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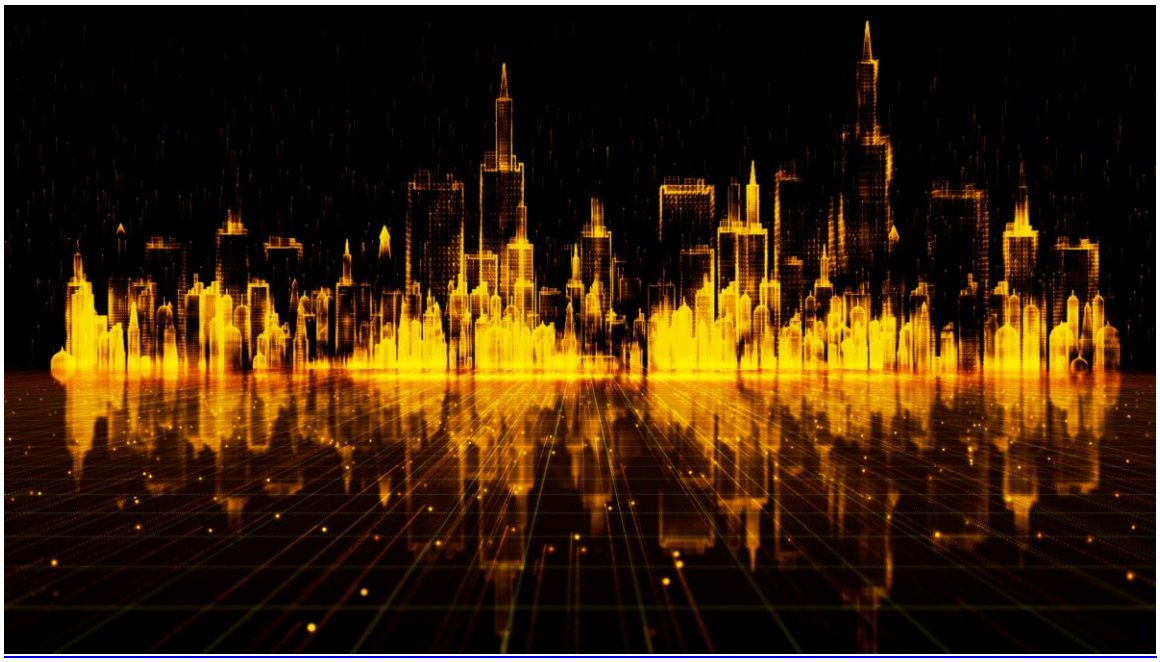


Basel iii News, October 2023

Dear members and friends,

We have the new Basel III Monitoring Report (September 2023) from the BIS.

Highlights of the Basel III monitoring exercise as of 31 December 2022

After their downturn at end-June 2022, initial Basel III capital ratios increase and rise above pre-pandemic levels.

Liquidity Coverage Ratio declines but remains above pre-pandemic levels.

To assess the impact of the Basel III framework on banks, the Basel Committee on Banking Supervision monitors the effects and dynamics of the reforms.

For this purpose, a semiannual monitoring framework has been set up on the risk-based capital ratio, the leverage ratio and the liquidity metrics using data collected by national supervisors on a representative sample of institutions in each country.

Since the end2017 reporting date, the report also captures the effects of the Committee's finalisation of the Basel III reforms.

Overview of results (unbalanced data set) Table 1

	30 June 2022[1]			31 December 2022		
	Group 1	Of which: G-SIBs	Group 2	Group 1	Of which: G-SIBs	Group 2
Initial Basel III framework						
CET1 ratio (%)	12.7	12.6	16.8	13.1	13.1	16.8
Target total capital shortfalls (€ bn)[2]	0.0	0.0	0.0	0.0	0.0	0.0
TLAC shortfall 2022 minimum (€ bn)	35.1	35.1		34.4	34.4	
Total accounting assets (€ bn)	81,839.4	59,481.9	2,417.9	80,915.3	55,405.3	4,193.2
Leverage ratio (%)[3]	5.8	5.7	5.8	6.1	5.9	6.3
LCR (%)	138.2	137.5	220.0	132.0	134.2	188.4
NSFR (%)	123.5	125.2	132.3	124.4	126.7	132.2
Fully phased-in final Basel III framework (2028)						
Change in Tier 1 MRC at the target level (%)	2.8	3.2	-2.0	3.0	2.9	6.6
CET1 ratio (%)	12.5	12.5	14.3	12.7	12.8	14.7
Target capital shortfalls (€ bn); of which:	7.8	7.8	0.0	3.2	3.2	1.1
CET1	3.5	3.5	0.0	0.0	0.0	0.1
Additional Tier 1	1.9	1.9	0.0	0.0	0.0	0.4
Tier 2	2.4	2.4	0.0	3.2	3.2	0.6
TLAC shortfall 2022 minimum (€ bn)	29.8	29.8		37.4	37.4	
Leverage ratio (%)[3]	6.0	5.9	5.8	6.1	6.0	6.3

See Table A.4 for the target level capital requirements. [1] The values for the previous period may differ slightly from those published in the end-December 2021 report at the time of its release. This is caused by data resubmissions for previous periods to improve the underlying data quality and enlarge the time series sample. [2] Uses the 2017 definition of the leverage ratio exposure measure. [3] The leverage ratios reflect temporary exclusions from leverage exposures introduced in some jurisdictions.

This report summarises the aggregate results using data as of 31 December 2022. The Committee believes that the information contained in the report will provide relevant stakeholders with a useful benchmark for analysis.

Information considered for this report was obtained by voluntary and confidential data submissions from individual banks and their national supervisors.

At the jurisdictional level, there may be mandatory data collections ongoing, which also feed into this report.

Data were included for 178 banks, including 111 large internationally active ("Group 1") banks, among them 29 G-SIBs, and 67 other ("Group 2") banks.

