to a particular policy position. In some sense, this is no different to the challenges associated with monetary policy communication, or public policy communication in general. A complicating factor here is the international dimension and the often complex, technical nature of the subject matter.
Faced with these constraints, the Chairman's communication - including speeches such as this one - are sometimes as much about internal communication as they are about communicating with external stakeholders.

In some cases, a reference in a speech may be the only public communication that the Committee has made on a topic, and such statements can become the de facto Committee position.

If the Chairman or Secretary General stray too far away from the central Committee position on such issues, other members will not be shy in pointing that out.

While communicating the Committee's progress in developing global standards is a difficult but essential part of our work, the engagement between the regulators and the regulated is no less important.

The former US President Ronald Reagan once said that:

"The nine most terrifying words in the English language are: I'm from the government and I'm here to help."

In recent times, the Committee has received many offers from the industry to help us finalise post-crisis reforms. So much so that the nine most terrifying words for some of us have become:

"I'm from the industry and I'm here to help."

Having said that, I fully understand that the Committee cannot, and does not, operate in a vacuum. Constructive input from the industry is highly valued, even though the interests of the regulators and regulated will not always align.

But the Committee should, and does, reach out to a wider range of stakeholders. In that regard, the views of academics, analysts, market participants, the public sector and the general public also play an important role in shaping the Committee's work. This is reflected most notably in the extensive consultation process followed by the Committee. There is no escaping the broader political and economic issues that shape international policymaking. However, standard setting for global banks should not be viewed as a trade negotiation.
The Committee's organisational structure and the independence of its Secretariat help in this regard, as both are a step removed from national economic and political considerations.

This facilitates policymaking and helps ensure that the focus is more prudential and long-term. Otherwise, it might be shaped purely by short-term economic and political factors, which may not be consistent with designing long-term policies to promote financial stability.

While this may open up the Committee to questions of international legitimacy, I believe such concerns are more than offset by the independence and transparency of the process.

Moreover, while the Committee agrees to certain standards, it has no legal enforcement power. It relies on the commitment of the jurisdictions at the table to implement what has been agreed.

In 2012, the Committee established the Regulatory Consistency Assessment Programme (RCAP) to further promote timely and consistent implementation of its standards and to improve transparency. Even in this area, while the Committee has influence through disclosure, it has no legal enforcement power.

To illustrate, this year the Committee will finish its first round of assessments of the implementation of the risk-based capital standard. All member jurisdictions were assessed and over 1000 deviations were identified.

The large majority of the deviations were rectified during these assessments, which has significantly improved the consistency of the regulatory implementation across member jurisdictions.

**Representation**

Closely related to the issue of communication and engagement is the issue of Committee membership. For all the hotly debated issues that have come across the Committee's table over the past 40 years, nothing raises more interest and discussion than the topic of seats at the table.

The Committee was conceived as a G10 construct. Following its expansion in 2009, and more recently in 2014, the Committee is now a far more inclusive and, in my view, global standard setter.
While the composition of the Committee will continue to be an issue that surfaces from time to time, the Committee has made great strides in expanding its engagement with the global supervisory community.

The Committee, for example, regularly receives updates from the Basel Consultative Group, a body that includes 16 non-Basel Committee member jurisdictions.

Moreover, the Committee's documentation is shared with a large number of other jurisdictions well before final decisions are reached or made public. This week's conference, and a number of regional groups, were promoted for these very reasons. That is, to disseminate the Committee's message and to interact more broadly with the international supervisory community.

Looking ahead, I think there may be further scope to consider how best to balance the global representation of the Basel Committee with the number of actual members and the ability to reach agreements in a timely manner.

Could we further increase the global representation of the Committee while consolidating the number of seats around the table? Is the regional balance of members adequate, or is there scope for further enhancements? These are just some questions which will no doubt have to be considered at some point in the future.

**Broad-brush versus detailed standards**

As I noted earlier, the task of global policymaking is a difficult one due to a variety of factors. Our goal is to develop a global standard but we have to take account of a wide range of perspectives, such as regional, national and often state and local considerations. All can have a bearing on the final outcome.

**Recognising these differences, the Basel I Accord was developed with a broad brush. It was never intended to capture every risk that a bank faced. On the balance between comparability, simplicity and risk sensitivity, it clearly favoured comparability and simplicity.**

Basel II shifted the balance decidedly in the direction of risk sensitivity and its associated complexity. In effect, it also allowed for much greater national discretion, both at the bank and bank supervisor levels.
The current Basel III proposals attempt to restore this balance by taking greater account of comparability and simplicity, while still retaining a fundamentally risk-sensitive framework.

