Dear Member,

We have the new Basel III monitoring results published by the Basel Committee.

*Virtually all participating banks meet Basel III minimum and target CET1 capital requirements as agreed up to end-2015*

February 28 - The Basel Committee published the results of its latest Basel III monitoring exercise based on data as of 30 June 2016.

<table>
<thead>
<tr>
<th>Overview of results</th>
<th>31 December 2015</th>
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<th>30 June 2016</th>
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<tbody>
<tr>
<td></td>
<td>Group 1</td>
<td>Of which: G-SIBs</td>
<td>Group 2</td>
<td>Group 1</td>
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<tr>
<td>CET1 ratio (%)</td>
<td>11.8</td>
<td>11.7</td>
<td>13.1</td>
<td>11.9</td>
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<tr>
<td>Target capital shortfalls (€ bn)</td>
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<tr>
<td>CET1</td>
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<td>0.2</td>
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<tr>
<td>Additional Tier 1</td>
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<td>1.5</td>
<td>1.4</td>
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<tr>
<td>Tier 2</td>
<td>5.5</td>
<td>1.7</td>
<td>4.7</td>
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<tr>
<td>Sum</td>
<td>8.8</td>
<td>1.7</td>
<td>6.4</td>
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<tr>
<td>TLAC shortfall 2022 minimum (€ bn)</td>
<td>416.2</td>
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<td>318.2</td>
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<tr>
<td>Leverage ratio (%)</td>
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<tr>
<td>LCR (%)</td>
<td>125.2</td>
<td>123.8</td>
<td>148.1</td>
<td>126.2</td>
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<tr>
<td>NSFR (%)</td>
<td>113.7</td>
<td>116.2</td>
<td>115.9</td>
<td>114.0</td>
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</table>

All data provided on a fully phased-in basis. Target level capital requirements are 7.0%–9.5% CET1; 8.5%–11.0% Tier 1; and 10.5%–13.0% total capital.

Source: Basel Committee on Banking Supervision.
The Committee established a rigorous reporting process to regularly review the implications of the Basel III standards for banks, and it has published the results of previous exercises since 2012.

Data have been provided for a total of 210 banks, comprising 100 large internationally active banks.

These “Group 1 banks” are defined as internationally active banks that have Tier 1 capital of more than €3 billion, and include all 30 banks that have been designated as global systemically important banks (G-SIBs).

The Basel Committee’s sample also includes 110 “Group 2 banks” (ie banks that have Tier 1 capital of less than €3 billion or are not internationally active).

To read the paper: http://www.bis.org/bcbs/publ/d397.pdf
March 2017 BIS Quarterly Review: Beyond swings in risk appetite

Investors have started to discriminate more across asset classes, regions and sectors as they try to make sense of the implications of a changing political environment, in contrast to the cross-asset herd behaviour that characterised markets in recent years.

The shift away from the consistent waves of risk-on, risk-off buying and selling suggests that, during the quarter, central bank decisions, and the associated swings in investor risk appetite, played less of a role in driving valuations. In the United States, for example, winners and losers emerged as sectors such as defence, construction and manufacturing outperformed import-intensive sectors.

"Politics tightened its grip over financial markets in the past quarter, reasserting its supremacy over economics," said Claudio Borio, Head of the Monetary and Economic Department.

The March BIS Quarterly Review also:

- Recounts how concerns about EMEs generally receded in the first quarter, although the outlook for some individual economies remains uncertain. In China, the popularity of wealth management products contributed to a liquidity squeeze and a jump in domestic bond yields.

- Details the rise in US dollar credit to non-bank borrowers outside the United States, a key gauge of global liquidity to $10.5 trillion, up $420 billion in the six months to the end of September. Emerging market economy (EME) borrowers accounted for about a third, or $3.6 trillion. For the first time, the total includes dollar credit extended by banks in China and Russia.

- Shows that reforms to US money market funds reduced US dollar funding for non-US banks by around $415 billion between September 2015 and December 2016. Lower funding from prime funds was partly offset by a rise in repo funding from government funds.
Still, global US dollar funding for banks outside the United States rose to a new high of $9 trillion in September 2016, driven by a $531 billion increase in offshore deposits of dollars since the start of the year.

"These structural changes highlight the increasing role of offshore dollar funding in the global banking system," said Hyun Song Shin, Economic Adviser and Head of Research.

The publication contains four special features, three of them focusing on challenges for the structural plumbing which underpins the smooth functioning of markets and the financial system:

- Enisse Kharroubi and Emanuel Kohlscheen (BIS) find that economic growth is systematically weaker when it is led by consumption rather than other drivers such as investment.

  Increasing shares of private consumption in GDP can be a sign of growth slowdowns in the future, particularly if consumption-led growth goes hand in hand with rising debt.

- Benjamin H Cohen (BIS) and Gerald A Edwards (JaeBre Dynamics) assess new accounting rules requiring banks and other companies to provision against loans based on expected credit losses.

  They review the potential impact on the financial system, with the help of survey evidence and scenario analysis.

- Morten Bech, Yuuki Shimizu and Paul Wong (BIS) find that the spread of faster systems for lower-value payments between individuals, businesses and governments is so far surprisingly similar to that of real-time gross settlement (RTGS) for wholesale payments.

  However, advanced economies are this time not dominating the rollout of new technology, and emerging economies are likely to leapfrog advanced ones.

- Lawrence Kreicher (Dartmouth), Robert N McCauley (BIS) and Philip D Wooldridge (BIS) find that bond markets are shifting from using government rates as benchmarks to using private rates.

  Interest rate swaps continue to gain on government bond futures for hedging and positioning at the long end of the yield curve.

  However, unlike in money markets, swaps do not seem to be completely displacing government futures as market benchmarks.
To read more:
http://www.bis.org/publ/qtrpdf/r_qt1703.htm

Full text (140 pages):
http://www.bis.org/publ/qtrpdf/r_qt1703.pdf
Have we passed “peak finance”?

Lecture by Jaime Caruana, General Manager, Bank for International Settlements, International Center for Monetary and Banking Studies, Geneva

I am grateful to Charles Wyplosz and his colleagues at the International Center for Monetary and Banking Studies for the invitation to speak.

BIS archives show that my predecessor Alexandre Lamfalussy gave a keynote speech at the Center in December 1976 on “Les incertitudes actuelles dans l’économie mondiale”, a topic that is surely a hardy perennial.

My colleagues in the Monetary and Economic Department of the BIS have served as discussants on most of the 18 Geneva Reports on the World Economy since this flagship set sail in 1999.

A particularly memorable moment came when Andrew Crockett authored the 2009 report and Bill White gave the keynote. Moreover, the current head of the Monetary and Economic Department serves on the board, as did his two predecessors.

I hope to contribute this evening to the many evident synergies between the Center and the BIS.

You are all familiar with the concept of “peak trade”: that global trade is no longer growing faster than the world economy. Or, to put it more concisely, that trade will no longer serve as a major contributor to global growth.

Some have called this “deglobalisation”.

Whether there is trade deglobalisation remains to be established. I would note the usual challenge of distinguishing the cyclical from the secular: has world trade growth really slowed relative to global economic growth? Or have we just gone through a cycle, perhaps associated with weak investment and weak commodity prices?

Time will tell whether we have passed peak trade.
I did not travel from Basel to Geneva to take up the merits of this claim. Indeed, I recognise the important contributions to this debate on the Vox.
website and in a book put out by the Centre for Economic Policy Research, for which Richard Baldwin deserves great credit.

I am here today to talk about “peak finance”. This claim asserts a parallel thesis that the world has seen the peak of global finance and that financial deglobalisation has begun.

An early use of the term “financial deglobalisation” was in a 2009 Vox blog; more recently it has been used by economists connected to the Bank of England.

While one can imagine that capital flows serve as a leading indicator, the acid test of financial deglobalisation is a decline of foreign claims relative to global activity.

Two economies can share risks by exchanging financial claims, increasing foreign claims without a rise in leverage that increases risk.

Specifically, a decline in stocks of cross-border assets in relation to global activity can be interpreted as one indicator of financial deglobalisation.

This ratio grew strongly until 2007, as we’ll see in a minute.

Cross-border banking in particular is put forward as the strongest evidence for what is sometimes called global financial disintegration.

Today I shall marshal BIS international banking and securities data to assess this claim, and then discuss the stake that we all have in financial globalisation.

I shall argue three points.

- **First**, the appearance of peak finance is more a feature of European banking than of global banking. The deleveraging of European banks should be understood as a post-crisis cyclical development rather than as a secular trend. It is more deleveraging than deglobalisation.

- **Second**, one has to look beyond banking to the boom in global capital markets, which my colleague Hyun Shin has dubbed the “second phase of global liquidity”. Global finance has favoured bond markets over banking since 2009 in both the dollar and the euro.

- **Third**, all this is not only a matter of academic debate. There is a clear and present risk of a political reaction to global finance. To guard
against this risk we need to recognise that global financial integration is not in secular retreat already. Global financial integration can play a key role in the spread of best practice and innovation and contribute to economic growth. Continued interdependence in international finance requires global cooperation in managing its risks and in setting global standards with global implementation.

While the retreat in international banking is more regional than global, more deleveraging than deglobalisation, and while global bond market credit continues to grow apace, we need answers for those who question the benefits of global financial integration.

To read more:
https://www.bis.org/speeches/sp170228.pdf
EBA publishes final guidelines on LCR disclosure

The European Banking Authority (EBA) published its final Guidelines on liquidity coverage ratio (LCR) disclosure.

These Guidelines provide harmonised disclosure templates and tables for LCR disclosure and aim at improving transparency and comparability of LCR and other liquidity risk management related information.

These final Guidelines provide harmonised disclosure templates and tables for LCR disclosure without altering the general disclosure framework provided for in the Capital Requirements Regulation (CRR).

In particular, they envisage a fully-fledged quantitative LCR disclosure template - in line with that proposed by the standard developed by the Basel Committee on Banking Supervision (BCBS) - for systemic credit institutions and a simplified one (including only the LCR figure, the amount of the liquidity buffer and that of net outflows) for the rest of the credit institutions which will apply them.

Items in the LCR disclosure template are calculated as simple averages of monthly reporting observations based on the Implementing Technical Standards (ITS) on LCR reporting.

The LCR disclosure template is complemented by explanatory notes, both qualitative and quantitative, of the disclosed LCR items.

Finally, the Guidelines provide a table for the disclosure of risk management objectives and policies for liquidity risk.

These Guidelines, which are consistent with the EBA Pillar 3 Guidelines in terms of scope and date of application, apply to credit institutions covered by the LCR Delegated Regulation and identified as Globally and Other Systemically Important Institutions (G-SII and O-SII).

Furthermore, other credit institutions should apply these Guidelines at the discretion of the relevant competent authority or on a voluntary basis.

The Guidelines will apply from 31 December 2017.

For informative purposes only, the EBA is also publishing an excel-based tool mapping the LCR disclosure template with the LCR supervisory
reporting, which is not part of the Guidelines and, therefore, will not have any legal value for disclosure purposes.

The possible impact of Brexit on the financial landscape

Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at zeb (consultancy for financial services), London

1 Introduction

Ladies and gentlemen,

Good morning. I hope that you enjoyed the breakfast buffet. I am sure that what one says about the quality of breakfast in England is not true here at the new zeb office. Now that you have started the day energised after a good meal, I want to provide you with some thoughts on a most topical issue - something else to chew on, so to speak.

I am talking, of course, about Brexit. Even though this is by no means a new issue, and the element of surprise that it had in June last year has vanished, it still attracts tremendous attention. After all, it is what made all of us gather here today.

