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Dear members and friends,

We have a very interesting paper from the BIS, with title *Designing a prudential treatment for crypto-assets*.

According to the paper, the past few years have seen rapid growth in crypto-assets. The estimated market capitalization of cryptoassets reached a historical peak exceeding $800 billion in January 2018.

While the crypto-asset market remains small relative to the size of the global financial system, and banks' exposures to crypto-assets are currently limited, its absolute size is meaningful and there continues to be rapid developments, with increased attention from a broad range of stakeholders.

As previously indicated, the Committee is of the view that the growth of crypto-assets and related services has the potential to raise financial stability concerns and increase risks faced by banks.

Cryptoassets are an immature asset class given the lack of standardisation and constant evolution. Certain cryptoassets have exhibited a high degree of volatility, and present risks for banks, including liquidity risk; credit risk; market risk; operational risk (including fraud and cyber risks); money laundering and terrorist financing risk; and legal and reputation risks.

While certain types of crypto-assets are at times referred to as "crypto-currencies", the Committee is of the view that such assets do not reliably provide the standard functions of money and can be unsafe to rely on as a medium of exchange or store of value.

These types of crypto-assets are not legal tender, and are not backed by any government or public authority. Therefore, if banks are authorised, and decide, to acquire crypto-assets or provide related services, the Committee is of the view that banks should apply a conservative prudential treatment to such exposures, especially for high-risk crypto-assets.

To that end, the Committee is publishing this discussion paper to seek the views of stakeholders on a range of issues related to the prudential regulatory treatment of crypto-assets, including:

(i) the features and risk characteristics of crypto-assets that should inform the design of a prudential treatment for banks' crypto-asset exposures; and

(ii) general principles and considerations to guide the design of a prudential treatment of banks' exposures to crypto-assets, including an illustrative example of potential capital and liquidity requirements for exposures to high-risk crypto-assets.

There have been recent initiatives related to some types of crypto-assets. For example, some initiatives seek to reduce the volatility exhibited to date by anchoring crypto-assets to a reference asset.

Other initiatives include redemption or repurchase assurances by a legal entity. These crypto-assets are sometimes referred to as 'stablecoins', although the stability of such assets has yet to be tested completely.

The scope of stablecoin initiatives vary, with some focusing on intragroup or interbank payment systems, while others seek to target a broader audience, including consumers globally.

While many of these types of crypto-assets have yet to become operational in practice, some may have the potential to become systemically important.

The Committee is of the view that these types of crypto-assets warrant further assessment and elaboration before specifying a prudential treatment. A separate initiative relates to central bank digital currencies, where many central banks are continuing to look at the implications of this potential type of central bank money.

Such forms of digital currencies are outside the scope of this discussion paper. The responses to this paper will inform the Committee's development of a prudential treatment for crypto-assets at large, including for crypto-assets that are issued by regulated financial institutions, or that make use of stabilisation tools.

The Committee is continuing to assess the appropriate prudential treatment for such types of crypto-assets, and will consult on any specific measures.

To read more: https://www.bis.org/bcbs/publ/d490.pdf

BIS expands membership and collaboration

The Bank for International Settlements (BIS) is to expand its central bank membership base and to increase collaboration in its work as a forum for international cooperation and as a hub for central banks and other financial authorities.

The BIS Board of Directors has decided to invite the central banks of Kuwait, Morocco and Vietnam to become members of the BIS. This is the first such expansion since 2011 and will take the number of members to 63.

Jens Weidmann, Chair of the BIS Board, welcomed the expansion and said: "Reviewing membership at regular intervals ensures that the membership base remains in keeping with the Bank's global profile and its mandate to promote global monetary and financial stability."

Also convening in Basel, the Global Economy Meeting (GEM) agreed to expand the membership of two of the central bank committees based at the BIS, the Committee on the Global Financial System (CGFS) and the Markets Committee.

The CGFS, a central bank forum for monitoring and analysing broad financial system issues, will invite Argentina, Russia, Saudi Arabia, South Africa and Thailand to join. This will take the number of central bank members to 28.

The Markets Committee, which monitors financial market developments, will invite Indonesia, Malaysia, Russia, South Africa and Turkey to join. This will take the number of central bank members to 27.

GEM Chair Mark Carney said that, following the expansion, emerging market economies (EMEs) would make up about two fifths of the membership of each committee.

"In the last decade, EMEs have become much larger and ever more connected to the global financial system. Having a representative range of views on financial market and monetary matters will benefit the citizens of EMEs and advanced economies alike," he said.

US regulations and approaches to cryptocurrencies

Michael Held, Executive Vice President of the Legal Group of the Federal Reserve Bank of New York, at the BIS Central Bank Legal Experts' Meeting, Basel.

Thank you, Diego, for “volunteering” me to speak about digital currencies — a field in which I count myself as very much a trainee, not an expert. Today I will focus on the U.S. regulatory landscape for digital currencies, in particular on digital currencies issued by private organizations that are intended to be used like money.

As always, the views I express are my own, not necessarily those of the Federal Reserve Bank of New York or the Federal Reserve System.

Policy makers and regulators in the United States, to date, have not developed an overarching framework for regulating private digital currencies.

The field has been seen as too new for a comprehensive regulatory response. To be sure, the digital nature of new private currencies will raise challenges to which policy makers must respond.

In my view, however, we spend so much time wrestling with the novelty of digital currencies that we forget that private currency is nothing new.

The theme of my talk today is accordingly best encapsulated by a quote that is attributed—perhaps wrongly—to Mark Twain: “History may not repeat itself, but it does rhyme.”

The Past Is Not Dead. It Isn’t Even Past

So, let’s take a little walk through the history of privately-issued currency. We begin in Michigan in 1837, when the state legislature passed the first “free” banking law in the United States.

Upon commencing business, free banks could issue banknotes—that is, private currencies—that were redeemable in specie—gold or silver. These banknotes were transferable debt backed by the general creditworthiness of the bank that issued them, plus assets like bonds and mortgages on real estate, and for a brief time, personal guarantees.

