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Solvency 2 News, January 2022

Dear members and friends,

The European Insurance and Occupational Pensions Authority (EIOPA) has published its annual report on the use of limitations and exemptions from the regular Solvency II reporting by national competent authorities (NCAs) during 2020 and the first quarter of 2021.

During 2020, three NCAs granted limitations and exemptions from reporting to 113 solo undertakings, while during the first quarter of 2021 there were 11 NCAs which granted limitations to 669 solo undertakings.

At group level, two NCAs granted limitations and exemptions from annual reporting to seven groups during 2020 and two NCAs granted exemptions to 27 groups for the quarterly reporting for the first quarter 2021.

In the first quarter 2021, large undertakings completed around 10 templates while on average five were submitted by smaller ones. Furthermore, regarding annual reporting the ten largest undertakings by total assets completed on average almost 37 templates, while the ten smallest undertakings completed only 28 templates.

The results show that proportionality is implemented in the reporting and reflects the nature, scale and complexity of the risks inherent to the business. The average number of templates submitted by small, medium-sized or large insurance undertakings varies substantially, which reflects that the proportionality embedded in the design of reporting requirements delivers a good result.

Background

The report is based on the Solvency II annual and quarterly quantitative reporting templates with reference during 2020 and the first quarter of 2021, as submitted to EIOPA by solo undertakings or insurance groups from the European Economic Area.

The limitation to regular supervisory reporting can be granted only to undertakings that don't represent more than 20% of a Member State's life, non-life insurance and reinsurance market respectively.

Supervisory authorities shall give priority to the smallest undertakings when determining the eligibility of the undertakings for those limitations. For solo undertakings limitations can be authorised to submit quarterly reporting information of reduced scope, where this information is reported at least annually; while undertakings may be exempted from both quarterly and annual reporting in case of reporting templates on an item-by-item basis.

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The report:
https://www.eiopa.europa.eu/sites/default/files/publications/reports/report_on_limitations_and_exemptions_during_2020_and_q1_2021.pdf

2021 Insurance Stress Test Report

In its fifth Union-wide stress test exercise, conducted in cooperation with the European Systemic Risk Board (ESRB), EIOPA tested the resilience of the European insurance industry against a prolonged COVID-19 scenario in a “lower for longer” interest rate environment.

The exercise covers a representative sample of 44 participants from 20 countries, representing 75% of the EEA market.

The scenario identified a set of market and insurance specific shocks specifically constructed to reflect the current EIOPA and ESRB assessment of prevailing systemic risks to the financial system.

These risks stem from the worsening of economic prospects, reflected in a global decline in long term risk-free interest rates from already historically low levels, accompanied by a material repricing of the risk premia amid weakening countries’ fiscal positions and challenging corporate profitability.

An additional price correction in commercial and residential real estate completes the set of market shocks.

The diverging movements of the risk-free interest rate and of the risk premia qualifies the market scenario as a double-hit, potentially generating detrimental effects both on the liability side through the reduction of the discounting curves and on the asset side through the reduction of the prices of the relevant asset classes held by insurers in their investment portfolios.

The scenario embodies the characteristics of plausibility and severity required by a robust stress test exercise. The set of shocks are economically and market consistent, hence plausible, by construction.

While designed to test tail events, the overall likelihood of the market shocks of the scenario ranges between 0.1% and 0.6% as correlation moves from 0.35 to 0.824.

The market shocks are complemented by a set of insurance specific shocks affecting all the lines of business that are more exposed to the effects of the pandemic outbreak.

While maintaining its non pass-fail nature, the 2021 exercise has the primarily microprudential objective of assessing the capability of the

participants to sustain the adverse conditions depicted in the stress test scenario.

The post-stress individual positions are eventually aggregated to infer the overall resilience of the insurance industry.

The 2021 insurance stress test enhances the macroprudential dimension of the exercise, complementing the standard fixed balance sheet approach with a constrained balance sheet approach where participants are allowed to apply reactive management actions in the calculation of their post-stress position. The results of these actions are used to identify potential spill-over effects on other markets.