More generally, perhaps the key innovation in Basel III is that there is no longer a reliance on a single measure of bank safety.

Few credit analysts would ever rely on a single measure of a firm's creditworthiness. It follows that, as regulators, we should also avoid placing all our trust in one measure of bank soundness.

Underlying these broad shifts in the regulatory framework is the general question of international standardisation. Basel I's broad-brush approach left much that was not standardised to the discretion of national supervisors.

By its nature, the earlier framework allowed for national discretion under the surface of the broad risk weight categories.

**Basel II and Basel III - by taking a more detailed approach - expanded the scope of international standardisation.**

In addition, areas of flexibility, through national discretion, became more transparent. My point here is simply to note that the goal of international standard setters is not to standardise the measurement of every risk for every firm. There are limits to the benefits of international standards, and these should be understood when designing and implementing the standards.

In this regard, the Committee is always guided by **two general principles**.

**First**, the standards that the Committee develops are global **minimum** standards. Jurisdictions that adopt higher standards are considered to be compliant with the Basel framework.

**Second**, the standards are designed for **internationally active banks**. Nevertheless, in many cases, the suite of approaches provided by the Basel framework will be applicable to most banks around the world. This is reflected in the widespread application of the Basel rules to banks across the world.

**Section 2 - Finalising post-crisis reforms**
Let me now turn to the issue of the finalisation of the Committee's post-crisis reforms. As you know, the Committee has spent the past two days working towards an agreement to finalise these post-crisis reforms. We have made very good progress and the contours of an agreement are now clear.

At a high level this includes:

- **A revised standardised approach to credit risk.** This will be more risk-sensitive than the current standardised approach and more consistent with the internal model-based approaches. It will also be neutral in terms of its capital impact;

- The revised framework will **largely retain the use of internal models but with the safeguards** provided by input floors and revisions to the foundation IRB approach;

- **A revised standardised approach for operational risk** will replace the four existing approaches, including the Advanced Measurement Approach, which is based on banks' internal models. I expect this will also be capital-neutral overall, but there will no doubt be increases and decreases in operational risk capital requirements for certain banks;

- **A leverage ratio** surcharge for global systemically important banks will be introduced to complement the risk-based G-SIB surcharge;

- Finally, I expect an aggregate output floor will be part of our package of reforms. It will be based on the standardised approaches and the final calibration of the floor is subject to endorsement by the GHOS.

- It is important to note that a lengthy implementation and phase-in period is likely to be part of this package. This would allow for banks to migrate to the new framework in an orderly and manageable fashion.

Let me say a few final thoughts about the impact of these reforms, and specifically on (i) the goal of reducing excessive risk-weighted asset (RWA) variability; and (ii) "focusing on not significantly increasing overall capital requirements", which is probably a contender for the most quoted regulatory sentence of the year.

- I am confident that the changes that the Committee has agreed move in that direction. **But it should be clear that, to reduce RWA variability, changes in capital requirements are needed.** This means that capital
requirements may go down for some banks and go up for others. At the
global, aggregate level, the impact is not significant, but it may well be
significant for some banks.

- I also want to clarify what I have in mind when I use the term "impact". The Committee has considered the impact of its proposals on both
minimum capital requirements and banks' actual capital ratios. I expect
that the aggregate capital shortfalls relative to minimum requirements
will be small and relatively concentrated. The impact on capital ratios
will be more diverse across banks and across jurisdictions. The net
effect of these changes will be that published risk-based capital ratios
will be far more robust and comparable across banks.

- For those of you that were expecting more details of the Committee's
discussions over the past two days, I refer you to my earlier remarks in
this speech about the challenges of communication. And, taking
advantage of being in Chile, I quote the brilliant Chilean poet, politician
and Nobel laureate Pablo Neruda: "a word is one wing of silence".

- Finally let me conclude with a very simple message. It is time to get the
job done, to move forward, and focus more on supervision and
implementation. While the Committee will continue to develop
standards as and when needed, the time to finalise Basel III has come.