And there are many reasons why Brexit is still attracting so much attention. Among them are the profound impact it might have on the world we live in, and the intense uncertainty surrounding its precise effects. This combination of significance and uncertainty makes Brexit a topic well suited for speculation about what might happen. And if you have followed the topic closely, you have probably noticed different and even opposing statements on the same question.

But speculation doesn't help. What makes more sense is scenario-based thinking. Today, I will try to set some things straight - at least regarding the financial sector.

The first part of my remarks will therefore cover the potential impact of the Brexit on the financial sector.

In the second part, I will look at the bigger picture and share with you my expectations for the negotiations as well as my thoughts on the future of regulation and supervision in the EU and the UK.
2 The possible impact of the Brexit on the financial landscape

Let's start with the potential impact of the Brexit on the financial landscape. First and foremost, this means talking about market access. We should not forget that this is a two-way street, and so I will talk about market access in both directions. But the centre of attention is certainly on market access for UK based financial institutions to the EU, as this potentially has the largest impact for banks and other financial institutions. It affects all institutions, both from the UK and the rest of the world, which currently use London as a hub for their continental European business.

The debate on market access was transformed in mid-January. Prime Minister May made it clear that the UK is looking for a clean break from the EU's single market. For the financial industry, this means that the current model of using London as a gateway to Europe is likely to end. Banks from third countries need a licensed entity inside the European Economic Area to gain access to the whole area, known as "passporting". Shortly before the Prime Minister's speech, CityUK already dropped demands for maintaining access through passports.

Instead, many are now hoping for an equivalence decision to fill the gap left by passporting rights. If the European Commission deems the regulatory and supervisory regime in the UK to be equivalent to that in the EU, market access would be partly retained. However, I am rather sceptical about whether equivalence decisions - may they be likely or not - offer a sound footing for long-term location decisions of banks. Equivalence is truly different from single market access.

There are three major drawbacks to equivalence decisions.

First, they only cover the wholesale business of banks.

Second, given the fact that banks need time to build up a new entity elsewhere, an equivalence decision would have to be taken quite soon to actually have a bearing on the location decisions of banks.

Third, equivalence decisions are reversible, so banks would be forced to adjust to a new environment in the event that supervisory frameworks are no longer deemed equivalent.

These drawbacks lead me to the overall conclusion that equivalence decisions are not a reliable substitute for passporting.
So it seems that the prospects for EU market access through the UK look rather dim. To ease the pressure on financial institutions, a transition period could help. It would reduce risks and increase planning security for banks, which would be economically beneficial. Furthermore, it could support a smooth relocation process by taking pressure off both supervisors and banks, for example by making "first mover advantages" less important. This being said, transition periods would be a politically sensitive topic in the negotiations, and it is unclear how likely such an agreement might be.

As mentioned earlier, we should not forget about the access of European banks to the UK, which is also an important issue. For German banks, for example, the UK is the second-most important foreign market, right after the US. It will be up to the UK Prudential Regulation Authority to decide under what circumstances European banks can retain access to the UK. Whether the UK would be prepared to unilaterally grant access for EU financial institutions in order to retain the attractiveness of London as a financial centre, remains an open question. And let me add that it is of course not regulation alone that plays a role when European banks decide on opening a branch or a subsidiary in the UK. It is also a question of what kind of entity their counterparties and clients want to do business with.

Let me summarise the prospects for market access, at least from my point of view. Continued passporting rights are rather unlikely, and an equivalence decision would be a somewhat imperfect substitute. A transition period could ease some of the pressure, but it clearly is a sensitive issue.

Could a free trade agreement be the solution? According to their Brexit white paper, the UK government will strive for an ambitious free trade agreement with the EU as a long-term solution. But regardless of the fact that negotiating comprehensive free trade agreements is an arduous and time-consuming task, financial services are an especially tricky area. So far, the EU has never fully integrated finance in its free trade agreements with third countries.

Where does this lead us? So far, while acknowledging and accepting the divorce, policymakers are trying to find ways to hold the UK and EU economic areas and jurisdictions together. And they will continue trying so. The reason is that most of us are convinced that harmonised rules eliminate unnecessary frictions and act as a powerful catalyst for business across national borders - for the real economy as well as the financial sector. However, looking at the facts that I’ve just laid out we also have to acknowledge that it is at least questionable whether this undertaking will be
easily achieved. Financial institutions should take into consideration that, in the end, there might well be two separate jurisdictions in which they operate, and that these jurisdictions might diverge over time - or instantly, once the divorce has gone through.

3 Whether and where to move

As a consequence, many banks are now considering moving some of their activities to the EU. First, let me say that I expect London to remain an eminent global financial centre. Nevertheless, I also expect a number of UK-based market participants to move at least some business units in order to hedge against all possible outcomes of the negotiations.

The question that is causing some excitement is: Where will banks go? As a supervisor, my main concern is that banks are supervised according to standards that are both high and consistent. This is best ensured within the SSM area. This also means that I will not promote any particular financial centre. That said, I am open to dialogue with financial institutions in assessing the conditions for moving business units to Germany. And I go as far as to say that - in many respects - these conditions are attractive.

Numerous major market participants have already contacted the German Federal Financial Supervisory Authority BaFin and Bundesbank. We respond to such requests pragmatically. That is, we provide financial institutions with quick and reliable guidance and aid a smooth transition if one of them decides to move business units to the continent. Three weeks ago, BaFin has hosted a workshop for representatives of foreign banks covering all questions surrounding Brexit. And just this Wednesday, Bundesbank has launched a website on the topic, providing information as well as contact details for banks assessing to move part of their business to Germany.

Of course, we also emphasise the requirements for establishing a licensed entity there. For example, this means that we will not accept any empty shells or "letterbox companies" where the business effectively continues to be done out of London. For critical functions such as management, controlling and compliance, qualified personnel need to be present at the non-UK EU subsidiary at all times. And I urge banks not to spend their time inventing strategies to circumvent these requirements. This includes seemingly creative solutions such as "fly-and-drive" banking, where bankers fly in daily from London, or "dual hatting", where transactions are booked on the EU subsidiary but in fact executed in London.
To summarise: As important as outsourcing strategies will understandably be when banks restructure their business to adjust to the new environment, it has its limits, and we expect any branch or subsidiary to retain chief responsibility for its business.

4 What to expect, and how to prepare

I trust that the vast majority of financial institutions are aware of the many question marks hanging over market access, and that they are assessing their implications. But they should not focus solely on the obvious. Financial institutions need to systematically think through what effects Brexit could have on each of their areas of operations. For example, banks should check what Brexit might mean for covenants, or how it could affect the handling of margin calls.

I said earlier that scenario-based thinking is called for. However, assessing the likelihood of different scenarios is not an easy task by any means. Brexit negotiations will be highly political, and the political debate is already becoming extremely tense. If policymakers on both sides agree on one thing, it's that arranging the divorce between the UK and the EU is going to be very hard. European Commission President Juncker expects the negotiations to be "very, very, very difficult", and UK's Brexit Secretary Davis predicts they will become the "most complicated" negotiations of all time.

While as a central banker I don't tend to use such dramatic words, the two gentlemen do have a point. European leaders see the bloc as being in an existential crisis and have made it clear that the future unity of the EU 27 is the highest priority, which includes the inseparability of the four freedoms. The UK, on the other hand, aims at regaining control of law-making, the public budget and immigration. With these priorities, the UK government wants to do justice to Brexit voters. According to surveys, the voters put the economy only in third place after sovereignty and immigration when making their decision.

So while economic policy will of course be an important topic during negotiations, we should not count on economic sanity being the main guiding principle. And that means we also have to factor in the possibility that the UK will leave the bloc in 2019 without an exit package, let alone the sweeping trade accord it is seeking. The fact that this scenario would most probably hurt economic activity considerably on both sides of the Channel will not necessarily prevent it from happening.
5 Regulation and supervision

Ladies and gentlemen, I have laid out my thoughts on the effects of Brexit on the financial world and have shared my views on what mechanisms will steer negotiations. I want to dedicate the remainder of my remarks to regulation and supervision in the light of Brexit.

My main message here is that we must avoid a regulatory race to the bottom at all costs. Given how the Brexit debate developed early this year, this warning is not at all an empty one. A financial centre strategy comprised, among other ingredients, of very low corporate taxes and lax regulation has already been mentioned in the UK as a fall back option for London. And in January, Chancellor of the Exchequer Philip Hammond made it clear that the UK would "do whatever [it has] to do" to regain competitiveness.

Regulation and supervision in the UK have been both highly professional and stability-oriented in the past. I strongly hope that supervisors here will be able to keep up this good work and turn a blind eye to demands for deregulation and lax supervision. The current regulatory and supervisory standards we have set together are an important lesson from the financial crisis and it would be a mistake to roll them back. I am convinced that in the long run, well-capitalised and strictly supervised financial systems are the most successful ones.

To be clear, my call to refrain from using regulation or supervision for the sake of increasing one's competitiveness is equally addressed to the EU. There might be a certain temptation to use Brexit as a chance to strengthen financial centres across the rest of Europe, for example by offering discounts with respect to licensing procedures. This is not a route we should take, and I am confident that the strong role and far-reaching competences of the SSM, including the ECB's responsibility in licensing, will forestall such ideas becoming reality.

While I am serious about my warning of lax rules and supervision, I am cautiously optimistic that we can prevent this scenario from materialising. And this is because I know my colleagues in London very well, and I know that they share my views on this issue. Our cooperation with the UK Prudential Regulation Authority has been exemplary in the past, and we will invest all our efforts in continuing this partnership in the future.

Now, more than ever, we should also harness our relationship to work together closely during Brexit. Information sharing needs to be an important part of this. For example, when European authorities examine
the risk models of banks wishing to establish a subsidiary on the continent, we would benefit from knowing what the PRA found in their previous assessment. This includes at what time the PRA last examined the model, under what assumptions, and to what verdict it came. Conversely, we are open to sharing all necessary information that the PRA might need to process applications by EU banks to operate in the UK.

The guiding principle of our cooperation should be to ensure a smooth transition to a post-Brexit world. As supervisors with the necessary distance from political haggling, we can make a substantial contribution by providing pragmatic and efficient solutions. In parallel, I believe that European and UK supervisors should fathom out how we can put our future cooperation on a more formal footing.

6 Closing remarks

Ladies and gentlemen, let me summarize. The financial landscape will change, and we cannot know how. While I have outlined some things to expect and some not to expect, uncertainty will persist for quite some time. The task for financial institutions is to deal with the uncertainty surrounding Brexit as efficiently as possible.

As regards the course of the negotiations, we should bear in mind that economic rationale might not be the main guiding principle - and will certainly not be the only one. This means that companies have to factor in the possibility that the final deal will not prioritise the economy - or that, in a negative scenario, both sides might not agree on any deal at all.

But whatever happens in terms of our future relations, it is vital to remember that lax financial rules have often paved the route to failure. The outcome became painfully apparent in the financial crisis that erupted just under a decade ago, and its costs are still being felt. None of us wants to see such events again any time soon. And preserving the progress we have made in increasing the resilience of financial institutions is the only way to ensure this.

Thank you for your attention.
Guidance Note: Pillar 2 in Jersey

Comprising an overview of the JFSC’s expectations in respect of the application in Jersey of the internal capital adequacy assessment process (ICAAP) (of Basel II’s Pillar 2) and the JFSC’s related assessment process.

This is applicable only to deposit takers incorporated in Jersey.