Members' coverage of their banking sector is very high for Group 1 banks, reaching 100% coverage for some countries, while coverage is lower for Group 2 banks and varies by country.

In general, this report does not consider any transitional arrangements such as grandfathering arrangements.

Rather, the estimates presented generally assume full implementation of the Basel III requirements based on data as of 31 December 2022.

No assumptions have been made about banks' profitability or behavioural responses, such as changes in bank capital or balance sheet composition, either since this date or in the future.

Furthermore, the report does not reflect any additional capital requirements under Pillar 2 of the Basel III framework or any higher loss absorbency requirements for domestic systemically important banks, nor does it reflect any countercyclical capital buffer requirements.

To read more: https://www.bis.org/bcbs/publ/d554.pdf

Project Mariana: BIS and central banks of France, Singapore and Switzerland successfully test cross-border wholesale CBDCs

BIS Innovation Hub

Foreign exchange (FX) is the largest financial market in the world, trading about $7.5 trillion a day (BIS (2022b)).

It operates 24 hours a day, five and a half days a week.

Project Mariana looks to the future and envisions a world in which central banks have issued central bank digital currencies (CBDCs) and explores how foreign exchange (FX) trading and settlement might look.

Mariana borrows ideas and concepts from decentralised finance (DeFi) and studies whether so-called automated market-makers (AMMs) can simplify FX trading and settlement with a view to enhancing market efficiency and reducing settlement risk.

Project Mariana is a proof of concept (PoC) for a global interbank market for spot FX featuring both an AMM and wholesale CBDCs (wCBDCs).

In the PoC, wCBDCs circulate on domestic platforms and so-called bridges allow them to be moved on to a transnational network that hosts the AMM.

Project Mariana extends previous experimentation on cross-border settlement using wCBDC arrangements and distributed ledger technology.

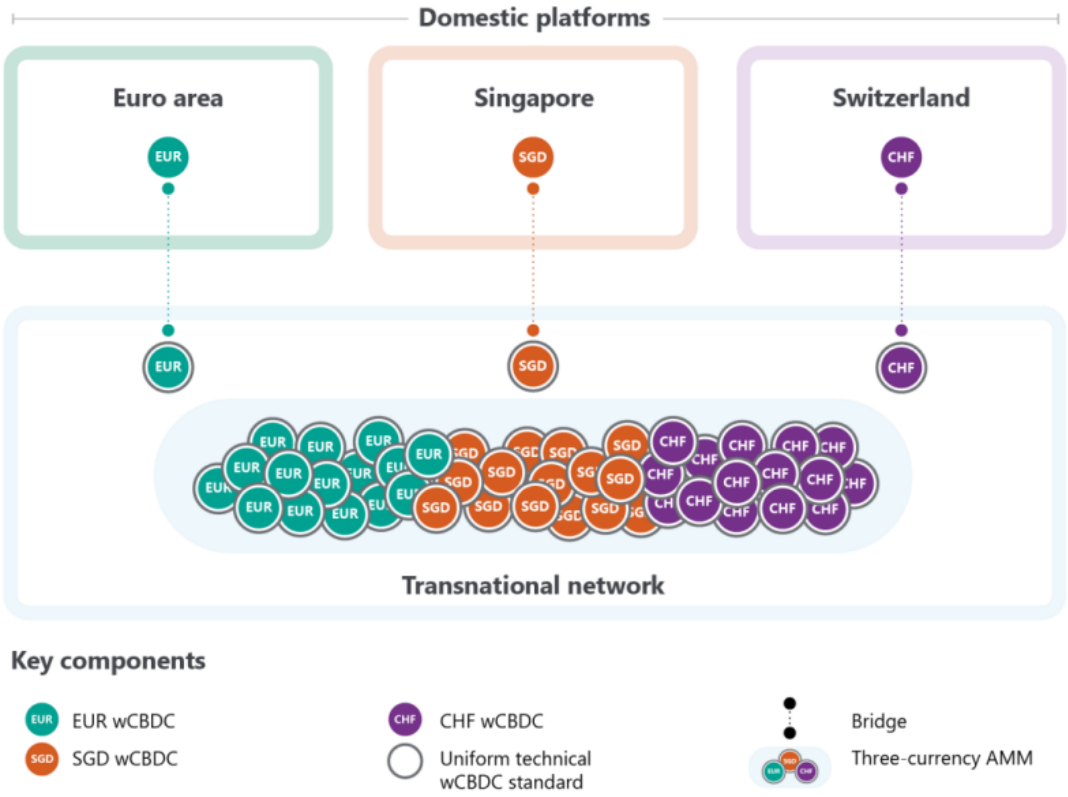
It successfully demonstrates the technical feasibility of the proposed architecture and adds novel insights on the potential of tokenisation in three dimensions.

First, wCBDCs are implemented as smart contracts, enabling central banks to manage their wCBDC without the need to directly operate or control the underlying platform.

Their design followed best practices from the public blockchain space, building on a widely used standard (ie ERC-20), as well as enabling upgradeability.

Second, bridges may serve as a mechanism to enable broader interoperability in an emerging tokenised ecosystem.

Mariana high-level architecture Graph 1



As implemented in the PoC, they may enable the seamless and safe transfer of wCBDC between domestic platforms and the transnational network without manual intervention.

The bridge design features controls and safeguards and ensures resilience through on-chain (ie bridge smart contracts) and off-chain (ie communication between bridge smart contracts) infrastructure managed by central banks.

Third, the AMM, as tested and calibrated in Mariana, fulfilled requirements based on selected FX Global Code (FXGC) principles. It delivers the contours of a possible future tokenised FX market that has a number of potential benefits.

These include supporting simple and automated execution of FX transactions, providing options to broaden the range of currencies, eliminating settlement risk and enabling transparency.