The statute permitted bank organizers to establish a bank by filing an application with the local county treasurer and county clerk. They did not need approval from the state banking commissioner. (At the time, the United States had no federal banking supervisor. Indeed, the "free banking" era generally begins with Congress's failure to recommission the Second Bank of the United States before its charter expired in 1836, and ends with the passage of the National Bank Act in 1863).

The result, predictably, was chaotic. The state banking commissioner was unsure of how many banks had even been established.

Some banks in Michigan were established with the intent to issue banknotes but without the intent to ever redeem them.

By 1839 almost the entire system had collapsed. After closing down one bank in Michigan, the commissioner found shards of window glass, lead, and nails where he should have found gold and silver coin.

Some of these free banks became known as "wildcat" banks. They set up offices in remote areas—where only the wildcats roamed—making it difficult to redeem notes for specie.

To read more: https://www.bis.org/review/r191212d.pdf

A framework for all seasons?

Mark Carney, Governor of the Bank of England, at the Bank of England Research Workshop on "The Future of Inflation Targeting", London, 9 January 2020.

Introduction

Following a chequered history of high and volatile inflation in the post-war era, the UK finally found monetary success as an early adopter of inflation targeting in 1992.

The UK's current regime, launched in 1997, delegated operational independence for setting monetary policy to the Bank of England and included many institutional innovations that have stood the test of time – most notably a Monetary Policy Committee with a mix of internal and external members; transparent, independent voting; and a clear accountability framework.

Since operational independence for inflation targeting was delegated to the MPC, there have been a raft of improvements, both large and small.

Transparency has steadily increased with initiatives ranging from publishing detailed assumptions underlying forecasts ex ante to assessing forecast accuracy ex post as well as the simultaneous release of Monetary Policy Summaries, Minutes, and Inflation Reports.

More recently, the MPC has introduced layered communications, with simpler, more accessible language and graphics to reach the broadest possible audience, and we have launched the Monetary Policy Report in order to give greater prominence to the most pressing issues shaping each monetary policy decision.

A major improvement to the inflation targeting framework itself was to confirm explicitly beginning with the 2013 remit that the MPC is required to have regard to trade-offs between keeping inflation at the target and avoiding undesirably volatility in output.

In other words, the MPC can use the full flexibility of inflation targeting in the face of exceptionally large shocks to return inflation to target in a manner that provides as much support as possible to employment and growth or, if necessary, promotes financial stability.

Even more fundamentally, the lessons of the global financial crisis prompted a radical overhaul of the Bank's broader policy framework.

The crisis exposed the limits of inflation targeting itself, notably how a healthy focus on price stability could become a dangerous distraction.

Central banks had won the war against inflation only to lose the peace as financial vulnerabilities built remorselessly during the Great Moderation. Price stability clearly is not a guarantee of financial stability.

With the deficiencies of the Tripartite regime1 on full and painful display, the decision was taken in 2012 to give the Bank of England responsibility for macroprudential and microprudential supervision.

Two new independent committees, the FPC and the PRC, were created and charged with maintaining financial stability and safety and soundness of banks and insurers, respectively.

In 2016, these committees were placed on equal footing with the MPC, underscoring the symbiotic roles that all three play in underpinning confidence in money and in promoting the best possible macro-economic outcomes.

Any consideration of the UK's monetary policy framework must take into account this unique and highly effective institutional structure. To set the stage for today's discussions, I would like to do two things.

First, I will review the conduct and performance of inflation targeting during my time as Governor.

This period, which roughly coincides with the post-crisis recovery and which has seen more than its share of shocks and structural developments, provides some insights to the ability of inflation targeting to deliver price stability and support macroeconomic outcomes.

I will suggest that, so far at least, inflation targeting has proven to be a framework for all seasons, an essential part of a robust foundation for economic prosperity.

It is important not to lose sight of the fundamental success in achieving price stability that has resulted from delegation of inflation targeting to an independent central bank.

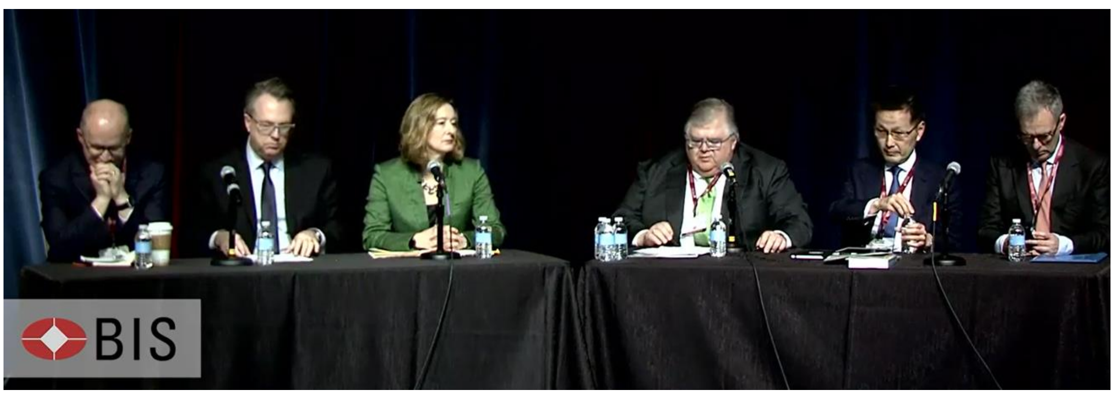
In the two decades prior to independence, inflation averaged over 6%.

Since independence, it has been close to 2% and one-fifth as volatile. Inflation expectations have remained well anchored throughout some of the largest economic shocks in postwar history

To read more:
https://www.bis.org/review/r200109b.pdf

Monetary policy frameworks in a world of low interest rates

Speakers analyze whether monetary policy frameworks are still adequate to cope with the challenges central banks are currently facing.