Revised March 2017 to reflect new international standards regarding recovery planning, which is considered relevant to the development of contingency plans.

This revised guidance is applicable to all ICAAPs dated 1 October 2017 or later. Banks may opt to follow the revised guidance earlier.

International Regulatory Standards: Vital for Economic Growth, March 2017

Brad Carr, Director, Banking Prudential Policy
Matthew Ekberg, Senior Policy Advisor

The role of international regulatory processes and standard-setters is currently in focus, with some advocating a greater (and often, almost exclusive) emphasis on national-level regulation.

While these calls have originated in different parts of the world, the debate has gained greater prominence since the election of the new US administration, creating some uncertainty as to its commitment to multilateral bodies, and therefore to the relevance and role of those bodies.

This presents a genuine threat to the effectiveness of the global regulatory framework and the functioning of markets. International consistency could be undermined, or even unravel, which would come at a considerable cost to economies around the world. Global standard setters make positive and important contributions across all economies, from large developed markets to emerging market (EM) economies.

The benefits of international standards are yielded in four major areas:

1. supporting the flow of capital to investment opportunities;

2. promoting greater and more fair competition, and better pricing and services for borrowers and end-users;
3. reducing compliance costs and increasing efficiencies;

4. supporting financial stability.

To read the very interesting paper: 
Basel III - goal within sight

Opening speech by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the Bundesbank symposium on "Banking supervision in dialogue", Frankfurt am Main

1. Introduction

Ladies and gentlemen

I would like to warmly welcome you to this year's Bundesbank symposium. I am delighted that this year, too, so many of you have decided to join us at Kap Europa, where our event is once again fully subscribed.

Precisely one week ago a sensational news story was making the rounds. No, the Basel Committee didn't complete the Basel III reform package just in time for our symposium. The influence of this symposium doesn't stretch quite that far, unfortunately ...

I am taking about the sensational discovery in Egypt, where archaeologists discovered a statue of Ramses II weighing seven tonnes and towering nine metres high.

So why on earth am I telling you this? What does Ramses II have to do with Basel III? After all, my speech is supposed to be about the Basel III reform. Allow me, if you will, to keep you in suspense a little longer and reveal the answer to this question at the end of my speech.

2. Are we there yet? The current status of negotiations

Ladies and gentlemen, we are very close to concluding the Basel reforms. And the closer we get to the end, the more we turn our attention to what these reforms will mean. Many institutions are worried, not least in Germany. What will the overall package look like in the end? Will the new standards be too strict? And how can the new requirements be fulfilled?

These are all questions that are being asked, and rightly so. After all, banks and savings banks have seen extensive reforms since the financial crisis, and they are afraid that the reforms will go even further and might be too much for them to cope with. This is why the reform is also often referred to as "Basel IV" ...
But how justified are these fears? This is what I want to talk about today. Let's start off by looking at the facts. What is the status of the negotiations and what can we expect?

First of all, let's just remember that a large part of Basel III has already been fully agreed on and implemented. That said, the final parts are still missing. This concerns, in particular, the new rules on calculating risk-weighted assets, and this is what the ongoing negotiations are about.

The Chairman of the Basel Committee, Governor Stefan Ingves, will give you a first-hand account of this following my speech - and I would like to express my thanks to him for this already.

We have made real progress in Basel since the end of last year. We have been able to reach a consensus in nearly all of the open points while also taking into account important concerns raised by Germany.

Take, for example, real estate loans - an important business area for banks, not only in Germany. Here, German negotiators were able to secure an agreement that regional differences will be better taken into account. After all, while more lenient standards are used in most other countries, the valuation of real estate collateral in Germany is particularly conservative.

We were always of the view that these different methods should not be treated equally in the Basel standards. Anything else would distort global competition and punish those institutions that assess the risks of real estate financing with particular care.

Another example are the internal models for estimating credit risk. The Bundesbank has always objected to a too severe limitation of these models. This is because the use of models is always more risk-sensitive than the standardised approach to calculating equity capital. Here, too, we were able to drive a balanced compromise. The same applies to the measurement of operational risk and the details regarding the upper borrowing limit.

When it comes to finalising Basel III, I feel it is particularly important that - for all the constraints placed on internal models - we continue to keep an eye on risk sensitivity. Because both extremes - a risk-insensitive approach to capital backing on the one hand, and the unfettered use of internal models to measure risk on the other - have undesirable side-effects. Ladies and gentlemen, we have every right to be quite satisfied on the whole with the current status of negotiations. But I will make no secret of the fact that a number of items are still unresolved.
One of these is the proposal to introduce a new output floor, as it is known, for risk-weighted assets. This output floor would need to be applied by institutions which use internal models - that is, mainly the large institutions.

I'm giving nothing away when I say that Germany's supervisors have taken a critical view of this proposal. This output floor is designed to help curb excessive variability in the calculation of risk-weighted assets. But it needs to be calibrated carefully, because setting too high a hurdle quite simply creates the wrong incentives.

After all, there are good reasons why model calculations are designed such that higher risks require more capital, and lower risks less. If this straightforward principle were undermined by an excessively high output floor, it would be to the detriment of risk sensitivity.

This would give institutions less of an incentive to run their businesses in a risk-oriented manner. Incidentally, fewer than 50 banks use internal models in Germany - out of just under 1,900 institutions overall under our supervision.

This means that the number of institutions affected by an output floor is relatively small, particularly important though those institutions undoubtedly are.

What is more, a robust line of defence is already in place today, in the shape of the leverage ratio, which sets additional minimum capital requirements to prevent internal models from being abused by those looking to understate the capital they need to set aside. This leverage ratio offers sound protection, and it improves on the current provisions under the European regulatory regime.

We will therefore stick to our position in negotiations that any output floor should not be too high. There is no need for that - and it would even be damaging. To put it in no uncertain terms: an excessively high output floor is out of the question as long as we're involved.

Ladies and gentlemen, as you can see, negotiations are on the right path, by and large. So what happens next?

There is a general consensus on the Basel Committee that we shall continue to work towards creating the clarity and certainty that market participants need to plan for the future. And do so as quickly as we can. I do not intend
to commit to a time schedule today, not least because the United States, a major negotiating partner, is recalibrating its position.

But as far as the Bundesbank is concerned, we will stay at the negotiating table and are always ready to stake out common ground. We naturally need to take into account the differences between the European and US banking systems and the fact that the new rules will need to be palatable to all the negotiating partners. These are, after all, global minimum standards we are talking about - no more and no less.

The pace of negotiations isn't decisive, either. It's the outcome that counts. And I believe we will have achieved a good outcome if it reduces excessive variability in the calculation of risk-weighted assets without relinquishing the principle of risk sensitivity.

3. Don't overstate the case: effects on German institutions are limited

But success is also about the ability of banks and savings banks to absorb the impact of the reform and pass into a new world of regulation. I've now reached the section of my speech where even the biggest regulatory gripers will probably prick up their ears ...

Our internal impact studies show quite clearly that the future requirements from Basel are manageable for German institutions as long as we conclude the reform in its intended shape. Speaking from a German perspective, I consider it a successful outcome that a set of rules which has to take into account the idiosyncrasies of 28 countries and communities achieves such a high degree of regional balance.

What will the impact on German banks and savings banks look like, exactly? To provide a reliable answer to that question we have taken the Basel Committee's latest figures and added a number of calculations of our own. Our scenarios thus reflect the current status of negotiations.

On balance, we do not see any material increase in risk-weighted assets, and thus in capital requirements, for the bulk of participating institutions. What this means specifically for many banks in Germany is minimal increases of less than 5% on average. We even find instances where capital requirements decline. Fears of a strong upturn in capital requirements across the entire German financial system are unfounded, in my eyes - quite the opposite, in fact. So the sense of panic observed in some quarters is no
Basel III Compliance Professionals Association (BiiiCPA)

longer warranted. Let's not beat around the bush here: it's time critics came down from their barricades over Basel III and started to look ahead.

There is, however, **one thing which I do not wish to play down: the need for action is, of course, different for each institution.** Certain institutions will almost certainly be affected by the Basel proposals. Those institutions affected the most could very well be confronted with higher capital requirements, **in a few exceptional cases by more than 20%**.

Above all, this is due to the proposed output floor. This output floor will be binding for the majority of the large German banks, although to very differing extents. However, this also means that particularly the savings banks and cooperative banks, which **primarily use the standardised approach**, will barely be affected and will even benefit from Basel III to a certain extent.

For those institutions that are the most heavily affected, fulfilling the Basel III requirements will undoubtedly present a challenge that should not be underestimated. Yet for them as well - and let's remember there is just a relatively small number of such institutions - I consider the consequences of the reforms to be acceptable.

Past experience teaches us that **preliminary calculations tend to overestimate rather than underestimate the actual requirements.** This is due, among other things, to the fact that we look at bank balance sheets as at a specific reporting date and do not take the banks' reactions, such as restructuring operations on the asset side, into account.

However, this is where I do see considerable leeway for a number of institutions. The equity ratio of German banks and savings banks has risen by more than half a percentage point to currently **16.2%** since September last year, which was due primarily to the reduction in risk-weighted assets.

Furthermore, the new rules will not come into play overnight. It is planned that all institutions shall be given longer implementation deadlines to give them enough preparation time for the transition. **This will extend the period in which institutions can, for example, retain profits in order to strengthen their capital base.**

It may also make it easier to raise fresh capital if a favourable market environment can be expected. Not least, the transitional periods also provide institutions with sufficient time to thoroughly check their business
models. As the German representative in the Basel Committee, I will do everything I can to ensure that the transitional arrangements are adequate.

While some institutions will have their work cut out for them, the majority of German credit institutions will barely need to take any action. This applies, in particular, to small and medium-sized institutions. As I mentioned earlier, some of you in this room can probably even expect to see lower capital requirements in future. With a bit of luck, we will be able to create the first Basel III fan base here tonight.

4. Don't lose sight of the objective: Basel III in context

With this in mind, I would now like to steer your attention away from the immediate towards the longer-term implications of the Basel III reforms. After all, this set of rules has the demanding task of laying down global standards for the banking system - possibly for many years to come.

You will, of course, experience this first hand in a variety of different ways. Credit institutions will, after all, either be subject to additional strain or may even see some relief. And that is not an undesirable side-effect of the reform, but its main achievement.

The idea behind the Basel reforms is ultimately to create incentives to encourage responsible bank governance. And the best way to do this is by means of risk weighting. These incentives do, of course, work in both directions: they make certain activities more expensive and make others more attractive.

On the whole, I am convinced that all banks will benefit in future from a fairer distribution of the capital requirements within the banking sector.

Furthermore, the successful implementation of the reform package can help to further calm the markets. It will certainly pay off; last year we did, after all, see growing fears that European banks were undercapitalised, which meant that their risk premiums continued to climb.

Ladies and gentlemen, Basel III is not designed to make life difficult for you and your institutions. On the contrary: in the long term, I am convinced that that the entire banking sector will benefit from better rules.

That is why the current debate about deregulation in the United States gives me cause for concern. If the Americans do not implement the Basel III framework, we Europeans will certainly not introduce the new rules
unilaterally - and the whole world will suffer the consequences. We learned this lesson from Basel II.

Of course, I understand that the many regulatory changes over the last few years involve a great deal of effort and that smaller institutions, in particular, are finding them cumbersome. And I am firmly convinced that the Basel III rules do not need to be applied wholesale to small, regional banks.

That's why I am pleased to see that the debate about greater proportionality in banking regulation is gaining momentum in Europe. We should therefore take an unbiased look at whether the Basel III framework really should apply in full to all banks and savings banks in Germany, or whether a less strict approach, in the form of exemptions for smaller institutions, would make sense.