Thank you. I wish you all an enjoyable and productive conference.
The banking industry: struggling to move on

Keynote speech by Claudio Borio Head of the BIS Monetary and Economic Department

“Competition in banking: implications for financial regulation and supervision”, Fifth EBA Research Workshop, London

The question of competition in banking – the subject of this event – has been hotly debated for a very long time. There is a consensus that in other sectors unrestrained competition is best.

But in banking there has always been a nagging feeling that it might not be, because given the specificities of the industry it could encourage too much risk-taking and engender costly instability (eg Berger et al (2004), Vives (2016)).

The answer, of course, is not to artificially curtail competitive forces, but to make sure that they play out on solid foundations. We want strong and agile institutions to compete with each other.

The task of prudential regulation and supervision in combination with competition authorities is to provide the right framework for this to happen. To be sure, the devil is always in the detail: tensions can and do arise. But the direction of travel is clear.

This explains the three questions I would like to address today.

The answers hold the key to how well the industry will fare in the years ahead. So, at the cost of spoiling the suspense, here they are.

Is the banking industry stronger than before the Great Financial Crisis (GFC)?

In some important respects, no doubt; even so, some troubling questions remain, including those raised by widespread market scepticism (eg Caruana (2016)).

Why such scepticism? It arguably results from a poisonous mix of legacy problems and an unfavourable economic environment. Legacy problems reflect, in part, an inadequate policy response to the banking strains the crisis caused.
A key feature of the unfavourable economic environment, which no one anticipated even in the aftermath of the crisis, has been persistently and extraordinarily low interest rates – their recent pickup notwithstanding.

What could banks, prudential authorities and policymakers more generally do about it? Banks need to work out the right business models without repeating pre-crisis mistakes.

In essence, this means pursuing sustainable – and the key word here is “sustainable” – profitability.

Given the limited choices available, cost cutting and, in a number of jurisdictions, reductions of excess capacity will be an inevitable part of the solution.

For their part, prudential authorities should complete the financial reforms without delay, notably Basel III.

And in the process, they should not succumb to the pressure to dilute standards and should redouble efforts to repair balance sheets.

Finally, policymakers more generally should work in concert with prudential supervisors to facilitate the needed adjustment, not least by addressing the “exit problem” that characterises the industry and tends to induce, or exacerbate, excess capacity.

As I elaborate on these points, I will review some recent BIS research and highlight some analytical questions that deserve further attention.

I – Is the banking industry stronger than pre-crisis?

Let me start with the good news. In crisis-hit economies, profits have recovered, albeit at an uneven pace.

And where banks have incurred losses over the last couple of years, this has in part reflected the healthy cleaning-up of loan portfolios.

Likewise, banks have been rebuilding their capital cushions at a brisk pace – the best news of all (Graph 1).
Large banks steadily increased their Core Equity Tier (CET) 1 capital between 2011 and end-2015 (left-hand panel).

According to the latest Basel III monitoring figures, under fully loaded Basel III definitions, average CET 1 ratios increased from 7% to around 12%.

Thus, CET 1 shortfalls have been effectively eliminated (just €0.2 billion at the target level – that is, including the capital conservation buffer and surcharges for global systemically important banks (G-SIBs), as applicable; centre panel)).

This has been done mostly via retained earnings and without much sign of an adverse short-term impact on bank lending – the ratio of bank lending to the private sector to GDP has been stable or has risen in many jurisdictions (Cohen and Scatigna (2014), BIS (2016a); Graph 1, right-hand panel).

In non-crisis-hit economies, especially emerging market economies (EMEs), indicators of profitability and balance sheet strength have generally looked good (Graph 2).

Until recently, banks in a number of major EMEs had posted high pre-tax profits (well above 1% of total assets, ahead of their most profitable
advanced economy peers). And they had steadily increased their equity-to-total assets ratios, which averaged 7% at end-2015.

That said, there have been exceptions of late in those economies where the financial cycle has turned and banks’ net income has come down substantially, such as Brazil. Still, even there, a full blown crisis has not erupted so far.

To read more:
https://www.bis.org/speeches/sp161128.pdf
What are capital markets telling us about the banking sector?


1. Introduction

It is a pleasure to be back at the IESE Business School and to join such distinguished panellists for this conference.

Today, I would like to offer some reflections on the challenges facing the banking sector and their relationship with regulatory reforms.

As we all know, in response to the Great Financial Crisis of 2008–09, regulators pursued ambitious financial reforms to make the financial system more resilient to systemic risks.