The regular capital and solvency assessment, conducted in line with the Solvency II framework, is complemented for the first time by the assessment of the pre- and post-stress liquidity position of the participants over a 90 days' time-horizon.

The two components are based on a common narrative, scenario and set of shocks but are clearly separated in terms of the application of the shocks, data collection, assessment and disclosure.

The paper:
https://www.eiopa.europa.eu/sites/default/files/financial_stability/insurance_stress_test/insurance_stress_test_2021/eiopa-bos-21-552-2021-stress-test-report.pdf

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The Insurance Distribution Directive (IDD) has been in application since 1 October 2018, but in some cases, transposition of the Directive only occurred over the course of the past year.

Given the short period of application of the IDD and the fact that the impact of legislative change takes time to bed in, it is too early to draw robust conclusions about the application of the IDD, especially with regard to Member States where there has been a delay in application.

In addition, a number of other factors, such as COVID-19 and digitalisation, have been affecting the market, making it challenging to distinguish the impact of the IDD from other factors.

It will therefore be important to reassess the application of the IDD at later stage, prior to proposing any major changes to the legal framework. EIOPA plans to publish a further report on the application of the IDD in two years' time, to help prepare the Commission in their future review of the Directive.

Despite the limitations in terms of evidence and experience on the application of the IDD, this report is intended to provide a preliminary

picture of the impact of the IDD on consumers, insurance distributors and supervisory activities.

EIOPA ran a survey on the application of the IDD and these responses, along with input from national competent authorities (NCAs), were used in helping to prepare this report.

Changes in the EU insurance distribution market

The IDD has sought to harmonise how insurance is distributed to consumers, yet the insurance distribution market in the EU remains diverse and widely fragmented.

There is a wide variety of national distribution channels, registration requirements and reporting frameworks across the EU.

This makes it challenging to provide conclusive findings at the European level and assess whether consistent outcomes are achieved for consumers purchasing insurance in the single market.

EIOPA has sought to gather as much data as possible from NCAs to examine the changes in the EU insurance distribution market.

While the data comparability is better than in the Report on the Structure of Insurance Intermediaries Markets in Europe published in 2018, significant gaps exist.

Despite the gaps and specific limitations, the following general trends can be observed:

- The decrease in the number of registered intermediaries continued over the period 2016-2020. Possible reasons for the decrease are diverse, ranging from consolidation in the sector, the increasing age of intermediaries, reorganisation in distribution models, stricter professional requirements at national level and deletion of inactive intermediaries from national registers.

- The decline in the number of insurance intermediaries is reflected in a sharp drop in the number of intermediaries registered as natural persons over the period 2016-2020. In contrast, the number of intermediaries registered as legal persons increased slightly. There could be different reasons for these developments, such as the further professionalisation of the sector and digitalisation.

- While there is significant diversity in terms of national categories of insurance intermediaries, in 2020, the average European insurance

intermediary was a natural person, acted on behalf of one or more insurance undertakings, exclusively sold insurance and was paid in relation to the insurance contract on the basis of a commission.

- With regard to the relative importance of different distribution channels in terms of business written, it can be noticed that, in 2020, bancassurers played a significant role in the distribution of life insurance while other intermediaries such as agents were very relevant for the distribution of non-life insurance. The amount of online sales, although currently relatively low based on available data, seems to be increasing on a yearly basis, a trend that was further enhanced by the COVID-19 pandemic as intermediaries were operating remotely.

- Despite the decrease in the number of registered insurance intermediaries over the period 2016-2020, the number of insurance intermediaries with a passport has increased in most Member States over the same period. However, no indication can be made on the evolution of the amount of business being written on a cross-border basis as there is currently no European framework for reporting such data.

The report:
https://www.eiopa.europa.eu/sites/default/files/working_groups/reports/eiopa-bos-21-581_report_on_the_application_of_the_idd.pdf

IAIS Roadmap sets workplan for the next two years

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

• Roadmap reflects progress made in the IAIS' strategic pivot from policy development to a stronger focus on issues of financial stability and implementation assessment.