By this, I mainly mean exemptions relating to operational requirements. Exemptions from capital and liquidity requirements, on the other hand, cannot and must not be made, in the future as in the past.

But that's the subject of a different debate. And that debate must not be used as a pretext to do away with Basel III. Because today's financial system is not constrained by borders, we need strict global regulatory and supervisory standards.

They are crucial to ensuring global financial stability. We should bear in mind the lessons we learned from the crisis in this regard.

5. Conclusion

Ladies and gentlemen, in conclusion, allow me to revisit three points and draw a few parallels with the story of our ancient Pharaoh.

First - and this is perhaps the most important message of my speech today - if in the coming days we can reach a compromise in Basel that sufficiently addresses Germany's concerns, then German institutions will be able to deal with the implications.

I mentioned earlier that we do not want to substantially increase capital requirements in Germany. On average, we are talking about small increases of under 5% in Germany. And from Germany’s perspective, we are advocating for things to stay that way. For the small number of banks for which we have calculated increases of more than 20%, in some cases, the
transitional arrangements will provide enough time to respond to the new requirements.

Second, the statue of Ramses is not only a work of art; it is also testament to the highest quality of craftsmanship, which is one major reason it has survived for three thousand years. Figuratively speaking, this is how we, too, must approach the Basel reform package. It's not just about developing uniform, consistent rules - risk sensitivity is another of our guiding principles. During the negotiations, we will therefore call for higher risk to go hand in hand with higher capital requirements.

Third, like the unearthing of the Ramses statue, the completion of the Basel reform package will take place in several stages. Some of these are very delicate and thus require a concerted effort from all those involved. Acceptable compromises must be made on all sides.

While the final part of the Ramses statue is being carefully excavated with a crane over the next few days, we should now focus all our efforts on bringing Basel III to a successful conclusion. Although we are not under time pressure here, we are all aware of the importance of global standards and will benefit from reaching an agreement. Both supervisors and institutions need clearly defined regulation. But it goes without saying that we cannot and will not come to an agreement at any price - any compromise we make must be one we can live with.

I was - and still am - confident that we can reach a successful outcome in Basel and secure a well-rounded package of reforms that can then be used to achieve the desired effect in the banking sector. Because it is in nobody's interest for archaeologists to be unearthing unused parts of the Basel III framework three thousand years from now.

Thank you very much.
Walled off? Banking regulation after the crisis

Sabine Lautenschläger, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the Single Supervisory Mechanism, at the Institute of International and European Affairs, Dublin

Walls have their place in human history. Just think of the Great Wall of China or Hadrian's Wall or the Berlin Wall. And then there are the more abstract walls: paywalls or Chinese walls, for instance.

In my speech today, I would like to discuss banking regulation - which some see as a massive wall of rules. If you asked bankers, some would certainly claim that they have been imprisoned by that wall and would even like to tear it down - some politicians might feel the same way.

However, to paraphrase the American poet Robert Frost: "Don't ever take a wall down until you know why it was put up". You will understand that I, as a German, cannot fully support this statement but with regard to regulation this advice is appropriate. Following that advice, let us have a look at why the regulatory wall was put up.

Why banks need rules

Why do we need rules at all? Rules confine us; they limit our freedom. Take the rules of the road as an example. You can't drive as fast as you want; you have to wear a seat belt and you have to stop at red lights. These rules exist to make our lives safer. They help to prevent accidents; they protect drivers, passengers and pedestrians.

And that also applies to banking rules. Banks take on risks - that is part of their job. These risks, however, can lead to huge losses - not only for the banks and their investors, but for the entire economy and all of us.

In the euro area, it is mostly banks that finance the economy. They also take in deposits and provide other essential services, in payments, for instance. It is therefore crucial that banks work well - not only in the short run but in the long run. So it makes sense not to give them absolute freedom, but to wall them off from the biggest risks.
After all, bankers are people. Like the rest of us, they sometimes tend to overestimate potential profits and underestimate risks. Markets can get carried away, as Alan Greenspan said, by irrational exuberance. Expecting eternal growth, banks might make huge investments. But at some point reality hits, and it might hit hard. If it does, those who took on too much risk might fail. And the crisis taught us that the failure of a single bank can damage the entire financial system and the economy.

In a nutshell, that’s why banks need rules. That’s why the regulatory wall was put up in the first place. And following the financial crisis, we have repaired and modified it.

Not all banks, of course, are happy with the new wall. While they seem to agree with regulation in principle, they usually think it is too strict. They say that the sheer number and complexity of the new rules increase the costs of doing business. They also say that this limits their ability to finance the economy. In short, the banks claim that regulation hurts them, the economy and, thus, all of us.

Unsurprisingly, I disagree. It is true, of course, that there are many rules; and it is true that the rulebook is very complex. But then again, banking has become very complex. Over the past decades, banks have come up with ever more sophisticated innovations - all of them have added to the complexity of banking but not always to its value. The rules just mirror this complexity.

Let me give you an example. Banks favour what is known as "internal models". Using these models, they calculate how risky their assets are. The risk-weighted assets then form the basis for calculating capital requirements. So banks are clearly in favour of risk sensitivity when it comes to determining the adequate level of capital. And I too see merits in that approach.

But internal models are complex, and to keep them in check, we need complex rules. These rules, for instance, require banks to comply with certain conditions before they are allowed to use their models. Without these rules we would quickly experience a race to the bottom in capital and an uneven playing field.

It is true that rules impose a burden on those who have to comply. And the pressure on banks has increased quite a lot since the crisis; I won’t deny that. Still, there are two points I would like to make.
First, we seek to ensure that the burden is reasonable. Take reporting, which banks often describe as a major burden. However, to do our job, we need data from banks - not just on internal models but on all sorts of things. And this data needs to be comparable across the euro area; we must be able to compare banks with their peers, be they Irish, French, German, whatever. We therefore need a European approach to reporting. In this regard, it would lighten the load on banks if national regulators and supervisors were to adjust their own reporting requirements and processes to the new European reality.

My second point is that rules may not only put a burden on banks but also offer them benefits. Strong rules foster trust. Would you get into a taxi if you knew the driver was not bound by traffic rules? Would you do business with a bank that was not regulated?

Banks with a low level of capital and inadequate internal controls are viewed with suspicion: investors ask for higher risk premia and the banks thus face higher funding costs. Banks need people's trust to do business, but as a result of the crisis they have lost a lot of trust. They should bear this in mind when complaining about regulation.

Now, do bank rules harm the economy? This question mainly, but not only, focuses on capital requirements. Usually, the argument goes like this: capital is expensive for banks and might prompt them to increase lending rates. And even worse, it might cause them to stop lending altogether for fear of not meeting their capital requirements. That in turn would choke credit growth and damage the economy.

But consider the benefits. Banks which are well capitalised are well prepared to withstand shocks. It is these banks that keep credit flowing to the economy even when the going gets tough. These banks can finance the economy throughout the entire business cycle.

Banks with low levels of capital, on the other hand, are more likely to face a crisis, and banking crises are costly. They inflict damage on the economy by hurting growth, destroying jobs and putting a burden on taxpayers. As a matter of fact, recessions that accompany a banking crisis are much more severe than "normal" recessions.1

So, strong rules put a burden on banks. But at the same time, they do help the economy. Only well-capitalised, well-managed banks do a good job of lending to the real economy over the short, medium and long term. The net benefit should be positive. Empirical studies indicate that the benefits of
higher capital are indeed greater than the costs. To me, higher capital and strong rules in general seem to be a small price to pay for a more stable and prosperous economy. And the banks themselves also benefit from more stability, of course.

Against that backdrop, I favour a strong regulatory wall. But, work on that wall seems to follow a pattern. After a crisis, the wall is usually reinforced. Then, after some time, as the crisis fades into the background and tends to be forgotten, someone starts chipping away at it. The risks start penetrating the cracks in the wall, eventually leading to a crisis, and the cycle begins again.

I'm afraid that a change of direction lies just ahead. There are more and more voices calling for an easing of the rules - not just banks, of course, but also some politicians. My advice to them is: don't weaken regulation just for a short-lived increase in growth prospects.

Instead, we should finalise the reforms as quickly as possible. We have been repairing and modifying the regulatory wall for eight years now. It's been a long time, and I understand that the reforms have created uncertainty for the banks. It's time to finish the job. It's time to finish the job and to focus on implementing the rules.

Writing the rules

However, the job can only be finished at the global level. We must not build walls that separate nations; we must build a global regulatory wall. The financial system knows no national borders, and regulation must be equally global.

It is the Basel Committee on Banking Supervision that is in charge here. Founded more than 40 years ago, it has become the main forum for discussing and drafting global rules for banks.

The Basel Committee comprises central bankers and supervisors from 28 countries. Since the crisis, it has devised an improved set of global rules, known as Basel III. While much of Basel III has already been agreed upon, some final issues remain open. These are still being debated by the Basel Committee. In my view, it is time to conclude that debate and bring the reforms to an end.

With regard to the reforms, I sometimes hear people complain that the Basel Committee lacks democratic legitimacy. They say it's an opaque body
that imposes its rules on banks all over the world. The answer, of course, is that the Basel Committee does not impose anything on anyone; it does not set binding laws. It defines global standards.

These standards are mere proposals submitted to lawmakers. It is they who decide whether the proposals are to be transposed into actual laws.

In the EU, it is the European Commission that proposes such laws. The European Parliament and the Council of the EU then decide on whether to pass the laws. The key decisions are thus taken by elected national and EU representatives. It is they who decide on European banking law.

European law comes in two forms. First, there are regulations. These are directly applicable in all EU countries and provide a truly level playing field for banks. Second, there are directives. These still need to be transposed into national law. And this often leads to differences - the outcome in Ireland might be different from the outcome in Germany or Spain.

This is not a problem in itself as long as the differences are rooted in country-specific risks. But there are still some unjustified differences; there are some uneven patches on the playing field.

Such patches run counter to the idea of a European banking union. They prevent the European banking sector from growing together, and they make European banking supervision less efficient. They require us to apply 19 different national rules instead of a single European one.

That is bureaucratic, and it is expensive, first and foremost for banks. If policymakers are serious about European financial integration, they must further harmonise the relevant rules.

And there is another source of fragmentation. EU banking law contains some provisions that are known as options and discretions. Some of them give supervisors leeway in applying the rules. It was therefore one of our first major projects to tackle the issue of options and discretions. Together with the national supervisors, we have agreed to exercise them in a uniform way across the euro area.

We have made the playing field a bit more even. But there are also options and discretion which fall within the competence of the Member States. And here harmonisation based on the "same business, same risks, same rules" principle is paramount, too.
Rules carved in stone?

To sum up: I am very much in favour of a strong regulatory wall, and I am convinced that it has to be global. I am also in favour of harmonised rules in Europe.

Still, rules must not be carved in stone, of course. Driven by innovation, the banking sector constantly evolves - new instruments are devised, new risks emerge. The rules must reflect such change. After all, the financial crisis was partly caused by financial innovations that took place outside the regulatory wall.

To be sure: eight years of regulatory reform have led to a comprehensive renovation of the regulatory wall. Now it may be time to check whether all the pieces, all the bricks, fit together. And it may be time to make sure the new rules have no unintended consequences. But I don't expect any major revisions, just some minor adjustments.

In any case, I welcome the fact that the European rules are now being reviewed. In November, the European Commission made proposals on how to adapt and amend the relevant laws.

And there are a lot of good things in these proposals.