A key element is a significant increase in the quantity and quality of regulatory capital.

While Basel III is still being completed – full implementation is scheduled for 2019 – these more stringent regulatory standards have already improved banks’ capital structure.

For example, for the major banks monitored by the Basel Committee, CET1 capital ratios (CET1/RWA) increased, on average and on a fully loaded basis, from about 7% in 2011 to 11.8% at end-2015.

During the same period, leverage ratios rose from about 3.5% to 5.6% on average.

Let me remind you that the minimum capital for CET1 is 4.5% and that the target capital (minimum plus the conservation buffer) is 7%; actual capital ratios for most banks significantly exceed these requirements.

These moves to more and better capital are a response not only to regulation but also to market pressure, as the crisis experience has also sharpened the risk perception of banks, bank creditors and equity market investors.
Those creditors and investors now sanction banks that are undercapitalised, not profitable or not creditworthy.

Despite this progress in increasing banks’ loss absorption capacity, the path to recover trust remains difficult. The best example is the puzzling and protracted scepticism of bank equity investors.

For many banks, especially in Europe, price-to-book ratios have been under pressure and remain close to the troughs that were observed in the aftermath of the Great Financial Crisis.

There is no shortage of accounts offered for these challenges, ranging from modest growth to persistently low interest rates, unresolved asset quality problems, the presence of new fintech competitors, and tighter regulation.

To be sure, efforts to reduce leverage also tend to lower return on equity.

How much weight should we place on each of these factors in assessing the challenges facing the banking sector?

My perspective today is from the capital markets. If we think of capital markets as a mirror, what are the reflections telling us about the current state of the banking sector?

I believe they are quite revealing, especially about the pressures faced by banks as borrowers, and these pressures are contributing to the downward trend seen in bank leverage.

This capital markets perspective and some BIS analysis support the notion that, even if regulation is a factor in the way that banks approach their business, it is not the only factor, nor perhaps the most important one.

Before I get into the discussion, let me clarify where we stand with the capital regulation.

Typically, there are two concerns: the first is that regulation is excessive and that it is constraining lending capacity; and the second is the uncertainty associated with completing the reforms and the final calibration.

The Basel Committee is working to finalise the Basel III regulatory framework by the end of this year, thereby dissipating regulatory uncertainty.
And both the Basel Committee and the Governors and Heads of Supervision reaffirmed that there should not be a significant increase in the overall capital requirements.

To read more:
https://www.bis.org/speeches/sp161117.pdf
Is there a liquidity problem post-crisis?

Speech by Mr Stanley Fischer, Vice Chair of the Board of Governors of the Federal Reserve System, at the "Do We Have a Liquidity Problem Post-Crisis?", a conference sponsored by the Initiative on Business and Public Policy at the Brookings Institution, Washington DC

Market liquidity is the ability to rapidly execute sizable securities transactions at a low cost and with a limited price impact.

The high degree of liquidity in U.S. capital markets historically has contributed to the efficient allocation of capital through lower costs and a mix of bank- and market-based finance that supports the flexibility of these markets.

Regulatory changes may have altered financial institutions' incentive to provide liquidity, raising concerns brought into sharp relief by several "flash events" over the past few years.

At the same time, any changes in observed liquidity are also likely accompanied by other related changes—such as in technology—and a more complete assessment of these shifts is important when we think about the effects on liquidity of changes in financial regulations that were induced by the global financial crisis.

This afternoon, I will first review some of the concerns raised by market participants and others about market liquidity as well as highlight the challenges associated with finding clear evidence that substantiates these concerns.

I will then discuss whether potential impairment of liquidity might exacerbate problems related to fire sales and leverage.

Finally, I will make the case that any changes in market liquidity resulting from regulatory changes should be analyzed in the broader context of the overall safety of the financial system.

This perspective naturally emphasizes potential tradeoffs between the possibly adverse effect regulations may have on market liquidity and their positive effect on the stability of the financial system.
Market Participants' Concerns

1. Decline in dealers' inventory

Market participants have cited a decline in dealers' inventories as a possible source of decreased liquidity.

Figure 1 shows that primary dealers' inventories of fixed-income securities, which are predominantly used for market making, declined sharply after the Lehman Brothers failure, from about $1.3 trillion to about $800 billion, and have since fallen further to about $700 billion.