• Despite the continued challenges of Covid-19, the IAIS maintains momentum on key post-financial crisis reforms, including the Holistic Framework and Insurance Capital Standard.

• IAIS remains ahead of curve on supervisory issues, by advancing work related to key trends such as climate change, digital transformation, cyber risk and diversity, equity and inclusion.

The International Association of Insurance Supervisors (IAIS) published its 2022-2023 Roadmap. The Roadmap outlines the projects and activities that form the IAIS' work programme over the next two years, guided by the IAIS' Strategic Plan 2020-2024.

"As we arrive at the mid-point of the 2020-2024 Strategic Plan, the 2022-2023 Roadmap builds on the lessons learnt from responding to the new circumstances brought about by Covid-19, while also looking ahead to the risks and challenges insurance supervisors are and will be facing in the near future", commented IAIS Executive Committee Chair, Vicky Saporta.

The 2022-2023 Roadmap sees a prioritisation of the IAIS' activities focused in five primary areas:

• Assessing trends and risks in the global insurance sector – notably through the Global Monitoring Exercise (GME) – an important pillar of the Holistic Framework for the assessment and mitigation of systemic risk;

• Finalising the development of global standards, in particular, the Insurance Capital Standard (ICS) for internationally active insurance groups (IAIGs);

• Promoting effective supervisory practices, particularly in responding to accelerating trends in the global insurance sector;

• Supporting the implementation of agreed global standards and assessing their comprehensive and consistent implementation; and

• Enhancing efficient and effective IAIS operations and transparent communication

Figure 1: IAIS High-Level Goals from the 2020-2024 Strategic Plan

Covid-19 amplified many of the trends that the IAIS identified as relevant to the global insurance sector. In response, in 2022-2023, the IAIS will strengthen its consideration of these accelerating trends from a supervisory perspective.

Notably, the IAIS will continue to advance its ambitious work programme on climate risk. It will also continue work on promoting good supervisory practices in the key areas of digital transformation, cyber risk, culture and conduct, financial inclusion and sustainable development.

In 2022-2023, the IAIS will add a focus on diversity, equity and inclusion in the insurance sector, particularly related to interlinkages with insurers' culture and governance.

In progressing efforts in these areas, the IAIS will continue to work with our partners, while also consulting and collaborating with stakeholders and members.

Overall, the 2022-2023 Roadmap presents an ambitious, but achievable, programme of work focused on areas of key interest for the members and stakeholders of the IAIS.

The Roadmap can be found at: https://www.iaisweb.org/news/iais-roadmap-sets-workplan-for-the-next-two-years

Resolution Funding for Insurers, Practices paper

FSB FINANCIAL STABILITY BOARD

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Executive Summary

Resolution funding arrangements are essential to facilitate the effective and timely implementation of resolution measures.

Besides looking for sources of funding within the insurer or the group to which it belongs, resolution authorities tap on privately funded policyholder protection schemes (PPSs) or standalone resolution funds.

This practices paper on resolution funding ("Paper") looks at liquidity facilities available to insurers on a business-as-usual ("BAU") basis for them to manage their liquidity needs (e.g., the tri-party repo market in Switzerland) and presents examples of emergency liquidity assistance facilities that may be available to insurers (e.g., a liquidity line is available from the Deposit Insurance Corporation of Japan to a distressed insurer).

It also provides examples of sources of resolution funding in various jurisdictions.

In most jurisdictions, PPSs can not only be used for policyholder compensation when winding up an insurer but can also be used for funding portfolio transfers and run-offs which are common resolution actions.

In some others, standalone resolution funds exist and are funded on an ex-post basis, taking into consideration that such funds may have a limited scope of usage and an ex-ante funding could entail significant opportunity costs for the industry.

Some jurisdictions have both a PPS and a standalone resolution fund.

When resolving an insurer who is a PPS member, the PPS may be tapped upon first, before the resolution fund.

The Paper also discusses temporary funding sources for resolution funds.

The final section of the Paper describes mechanisms in place to recover funds used in resolution.

Policy makers and resolution authorities may use the Paper as reference as they develop their resolution funding framework for insurance.