You may visit:
https://www.youtube.com/watch?v=0pV4zREaVQY&list=PLjKKW-ws0BGqpZ5mnL2sGmYc78exHzrKh&index=2&t=0s

Benoît Cœuré appointed to head BIS Innovation Hub

The Board of Directors of the Bank for International Settlements (BIS) has appointed Benoît Cœuré as Head of the new BIS Innovation Hub, set up to foster international collaboration among central banks on innovative financial technology.

Mr Cœuré started his new role on 15 January 2020 for a five-year term. Mr Cœuré has since 2013 chaired the Committee on Payments and Market Infrastructures, the global standard setter for payment, clearing and settlement services. He also led the Group of Seven working group on global stablecoins and co-chairs a related Financial Stability Board working group.

> *I am very happy to be joining the BIS. I look forward to bringing my expertise to the global central banking community at this time of rapid technological change. We must make the best use of innovation to support financial stability and promote financial inclusion.*

Benoît Cœuré, appointed Head of the new BIS Innovation Hub

> *I am delighted to have Benoît on board to advance the important mission of the Hub, which is to harness innovation to improve the functioning of the international financial system.*
>
> *Technology-driven innovation is driving change in many fields and can bring great benefits for anyone who makes and receives payments. The Hub reflects central banks' commitment to share resources and lay the foundations for a bright future.*

Agustín Carstens, General Manager of the BIS

Stablecoins - a good or a bad solution to improve our payment systems?

Denis Beau, First Deputy Governor of the Bank of France, at the Stablecoin Conference "Which ambitions for Europe?", organized by Paris Europlace and ConsenSys, Paris, 15 January 2020.

Ladies and gentlemen,

The growing number and forms of crypto-assets in our payments landscape has triggered a significant and important debate about their virtues and risks, in case the role of these crypto-assets in our payment systems were to become less marginal than it currently is.

The emergence of so-called "stablecoins" has brought additional fuel to this debate as they could bring to the market new settlement assets and payment schemes, which may compete against and possibly, according to their promoters, replace those in commercial and central bank money, currently at the centre of the functioning of our payment systems.

In order to share with you a few thoughts on this debate, speaking as a central banker and a supervisor mindful of the benefits of innovation but also of the risks they could bring to financial and monetary stability, I will focus my remarks on two topics:

- Whether stablecoins can contribute to improving our payment landscape?

- How to respond to the public policy challenges they raise?

1 - Are stablecoins a brand new solution or a brand new problem?

From my perspective, they can be both. Let me explain.

Due to their specificities, stablecoins are a novelty in tune with some markets' needs.

In the context of the economy's digitalisation, the past decades have shown how Fintechs as well as Bigtechs have aimed at taking advantage of the latest advances in web-based technologies, notably blockchain, to provide new payment credit and investment services.

Often, they propose to achieve this through the creation of various new assets (coins, tokens, stablecoins, with or without smart contracts).

We all have in mind the first generation of crypto-assets such as Bitcoin and Ethereum, initially designed to be instruments of exchange in the digital world but suffering from a number of limitations, not least severe price volatility and a lack of guarantee of their convertibility and security.

A second generation is emerging in the form of « stablecoins », such as the JP Morgan Coin, UBS's Utility Settlement Coin or Facebook's Libra.

They share many of the features of crypto-assets but seek to stabilise the price of the "coin" by various means. They might therefore be more capable of contributing to the enhancement of payment systems, with a potentially global reach, especially those sponsored by large technology or financial firms.

In the retail market, stablecoin-based solutions seek to address evolving consumer preferences towards instantaneous, continuous, and standardized payments, as consumers become ever more mobile.

While this demand is largely already met through an increasingly diversified and digitalised supply by many payment services providers - be the new entrants or established players-, stablecoins could challenge the latter by offering cheaper, easier and instant anonymous and peer-to-peer payments.

In addition, at the global level, we are far from having a network (or set of interconnected networks) that could support quick and cheap transfers of funds.

The current supply of cashless means of payment lacks a universal and ergonomic cross-border solution akin to cash person-to-person payments. Stablecoins could be seen as a "universal" means of payment facilitating cross-borders payments in a single unit of account. As we know, this is an argument put forward by some global stablecoins promoters.

Furthermore, stablecoins could help remedy other limits of the existing payment ecosystem, even if the issues at stake might concretely vary between developed and developing countries.

In particular, their blockchain-based technology could help improve wholesale clearing and settlement mechanisms and facilitate Delivery-versus-Payment processes as well as cross currency settlements, while guaranteeing resilience and recovery from operational incidents.

However, stablecoins may also bring material risks to payment systems.

As many central bankers have pointed out, stablecoins do not satisfactorily offer the qualities expected from a settlement asset to be used interchangeably with commercial bank money and central bank money.

As intermediaries in exchanges, stablecoins are far less effective than a settlement asset with legal tender status, insofar as

(i) they are not entirely stable since their price stability depends on the value of a basket of assets, and

(ii) they offer no guarantee of a refund in the event of fraud.

The fact that they have no intrinsic value and that they offer no guarantee that they may be converted at par upon demand with commercial bank money or central bank money means that they cannot be used to create reliable stores of value.

In addition, as pointed out in the G7 report on stablecoins issued last year, stablecoin schemes are significantly exposed to risks of various nature, including legal, financial, operational and compliance risk concerning money laundering and terrorist financing, competition law, consumer and investor protection.

The risks identified must be seriously addressed if stablecoins are not to become the « weak links » undermining the safety of our payment systems.

This is all the more important as some of these risks would be amplified and new risks might arise if stablecoins are adopted at a global level.

Stablecoins of potentially large size and reach - so-called global stablecoins - may indeed pose additional challenges of system-wide importance both domestically and internationally, for the transmission of monetary policy, as well as for financial stability.