The recent decline might be due in part to regulations, such as the Volcker rule and the Supplementary Leverage Ratio, aimed at making the financial system safer and sounder, as well as to changes firms may have made on their own, perhaps in reaction to the experience of the financial crisis.

Regardless of the causes of the change, market participants have expressed a concern that the decline in inventories reflects in part a reduced willingness or capacity of the primary dealers to make markets—which may in turn lead to lower liquidity.
However, whether markets are in fact less liquid depends on both the degree to which the decrease in primary dealers' inventories affects their willingness to provide liquidity and the extent to which nonbank firms such as hedge funds and insurance companies fill any lost market-making capacity.

2. Decline in trade size and turnover

Market participants also often cite the decline in average trade size and turnover—the volume of trades relative to the total amount of bonds outstanding—as evidence of reduced liquidity.

Figure 2 shows that average trade size in the corporate bond market has indeed declined since 2006 but has been relatively stable in the past four years.

Figure 2. Average Size of Trades That Are Greater than $100,000 in Par Value for Investment- and Speculative-Grade Corporate Bonds

Nevertheless, this decrease may reflect a number of factors, including changes in technology or the types and preferences of institutions engaged in trades, so it may not indicate a reduction in market liquidity.

Certainly, the length of this trend, roughly a decade, seems on its face more consistent with a secular trend such as technological change.
Turnover in the corporate bond market has declined as well, though this evidence is also not a definitive sign of reduced market liquidity.

The decline in turnover is not driven by a reduction in trading volume, but it is the result of a robust growth of the denominator, debt outstanding.

3. Liquidity during times of stress

Market participants further express concern about the potential for market liquidity to become less resilient during times of stress, when it is needed the most.

However, evidence on this front is difficult to gather.

Some argue that market liquidity is resilient because financial markets appear to have functioned fairly well during recent episodes of high market volatility, such as following the Brexit vote or earlier this year, when oil prices were low and stock market volatility was high.

Others argue that it is not. According to a recent study, the cost of trading distressed corporate bonds appears to be higher now than in the recent past.

Specifically, the authors find that, before the crisis, the cost of a $1 million bond transaction increased about 0.7 percent following a downgrade, but-after the Volcker rule-the cost following a downgrade rose 2.4 percent.

This analysis, however, is limited to episodes of distressed borrowers rather than a systemwide stress.

4. Flash events

In addition, recent flash events—such as the sharp movement in Treasury prices on October 15, 2014; the rapid rise and decline of the euro-dollar exchange rate on March 18, 2015; and the swing in sterling on October 7, 2016—have led some to assert that market liquidity has become less resilient.

Researchers at the Federal Reserve Bank of New York have argued that spikes in volatility and sudden declines in liquidity have become more frequent in both Treasury and equity markets.
The Commodity Futures Trading Commission also points out that flash events are more common now.

Market participants suggest that the rapid growth in high-frequency trading in equity, foreign exchange, and U.S. Treasury markets, along with broader concerns about less resilient liquidity, potentially explains these flash events.

Nevertheless, a report on the October 15, 2014 event by the staff of the Treasury Department, Federal Reserve, and market regulatory agencies found no single factor that caused the sharp swing in prices.

To read more:
https://www.bis.org/review/r161118d.pdf
10 Steps to Cyber Security

Guidance on how organisations can protect themselves in cyberspace, including the 10 steps to cyber security.

This collection comprises:

- an introduction to cyber security for executive/board-level staff
- a white paper that explains what a common cyber attack looks like, and how attackers execute them
- the 10 technical advice sheets you should consider putting in place.

Introduction to Cyber Security

1. **10 Steps: Executive Summary**
   Guidance on how organisations can protect themselves in cyberspace, including the 10 steps to cyber security.

2. **10 Steps: A Board Level Responsibility**
   Why protecting your information is a board-level responsibility.

3. **Common Cyber Attacks: Reducing the Impact**
   This white paper explains how basic security controls can protect organisations from the most common cyber attacks.
Technical advice sheets

1  **10 Steps: Risk Management Regime**
Why defining and communicating your Board’s Information Risk Management Regime is central to your organisation’s overall cyber security strategy.

2  **10 Steps: Secure Configuration**
This section from within the NCSC’s ‘10 Steps To Cyber Security’ concerns Secure Configuration.

3  **10 Steps: Network Security**
This section from within the NCSC’s ‘10 Steps To Cyber Security’ concerns Network Security.