Box 1.1: Insurance Groups with Banking Subsidiaries in France: Approach to Theoretical Liquidity Risks

Historically, the French landscape of financial institutions has been dominated by major financial conglomerates that conduct both insurance and banking activities during the past decades. Such financial conglomerates are known as “bancassurance” groups in France.

As large parts of the French insurance market belong to such bancassurance groups, particularly the life insurers, it could - at least in theory - expose insurers to banking liquidity risk. However, the parent company of most bancassurance groups is a bank (for which the recovery and resolution European banking regime applies) owning insurance subsidiaries that do not have high liquidity risks. On the contrary, insurance subsidiaries can provide the banking part of these groups with an additional stable source of liquidity, as demonstrated during the 2008 crisis.

Regarding most bancassurance groups whose parent company is an insurance company, it appears that their banking subsidiaries are typically not material. In this regard, it should be noted that the most significant insurance company in France is waived from supplementary supervision required for conglomerates. It does not need to comply with the financial conglomerates directive n°2002/87/EC on supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. This is because it does not exceed the thresholds set out in the financial conglomerates directive to assess the significance of cross-sectoral activities. The situation is different for the six biggest banking groups, which are all conglomerates, since they are subject to the aforementioned supplementary supervision for conglomerates, and for which the European Central Bank (ECB) is the supervision coordinator.

Box 2.5: Netherlands' Resolution Fund

The goal of the resolution fund is to facilitate resolution of insurers. It is part of the Dutch resolution regime for insurers, which came into effect in 2019. It is funded ex-post by levies on the insurance sector. It can be used 1) to compensate creditors, including policyholders, in case the NCWOL safeguard has been violated; 2) to return to the bankrupt estate any pay-out from a failing insurer that has been deemed too high (i.e. during resolution, pay-outs can be made to policyholders for part of their pensions and annuities which they rely on for their day-to-day living. These pay-outs will prudently be based on expected outcome of the insolvency/resolution. In rare cases the pay-outs may turn out to have been too high, and detrimental to the other creditors. In that case the administrator/DNB will not claim back from policyholders the excess amounts paid to them. Instead the other creditors would be compensated using the resolution fund.); and 3) to cover operational costs of resolution, such as the establishment of a bridge institution. Because of its recent establishment, it has never been used yet.

The resolution fund cannot be used to absorb losses or capitalize a failing insurer. Insurer's deficits are for the account of shareholders and creditors. In the case of large deficits, policyholders may also lose some of the value of their insurance policies. Unlike in the case of banks, there is no guarantee scheme for policyholders. Instead, the resolution fund ensures that policyholders will never be worse off as a result of resolution than as a result of bankruptcy. This allows the resolution authority and the trustee to (partly) continue payments from the bankrupt estate to those policy holders that rely on these payments, after the insurer has failed, and helps transfer insurance portfolios (by covering operational costs of a bridge institution).

Other resolution costs are passed on to the insurance sector retrospectively, separately from the resolution fund. These may include costs for engaging the services of independent experts. DNB also passes the costs of regular resolution planning on to the insurance sector.

To read more: https://www.fsb.org/wp-content/uploads/P100122-1.pdf

Report of the Analytical Task Force on the overlap between capital buffers and minimum requirements - December 2021

ESRB
European Systemic Risk Board
European System of Financial Supervision

Executive summary

Capital buffers are key macroprudential policy instruments. Regulatory capital buffers ("the buffers") were introduced after the global financial crisis to mitigate systemic risk. Buffers help to ensure the resilience of banks and to conserve their capital by placing constraints on distributions if buffers are breached.

Unlike minimum requirements, buffers can be drawn down when losses have to be absorbed during times of stress and are replenished thereafter. Using buffers may thus cushion the financial cycle, especially in the case of the countercyclical capital buffer (CCyB), which is designed to be released by the authorities in a downturn.

Banks might not always be able or willing to use their buffers. For the purpose of this report, the "usability" of buffers and excess capital means that banks are able to deplete their buffers without triggering a breach any parallel minimum requirement.