- **First**, they support the idea of the global regulatory wall. They seek to transpose a series of global standards into European law - the leverage ratio is one example.

- **Second**, they support the goal of creating a truly European banking sector. They allow for capital and liquidity waivers to be granted for intragroup exposures - not just within a single country as before, but on an EU cross-border basis. This would make life easier for banking groups that span the entire EU.

- And **third**, they support the principle of proportionality. They seek to ease the regulatory burden on smaller banks. And that's good: smaller banks generally represent a smaller risk and therefore do not need to be as strongly regulated as large banks.

But there are also items in the proposals that should be further discussed.

**First**, supervisors need to be able to act quickly and flexibly, based on their judgement and expertise. A few proposals, however, seek to put a tighter
frame around supervisory actions. That would limit our ability to adapt our actions to the ever-changing financial industry - an industry that is always looking for the best deal, that is always testing the boundaries of regulation and that seizes any opportunity to arbitrage the rules.

Second, in some cases, the proposals deviate from global standards - for instance, with regard to liquidity rules. Sometimes, these deviations just reflect EU specificities and do not run counter to the goals of regulation. In other cases, we would need to ensure that the deviations do not increase risks.

And third, I still hope for more harmonised rules - I have already touched upon that issue. There are, for instance, still some unwarranted options and discretions that lie within the competence of Member States. These uneven patches in the playing field should be repaired.

**Conclusion**

I have argued that banks need rules, and that these rules need to be global. I have therefore warned against leaving the global regulatory wall unfinished or even tearing it down. It protects us all: taxpayers who had to bail out failing banks during the crisis; savers and investors who lost money; business owners who could not get loans; and, yes, it also protects the banks themselves.

Still, the history of finance seems to follow an eternal cycle. A crisis happens and the rules are tightened. After a while, people forget the crisis, and the rules are loosened. This leads to the next crisis, which takes everyone by surprise. The rules are tightened.

Listening to some politicians, I am worried that we are about to enter the next stage of the cycle: a new wave of deregulation. As George Bernard Shaw said: "If history repeats itself, and the unexpected always happens, how incapable must man be of learning from experience!". Isn't it time to prove that we are capable of learning from experience?

Thank you for your attention.
Welcome remarks - "The G20 Agenda under the German Presidency"

Welcome remarks by Dr Jens Weidmann, President of the Deutsche Bundesbank and Chairman of the Board of Directors of the Bank for International Settlements, at the 9th Annual IIF G20 Conference "The G20 Agenda under the German Presidency", Frankfurt am Main

1. Introduction

Timothy Adams

Ladies and gentlemen

It's a great pleasure for me to welcome you to this conference, which is a joint event of the Institute of International Finance (IIF) and the German G20 presidency.

Many thanks to you, Tim and the IIF team, for organising this conference, which is taking place for the ninth time, this year just ahead of the meeting of G20 finance ministers and central bank governors in Baden-Baden.

The economist John Kenneth Galbraith is quoted as joking that "Business conventions are important because they demonstrate how many people a company can operate without."

I don't want to get too drawn into the merits of his humorous remark, or whether it applies to banking conferences as well, but I will say that there are compelling reasons why this conference is, indeed, an important event.

One reason is that it provides a good opportunity for dialogue between official and private sector leaders. This dialogue is particularly important in such challenging times, which is also reflected in the focus on very topical issues over the next two days.

"A global crisis requires a global solution."

This simple statement by the G20 heads of state or government back in April 2009 - in the middle of the financial crisis - captured the essence of the cooperation between the key industrial countries and emerging market economies. And although the G20 is an informal body - or perhaps precisely for that reason - it is an important source of impetus.
As the financial crisis unfolded, the G20 grew in status to become the dominant forum for economic cooperation worldwide. It played a key role in drawing the right conclusions from the crisis. But the job isn't finished yet. Additional efforts are necessary to make the global financial system more stable and the world economy more prosperous.

There are therefore several issues of global importance on the permanent agenda of the G20 that will continue to be pursued. In this regard, the German presidency is building on the important achievements of preceding presidencies, with the aim of ensuring continuity in the G20's activities.

Just think, for example, of the growth strategies of the Brisbane summit or the structural reform agenda of the Chinese presidency last year. And some of you may also remember the debt reduction targets of the Toronto summit.

Beyond continuing the work of the existing G20 work streams, it is also the privilege and, indeed, the duty of every presidency to generate new inputs.

2. Priorities of the German presidency

The German G20 agenda rests on three main pillars: building resilience, improving sustainability and assuming responsibility.

To this end, Germany has set three main priorities for discussions between finance ministers and central bank governors and among the G20 working groups within the "Finance Track". These are

- Enhancing resilience
- Promoting investment, especially in Africa; and
- Shaping digitalisation

Let me go a bit deeper into these issues, starting with resilience.

The recent financial crisis has underpinned how important resilience is. While the crisis is considered to have passed, its negative consequences have not yet been completely overcome. Making our economies more resilient means improving their ability to cope with economic shocks, but also responding appropriately to longer-term structural challenges like demographic change or digitalisation.
The more resilient national economies are, the more resilient the world economy is as a whole. In economic terms, strengthening national resilience is a positive externality.

In order to strengthen national resilience, the German presidency is seeking an agreement on a set of principles in Baden-Baden.

Rather than prescribing specific measures or reforms, such principles can act as a guide for G20 members when considering different actions aimed at enhancing the resilience of their economies. Moreover, they complement other ongoing G20 initiatives and priorities, including the 2016 Hangzhou Enhanced Structural Reform Agenda.

The principles on resilience, which are currently being discussed in the G20, should aim to ensure sound public finances and to reduce vulnerabilities in the private sector. With respect to the real economy, they should advocate a favourable business environment, flexible labour market conditions and efficient social security systems.

Furthermore, monetary policies should be in line with central banks' mandates and should not overstretch them or undermine the legitimacy of central banks' independence.

Finally, G20 members should remain committed to the principle of open markets and cross-border trade - a point I come back to later in my speech.

The second priority of the German presidency within the Finance Track is related to the objective of stimulating investment, particularly in Africa. In an increasingly interconnected world, it is more important than ever to build global partnerships.

In order to create new and competitive jobs, the conditions for private-sector investment and investment in infrastructure need to be improved.

Setting up a 'Compact with Africa' initiative is therefore intended to create better investment conditions, for example by improving legal certainty, making taxation more reliable, and reducing investment risks with the help of international guarantees.

Furthermore, the G20 will provide political support for specific investment agreements between African countries and international organisations and - if desired - with developed partner countries.
In addition, transfers of money from migrant workers to their home countries are an important source of funds for many countries - not only in Africa. In several countries, these remittances account for more than one fifth of GDP and significantly contribute to domestic consumption and investment. The aim is therefore to improve the conditions for frictionless and efficient money transfers. Rules against money laundering and the financing of terrorism are important, but they should be applied in a way that does not discourage banks from providing correspondent banking services.

Last but not least, the third priority of the German presidency relates to digital finance and its implications for the financial sector.

From an economic point of view, digital finance can deliver a wealth of benefits. First of all, digital financial services can bring about significant efficiency gains - and I’m sure all of you know this much more than I do.

But digitalisation can also boost competition within the financial system, because new competitors, like fintechs, are stepping onto the field. What some of you might regard as a threat to your business - because it could intensify the problem of narrowing profit margins among traditional banks - has, on the other hand, a positive impact on overall welfare.

The question of whether digitalisation will lead to a revolution in financial services and infrastructure, as some commentators argue, remains unanswered for the time being, in my view. However, one certainly can’t deny that new technologies like blockchain, robo advisors or crowd funding could have the potential to make financial markets and services faster, more efficient, more convenient, and more inexpensive for everyone.

This is why some central banks are carrying out research, especially with regard to the implications of blockchain technology. And the Bundesbank is among them.

To identify the requirements which central banks might need to meet in future in connection with blockchain-based instruments, the Bundesbank and Deutsche Börse AG have jointly unveiled a prototype for a securities settlement system based on blockchain technology. The idea behind this joint project is to analyse the technological performance and scalability of blockchain-based applications. It is not the intention to issue a digital euro coin.
New technologies may also represent a source of financial stability risk. Herding behaviour, for example, could be amplified by automated advisory services in portfolio management. Robo advisors might exacerbate financial volatility and pro-cyclicality if the assets under management reach a significant level, which is not yet the case.

Pro-cyclicality might result from weaker customer relationships and the interoperability of access points.

This calls for the regulation of fintechs, at least to a certain extent. A lot of corporations using technology-enabled financial innovations operate either on a global scale or carry out a large number of cross-border transactions. Identifying key regulatory issues to safeguard financial stability is therefore a goal that the German presidency is aiming at in cooperation with the Financial Stability Board and other standard-setting bodies.

Another pressing issue in a digitised world is cybercrime. Cyber-attacks can potentially undermine peoples' trust in the financial system. In order to avoid jeopardising the positive impact of digital finance, it will be crucial to address these cyber risks. It is therefore on the Baden-Baden agenda to start work in this area at the G20 level.

A further implication of digitalisation, which was already an important topic at the G20 digitalisation conference in Wiesbaden, in January, is financial literacy.

It is an indisputable benefit that new technological developments have enabled the financial inclusion of people who would otherwise lack access to financial services - for example, there are five countries in Sub-Saharan Africa where more people have a mobile money account than a conventional bank account.

That said, more and more people with insufficient knowledge and understanding of financial concepts and risks are getting easier access to financial services. And this is true not only for developing countries but for industrialised countries, too.

If it becomes easier for people to become their own "fund manager", so to speak, they should at least have basic knowledge of economic concepts like compound interest. Therefore, financial literacy is not just an issue for consumer protection authorities, but also for schools and the financial industry as well.
For central banks, financial education is an issue, too, because effective monetary policy communication relies on people having a basic grasp of concepts such as inflation and interest rates. Ensuring the public has basic knowledge of these issues is therefore important for the success of central banks, as the ability of the latter to maintain price stability depends, not least, on public support for a stability-oriented monetary policy.

Ultimately, all of us should have an interest in consumers being well-informed about financial services.

In addition to the key topics I have mentioned, Germany will also be continuing the G20 agenda in a number of other fields. This includes a further strengthening of the international financial architecture and additional progress on the international regulatory agenda.

3. G20 achievements

Ladies and gentlemen

What are the greatest achievements of the G20 so far?

In my view, there are two.

The first is that the G20 member states by and large resisted temptations to implement protectionist measures to stimulate their national economies after the great recession in 2008/09. "Beggar-thy-neighbour" policies were not chosen to improve the economic situation at home at the cost of other economies.

This success was due, not least, to the explicit rejection of protectionism by the G20 and the renewed commitment to an open, global economy.

The other great achievement of the G20 is that, through common efforts, important lessons were drawn from the financial crisis.

All the milestones of regulatory reform were endorsed by the G20. The tightening of bank regulation under Basel III, for example, would hardly have been imaginable without the political support of the G20.

It's now all the more important that these achievements are not given up. Open markets and a competitive economic system are the pillars on which the prosperity of our economies rests. A greater variety of inexpensive and good-quality products are available on open markets, and this increases
citizens' purchasing power. In this way, free trade and competition result in a quantifiable increase in prosperity, particularly for those who have to consider their spending carefully. Moreover, spurred by international competition, industries are more innovative and new ideas are spread more rapidly.

But today we are seeing mounting scepticism of globalisation, a sentiment by no means confined to the United States. In Europe, too, globalisation fears are on the rise and people are increasingly shunning open markets. According to a recent poll, 45% of Europeans view globalisation as problematic, and among the voters of populist parties more than two thirds see globalisation as a threat.