4  **10 Steps: Managing User Privileges**
This section from within the NCSC’s ‘10 Steps To Cyber Security’ concerns Managing User Privileges.

5  **10 Steps: User Education and Awareness**
This section from within the NCSC’s ‘10 Steps To Cyber Security’ concerns User Education and Awareness.

6  **10 Steps: Incident Management**
This section from within the NCSC’s ‘10 Steps To Cyber Security’ concerns Incident Management.

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9  **10 Steps: Removable Media Controls**
This section from within the NCSC’s ‘10 Steps To Cyber Security’ concerns Removable Media Controls.

10  **10 Steps: Home and Mobile Working**
This section from within the NCSC’s ‘10 Steps To Cyber Security’ concerns Home and Mobile Working.

To learn more:
https://www.ncsc.gov.uk/guidance/10-steps-cyber-security

Case Studies

- Case study 1: Espionage campaign against the UK energy sector
- Case study 2: Hundreds of computers infected by remote access malware
- Case study 3: Spear-phishing attack targets system administrator

How the interbank market becomes systemically dangerous: an agent-based network model of financial distress propagation

Matteo Serri, Guido Caldarelli and Giulio Cimini

Assessing the stability of economic systems is a fundamental research focus in economics, that has become increasingly interdisciplinary in the currently troubled economic situation.

In particular, much attention has been devoted to the interbank lending market as an important diffusion channel for financial distress during the recent crisis.

In this work we study the stability of the interbank market to exogenous shocks using an agent based network framework.

Our model encompasses several ingredients that have been recognized in the literature as pro-cyclical triggers of financial distress in the banking system: credit and liquidity shocks through bilateral exposures, liquidity hoarding due to counterparty creditworthiness deterioration, target leveraging policies and fire-sales spillovers.

But we exclude the possibility of central authorities intervention.

We implement this framework on a dataset of 183 European banks that were publicly traded between 2004 and 2013.

We document the extreme fragility of the interbank lending market up to 2008, when a systemic crisis leads to total depletion of market equity with an increasing speed of market collapse.

After the crisis instead the system is more resilient to systemic events in terms of residual market equity.

However, the speed at which the crisis breaks out reaches a new maximum in 2011, and never goes back to values observed before 2007.
Our analysis points to the key role of the crisis outbreak speed, which sets the maximum delay for central authorities intervention to be effective.

To read more: 
Internationalization of the renminbi -
prospects and challenges

Keynote speech by Carl-Ludwig Thiele, Member of the
Executive Board of the Deutsche Bundesbank, at the
3rd European-Chinese Banking Day, Frankfurt am
Main

Ladies and gentlemen

I am delighted to have this opportunity to deliver the keynote speech at
Euro Finance Week’s European-Chinese Banking Day, which is already in
its third year.

In September 2015, I had the privilege of giving the opening speech at the
opening ceremony of the Sino-German Center for Finance and Economics
in Beijing.

Although this event was not a long time ago, the internationalisation of the
renminbi has progressed rapidly since then.

1. Where does the renminbi currently stand from an international
perspective?

The timing of our meeting and the subject of my speech - the
internationalisation of the renminbi (RMB) and the opportunities and
challenges that this presents - could not be more topical.

It was only weeks ago, on 1 October 2016, that the Chinese currency was
officially added to the International Monetary Fund's basket of currencies.

It has therefore joined the ranks of the US dollar, Japanese yen, pound
sterling and, last but not least, the euro as one of the five most-used
currencies in the world.

This is a major political triumph for the People's Republic of China, as well
as for the IMF, as China is the world's second largest economy, with growth
of more than 6 per cent per year.

The Chinese government had been resolutely pressing ahead with the
process of including the renminbi in the Special Drawing Right Basket since
the year 2009. In doing so, it had more than just the prestige of being
included in the IMF's basket of currencies in its sights - in actual fact, the

Basel iii Compliance Professionals Association (BiiiCPA)
internationalisation of the renminbi is closely linked to the opening-up of the capital markets in China as a whole and to the advancement of the Chinese economy.

China's objective here is to morph from "the world's workshop" into a modern, service-oriented economy, with the international financial markets and the renminbi both having an important role to play: the former as a source of financing for economic activities and the latter as a lubricant for imports and exports.