However, the use of AMMs requires the pre-funding of liquidity and their adoption would therefore entail a significant departure from the ex post funding (deferred net settlement) in use in today's FX markets.

To learn more: https://www.bis.org/publ/othp75.pdf

Project Atlas, Mapping the world of decentralised finance

October 2023

Project Atlas creates a data platform that sheds light on the macroeconomic relevance of cryptoasset markets and decentralised finance (DeFi).

Together with the project partners within the Eurosystem – the Deutsche Bundesbank and De Nederlandsche Bank – a first proof of concept of Project Atlas was developed focusing on international flows of cryptoassets.

Cryptoassets and DeFi applications are part of an emerging financial ecosystem that spans the globe.

While introducing new technologies, these markets often lack transparency and potentially present risks to financial stability.

The collapse of some stablecoins and DeFi platforms has highlighted the difficulty of making such risk assessments today.

Although blockchain transactions are theoretically transparent, reliable information on macro-financial implications is hard to obtain.

Project Atlas provides data tailored to the needs of central banks and financial regulators.

It fuses data gathered from crypto exchanges (off-chain data) with data from public blockchains (on-chain data) gathered from nodes.

By connecting various sources, Atlas allows for data vetting, giving users tools to evaluate these markets' economic significance more accurately.

As part of a first proof of concept, Project Atlas derives cryptoasset flows across geographical locations.

The approach uses transactions attributed to crypto exchanges in the Bitcoin network, along with the location of those exchanges, as a proxy for cross-border capital flows.

The country location is not always discernible for crypto exchanges, and attribution data are naturally incomplete and possibly not perfectly accurate.

Therefore, the flows should be regarded as a lower-bound estimate of the actual size.

The initial findings indicate that, although relatively small compared with total onchain network traffic, identified flows between crypto exchanges are significant and substantial economically.

Attributing geographical areas to exchanges (where possible) lays out the structure of cross-border flows. Thus, Project Atlas provides a starting point for structural analysis across jurisdictions.

More broadly, there is a need for central banks and financial regulators to gain firsthand knowledge of cryptoasset and DeFi markets, and there is a dearth of reliable and tailored data for such purposes.

Policymakers must understand the underlying data that feed into aggregate indicators to make well informed decisions. Available aggregate statistics provided by market actors or data providers often leave open how data are generated and what the underlying assumptions are.

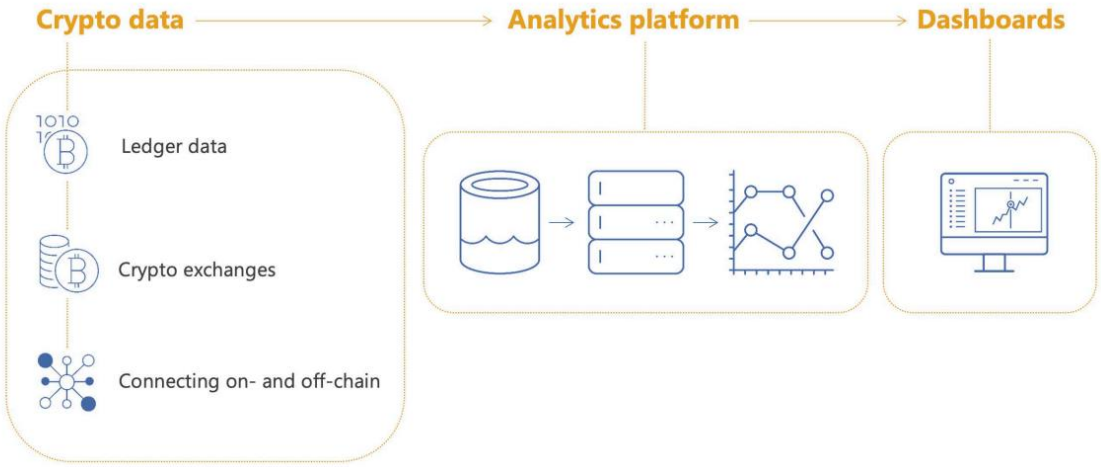
Access to granular data supports assessment of data reliability and enables solid analysis.

Because Project Atlas relies on in-house development of the platform and broader infrastructure, the knowledge and developed code can be openly shared with the central banking community.

At the same time, Atlas enhances technical and analytical capabilities.

Atlas can evolve into an insightful public good as the data platform and outputs will be openly available to central banks.

To read more: https://www.bis.org/publ/othp76.pdf



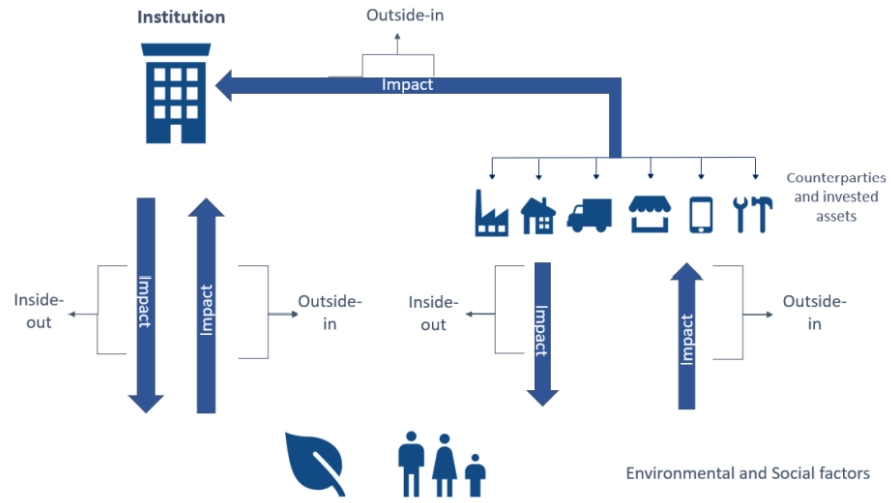
Source: Project Atlas.