Public concerns like these need to be taken seriously. It can't be denied that globalisation puts particular pressure on certain groups of people. Although open markets boost prosperity overall, they don't necessarily boost it for all people all of the time. But it's also safe to say that barriers and exclusion would be the wrong response to these concerns.

In advanced economies, low-skilled workers feel the pressure of globalisation, particularly those who work in industry sectors that are exposed to low-cost competitors from abroad. And that's why inclusive growth is so important.

In order to have more inclusive growth, however, we need to ensure that enterprises and their employees are properly equipped to harness the opportunities presented by globalisation and technological progress and that they are able to manage structural change.

I already mentioned the need for a favourable business environment. That means, for example, less red tape, limits to increasing social-security contributions or creating innovation-friendly conditions by an efficient product market regulation.

Investment in education and lifelong learning are important for improving employees' adaptability to a changing environment. People who lose their job have to be able to find another position swiftly.

And a target-driven and transparent tax and transfer system is able to act as a cushion for those who are not able to benefit from new job creation. Policy must help those who lose from globalisation, and the positive effects of trade should provide scope for such policies.
Regarding the second great achievement of the G20, I am somewhat concerned, too. While, on the one hand, the regulatory agenda has not been completed yet, calls for de-regulation are on the rise again.

I already mentioned Basel III. I'm fully aware that the implementation of the new standards is challenging for banks worldwide. But the new standards have significantly improved the capital adequacy of the banking system and have made the global financial system more stable. And although banks sometimes criticise the higher capital requirements, a more stable financial system is beneficial for them as well - as greater stability is also reflected in lower funding costs.

Nevertheless, in contrast to the original plans, there was no final agreement on Basel III last year. While most of the residual work has been completed, one important issue still remains unresolved. This is the question of how far credit institutions should be permitted to use their own internal models to determine their capital adequacy requirements for credit risk - or to be precise, whether to fix a lower threshold for capital adequacy requirements calculated with the aid of the internal model and if so, how to calibrate this threshold.

The negotiations on that issue are currently on hold because the positions of the US chief negotiators have not yet been filled. A swift resumption of negotiations would be in our common interest, especially as the ongoing regulatory uncertainty caused by the delay in finalising Basel III is undoubtedly a burden for the banks.

And so I hope that the upcoming meetings in Baden-Baden and Basel will lead to a return to the negotiation table.

Ladies and Gentlemen

One lesson of the financial crisis was that banks, especially the global systemically important ones, need more capital. The second lesson was that public bail-outs of banks should be avoided in future.

And so it is completely understandable that President Trump recently declared, in his executive order of 3rd February, that the prevention of taxpayer-funded bailouts is a core principle of regulation.

That said, achieving this aim also makes it essential to refrain from adopting regulatory measures which would make public bail-outs more likely or which would destroy the level playing field.
Thus, I fully agree with Mario Draghi, who recently said that "the last thing we need at this point is a relaxation of regulation." That does not, of course, exclude us from regularly evaluating our regulation and its effectiveness and fine-tuning it if necessary. But the G20 should stick to its commitment to regulatory reforms and its clear rejection of regulatory arbitrage.

Carrying out deregulation in the hope of stimulating the economy could backfire. Insufficiently regulated financial markets can do significant harm to economic prosperity if a crisis occurs, as the latest financial crisis has painfully demonstrated.

Back in 2013, the then Secretary of the US Treasury, Jack Lew, said that "(-) the global financial crisis (-) underscored the need for strengthening financial sector regulation across the globe. In particular, the crisis highlighted the need for building much stronger and more resilient financial institutions, greater market transparency, and a high quality level playing field across borders that protects against regulatory gaps, arbitrage, and a race to the bottom."

I think this is still true.

4. Conclusion

Ladies and gentlemen
On this note, I would like to bring my speech to a close.

In times of uncertainty, international cooperation is particularly important, and we are certainly living in a period of heightened uncertainty at the moment. In times like these, the G20 is a precious treasure. The German presidency is seeking to guard this treasure and ensure its value is further enhanced.

Thank you for your attention.
From the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679)

(65) A data subject should have the right to have personal data concerning him or her rectified and a 'right to be forgotten' where the retention of such data infringes this Regulation or Union or Member State law to which the controller is subject.

In particular, a data subject should have the right to have his or her personal data erased and no longer processed where the personal data are no longer necessary in relation to the purposes for which they are collected or otherwise processed, where a data subject has withdrawn his or her consent or objects to the processing of personal data concerning him or her, or where the processing of his or her personal data does not otherwise comply with this Regulation.

That right is relevant in particular where the data subject has given his or her consent as a child and is not fully aware of the risks involved by the processing, and later wants to remove such personal data, especially on the internet.

The data subject should be able to exercise that right notwithstanding the fact that he or she is no longer a child.

However, the further retention of the personal data should be lawful where it is necessary, for exercising the right of freedom of expression and information, for compliance with a legal obligation, for the performance of a task carried out in the public interest or in the exercise of official authority vested in the controller, on the grounds of public interest in the area of public health, for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes, or for the establishment, exercise or defence of legal claims.

(66) To strengthen the right to be forgotten in the online environment, the right to erasure should also be extended in such a way that a controller who has made the personal data public should be obliged to inform the controllers which are processing such personal data to erase any links to, or copies or replications of those personal data. In doing so, that controller should take reasonable steps, taking into account available technology and the means available to the controller, including technical measures, to inform the controllers which are processing the personal data of the data subject's request.
The processing of personal data for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes should be subject to appropriate safeguards for the rights and freedoms of the data subject pursuant to this Regulation.

Those safeguards should ensure that technical and organisational measures are in place in order to ensure, in particular, the principle of data minimisation.

The further processing of personal data for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes is to be carried out when the controller has assessed the feasibility to fulfil those purposes by processing data which do not permit or no longer permit the identification of data subjects, provided that appropriate safeguards exist (such as, for instance, pseudonymisation of the data).

Member States should provide for appropriate safeguards for the processing of personal data for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes.

Member States should be authorised to provide, under specific conditions and subject to appropriate safeguards for data subjects, specifications and derogations with regard to the information requirements and rights to rectification, to erasure, to be forgotten, to restriction of processing, to data portability, and to object when processing personal data for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes.

The conditions and safeguards in question may entail specific procedures for data subjects to exercise those rights if this is appropriate in the light of the purposes sought by the specific processing along with technical and organisational measures aimed at minimising the processing of personal data in pursuance of the proportionality and necessity principles.

The processing of personal data for scientific purposes should also comply with other relevant legislation such as on clinical trials.

**Article 17**

**Right to erasure ('right to be forgotten')**

1. The data subject shall have the right to obtain from the controller the erasure of personal data concerning him or her without undue delay and
the controller shall have the obligation to erase personal data without undue delay where one of the following grounds applies:

(a) the personal data are no longer necessary in relation to the purposes for which they were collected or otherwise processed;

(b) the data subject withdraws consent on which the processing is based according to point (a) of Article 6(1), or point (a) of Article 9(2), and where there is no other legal ground for the processing;

(c) the data subject objects to the processing pursuant to Article 21(1) and there are no overriding legitimate grounds for the processing, or the data subject objects to the processing pursuant to Article 21(2);

(d) the personal data have been unlawfully processed;

(e) the personal data have to be erased for compliance with a legal obligation in Union or Member State law to which the controller is subject;

(f) the personal data have been collected in relation to the offer of information society services referred to in Article 8(1).

2. Where the controller has made the personal data public and is obliged pursuant to paragraph 1 to erase the personal data, the controller, taking account of available technology and the cost of implementation, shall take reasonable steps, including technical measures, to inform controllers which are processing the personal data that the data subject has requested the erasure by such controllers of any links to, or copy or replication of, those personal data.

3. Paragraphs 1 and 2 shall not apply to the extent that processing is necessary:

(a) for exercising the right of freedom of expression and information;

(b) for compliance with a legal obligation which requires processing by Union or Member State law to which the controller is subject or for the performance of a task carried out in the public interest or in the exercise of official authority vested in the controller;

(c) for reasons of public interest in the area of public health in accordance with points (h) and (i) of Article 9(2) as well as Article 9(3);
(d) for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes in accordance with Article 89(1) in so far as the right referred to in paragraph 1 is likely to render impossible or seriously impair the achievement of the objectives of that processing; or

(e) for the establishment, exercise or defence of legal claims.

To read the regulation:
What does the NCSC think of password managers?

People keep asking the NCSC if it's OK for them to use password managers (sometimes called password vaults). If so, which ones? Who should use them - private citizens, small businesses, massive enterprises? And how should people use them? Is it safe to put all your crucial passwords into a password manager, and forget trying to remember any at all?

This is a big topic, so we're chunking it up. This blog explains what I think about password managers in general, and how I use them myself. This might be helpful if you're an individual deciding whether and how to use a password manager for your personal use. If you're looking for business use, this blog post won't hold all the answers you need (look out for more from the NCSC on this soon).

Should I use a password manager?

Yes. Password managers are a good thing.

They give you huge advantages in a world where there's far too many passwords for anyone to remember. For example:

- they make it easy for you to use long, complex, unique passwords across different sites and services, with no memory burden

- they are better than humans at spotting fake websites, so they can help prevent you falling for phishing attacks

- they can generate new passwords when you need them and automatically paste them into the right places

- they can sync your passwords across all your devices, so you’ll have them with you whether you’re on your laptop, phone or tablet

All these things are full of win. They reduce security friction - making security easier and more convenient. If security is difficult, tedious, appears to add no value or gets in the way of the main task we're trying to do, then we tend to find (insecure) ways around it. And then we end up less protected.
Well, that all sounds great. Where's the catch?

You might be thinking "If password managers are this good, why haven't you recommended them before now?"

Well, they do have some drawbacks:

- Password managers are attractive targets in themselves. They've been successfully attacked in the past, and realistically they will be again. So all your passwords could get stolen in one go.

- If you forget the master password for your password manager, you will not be able to get back in. You will have to try and access all your accounts individually, or recreate/reset them from scratch. This will hurt.

- You can't use them for everything. Some service providers (such as certain banks) don't support the use of password managers. If you tell them you've put your banking passwords into one (or written them down in any way at all) they might not give you your money back if you are the victim of cyber crime. If your bank is one that takes this stance, you'll need to think about how you're going to manage critical passwords without writing them down. On the brighter side, this is much easier to do once you've got most of your passwords out of your head and into the password manager.

Should I use a browser-based password manager?

Many web browsers now come with password managers built in, and they can be a very good choice. They are very convenient to use, as they are fully integrated with the web browser - so they know when you're on a website that needs a password, and they just pop up and do their thing. You don't even have to remember a separate master password. So feel free to use the built-in password manager, provided that:

- You keep your web browser up-to-date.

- You have some kind of access control on your device such as a PIN/password/biometric

... two things you should be doing anyway!
One drawback with browser-based password managers is that your passwords may not automatically sync between all your devices if these use different operating systems. So, if you have a Windows laptop, an iPad and an Android smartphone, your passwords may not follow you around everywhere - unless you use the same web-browser on all your devices and log into it. Also, if more than one person uses a device on the same user profile, they would all have access to the same password-protected content. You may not want that.

**Should I use a standalone password manager?**

Compared to browser-based managers, standalone password managers tend to do a better job of keeping your passwords available to you on all your different devices, no matter what platform they’re on. They give you a little more control over when and where you use your passwords, as you get to press a button to say 'I want to use the password please', rather than the web page in the browser requesting one when it feels like it.