2. Has the renminbi already established itself as an international key currency?

Three criteria come into play when assessing a currency's significance at the international level.

The currency's use

- in the settlement of transactions, ie as a trading currency;
- in the capital markets, ie as an investment currency;
- and as an investment vehicle for central banks, ie as a reserve currency.

Let's examine the individual criteria in a little more detail now.

The renminbi has already firmly established itself as one of the world's most-used trading currencies.

While the share of global payments made in renminbi was no more than 0.25 percent in January 2012, making it the world's 20th most-used trading currency, this share had climbed to 1.86 percent by August 2016 - an increase of more than sixfold.

Behind the US dollar, which remains the undisputed number-one trading currency in the world, the euro, the pound sterling and the Japanese yen comes the Chinese currency in fifth place - and there are signs that it will rise through the ranks.

The second step towards securing the renminbi's position as an international key currency is to strengthen its role as an investment currency.
The greater the number of liquid, renminbi-denominated securities that are issued, the more foreign investors will also be interested in investing in renminbi.

The prerequisite for this is that the Chinese capital markets are sufficiently deep and receptive to foreign capital.

What's more, the Chinese markets need to be opened up to foreign investors.

The Chinese government has recently made several efforts in this direction.

Various programmes enable investors to make investments with fixed quota restrictions on the onshore bond market.

Another option open to foreign central banks, sovereign wealth funds and offshore renminbi clearing banks is the China Interbank Bond Market (CIBM).

Since mid-2015, the only prerequisite for access to this market has been prior registration with the People's Bank of China (PBoC), eliminating the need for the quota system.

Nowadays, the Chinese bond market is the third-largest in the world after the US and Japanese bond markets. However, only 2 percent of bonds are currently held by foreign investors.

Holding a share of around 70 percent, the largest investors remain the Chinese commercial banks.

Consequently, it is vital that further reforms are implemented in the future to open up the financial markets for foreign investors so that the renminbi can gain a foothold among the flexible and internationally used investment currency elite.

One example of such necessary reforms would be to eliminate obstacles hindering access to the capital market, such as the quota model for investment in the bond market.

The final step towards becoming a globally recognised key currency is for a currency to be used as an international reserve currency.
The renminbi's inclusion in the IMF's Special Drawing Rights basket has provided the framework for this. It is now expected that a wider range of market participants will invest capital in renminbi-denominated securities.

These participants will likely be joined by an increasing number of central banks that will, in the future, invest parts of their reserve assets in corresponding securities, mostly government bonds.

3. What is the role of the Frankfurt financial centre in the internationalisation of the renminbi?

The renminbi's internationalisation strategy does not culminate with the currency's inclusion in the IMF's basket of currencies, however. On the contrary, the Chinese government is currently focusing on a whole raft of measures.

One of these is the Cross-border Interbank Payment System (CIPS). It was launched in October 2015 and is the sole provider of settlement services for offshore renminbi payments.

The People's Bank of China designed CIPS to provide an infrastructural buffer for the expected growth in renminbi transactions and to stem the disadvantages with regard to settlement efficiency vis-à-vis other currencies (particularly the US dollar).

Other measures include bilateral cooperation agreements that aim to further promote use of the renminbi as a trading and investment currency. The potential for efficient renminbi clearing is significant to enterprises that operate internationally.

As China's largest European trading partner, Germany is of crucial importance in this context.

It was not for nothing that the first renminbi clearing hub located outside Asia was established in Frankfurt.

Since 2014, it has been possible to settle renminbi-denominated payments via the Frankfurt branch of the People's Bank of China.

This service provides attractive opportunities for small and medium-sized enterprises, for instance, to establish and expand business relationships with Chinese enterprises while at the same time settling payments with China within their own local time zone and jurisdiction.
The China Europe International Exchange, or CEINEX, is another collaborative initiative.

This joint venture of the Deutsche Börse Group, the Shanghai Stock Exchange and the China Financial Futures Exchange was opened exactly one year ago and is the first trading venue outside China for Chinese investment products in renminbi.

CEINEX uses the Deutsche Börse's infrastructure and provides investors with the enticing option of gaining access to the Chinese capital market during European and US trading hours.

In addition to the formation and expansion of close and dynamic economic ties, activities that promote mutual understanding are another integral part of the renminbi's internationalisation strategy.

Mutual trust is established by regularly exchanging information in the fields of politics, business and academia, and this is an important factor for successful cooperation with Chinese partners.