They could also have implications for the international monetary system more generally, including currency substitution, and could therefore pose challenges to monetary sovereignty.

2 - What role for regulatory and oversight authorities?

In this context, it is first and foremost the responsibility of the private sector to design stablecoin schemes that do not bring undue risks to our payment systems.

For that purpose, regulatory and oversight authorities have an important role to play in order to ensure that the risk management requirements to be met are clear, comprehensive and complied with, while preserving the potential for technological innovation offered by crypto-assets.

To that end, they should in my view focus on three main tasks:

- *Firstly, working on a regulatory response that preserves the positive potential impact stablecoins* might have on the efficiency of our payment systems.

Given the rapid pace of innovation, which is also characteristic of stablecoin initiatives, this pleads for developing an agile, pragmatic and proportionate regulatory response rather than setting up an ad-hoc, unique and comprehensive framework.

This would be simpler, faster to implement and to adjust, and be more likely to achieve level-playing field conditions.

In the European context, this is an encouragement for building on and adapting the functional coverage of existing regulatory frameworks and, in some cases extending their geographical coverage.

What comes to mind in particular is the framework for crypto-assets service providers created in France with the Pacte bill, and the European framework for e-money issuers, investment funds and financial market infrastructures.

This also calls for ensuring a consistent regulatory treatment of similar risks, irrespective of the framework or combination of frameworks under which stablecoins schemes might be operated.

- *Secondly, coordinating the adjustment of regulatory and supervisory frameworks at the international level.*

Whatever the final choice made for the European Union in terms of regulation strategy, such an adjustment of the regulatory framework should be part of broader adjustment at the global level, given the possible development of global stable coins.

Indeed, there is a need for overall consistency to prevent regulatory arbitrage under the "same activities, same risks, same rules" principle.

This is also necessary to address risks that fall outside existing frameworks, including risks to fair competition and monetary policy transmission.

Indeed, in July 2019, G7 Finance Ministers and Central Bank Governors agreed that possible stablecoins initiatives must meet the highest regulatory standards, be subject to prudent supervision and oversight and that possible regulatory gaps should, as a matter of priority, be assessed and addressed.

Accordingly, the Financial Stability Board is working on a global regulatory and supervisory approach towards stablecoins.

Developing shared public policy, regulatory and supervisory goals and principles should help capture activities that fall outside traditional regulatory boundaries.

It should also help prevent any discrepancies at domestic levels that may give rise to fragmentation and regulatory arbitrage which would be counterproductive for the development of these new instruments themselves.

These goals and principles should include common requirements vis-à-vis GSC operators before they start their operations, such as clear and proper risk management policies and means, regarding their stabilisation mechanisms, legal certainty of users' redemption rights and potential claims on underlying reserve assets, and regarding linkages and exposure between their core components and the other entities of the financial system.

In addition, there is a need to agree on adequate cross-border oversight principles and schemes between authorities in charge of jurisdictions impacted by the potential circulation of stablecoins.

To that end, we could take inspiration and review existing standards and principles for cross-border cooperation in the field of market infrastructures or AML-CFT.

- Thirdly, making concrete efforts - including live experimentations - to address weaknesses of the current payment and settlement landscape.

Adjusting the regulatory and oversight frameworks might not be enough as we have to make sure stablecoins do not become a bad solution to a real problem.

Our current financial system order rests on multiple issuers of settlement assets linked to the anchor settlement asset provided by central banks.

In order to preserve the incentives and benefits for innovation, efficiency and stability, central banks as issuers of the reference settlement asset need to revisit and possibly adapt the conditions under which they make that settlement asset available.

In that perspective, central banks could, for instance, issue their money in digital form, the so-called concept of Central Bank Digital Currency (CBDC).

This might be particularly appropriate for meeting settlement needs in central bank money between financial intermediairies.

Indeed, asset tokenization initiatives have proliferated among financial players, with the the risk that such developments may lead to disorderly approaches and heterogeneous adjustments of settlement processes, which are currently mainly handled through market infrastructures.

The Eurosystem, as a major provider of critical wholesale clearing and settlement services in euro, should therefore be open to experimenting the conditions under which it makes central bank money available as a settlement asset.

To that end, we, at the Banque de France, have started gaining experience with innovative solutions, including in particular recourse to DLT.

Experimentation is key in this area and this is why, as already announced by Governor Villeroy de Galhau, the Banque de France will launch a call for projects before the end of the first quarter of 2020.

Indeed, we wish to work with industry innovators and start running experiments rapidly to possibly integrate a "wholesale" CBDC into innovative procedures for exchanging and settling tokenised financial assets.

Another contribution from central banks could be to help address one of the major failings of the current payment systems which is cross-border retail payments.

This is one of the drivers of the development of crypto-assets such as stablecoins, and we believe we could help identify and support other concrete, useful and possibly complementary solutions.

In conclusion, let me stress 4 points:

- It is hard to anticipate the role that stablecoins and more generally crypto-assets might play in the payment system of the future, especially since the features of these assets look set to change considerably.

- While it is clear that they offer opportunities to improve our payment systems, they can also bring quite material risks which must be addressed. In that context, it is first and foremost the responsibility of private sector entities to design arrangements which do not bring undue risks to our payment systems.

- Regulatory and oversight authorities also have an important role to play in order to ensure that risk management requirements to be met are clear, comprehensive, coherent across-borders and complied with, while preserving the potential for technological innovation offered by stablecoins.

- Beyond contributing to the adjustment of the regulatory and oversight frameworks to address these risks, central banks may make further contributions, notably by revisiting and possibly adjusting the conditions under which they make central bank money available for settlement purposes.

  To that end, we should keep an open-minded approach and develop an in-depth understanding of innovations currently spreading across the financial sector, including through experimentations. This is critical for our capacity to help deliver a sound, proper and updated regulatory framework supporting innovation, and adequately mitigate their inherent risks. This is also critical for our capacity to adapt the performance of the different roles we play to fulfil our financial stability mandate and conduct efficient monetary policies.