Importantly, with a standalone password manager you do have to create and remember a long master passphrase (unlike with a browser-based one). Standalone password managers may also include more advanced features, such as:

- notifications about compromised websites
- flagging up reused or weak passwords
- prompting you to change old passwords*
- helping you change passwords for some websites, by integrating with your browser
- multi-factor authentication

**How do I do this, then?**

As with many things, there are lots of different ways of going about this. This is what I do myself:

- First, try and cut down the number of passwords in your life, and reduce how much you rely on those passwords to prove who you are. Use multi-factor authentication or single sign-on where available. For infrequently-used passwords, use a password reset mechanism when
you need to log in (instead of making any attempt to recall or store the password). But take really good care of the email account that the password reset emails are sent to.

- Consider biometrics. Fingerprint readers on smartphones are generally good enough to protect your phone and the data on it, and they are very usable. So feel free to use them. Turn on encryption (if it's not already on) for extra protection.

- Decide whether to use a browser-based or a standalone password manager. Personally, I use both, for different things.

- If you use a standalone password manager, make its master passphrase the best you possibly can. We suggest a passphrase rather than a password as it's much easier to make it really long, and adding length gives much more protection than adding complexity. Make it hard for someone who knows you to guess in 20 attempts, and make it totally different from any password or passphrase you’ve ever used anywhere else.

- Memorise your passphrase. Yes, you really do have to, sorry! If it helps, write it on a piece of paper until it’s firmly lodged in your memory. Keep the piece of paper very safe, and destroy it when you’ve memorised the password.

- Don’t put any work passwords into your personal password manager unless you’ve got permission from your employer.

Finally, think about how important each password is to you for each account. If someone discovered this password, would it result in

- your life being ruined?

- your bank refusing to refund any losses?

If the answer to either is 'yes', then I wouldn’t put it in a password manager.

For these cases, a password shouldn't be the only thing that the security of your account rests on. So look at extra defences such as multi-factor authentication.

For other, less important accounts, having the password stolen might be massively inconvenient, but there would be no real permanent damage
done. Passwords for these accounts should be OK to go into your password manager.

Some accounts have very low value. For instance, an online forum that requires a password, but doesn’t actually hold any personal information you care about. These passwords can be stored in a password manager without a second thought.

**A future without passwords?**

Long-term, I think the success of password managers shows - yet again - that password-based authentication has outstayed its welcome. Passwords are supposed to be 'something you know', but now we’re saying the best way to manage them is not to know them (because your password manager knows them all for you). Passwords have taken us a long way, but now it's really time to move on.

The NCSC is working to help us all reduce our reliance on passwords, and to move towards a future where we make greater use of better, more secure, more usable authentication mechanisms instead. In the meantime, we're also working on some guidance on how best to use password managers in organisations - look out for this soon.

**Password managers are a good thing - for now. But we hope not forever.**

* We normally recommend against regularly changing passwords where there is no indication or suspicion of compromise - if you are trying to memorise them. The costs are greater than the benefits. However, remembering new passwords that are very different from the previous one isn't a problem for a password manager.
FSB assesses implementation progress and effects of reforms

The Financial Stability Board (FSB) today concluded a two-day meeting in Cape Town where it:

- reviewed progress on both the implementation of post-crisis reforms and the evaluation of their effects and effectiveness.

This included agreement of emerging findings from the FSB’s monitoring of the evolution of shadow banking activities and the adequacy of associated monitoring and policy tools.

The Plenary also discussed the review of progress in over-the-counter (OTC) derivatives reforms and their effects to date;

- discussed progress on its development of a consistent comprehensive framework for evaluating the post-implementation effects of the reforms.

This framework underscores the importance of effective evaluation and impact assessment to the FSB’s policy review process.

The framework will be published before the G20 Summit in July, and it will be subject to a consultation;

- progressed deliverables for the G20 Leaders’ Summit in July, including work on financial technology, financial sector misconduct and climate-related financial disclosures; and

- held an Emerging Market and Developing Economies (EMDEs) Forum to discuss implementation and effects of reforms in these markets.

The FSB appointed Lesetja Kganyago (Governor, South African Reserve Bank) as Chair of the Standing Committee on Standards Implementation (SCSI) and Norman Chan (Chief Executive, Hong Kong Monetary Authority) as Chair of the Standing Committee on Supervisory and Regulatory Cooperation (SRC).

Both posts are for a two-year term beginning on 1 April 2017. The Plenary thanked the outgoing chairs, Ravi Menon and Daniel K Tarullo, for their major contributions as chairs of the respective committees in advancing a series of measures to enhance global financial stability.
To read more:
“Harrowing the ploughed field” – Refining the standardised capital regime

Martin Stewart, Director of Bank, Building Societies and Credit Union, Prudential Regulation Authority, British Bankers’ Association conference – The Challenger and Specialist Banks’ Landscape in the UK

Much has been written on the evolution of UK retail banking post the financial crisis and a recurrent theme has been the difference between the internal ratings based (IRB) capital approach used by the major UK banks and building societies and the standardised capital approach used by the mid-tier and smaller firms.

When comparing the capital regimes, an “un-level playing field sloping in favour of the major firms”, seems to be the common analogy that is used.

There are some differences of opinion as to the steepness of the slope, ranging from a gentle hill, to others claiming firms using the standardised capital regime have a mountain to climb.

The post-financial crisis prudential reforms were necessary and have done a lot to improve the resilience of the UK banking sector. However, regulation can lead to unintended consequences and, where appropriate, the PRA will always seek to address these.

To that end, the PRA has undertaken in-depth research over the last two years into the differences between the capital regimes and today I would like to set out our conclusions and response.

The primary conclusion from our research is that we agree that the regulatory reforms have had the unintended consequence of contributing to an un-level playing field.

However, we disagree that the playing field slopes uniformly in favour of the major firms; to continue with the analogy, it can probably be best described as a ploughed field.

Our analysis points to ridges and furrows being created, some ridges favour those firms using IRB models and others favour those on the standardised capital approach.
So how do we tackle this ploughed field? For those of you that are not city dwellers, you will know that if you want to prepare a ploughed field for crops to flourish, you first of all need to harrow it, to smooth out the ridges and furrows ready for planting.

As the first findings of our research emerged, we acted to smooth some of the most significant ridges by implemented, at the beginning of 2016, a binding leverage constraint on the major banks and building societies using IRB models.

We always recognised that this would not be sufficient on its own and we have embarked on three further initiatives to harrow the capital field.

**Firstly,** we have been working at the Basel Committee to create greater risk sensitivity in the standardized capital approach, which should reduce the variability between standardised and IRB risk weights.

**Secondly,** we are proposing to refine the PRA’s Pillar 2A capital framework for banks and building societies using the standardised capital approach and we published a consultation paper on 24 February setting out our thinking in this area.

**Thirdly,** we propose to reform the application process for banks and building societies wanting to move from the standardised capital approach to utilise IRB models and today I am announcing that we will be publishing a consultation paper later this month on this initiative.

Speech by the Secretary-General of the IFSB at the AMF-IFSB-IMF Conference on Soundness Indicators for Conventional and Islamic Finance, Abu Dhabi, UAE

Mr Jaseem Ahmed, Secretary-General, IFSB

Assalamu’alaikum and a very good morning to all of you.

It gives me great pleasure to welcome this gathering of senior officials of regulatory and supervisory bodies, ministries, national statistical offices, international and multilateral institutions at this ‘Conference on Soundness Indicators for Conventional and Islamic Finance’.

On behalf of the IFSB, I wish to thank the Arab Monetary Fund (AMF) and International Monetary Fund (IMF) for partnering with us in holding this timely and important event with its focus on the Arab World.

I would like to extend my special thanks to the AMF, and to its Chairman, HE Dr. Abdulrahman for hosting this event. The IFSB has a special regard for HE who is a key figure in the establishment of the IFSB and who has been instrumental in some of the most important aspects of the IFSB’s work programme as it has evolved over time.

It is a real pleasure to collaborate again with Dr. Abdulrahman and the institution he heads, the AMF.

The AMF is the premier platform for monetary and financial cooperation in Arab-speaking countries, and a highly valued MOU partner of the IFSB.

We look forward to many years of fruitful collaboration with the AMF and with HE Dr. Abdulrahman Al Hamidy.

Excellencies, Ladies, and Gentlemen
The focus of this Conference is the Arab-speaking jurisdictions, a key group of stakeholders within the IFSB and IMF, and of course central to the AMF.
However, the stability and soundness issues that will be addressed here over the next two days have a broader dimension that will interest a wider set of stakeholders.

This includes all the major Arab central banks, which are members of the IFSB PSIFI’s project. It also includes the Asian and African central banks that were the pioneering members of the original IFSB Pilot Project and Task Force, and others who have joined more recently, who are now regularly providing PSIFI data, and who are participating with us here in Abu Dhabi.

Finally, in addition, there are the international institutions such as the IMF, which are responsible for the global financial sector surveillance function. I am also delighted to see the presence of the European Central Bank (ECB), an institution with which the IFSB has collaborated in the past.

The IMF’s presence here with us reflects long years of collaboration between the IFSB and the Statistics Department of the IMF on the development of soundness indicators, reflecting an early recognition by the IMF of the wider significance of Islamic financial systems.

Since then, the growth and geographical spread of Islamic finance in the post-crisis period has led to its emergence as a systemically important sector in an increasing number of economies in the Arab speaking countries, as well as in Asia.

These developments – which are helping to transform the global financial system – have had their most recent recognition in the Press Release of 21 February 2017 on Islamic finance, in which the IMF’s Board of Directors gave its approval to staff to prepare proposals for operationalising the IMF’s policy support to Islamic finance jurisdictions.

A key aspect of the proposals is that they will recommend the recognition of the IFSB’s Core Principles for Islamic Finance Regulation of the Banking Sector (IFSB-17), under the IMF/WB Standards and Codes Review.

The IFSB welcomes these developments, which point towards an international recognition of Islamic finance that is commensurate with its importance and significance to large communities of human beings in the world today, and to financial and economic stability internationally.

Ladies and Gentlemen,
Against the backdrop of the global financial crisis, there is today an enhanced understanding of the intrinsic strengths of Islamic finance. These strengths draw on its system of ethics, its grounding on the real economy and on risk sharing, its avoidance of harmful activities, and other aspects including for shared prosperity, all of which together constitute its system of embedded governance.

At the same time, the crisis has also sharpened our understanding of the core vulnerabilities or risks to the stability and resilience of Islamic financial systems, which are both internal as well as external to Islamic finance.

The internal challenge to stability is that of underdeveloped systems and capabilities for risk management within domestic Islamic financial systems arising from relatively underdeveloped, but still developing, Islamic financial markets and financial instruments.

There are also weak information and related systems within both financial institutions and regulatory and policy making bodies for managing risk at both micro and macroprudential levels.

These issues and challenges are being addressed by policy makers and regulatory and supervisory authorities, across Islamic finance jurisdictions and institutions, although at differential speeds and with differing levels of effectiveness.

The external vulnerability is faced by us all: namely, that the performance of the Islamic financial system cannot be isolated from developments in conventional finance and in the global economy.

We are vulnerable to external economic, financial and monetary shocks and these seem to be bigger or more volatile than ever. These vulnerabilities remain with us, they are real and they bring large risks with them which must be identified, made transparent, and managed at both the micro and macro levels.

Thus a critical question relating to the stability of Islamic financial institutions and systems is how resilient the industry is in withstanding turbulence arising from both internal and external sources of risk.