The EBA recommends enhancements to the Pillar 1 framework to capture environmental and social risks

The European Banking Authority (EBA) published a Report on the role of environmental and social risks in the prudential framework of credit institutions and investment firms.

The report:
https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2023/1062711/Report%20on%20the%20role%20of%20environmental%20and%20social%20risks%20in%20the%20prudential%20framework.pdf

Figure 1: Visualisation of the concept of double materiality as it applies to institutions



Taking a risk-based approach, the Report assesses how the current prudential framework captures environmental and social risks. It

recommends targeted enhancements to accelerate the integration of environmental and social risks across the Pillar 1.

The proposed enhancements aim to support the transition towards a more sustainable economy, while ensuring that the banking sector remains resilient.

Environmental and social risks are changing the risk profile for the banking sector and are expected to become more prominent over time. They affect traditional categories of financial risks, such as credit, market and operational risks. Hence, environmental and social factors may affect both the risks faced by individual institutions and the financial stability of the entire financial system.

The Report recommends risk-based enhancements to the risk categories of the Pillar 1 framework. It also develops considerations on the potential use of macroprudential tools.

The Report explains why the EBA does not support the introduction of a green supporting factor or a brown penalising factors at this stage.

The use of such adjustment factors presents challenges in terms of design, calibration, and complex interaction with the existing Pillar 1 framework.

Against this background, the EBA puts forward recommendations for short-term actions to be taken over the next three years as part of the implementation of the revised Capital Requirements Regulation and Capital Requirements Directive (CRR3/CRD6).

In particular, the EBA is proposing to:

1. Include environmental risks as part of stress testing programmes under both the internal ratings-based (IRB) and the internal model approaches (IMA) under the Fundamental Review of the Trading Book (FRTB).

2. Encourage inclusion of environmental and social factors as part of external credit assessments by Credit Rating Agencies.

3. Encourage the inclusion of environmental and social factors as part of due diligence requirements and valuation of immovable property collateral.

4. Require institutions to identify whether environmental and social factors constitute triggers of operational risk losses.

5. Progressively develop environment-related concentration risk metrics as part of supervisory reporting.

Taking a medium-to-longer term perspective, the Report also presents possible revisions of the Pillar 1 framework reflecting the growing importance of environmental and social risks. These include:

1. The possible use of scenario analysis to enhance the forward-looking elements of the prudential framework.

2. The role that transition-plans could play in the future as part of the development of further risk-based enhancements to the Pillar 1 framework.

3. Reassessing the appropriateness of revising the IRB supervisory formula and the corresponding standardised approach (SA) for credit risk to better reflect environmental risk elements.

4. The introduction of environment-related concentration risk metrics under the Pillar 1 framework.

Alongside other policy initiatives outside the prudential framework, the EBA will continue to strengthen the integration of environmental and social risks across all pillars of the regulatory framework.

To read more: https://www.eba.europa.eu/eba-recommends-enhancements-pillar-1-framework-capture-environmental-and-social-risks

2023 FSB Annual Report

FSB FINANCIAL STABILITY BOARD

Executive summary

The banking turmoil in March 2023 highlighted issues for financial stability.

1. Swift and decisive actions by the US and Swiss authorities were taken to deal with the failures of US regional banks and of Credit Suisse respectively earlier this year.

2. The already implemented Basel III reforms helped shield the global banking sector and real economy from a more severe banking crisis. The events underscored the importance of completing the implementation of the outstanding Basel III standards.

3. A striking feature of the bank failures was the unprecedented speed and scale of deposit runs. The FSB is assessing vulnerabilities from asset-liability and liquidity mismatches and exploring whether technology and social media have changed deposit stickiness.

4. Banks' risk management and governance arrangements remain the first and most important source of resilience.

   The Basel Committee on Banking Supervision (BCBS) is prioritising work to strengthen supervisory effectiveness and is pursuing follow-up work to assess the performance of specific features of the Basel Framework, such as liquidity risk and interest rate risk in the banking book.

5. The FSB's review of the lessons to be learnt for the operation of the international resolution framework concludes that recent events demonstrate the soundness of the framework.

   While the review identifies several areas for further analysis and improvements in the operationalisation and implementation of the framework, the review upholds the appropriateness and feasibility of the framework, rather than presenting issues that would question the substance of the Key Attributes themselves.

Vulnerabilities in the global financial system continue to be elevated…

1. The effects of the post-pandemic rise in interest rates are increasingly being felt. The cost of financing has risen substantially, at a time when debt is at very high levels across the government, corporate and household sectors. This is likely to lead to credit quality challenges that may affect both banks and non-bank investors.

2. High interest rates and an uncertain growth outlook also create the potential for higher volatility in asset prices. This could generate significant spikes in collateral and margin calls, inducing fire sales of assets. Liquidity mismatches in non-bank financial entities could also amplify shocks if they lead to simultaneous asset sales across markets.

… while vulnerabilities from structural change continue to emerge.

1. Exposure to climate-related vulnerabilities is becoming more evident. A manifestation of physical risks, as well as a disorderly transition to a low carbon economy, could have destabilising effects from increases in risk premia and falling asset prices.