Thank you for your attention.

Getting to the core of culture

John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at "Working Together; An Interdisciplinary Approach to Organisational Culture", London School of Economics and Political Science, London.

Thank you for the warm introduction. It's an absolute pleasure to be back at the London School of Economics, where I completed my Master's degree in the late 1980s. Studying at the LSE, with remarkable professors like Richard Layard, Chris Pissarides, George Evans, and the late Tony Atkinson, inspired me to pursue a career in economics and public policy.

I owe a great debt of gratitude to this institution and am in awe of how it has evolved and grown in the past 30 years.

I will say that there are a few things I have not missed since my days in London: the food (yes, that has changed!), the high cost of living (some things never change), and the endless studying for and worrying about final exams. But I have missed the dear friends I made, the book shops, and the library.

It's ironic that I find myself back at the London School of Economics and NOT talking about economics. The views I bring to today's discussion come from professional and personal, rather than academic experience.

I've now led two major organizations, and culture is both the hardest and the most important thing to get right.

Culture is at the heart of behavior and norms, and the single most important factor driving the decision-making of employees. It's not an exaggeration to say that culture is critical-both when things go right, and when they go wrong.

Before I get any deeper into ideas about culture, I should give the standard Fed disclaimer that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee or others in the Federal Reserve System.

Culture Shapes Our Working Lives

When we talk about company culture in the context of financial services, the first thing that comes to mind is the risky, unethical, and sometimes criminal behavior in the banking industry, particularly during the financial crisis.

And 10 years on from the crisis, this behavior persists. Instances of fraud, money laundering, and scandals related to foreign exchange and LIBOR continue to make the headlines.

This behavior puts a spotlight on the essential role of robust regulation and strict enforcement.

But illicit and unethical behavior is rarely the result of an isolated "bad apple." It's more often the symptom of a rotten culture. And rotten cultures don't appear overnight-nor for that matter do positive, inclusive ones, where people feel empowered and accountable to upholding the values of the organization.

Culture is created-intentionally or otherwise-by the structures, incentives, and behavioral norms that shape our working lives.

Today I want to move our attention away from the extreme behavior that makes the headlines, and think more deeply about organizational cultures.

What does a good culture look like? How can leaders in the industry establish a positive culture within their firms? And perhaps hardest of all, how do you ensure that a firm's culture adapts to the changing world, but still stays true to its values and purpose?

An Ethical Dilemma

Consider this:

A junior banker on a successful real estate investment team is asked to run projections for future rental income for a mall in Hong Kong. As part of her research she notices a number in a spreadsheet that inflates future cash flows by 4 percent.

She asks a senior analyst if the number should be flagged as an optimistic assumption, so it's clear it's not based on evidence. The senior analyst responds by saying the number is a more conservative estimate than many. He says it's a "judgment call" and that they can discuss it once the project has concluded.

But the project comes and goes, everyone is busy, and the senior analyst doesn't bring it up again.

This scenario raises numerous questions: Should the junior team member raise the issue again or should she let it go? What was driving the behavior of the senior analyst? And why did no one else on the team view the situation as an ethical dilemma?

These are the kinds of issues that people often face in a work environment. And this example demonstrates many of the ways culture influences behavior.

Employees may enter an organization with a strong sense of right and wrong. What they may not realize is that group norms can exert a powerful magnetic pull on their moral compass.

The junior banker knew the way the number was being presented was unethical, and yet she complied with her boss. The response from the senior analyst, describing the situation as a "judgment call," is a common phenomenon. Using a euphemism to describe the inflated statistic camouflages the wrongdoing and makes it sound more acceptable to others.

We see it in our daily lives-terms like "troublemaker" and "not being a team player" are often used to shift the onus from the person whose behavior is being challenged to the challenger.

Ann Tenbrunsel's work has been very important for revealing how we use language to disguise or excuse behavior we know to be unacceptable.

One of the other issues this example illustrates is how organizational norms affect our own sense of what's right and wrong and whether to speak up.

Many of you here today will be familiar with the Asch experiment, where students participated in a vision test. There was a control line and three other lines labelled A, B, and C. Participants had to state aloud which line was the same length as the control. But they had to do so after a group of actors had given an incorrect answer.

About one third of participants went along with the majority, even though it was readily apparent their answers were incorrect. When asked why they went along with the group they said it was because they wanted to fit in, or because they believed the group was better informed than they were.

Does the junior banker drop the issue in an effort to fit in? Does she raise the issue in private, or does she call a company hotline? The answer depends on the complex relationship between the individual and the culture in which they work.

I'm particularly looking forward to hearing from Celia Moore. She spoke at the New York Fed last year and discussed how organizations set goals and motivate people to achieve them.

Praise, penalties, and rewards all influence an individual's behavior. Signals from the organization's leadership also have a major role to play: do the higher echelons of management value divergent views? Do they foster a culture where people feel empowered to speak up?

All of these things shape how an individual will respond to an ethical dilemma, whether they will acknowledge it as such, and how they will lead others as they move up in an organization.

As financial services professionals with great technical expertise, we often fall into the trap of thinking we can solve all of our problems on our own. But we have so much to learn from experts in other fields.

Strengths as Blind Spots

One of the most important lessons I've learned as a CEO is that there's no fixed endpoint when it comes to shaping an organization's culture. You can never take a step back and say, "We've finished the culture project. Well done! Now it's time to focus our efforts elsewhere."

Culture is constantly evolving, and therefore needs to be constantly nurtured. One of the most challenging elements is that there's no clear benchmark for success. And sometimes your greatest strengths can become your blind spots.

As an organization with a public mission and regulatory responsibilities, the Fed needs to have a particular focus on compliance. But cultures with a heavy focus on compliance can breed a sense that individuals aren't responsible for their actions.