To answer this question we need a well-developed global database for the purpose of macroprudential oversight. A timely and reliable time series
data would help to promote effective monitoring of resilience and stability as well as to enhance comparability within and between jurisdictions.

The Financial Soundness Indicators, launched by the IMF and adapted by the IFSB, provide us with valuable tools in this risk management task. Financial Soundness Indicators (FSIs) are measures of the aggregate strength or vulnerabilities of financial systems. They are macroprudential indicators of the condition of the entire system that supplement the traditional microprudential measures used by bank supervisors.

This sets the stage for the deliberations here at our conference where we will be focusing, amongst other topics, on two central issues

First, in developing our understanding of how soundness indicators on Islamic finance can serve both national and domestic goals for financial stability

And second, the importance of collaboration among both international and national organisations, across both Islamic and conventional financial systems and jurisdictions

The IFSB featured these two issues in an essential way in the launching of its project in December 2004 to establish a global database of Prudential and Structural Islamic Financial Indicators (PSIFIs), which are the measures of the aggregate strength or vulnerabilities of the Islamic financial system.

This project reflected the recognition of the IFSB’s Council that it would be crucial in terms of macroprudential oversight for the industry to develop an equivalent set of FSIs for the Islamic financial services industry, comparable to those of the IMF, suitably adapted to the specific characteristics and needs of Islamic banks.

The IFSB was able to pursue this undertaking through the support received from international agencies such as the IMF, which provided technical support and knowledge at the outset, as well as the Islamic Development Bank (IDB) and the Asian Development Bank (ADB), both of which have provided long-term financial and policy support over the years for this project.

The IFSB developed its project on PSIFIs in three different phases with the aim of illuminating the structural development and soundness of Islamic
finance, and thus contribute to the overall financial soundness of national financial systems.

**In phase I**, the IFSB Secretariat established a Task Force for the project and undertook the preparation of a Compilation Guide which was adopted by the IFSB Council in March 2007. The IMF, ADB and the IDB were and remain important members of this and subsequent Task Forces.

**This was followed in Phase II** by a pilot study of the compilation of data through which the IFSB developed a standardised reporting template in which four member countries – namely Indonesia, Malaysia, Pakistan and Sudan – participated.

**In 2014, the IFSB launched the third phase** of the PSIFIs project with the aim of achieving, by 2016, the first dissemination of data, as well as a further revision of the Compilation Guide. For the Compilation Guide, a key objective was to align it with the developments of Basel III.

This phase included capacity building, data collection and compilation activities involving regulatory and supervisory authorities from the banking sector of 17 member countries. Many of you here today will have participated in this most recent phase of the PSIFIs project.

After the successful launch of PSIFIs data on 27 April 2015, the IFSB has been regularly disseminating macro-level data collected from 17 IFSB member countries. The database is accessible to everybody where quarterly data from December 2013 is now available.

Overall, the PSIFIs member countries collectively hold more than 85% of global Islamic banking assets.

Amongst these countries are eight (8) economies which are also members of the AMF, and in which the Islamic finance sector is of systemic importance – in that it accounts for more than 15% of total banking sector assets.

Moving forward, the IFSB Council has approved a fourth Phase of the PSIFIs project intended to further extend the coverage of the database to additional countries that have a stake in the Islamic banking sector.

I am pleased to share with you that based on our latest invitation, the Bank of England has also confirmed that it will join the PSIFIs project.
Ladies and Gentlemen

Today, the PSIFIs database comprise a set of well-developed and tested Islamic finance statistics reflecting Shari`ah-compliant accounting practices and regulatory standards that serve the purpose of better oversight by regulatory and supervisory authorities and the global surveillance community, as well as the analytical needs of the IFSB which are shared with our international stakeholders through the IFSB’s Annual Islamic Financial Services Industry Financial Stability Report.

The PSIFIs consist of 19 core and 8 additional core indicators, compared to the IMF’s FSIs 12 core and 8 additional core indicators. PSIFIs data are also, similar to the FSIs, aggregated banking sector data of an individual country.

Since almost all of the core indicators on asset quality, earnings, leverage, liquidity and sensitivity to market risks are similar to FSIs, the indicators would permit a comparison with the IMF’s FSIs for a country’s entire financial system.

These PSIFIs would also facilitate comparisons between conventional banks and institutions offering Islamic financial services as part of a peer group exercise on the effectiveness of the application of the IFSB capital adequacy formula.

CONCLUSION

Ladies and Gentlemen

Allow me to draw my remarks to a close by acknowledging the national and international collaboration that has supported the PSIFIs project.

Such collaboration is essential in a highly connected financial system in which shocks and developments are transmitted and amplified rapidly. Mutual assistance and collaboration contributes to mutual stability and resilience.

The national and international members of the IFSB PSIFIs Task Forces have contributed enormously to the development and the streamlining of the reporting formats, and to the coming on line of this project. It will be important to continue this collaboration, and to develop both formal and informal networks of experts and knowledge centres, as we jointly attempt to better understand and control both domestic and
cross-border sources of risks emanating from interconnected financial and economic systems.

Our goal should be further collaboration among international and national organisations so as to better measure these interconnected elements which can support better contingency planning and timely policy response by the authorities.

I look forward to the further strengthening and expansion of the PSIFIs project, which is in your hands, and hope that we all will benefit from the continued support of the IMF, IDB, ADB as well as the AMF.

Thank you.
European Union –
National Cyber Security Strategies (NCSSs) Map

ENISA has listed all the documents of National Cyber Security Strategies in the EU but also in the world. This information is based on publicly available material. Some of these documents are still under consultation so no official translations in English were produced.

3.7. We regularly see attempts by states and state-sponsored groups to penetrate UK networks for political, diplomatic, technological, commercial and strategic advantage, with a principal focus on the government, defence, finance, energy and telecommunications sectors.

3.8. The capacity and impact of these state cyber programmes varies. The most advanced nations continue to improve their capabilities at pace, integrating encryption and anonymisation services into their tools in order to remain covert. While they have the technical capability to deploy sophisticated attacks, they can often achieve their aims using basic tools and techniques against vulnerable targets because the defences of their victims are poor.

To read more:
Prudential Regulation Committee replaces PRA Board

On 1 March, the PRA Board was replaced by the Prudential Regulation Committee (PRC), and the PRA will be brought within the single legal entity of the Bank of England. These changes are required by the Bank of England and Financial Services Act 2016 (the Act).

From the above date the PRA’s most important supervisory and policy decisions will be made by the PRC. There are no changes to the PRA’s objectives or functions.

The Act provides for one member to be appointed by the Governor with the approval of the Chancellor. The Governor has appointed Ben Broadbent. HM Treasury has announced today that the current external members of the PRA Board have been re-appointed by the Chancellor.

The membership of the PRC will therefore be as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair - Mark Carney</td>
<td>Governor</td>
</tr>
<tr>
<td>Sam Woods</td>
<td>Deputy Governor, Prudential Regulation and Chief Executive of the PRA</td>
</tr>
<tr>
<td>Sir Jon Cunliffe</td>
<td>Deputy Governor, Financial Stability</td>
</tr>
<tr>
<td>Charlotte Hogg</td>
<td>Deputy Governor, Markets &amp; Banking</td>
</tr>
<tr>
<td>Ben Broadbent</td>
<td>Deputy Governor, Monetary Policy</td>
</tr>
<tr>
<td>Andrew Bailey</td>
<td>Chief Executive of the Financial Conduct Authority</td>
</tr>
<tr>
<td>David Belsham</td>
<td>External member</td>
</tr>
<tr>
<td>Sandra Boss</td>
<td>External member</td>
</tr>
<tr>
<td>Norval Bryson</td>
<td>External member</td>
</tr>
<tr>
<td>Charles Randell</td>
<td>External member</td>
</tr>
<tr>
<td>David Thorburn</td>
<td>External member</td>
</tr>
<tr>
<td>Mark Yallop</td>
<td>External member</td>
</tr>
</tbody>
</table>

The Governor said:

“The creation of the Prudential Regulation Committee will deliver a simpler and more coherent governance structure within the Bank, while ensuring that the Prudential Regulation Authority remains strongly focused on its statutory objectives. Ben’s appointment brings macroeconomic and
microprudential perspectives even closer together within One Bank to promote the safety and soundness of PRA-supervised banks and insurers”.

As previously announced, the creation of the Prudential Regulation Committee (PRC) and the legal integration of the Prudential Regulation Authority (PRA) into the Bank were required by the Bank of England and Financial Services Act 2016 (the Act). The commencement regulations – which include the effective date – are made by HM Treasury, in exercise of the powers conferred under the Act.

- The PRC replaces the PRA Board as the governing body of the PRA as part of the Bank of England.
- The PRC is now on the same legal footing as the Monetary Policy Committee and the Financial Policy Committee.
- The PRA’s legal status as a subsidiary company has been ended.

These changes will maintain the PRA’s operational independence, at the same time as promoting the sharing of knowledge, expertise, and analysis throughout One Bank.

According to the Act, the PRC is to consist of:

- the Governor of the Bank,
- the Deputy Governor for prudential regulation,
- the Deputy Governor for financial stability,
- the Deputy Governor for markets and banking,
- one member appointed by the Governor of the Bank with the approval of the Chancellor of the Exchequer,
- the Chief Executive of the Financial Conduct Authority, and
- at least 6 members appointed by the Chancellor of the Exchequer.

The statutory objectives of the PRA, which underpin its forward-looking, judgement-based approach to supervision, remain unchanged:
1. a general objective to **promote the safety and soundness** of the firms it regulates;

2. an objective **specific to insurance firms**, to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders; and

3. a secondary objective to **facilitate effective competition**.
Supervisory Insights

Credit Risk Trends and Supervisory Expectation Highlights
Regulatory and Supervisory Roundup

Loans comprise the majority of most banks’ assets, and therefore drive revenues, profitability and capital formation.

Further, lending by insured institutions plays a vital role in supporting credit creation and economic activity across the country.

Historically, institutions with management teams and boards that have effectively and prudently managed loan growth have been better positioned to withstand periods of stress and continue serving their local economies throughout the economic cycle.

Managing the loan portfolio consumes much time and attention from an institution’s board of directors and management team, and establishing and overseeing lending policies is a critical responsibility of an institution’s board.

Nevertheless, experience has shown that the seeds of future problems are sown in good times. Now is the time to pay attention to long-standing principles of good risk-management practices and to get ahead of and correct loan underwriting and administration problems before they adversely affect the bottom line.

As described later in this article, institutions with concentrated portfolios are experiencing more rapid loan growth rates than the rest of the industry.

At the same time, FDIC examiners have noted some loan underwriting, administration, and portfolio-management problems at concentrated banks.

This article examines growth on banks’ balance sheets, trends in credit risk, and principles of sound risk management practices. The article focuses on three loan categories: commercial real estate (CRE), agricultural (Ag), and oil and gas-related (O&G) lending.
These loan categories have been selected because of their trends, such as growth and volatility in underlying fundamentals, and their importance to the institutions the FDIC supervises.

Readers should not construe this discussion as a negative view of any lending category nor as a view that the FDIC is not monitoring trends in and risk management practices relevant to other loan categories.

To read more: https://www.fdic.gov/regulations/examinations/supervisory/insights/siwi n16/si_winter_16.pdf
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Become a Capital Requirements Directive IV / Capital Requirements Regulation Professional (CRDIV/CRR/Pro).

You may visit:
www.basel-iii-association.com/CRD_IV_Distance_Learning_Online_Certification.html

For instructor-led training, you may contact us. We can tailor all programs to your needs.

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