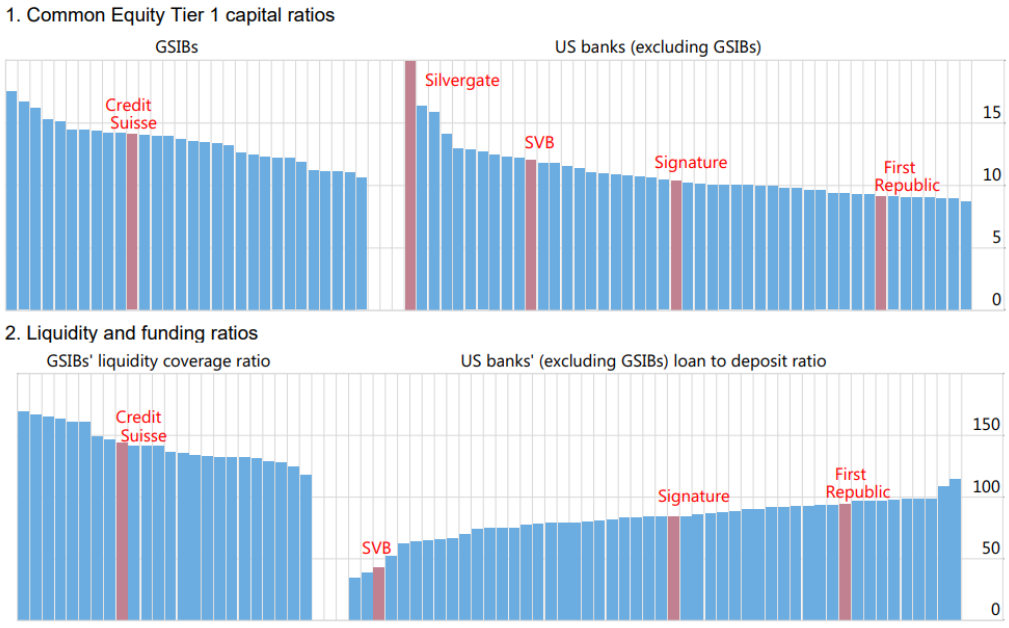
2. Cyber incidents continue to grow in frequency and sophistication. A successful cyberattack on parts of the financial system, including third-party service providers, could interrupt the supply of financial services and damage confidence.

3. Crypto-asset markets are rapidly evolving and, while financial stability risks appear contained at present, recent incidents underscore the need for vigilance and oversight.

   If these markets were to grow and become more interconnected with the traditional financial system, they could reach a point where they represent a threat to global financial stability.

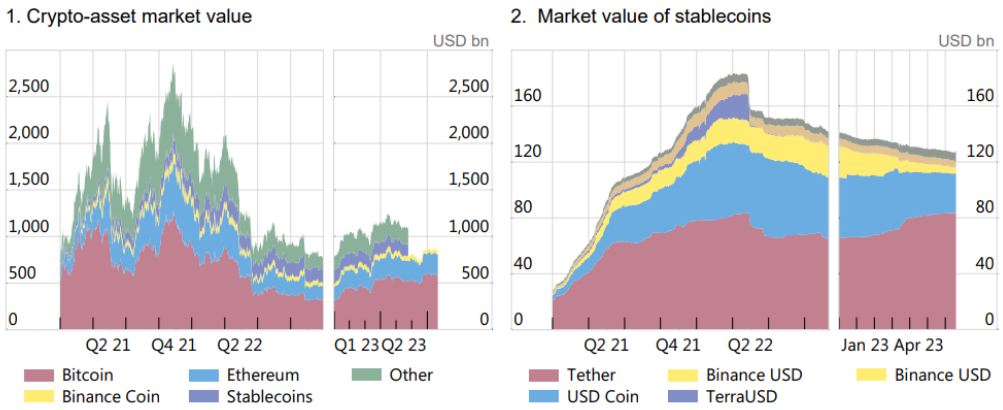
The banks that failed were not outliers in terms of capital or liquidity ratios

In per cent as of 2022:Q4 — **Graph 2**



Sources: S&P Capital IQ; FSB calculations.

Crypto-asset market capitalisation remains well below its peak — **Graph 5**



Sources: CoinGecko; CCData; FSB calculations.

To read more: https://www.fsb.org/wp-content/uploads/P111023.pdf

FSB FINANCIAL STABILITY BOARD

Promoting Global Financial Stability

2023 FSB Annual Report

Crypto-assets regulation: from patchwork to framework

DeNederlandscheBank
EUROSYSTEEM

Hello everyone – offline, and also, hello everyone online.

It is a pleasure to be back in London. Back at the Bank of England. Back at the 'Old Lady of Threadneedle Street'. The Old Lady that battles inflation, safeguards financial stability and firmly protects… the gold in her vaults. Gold that lies right here, under our feet. 400 000 bars of gold, to be precise.

Now, I am not here to take a peek at that small fraction of gold that is ours. No, today, I was invited to talk about a new type of gold – or, at least, to some it is. I am referring to crypto-assets. Something the Financial Stability Board has consistently been monitoring since 2018.

For a long time, crypto-assets were an experiment on the fringes of the financial system. No shop owner would accept bits and bytes instead of cash or card.

But soon, certain illicit online marketplaces got wind of this new digital asset: selling illegal services or products online had never been this easy. So, regulators and law enforcement agencies sprang into action and took coordinated action to combat money laundering.

Nonetheless, in those early days, chances were very slim that someone had heard of bitcoin or ether, let alone owned them.

And then suddenly – seemingly overnight – crypto-assets became the talk of the town, and everybody seemed to wonder: is this the new gold?

As a result, the total market capitalization of crypto-assets exploded. At the same time, ties with traditional financial parties grew. As did the interest in the underlying technologies.

When the 'crypto winter' hit us last year, it became crystal clear however, that not all that glitters is gold. A sudden change in investor sentiment caused a sharp decrease in crypto-asset prices. That, in turn, led to the spectacular failure of several crypto-intermediaries. Total crypto-asset market capitalization was never really able to recover after that.

But even as crypto-asset prices are in a rut presently, crypto-asset market structures continue to develop at a rapid pace. And at the same time, we see a growing involvement of traditional finance with the crypto-ecosystem – which means that the financial interlinkages between these two worlds are growing as well.