As a CEO, I've tackled these issues by focusing on principles and values rather than writing extensive policies that try to cover every potential decision. This puts a premium on individual accountability to do what's right and creating an environment where everyone has the ability and responsibility to speak up.

Somewhat paradoxically, focusing on principled decision making and accountability, rather than relying exclusively on rules and policies, can be the most effective safeguard against wrongdoing and unethical behavior.

What's the Way Forward?

Creating a positive work culture is challenging and ongoing work. And there's no silver bullet that can solve cultural problems overnight.

In terms of how to move forward I'd like to make three brief points before I close:

First, the fact that we're all sitting here in this room is a very positive sign. That so many leaders from major firms are here today, engaged in these issues, is a symbol of how organizational culture is moving up the agenda.

The second is that the Banking Standards Board survey is a terrific tool for getting a snapshot of what your organization's culture looks like and how it's changing over time.

It goes far beyond typical engagement questionnaires and provides powerful insights into the values of employees and the characteristics of an organization. It's impossible to make progress if you don't have an accurate picture of your starting point.

The third is that when it comes to culture, I encourage everyone to look beyond their own lens of expertise. The Fed couldn't do its work without the deep knowledge of economists, lawyers, and statisticians. But the solutions to challenges related to a firm's culture are unlikely to be found if we keep our focus narrowly trained on our own specialties. We have so much to learn from experts in psychology, ethics, and management.

That's one reason I've been so looking forward to today's panel discussion. It brings together experts from many of these fields, whose combined insights are the key to moving us all toward the business culture we want to see.

Europe's role in the global financial system

Luis de Guindos, Vice-President of the European Central Bank, at the SUERF/Netherlands Bank Conference "Forging a new future between the UK and the EU", Amsterdam.

It is my pleasure to deliver the keynote speech at this year's SUERF/DNB conference.

The title of this conference is very apt. Brexit will certainly require a new future to be forged between the United Kingdom and the EU. The United Kingdom's departure has important implications for the EU financial system, most notably for capital markets.

So we need to give serious thought to optimally shaping the future relationship between our financial sectors in the awareness that London, though likely to remain an important global financial centre, will become less integrated with EU markets and firms.

We will also need to step up our efforts to further develop the EU's domestic capacity in capital market activities, so as to avoid a Brexit-induced increase in financial fragmentation, while at the same time ensuring that the United Kingdom and EU Member States do not engage in a race to the bottom on regulation.

Taking up the theme of the conference, I would first like to focus on how to forge a new future between the United Kingdom and the EU with regard to some key financial activities.

I will then turn to the much-needed drive to strengthen the European financial system by completing the capital markets union and banking union.

London's pre-eminence in certain key financial market segments

For decades, Europe's leading financial centre has been the City of London and, in some notable areas, the EU's financial ecosystem has relied heavily on services provided by UK-based banks and market infrastructures.

Derivatives clearing - a critical segment of financial markets - is a striking example. As of December 2019, almost 90% of all over-the-counter (OTC) derivatives positions taken by euro area institutions were cleared at UK global clearing houses.

Derivatives clearing is not the only example, however. Large investment banks operating from London play a significant role in euro area bilateral OTC derivatives markets.

In August last year, over a quarter of uncleared OTC derivatives held by euro area institutions were sourced from the United Kingdom.

While the activities of these investment banks were considered unlikely to create financial stability risks in a hard Brexit scenario (also thanks to the temporary measures taken by EU and national authorities), they are still relevant to the provision of liquidity to euro area markets over the longer term.

UK-based investment banks are also key providers of advisory and financing services related to securities issuance, M&A activity and syndicated lending to euro area clients.

They play an active role in debt and equity issuance for euro area non-financial corporations, including book running and underwriting services.

Between 2012 and 2018, almost half of all debt and equity issuance for euro area non-financial corporations was carried out by global banks serving our market from London.

Our reliance on London also stems from the fact that, in some cases, the City represents a gateway to global financial markets for euro area financial and non-financial firms, allowing them to tap into global capital and liquidity pools.

In other areas, however, reliance on London is quite limited. For instance, UK-domiciled banks play a marginal role in direct lending to euro area households and non-financial companies.

Had it not been for Brexit, certain global and regional trends might even have led to an increase in the EU's reliance on the City of London as a centre for market-based finance.

Indeed, the balance between banks and non-bank financial institutions in the EU has been evolving in recent years: although still very much bank-based, our economy is increasingly financed by non-bank institutions. In the euro area, total assets held by non-banks have almost doubled over the last ten years, growing from €23 trillion in 2008 to €45 trillion in June 2019.

Non-banks currently account for around 55% of the euro area financial sector. Their fast growth reflects their expanding role in financing the euro area real economy.

Whereas in 2008 non-banks accounted for 14% of the euro area financial sector's loans to non-financial corporations, that share roughly doubled in a decade. Non-banks provide a steady net flow of financing to non-financial corporations through the purchase of debt securities.

Regulatory decisions and economic drivers will affect the status quo

These examples give a sense of the level of integration between UK and continental financial markets, in particular for certain complex and sophisticated financial services linked to derivatives markets and investment banking activities. However, Brexit will change this status quo and a degree of decoupling is likely.

It is difficult to make firm predictions about the extent to which our two financial systems may drift apart or remain integrated.

The contours of the future EU-UK relationship in financial services are still uncertain, and the economic drivers and regulatory choices which could reshape this relationship will probably only be felt over time.

The EU will need to balance the benefits of continued integration with the UK financial system against potential risks to financial stability, consumer and investor protection, the level playing field and the integrity of the Single Market.

As I have said in the past, this path will not be easy for either side of the Channel, and the risks linked to regulatory divergence and a potential race to the bottom should not be taken lightly.

Allow me to briefly discuss the regulatory dimension of this question. A possible scenario is that the United Kingdom will not seek to remain a member of the EU Single Market once it leaves the EU.

This means moving away from a fully-integrated relationship underpinned by the EU's single rulebook and single passport for financial services, and relying instead on the EU's equivalence framework for third countries.