In mid-October this year, for example, a delegation of members of the Renminbi Initiative Group Frankfurt headed by the Deutsche Bundesbank and the Hessian Ministry of Economics travelled to Beijing and Shanghai for talks.

This was in connection with a workshop in Beijing organised by the Sino-German Center of Finance and Economics, which boasted high-ranking participants from the People's Bank of China, academia and the financial sector.

The Sino-German Center, which is part of the Goethe University in Frankfurt, is a research centre that conducts independent research and promotes interaction and improved mutual understanding by means of education and training.

The Sino-German Center opened in September 2015 and I am proud of the fact that the Bundesbank, as a member of its Board of Trustees, is actively contributing to its success.

4. What conclusions can be drawn?

Ladies and gentlemen
The inclusion of the renminbi in the IMF's Special Drawing Rights basket marks a milestone in the internationalisation of the Chinese currency.

There can be no doubt that this is a great political and economic triumph for China as well as an endorsement of the path to openness that the country has been treading with great determination since the end of the 1970s.

However, there is still some way to go if the renminbi is to become as important as the other four key currencies.

Foreign investors' access to the onshore capital markets in China, which is still restricted, is a case in point and underscores the necessity for Chinese policymakers to continue to resolutely press ahead with the opening-up and liberalisation of the Chinese markets.

Thank you very much for your attention.
ENISA at Bitkom hub-conference: Feeling secure about your smart device?

ENISA participated at the BITKOM hub-conference on the 22nd November 2016 in Berlin.

IoT Security: User awareness

**HOW TO CHOOSE A SMART HOME DEVICE SECURELY**
- Verify whether the smart features are really required or whether a normal device would be sufficient
- Be careful when buying used IoT devices, as they could have been tampered with
- Research the vendor’s device security measures
- If battery powered, favor devices providing alternate/emergency charging methods

**HOW TO OPERATE A SMART HOME DEVICE SECURELY**
- Change default password of Wi-Fi networks and use robust encryption (e.g. WPA2)
- Change default password of device
- Disable or protect remote access to IoT devices when not needed
- Use wired connections instead of wireless where possible
- Modify the privacy and security settings of the device to your needs
- Disable features that are not being used
- Install updates when they become available
- Use devices on separate home network when possible
- Ensure that an outage (for example due to jamming or a network failure) does not result in a unsecure state of the installation

**HOW TO USE ONLINE SERVICES FOR SMART HOME SECURELY**
- Use a password manager
- Use different passwords for different services
- Control data exchange requested by a service
To read more:

https://www.hub.berlin/en
The Spectre of Monetarism

Mark Carney, Governor of the Bank of England, Roscoe Lecture, Liverpool John Moores University

Real incomes falling for a decade.

The legacy of a searing financial crisis weighing on confidence and growth.

The very nature of work disrupted by a technological revolution.

This was the middle of the 19th century.

Liverpool was in the midst of a golden age; its Custom House was the national Exchequer’s biggest source of revenue.

And Karl Marx was scribbling in the British Library, warning of a spectre haunting Europe, the spectre of communism.

We meet today during the first lost decade since the 1860s.

In the wake of a global financial crisis.

And in the midst of a technological revolution that is once again changing the nature of work.

Substitute Northern Rock for Overend Gurney; Uber and machine learning for the Spinning Jenny and the steam engine; and Twitter for the telegraph; and you have dynamics that echo those of 150 years ago.

Then the villains were the capitalists. Should they today be the central bankers?

Are their flights of fancy promoting stagnation and inequality? Does the spectre of monetarism haunt our economies?

These are serious charges, based on real anxieties. They merit sober, objective assessment.

This evening I want to discuss the role of monetary policy in this time of great disruption. But first I will focus on the underlying causes and consequences of weak real income growth and inequality across the advanced world.
That’s because any doctor knows that the importance of diagnosing the underlying causes of the patient’s symptoms before administering the cure.

Monetary policy has been keeping the patient alive, creating the possibility of a lasting cure through fiscal and structural operations.

It has averted depression and helped advanced economies live to fight another day, so that measures to restore vitality can be taken.

To read more:
https://www.bis.org/review/r161207d.pdf
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ATCCs deliver high quality training courses, using the BiiICPA approved course materials and having access to BiiICPA Authorized Certified Trainers (BiiICPA-ACTs).

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