So we cannot exclude that, sooner rather than later, vulnerabilities in crypto-asset markets become big enough to form an actual, transmissible risk to global financial stability. And this risk looms larger if we don't implement comprehensive regulation.

All over the world, national regulators have not been waiting on me to say this. A lot of decisive action has been taken already.

The FSB welcomes these initiatives because they show much-needed willingness to act.

But at the same time, we see a challenge due to crypto's inherent global reach. And that is: how do we ensure consistency between all these regulations?

And how do we deal with crypto parties that choose to operate exactly from those jurisdictions that don't really prioritise the effective regulation and supervision of crypto-asset activities?

To overcome these challenges, the FSB developed a Global Regulatory Framework. This framework, published last July, aims to promote the consistency of regulatory and supervisory practices to address the financial stability risks of crypto-asset activities.

Developing this framework on the basis of consensus among the FSB member authorities has required a careful threading of the needle. And so, I think it is fitting that we find ourselves on Threadneedle Street, today. The perfect place to discuss the FSB's finalized policy work on broader crypto-asset markets and global stablecoin arrangements.

The latter is a specific type of crypto-asset – one that aims to maintain a stable value relative to a pool of assets, usually fiat money. One that carries heightened risks to global financial stability because of its potential systemic relevance in multiple jurisdictions. And so, one that requires special attention.

Because the FSB recommendations are high-level, national authorities can apply these recommendations flexibly, whilst also ensuring a baseline – a baseline that provides for a consistent application of comprehensive regulation across the globe. A baseline that embraces both already existing rules in some countries, and to be drafted regulations in others. A baseline

with a clear thread of gold – and that is the principle of "same activity, same risk, same regulation".
Many crypto-asset activities perform functions and, hence, carry risks, that strongly resemble those of traditional financial activities. Think, for example, of the similarities between staking and deposit-taking, or between crypto-lending and securities financing transactions. And so, we believe they should be regulated as such.

A number of our recommendations have to do with the vulnerabilities of centralized crypto-asset intermediaries. And I stress 'centralized' because, however 'de-centralized' the crypto-asset ecosystem claims to be, economic reality tells a different story. In fact, some of these intermediaries already seem to play a systemic role within the crypto-ecosystem.

That is why we recommend that authorities require a number of things from these entities. For instance to have in place robust governance frameworks and to set up risk management practices.

Of course, I know that implementation takes time. But I also know it's high time – as I have often heard my British colleagues say – to 'crack on'. So, let's prioritise the full and consistent implementation of our high-level recommendations.

Because in the meantime, people investing in crypto-assets continue to run serious risks. In the meantime, linkages between the crypto-ecosystem and traditional finance may very well continue to grow. So, in the meantime, risks to financial stability can still escalate.

There are several ways through which we can prevent crypto-asset volatility from spilling over to the traditional financial system. One important way to do this, is with the full and consistent implementation of the BCBS prudential framework for the treatment of banks' crypto-asset exposures.

Putting this global framework into practice limits the chance that crypto-volatility reaches banks and hence becomes a threat to financial stability.

To keep a close eye on the progress made, the FSB will start monitoring implementation. Our first review should be finalized by the end of 2025.

And the FSB will not only monitor progress. If we are serious about regulating what is essentially a cross-border phenomenon, we also need to be serious about cross-border cooperation. About information sharing. About working together.

This also means that we need to venture outside of the FSB jurisdictions. Because several jurisdictions with material crypto-asset activities are not members of the FSB.

Nevertheless, global financial stability ties all of us together. And to safeguard that stability, the FSB members need to engage with these jurisdictions. We need to ensure the needle of their regulatory compass points in the same direction as ours.

To do so, we want to start with positive incentives like outreach, technical workshops, and capacity building to get them prepared. We'll work closely with the IMF, the World Bank and other international organizations on this.

However, chances are we may still see regulatory competition. And so, we cannot exclude that a toughening of regulation in one part of the world pushes crypto-asset parties to relocate to other parts of the world. Parts of the world with weaker regulatory standards.

What we can do, though, is require that traditional financial institutions take additional measures to manage the risks of interacting with crypto intermediaries operating in such jurisdictions. Measures necessary to protect global financial stability. We are not there yet, but if you ask me, we should be heading in that direction.

Just like crypto-asset threats don't stop at national borders, the thread of crypto-asset risks doesn't only weave through financial stability. There are also macroeconomic risks. Specifically for emerging markets and developing countries.

In EMDEs, crypto-assets are relatively popular. The more popular they are, the more they could erode the effectiveness of domestic monetary policy. Because people may start preferring crypto-assets or stablecoins over domestic currencies.

This risk of currency substitution, or so-called 'crypto-ization', means EMDE's might face even greater risks from crypto-assets than advanced economies. A potentially dangerous cocktail of financial stability and macroeconomic risks.

For this reason, the Indian G20 Presidency asked the FSB and the IMF to combine their work on this subject in a synthesis paper. This was published in September. A key conclusion is that crypto-assets do indeed have implications for macroeconomic and financial stability, but even more, that these implications are mutually interactive and reinforcing.

In our view, this underlines, once more, the need for a global regulatory and supervisory baseline to oversee crypto-asset activities.

A baseline that addresses both financial stability and macroeconomic risks. A baseline that all national regulators can adhere to, but at the same time allows them to take targeted and time-bound measures to address jurisdiction-specific circumstances.

To help EMDEs address these serious risks to financial stability, the FSB will investigate how cross-border cooperation between advanced and developing economies can practically be enhanced.

Dear colleagues, today, I've talked about crypto-assets – a concept that is not even 20 years old. The Bank of England's nickname, the 'Old Lady of Threadneedle Street', dates back more than two hundred years. To 1797.

When crypto-assets were still the distant future. Banknotes could still be converted to gold. And France declared war on Britain, and landed on its shores.