For some types of financial activities, this framework allows financial service providers from third countries to continue to serve EU clients provided a number of strict conditions are met.

For example, in the area of central clearing - which I touched upon earlier - cross-border market access is widespread: 15 jurisdictions are considered equivalent by the EU and 33 third-country central counterparties (CCPs) are recognised by the European Securities and Markets Authority (ESMA).

At the same time, given the euro area's reliance on UK CCPs, strong safeguards must be put in place to preserve financial stability and a level playing field. In this respect, I am very pleased that EU legislators have adopted a new supervisory framework for CCPs in the European Market Infrastructure Regulation (EMIR 2).

This framework requires third-country CCPs which are critical for the EU to meet EU prudential requirements under ESMA's supervision, with the involvement of the relevant EU central banks. If UK CCPs are to continue to provide euro clearing services on a systemic scale under the equivalence framework, they should be subject to the rigorous application of these safeguards.

In central clearing or other areas such as trading or listing, the extent of continued market access will depend on whether or not a decision is taken to grant equivalence to the United Kingdom. These decisions are beyond the purview of the ECB, and it is not my place to comment on them. Suffice to say that there is no automatic right to equivalence.

For other types of financial activities, no specific regime for accessing EU markets has been established. This is not unusual: most if not all countries place some restrictions on the types of financial services that can be provided across their borders.

There may be good reasons for these restrictions, such as consumer protection or financial stability considerations. In the case of the EU, certain bank lending and deposit-taking activities are not covered by the so-called third-country regimes and so will no longer be able to be provided from the United Kingdom, but will need to be provided from within the EU.

This - together with the fact that equivalence cannot be taken for granted - is why many banks have chosen to relocate activities to the EU27, and have been engaged in very detailed discussions with the ECB and other authorities to obtain agreement on their plans.

The ECB expects banks to build up their capabilities in EU27 countries and to implement the agreed relocation plans within the previously agreed timelines.

The risks of financial fragmentation

Regulatory drivers - and in particular the end of passporting rights for certain UK-based activities - are already having an effect on the geography of financial centres in the euro area.

According to preliminary evidence, a small number of financial hubs appear to be emerging as a result of the relocation - or plans for relocation - of certain activities.

Most incoming banks have indicated Germany, Ireland, the Netherlands or France as their new main location in the euro area.

This pattern also seems to apply to the relocation of activities beyond banking. Public statements and market intelligence suggest that a sizeable fraction of asset management firms and insurance companies that are relocating activities from the United Kingdom as a result of Brexit have moved to either Ireland or Luxembourg.

And speaking here in Amsterdam, I should note that the Netherlands is attracting a substantial amount of trading platforms, exchanges and fintech companies.

The persistence of such dynamics, and the emergence of a clearly multi-centric euro area financial system, could raise a number of challenges.

In particular, without further progress on banking and capital markets union, a more fragmented financial structure could affect the ability of investors and companies from a country experiencing a negative shock to access investment and funding opportunities in unaffected countries (private risk-sharing).

It could also create regulatory and supervisory challenges: domestic capital markets within the EU are currently subject to national rules and supervision; the differences in regimes could further inhibit the integration of markets and perhaps incentivise regulatory arbitrage.

Brexit and the need for renewed momentum on the capital markets union and banking union

Indeed, from a global standpoint, European capital markets are too small and fragmented.

The goal of the capital markets union (or CMU) is to develop an ecosystem that will allow the development of strong European financial markets and intermediaries which are able to compete internationally.
This requires designing policies to support the development of markets' size and scope, removing barriers between EU capital markets, expanding sources of funding for companies, and broadening the role of the non-bank financial sector.

Ultimately, a well-developed CMU will increase private risk-sharing, promote financial stability and boost economic growth.

Starting in 2015, the European Commission launched a series of initiatives to stimulate the development and integration of EU capital markets.

On market development, the Commission adopted a set of harmonised rules on securitisation and published its fintech action plan in 2018.

Initiatives on market integration included the review of the European Supervisory Agencies and the covered bond legislative package.

The former aimed to make our system of financial supervision more efficient and effective and also gave the European Banking Authority a coordinating role in the areas of anti-money laundering and terrorist financing.

The latter should foster the development of covered bonds by creating a harmonised EU framework, providing a source of long-term financing for banks and supporting the real economy across the EU.

Despite the efforts of policymakers and market participants, retail investors are far from having embraced investing in capital markets.

While the full impact on the real economy may take time to materialise, it is concerning that the initial ambitions of the plan launched by the European Commission towards the development of a CMU were significantly lowered to enable co-legislators to reach an agreement.

So there is still much to be done on the CMU project and Brexit makes these issues even more pressing.

Let me highlight a few initiatives. First, the European Commission signalled that it would make CMU a centrepiece of the forthcoming legislative agenda and has already set up a high-level forum, composed of experts from different industry sectors, which has started work on proposals for the next CMU Action Plan.

Second, a high-level working group created by Germany, the Netherlands and France published a proposal to relaunch CMU in 2019.

This proposal includes recommendations for generating long-term savings opportunities, developing equity markets, enhancing cross-border financial flows, and developing debt, credit and foreign exchange financing tools with a view to increasing the international role of the euro. Last but not least, there have been industry-led initiatives such as the CEPS-ECMI task force on rebranding CMU, which put forward a market finance action plan.

These initiatives provide valuable input for the CMU agenda. Looking ahead, I see two areas where progress is particularly needed.

First, capital markets remain subject to national rules and supervision. This hampers the cross-border provision of services. Further harmonisation, for instance in the area of insolvency and taxation regimes, is needed to foster integration in the euro area.

Second, if the EU27 financial markets deepen, diversify and expand across borders, there would be a clear flipside: these developments would need to be accompanied by sufficient oversight and regulatory tools to avoid regulatory arbitrage or the build-up of risks in certain parts of the system.