Within hours, people rushed to the Bank of England. Asking for gold. The very gold that lies under our feet. And the famous vaults were rapidly emptying out.

Then-prime minister, William Pitt the Younger, tried to put a halt to that. Not because he wanted to preserve gold for financial stability reasons, but to use it to defend Britain.

In a famous cartoon, probably familiar to many of you, you can see William Pitt the Younger trying to 'woo' an old lady (more information(Refers to an external site)).

But in fact, all he wants, is the gold in her pockets and in the chest she sits on. Of course, she is not inclined to give in. Ever since, the Bank of England has been known as the 'Old Lady of Threadneedle Street'.

Today, the 'Old Ladies' many of us work for, will no longer exchange banknotes for gold. But still people look for stable assets – assets that maintain their value over time and allow them to transact with people from around the globe.
Today, these 'Old Ladies', can still not easily be 'woo-ed'. And remain firmly seated on their chests of gold – or, rather, vaults. And today, once more, these 'Old Ladies' are willing to defend what knits us all together and helps to bring global prosperity – and that's financial stability.

Thank you.

To read more: https://www.dnb.nl/en/general-news/speech-2023/crypto-assets-regulation-from-patchwork-to-framework/

BIS Quarterly Review, September 2023
International banking and financial market developments

Resilient risk-taking in financial markets

With the end of the hiking phase in sight, investors focused on macroeconomic developments during the review period, while staying attuned to their policy implications.

Government bond yields rose in advanced economies (AEs), with term structures reflecting increasingly diverse economic outlooks.

Despite a spell of derisking in August, risk-taking was generally resilient, including in emerging market economies (EMEs).

Notable differences marked the evolution of government bond yields in China, the euro area and the United States.

While US long-term yields reached highs not seen since before the Great Financial Crisis, such yields barely rose in the euro area.

These dissimilar paths were driven by inflation-adjusted, ie real, yields consistent with a stronger economic outlook in the US than in the euro area.

As short-term rates rose in the euro area on the back of stubborn inflation, the term structure there inverted further.

Bond yields largely declined in China, amid a faltering recovery from Covid restrictions and monetary policy easing.

US Treasuries were at the centre of heightened market volatility in early August. Yield rises accelerated as investors became more convinced that higher rates were here to stay following better than expected US growth numbers.

In addition, several, almost concurrent announcements fueled investor unease and led to a sell-off: an unexpected increase in the issuance of long-dated bonds by the US government; the greater flexibility in the Bank of Japan's yield curve control policy; and a downgrade of the US sovereign credit rating.

The upward pressure on US yields spilled over to other AE government bond markets. Risky assets held up firmly, but also exhibited some divergence across major economies due to the differing outlooks. Consistent with developments in core bond markets, stock returns were higher in the US than in the euro area and China.

Likewise, sentiment in corporate credit markets seemed to improve in the US but remained relatively subdued in the euro area. US credit spreads narrowed below historical landmarks and issuance gained some traction.

In contrast, bank lending to firms was still sluggish across jurisdictions. Financial market developments in EMEs reflected a new phase of monetary policy across most jurisdictions as well as external factors.

Short yields fell as the monetary policy stance began to turn, with most central banks pausing rate hikes or implementing cuts.

Risk-taking continued, with higher-yielding currencies attracting capital inflows.

In August, EME spreads and exchange rates also appeared sensitive to the temporary bout of de-risking in AE financial markets: the appreciation of Latin American currencies came to a halt, speculative positions in currency futures declined, and the rise of long-term yields accelerated.

In addition, headwinds seemed to emerge from China's slowdown.

International banking and financial market developments

Special features

To read more: https://www.bis.org/publ/qtrpdf/r_qt2309.pdf

The Role of Research, Data, and Analysis in Banking Reforms

Governor Michelle W. Bowman, Board of Governors of the Federal Reserve System, at the 2023 Community Banking Research Conference sponsored by the Federal Reserve System, the Conference of State Bank Supervisors, and the Federal Deposit Insurance Corporation, St. Louis, Missouri

It's a pleasure to be back in St. Louis for the annual Community Banking Research Conference. I am grateful for the continued partnership between the Federal Reserve, the Conference of State Bank Supervisors (CSBS), and the Federal Deposit Insurance Corporation (FDIC), and I would like to thank the conference organizing committee for putting together this important forum, now in its 11th year.

This conference provides an excellent opportunity for policymakers to pause and reflect on the Impact of current U.S. bank regulatory policies on the financial system. At the same time, we should also consider how alterations to these policies will influence the future of the broader banking system.

We get a view into these questions—the effectiveness of past policy choices and insights that can help shape future policy reforms—from several aspects of this conference, including, of course, the research that will be presented and from the results of the CSBS Annual Community Bank Survey.

We also gain insight from the experience and perspectives of our participants: your questions and commentary throughout the next few days can provide important context about the intended and unintended consequences of past policy decisions.

And the combined perspectives from the wide range of experts gathered here—the researchers, regulators, policymakers, and bankers—will provide us with valuable insights into how to better establish and calibrate bank regulatory and supervisory policy in the future.

Research, data, and analysis are essential to thoughtful bank regulatory reform. These tools can be used to identify issues that must be addressed or remediated; they can help us evaluate which elements of the current bank regulatory framework may be effective or ineffective, and they can

help us craft reforms with a clearer understanding of the intended and unintended consequences.

Together, these tools can help us develop and implement appropriate regulatory reforms that do not impair the long-term health or impede the future growth of our diverse U.S. banking system, enabling us to avoid the pitfalls of reforms that fail to accomplish these important goals.

Today I will begin by discussing some of the research around community banks and the role they play in the U.S. banking system.

I will then discuss how this research can inform policy, including by helping us be more sensitive to the unintended consequences of reform, and discuss how this perspective can be applied to the evaluation of bank mergers and acquisitions. Finally, I will mention a few additional areas where I think research could be valuable as an input to the rulemaking process.

The Role of Research, Data, and Analysis in Rulemaking

Good research leads to good policy. This statement will likely sound familiar to many of you, as it was how Jim Bullard, the former president of the Federal Reserve Bank of St. Louis, would describe one of the key purposes of this conference in past years.

Over the years, many of the conference speakers and presenters have echoed that same sentiment since this conference first launched in 2013.

In my remarks today, I will discuss the importance of using an evidence-based approach to bank regulatory policy, which has been a long-standing theme and goal of this conference.

While research can provide valuable insights to inform revisions to bank regulatory policy, research is particularly important when it comes to regulatory efforts that directly affect community banks, including changes to modernize the Community Reinvestment Act regulations, or reforms to the supervisory standards and expectations for community banks.

Research also plays an important role in helping us understand policy reforms that affect community banks indirectly, such as the potential that regulatory requirements designed to apply only to larger banks could eventually be pushed down to smaller and community banks.

Research and evidence-based rulemaking can insulate the banking system from wide swings in policy over time. The banking system faced significant challenges this year, triggered by the failures of three large banks in the early spring.

As I noted at the time, the policy choices made in responding to these failures will have important, long-term consequences for the U.S. banking system.

The potentially far-reaching consequences of policy choices we make during this time highlight the importance of clearly identifying the problems we are attempting to address using data to craft solutions that are effective, targeted, and efficient.

Bank failures demand scrutiny, but bank failures alone do not justify wholesale revisions to the bank regulatory framework. Before we undertake reforms intended to address issues that led to bank failures, we need to develop a comprehensive understanding not only of those root causes, but also of the costs and unintended consequences of potential reforms.

Research can protect against over-reactive regulation, especially that which is not efficient, calibrated and tailored to address the actual risks and challenges facing the banking system.

My insistence upon being guided by evidence does not imply that I am opposed to regulatory reforms, but rather that policymakers should be expected to show their work.

The banking system is not perfect, and policymakers should continually ask themselves if there are ways to improve regulation and supervision.

I am always open to considering evidence-based proposals that address known deficiencies and shortcomings in our regulatory and supervisory framework, but any such proposals must stop short of interfering with or stepping into the role of managing the financial institution.

I am very pleased that this research and policy conference has continued to thrive and grow over the 11 years since its inception. The research work you all do, especially your efforts to develop data and analysis to inform policy, is a critical input to the rulemaking process.

While research is a foundation of prudent regulatory policy, the community banks that operate under this framework are the reason we are gathered together at the Saint Louis Federal Reserve Bank.
So, let's build upon that foundation to highlight the role of community banks in the U.S. banking system.

To read more:
https://www.federalreserve.gov/newsevents/speech/bowman20231004a.htm

The EBA publishes 2023 list of third country groups and third country branches operating in the EU/EEA

The European Banking Authority (EBA) published the updated list of all third country groups (TCGs) with intermediate EU parent undertakings IPU(s), where applicable, and the list of all third country branches (TCBs) operating in the European Union and European Economic Area (EU/EEA).

This publication ensures that market participants have clarity on the direct ownership of the involved institutions.

BDT Capital Partners LLC	United States
Greenhill & Co. Inc.	United States
SKY Harbor Capital Management LLC	United States
Wellington Management Group LLP	United States
IBG LLC	United States
Brown Brothers Harriman & Co N.Y.	United States
Hamilton Lane Advisors L. L. C.	United States
DXC Technology Companyc	United States
Stifel Financial Corporation	United States
Northern Trust Corporation	United States
Jefferies Financial Group Inc.	United States
StoneX Group Inc.	United States
Citigroup Inc.	United States
The Goldman Sachs Group, Inc.	United States
Bank of America Corporation	United States
John Deere Capital Corporation	United States
Payden & Rygel	United States
Ford Motor Credit Company LLC	United States
International Business Machines Corp.	United States
The Bank of New York Mellon Corporation	United States
Warburg Pincus	United States
Morgan Stanley	United States
STATE STREET CORPORATION	United States
Wells Fargo & Company	United States
U.S. Bancorp	United States
Dell Inc	United States
Aon plc	United States
Cantor Fitzgerald LLP (US)	United States
Citadel Securities LP,	United States
Geneva Global Holdings, LLC	United States
Guggenheim Capital LLC	United States
Hudson River Trading LLC	United States
Berkshire Hathaway Inc	United States
Principal Financial Groupo Inc	United States
AllianceBernstein LP	United States
Virtu Financial, Inc.	United States
WisdomTree Investments Inc.	United States
Susquehanna International Holdings LLC	United States
KKR & Co. Inc.	United States

In the course of the 2023 exercise, 461 TCGs from 47 third countries have been identified as operational in the EU/EEA.

Out of them, 2 have an IPU in place. Moreover, 65 TCGs have branches in the EU/EEA with a total of 105 third country branches of credit institutions operating in the EU/EEA.

Legal basis and background

- According to Article 21b of Directive 2013/36/EU (Capital Requirements Directive - CRD), third country groups (TCGs) operating through more than one institution in the Union and with total assets of EUR 40 billion or more are required to have an intermediate EU parent undertaking (IPU).

- The EBA has a key role to play in facilitating cooperation between National Competent Authorities and in supporting their IPU decision-making process.

- In July 2021, the EBA Guidelines (EBA/GL/2021/08) provided a common methodology for the calculation of the total value of assets in order to achieve consistent application of Union law.

- In May 2022, the EBA published the decision (EBA/DC/441) on supervisory reporting for the threshold monitoring of the intermediate EU parent undertaking to ensure a timely application of the IPU requirement.

To read more: https://www.eba.europa.eu/eba-publishes-2023-list-third-country-groups-and-third-country-branches-operating-eueea

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