In particular, ensuring the resilience of individual institutions is not enough to guarantee the stability of the system as a whole: a macroprudential framework for non-bank financial institutions is necessary for identifying and addressing risks at the system level.

The links between the capital markets union and the banking union

Revitalising the CMU agenda will also bring benefits for the completion of the banking union, as banks and markets complement each other in financing the real economy.

We need to ensure that this reinforcing loop is strengthened over the coming years. I would like to highlight three key priorities for the banking union.

First, it is important to operationalise a credible common backstop to the Single Resolution Fund to provide additional confidence in the bank resolution framework. The policy work on this backstop is at a very advanced stage.

Second, in order to close potential liquidity gaps that may still hinder efficient resolution, the outstanding issue of liquidity in resolution needs to be addressed.

Progress is needed in the discussions on potential solutions in order to place the banking union on a par with other major jurisdictions, like the United States and the United Kingdom.

Third, it is crucial to establish a European deposit insurance scheme (or EDIS) to provide uniform protection to depositors within the banking union, regardless of their bank's location, and to help reduce the sovereign-bank nexus.

More efforts are still needed in this regard. Hopefully 2020 will be the year in which the political deadlock on EDIS will be resolved and a clear roadmap adopted, reflecting timelines and conditions for the various stages of EDIS.

Conclusion

Let me conclude. Today I have explained why Brexit underscores the need to renew our ambition on CMU and complete the work on banking union.

The unifying theme of the priorities that I have outlined today is basically risk-taking and risk-sharing among private agents. In a nutshell, both the capital markets union and the banking union provide a framework that encourages innovation and integration.

Further work on these agendas will enhance the attractiveness of the EU capital markets on the global stage beyond Brexit.

US economic outlook and monetary policy

Richard H Clarida, Vice Chair of the Board of Governors of the Federal Reserve System, at the C. Peter McColough Series on International Economics, Council on Foreign Relations, New York City.

Thank you for the opportunity to join you bright and early on this January 2020 Thursday morning.

As some of you may know, I am a longtime member of the Council on Foreign Relations and have attended and participated in many such events over the past 20 years, although I will point out that in my previous visits to the dais, I was in the somewhat less demanding position of asking the questions rather than answering them.

I am really looking forward to this conversation, but I would like first to share with you some thoughts about the outlook for the U.S. economy and monetary policy.

The U.S. economy begins the year 2020 in a good place. The unemployment rate is at a 50-year low, inflation is close to our 2 percent objective, gross domestic product growth is solid, and the Federal Open Market Committee's (FOMC) baseline outlook is for a continuation of this performance in 2020.

At present, personal consumption expenditures (PCE) price inflation is running somewhat below our 2 percent objective, but we project that, under appropriate monetary policy, inflation will rise gradually to our symmetric 2 percent objective.

Although the unemployment rate is at a 50-year low, wages are rising broadly in line with productivity growth and underlying inflation. We are not seeing any evidence to date that a strong labor market is putting excessive cost-push pressure on price inflation.

Committee projections for the U.S. economy are similar to our projections at this time one year ago, but over the course of 2019, the FOMC shifted the stance of U.S. monetary policy to offset some significant global growth headwinds and global disinflationary pressures. In 2019, sluggish growth abroad and global developments weighed on investment, exports, and manufacturing in the United States, although there are some indications that headwinds to global growth may be beginning to abate.

U.S. inflation remains muted. Over the 12 months through November, PCE inflation was running at 1.5 percent, and core PCE inflation, which excludes volatile food and energy prices and is a better measure of underlying inflation, was running at 1.6 percent. Moreover, inflation expectations, those measured by both surveys and market prices, have moved lower and reside at the low end of a range I consider consistent with our price-stability mandate.

The shift in the stance of monetary policy that we undertook in 2019 was, I believe, well timed and has been providing support to the economy and helping to keep the U.S. outlook on track.

I believe that monetary policy is in a good place and should continue to support sustained growth, a strong labor market, and inflation running close to our symmetric 2 percent objective.

As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy likely will remain appropriate.

Looking ahead, monetary policy is not on a preset course. The Committee will proceed on a meeting-by-meeting basis and will be monitoring the effects of our recent policy actions along with other information bearing on the outlook as we assess the appropriate path of the target range for the federal funds rate.

Of course, if developments emerge that, in the future, trigger a material reassessment of our outlook, we will respond accordingly.

In January 2019, my FOMC colleagues and I affirmed that we aim to operate with an ample level of bank reserves in the U.S. financial system.

And in October, we announced and began to implement a program to address pressures in repurchase agreement (repo) markets that became evident in September.

To that end, we have been purchasing Treasury bills and conducting both overnight and term repurchase operations, and these efforts were successful in relieving pressures in the repo markets over the year-end.

As we enter 2020, let me emphasize that we stand ready to adjust the details of this program as appropriate and in line with our goal, which is to keep the federal funds rate in the target range desired by the FOMC.

As the minutes of the December FOMC meeting suggest, it may be appropriate to gradually transition away from active repo operations this year as Treasury bill purchases supply a larger base of reserves, though some repo might be needed at least through April, when tax payments will sharply reduce reserve levels.

Finally, allow me to offer a few words about the FOMC review of the strategy, tools, and communication practices that we commenced in February 2019.

This review-with public engagement unprecedented in scope for us-is the first of its kind for the Federal Reserve.

Through 14 Fed Listens events, including an academic conference in Chicago, we have been hearing a range of perspectives not only from academic experts, but also from representatives of consumer, labor, community, business, and other groups.

We are drawing on these insights as we assess how best to achieve and maintain maximum employment and price stability. In July, we began discussing topics associated with the review at regularly scheduled FOMC meetings.

We will continue reporting on our discussions in the minutes of FOMC meetings and will share our conclusions with the public when we conclude the review later this year.

Thank you very much for your time and attention. I look forward to the conversation and the question-and-answer session to follow.

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