The minimum requirements include the leverage ratio (LR), the minimum requirement for own funds and eligible liabilities (MREL) or the risk-weighted capital framework for the upcoming leverage ratio buffer for global systemically important institutions (G-SIIs), also referred to as the G-SII buffer.

Even if buffers are usable from this perspective, banks might be unwilling to use them. Banks' willingness to use buffers is beyond the scope of this report and may also depend on factors other than buffer usability.

However, investigations into banks' willingness to use buffers need to take into account potential regulatory impediments that might be an important reason why banks do not use buffers. Thus, both the ability and the willingness to use buffers may limit the capacity for buffers to cushion shocks.

When buffers overlap with parallel minimum requirements, buffer usability is inevitably constrained. EU banking regulation ("the banking package") establishes three parallel frameworks, each with minimum capital requirements:

(1) the risk-weighted capital requirements framework aimed at increasing the resilience of banks;

(2) the supplementary leverage ratio requirements constraining the build-up of leverage, mitigating the risk of destabilising deleveraging processes and safeguarding against model risk and measurement error; and

(3) the framework to facilitate the resolution of failed banks without putting public funds at risk.

These three frameworks apply simultaneously, with each of them playing an important role in contributing to the resilience of the banking system. However, the banking package also allows multiple uses of capital across these three frameworks, which in some instances includes the buffers.

Where this is the case, only those buffer resources that do not simultaneously count towards a parallel minimum requirement are usable.

This report examines the usability and effective releasability of buffers by analysing the interaction between the combined buffer requirement (CBR), the upcoming G-SII leverage ratio buffer and the minimum requirements under each of the three frameworks.

The regulatory framework is multi-restrictive by construction. The different minimum requirements have different purposes and their combined effect is to achieve a more resilient banking sector.

Without such multi-restrictiveness, each individual requirement would have had to have been set at a higher level to achieve the same loss-absorbing capacity in terms of capital in the system, i.e. a minimum capital.

With minimum restrictions in many dimensions and rules that allow the multiple use of capital for buffers and minimum requirements across the frameworks, one consequence is that buffers may not always be fully usable for all banks.

The conceptual analysis below gives a stylised overview of how the regulatory interactions could limit buffer usability.

The driving factors in limited buffer usability are:

(i) the legal provisions laying down which equity and liabilities can be counted towards the different minimum requirements and buffers;

(ii) the relative size of the different requirements in nominal terms; and

(iii) a bank's balance-sheet structure. Relevant balance-sheet characteristics in this regard are the composition of assets and liabilities, the risk weight density of assets and the size of off-balance sheet items.

This report is the first to look at the interactions within the regulatory framework from a macroprudential perspective, where usability of buffers is an important precondition for effective policymaking. Macroprudential authorities may need to bear these interactions in mind when deciding on the calibration of macroprudential buffers.

The conceptual analysis also reveals that the regulatory system has become complex. While the leverage ratio and MREL have made the financial system more resilient and safer, their addition alongside the risk-weighted prudential framework has also increased complexity due to regulatory interactions.

This report is the first to conceptualise and empirically assess the interaction among the three parallel frameworks. Reducing this complexity and increasing transparency, where possible, could facilitate the understanding and analysis of buffer overlap by regulators and market participants alike.

Any potential changes to the EU regulatory framework should comply with international minimum standards.

Still, for the macroprudential framework to be effective, facilitating the usability of buffers within the multi-restrictive framework is important, not least when a macroprudential authority releases a buffer. The effectiveness of a buffer release depends on whether it translates into excess capital that banks can use to continue to provide credit to the real economy.

Banks drawing down released buffers are not subject to distribution restrictions as they would be if they breached buffer requirements. Under the current framework, the CCyB is intended to be released in a crisis.

A CCyB release is ineffective if the released capital is simultaneously tied up by a parallel minimum requirement. The same also holds true for any potential release of any other capital buffers.

Empirical analysis suggests that buffer usability could be limited in some EU Member States by the leverage ratio and may further decline once MREL rules apply. Depending on banks' portfolio adjustments in the years ahead, the analysis suggests that the usability of buffers may be considerably constrained for a material number of banks in several jurisdictions.

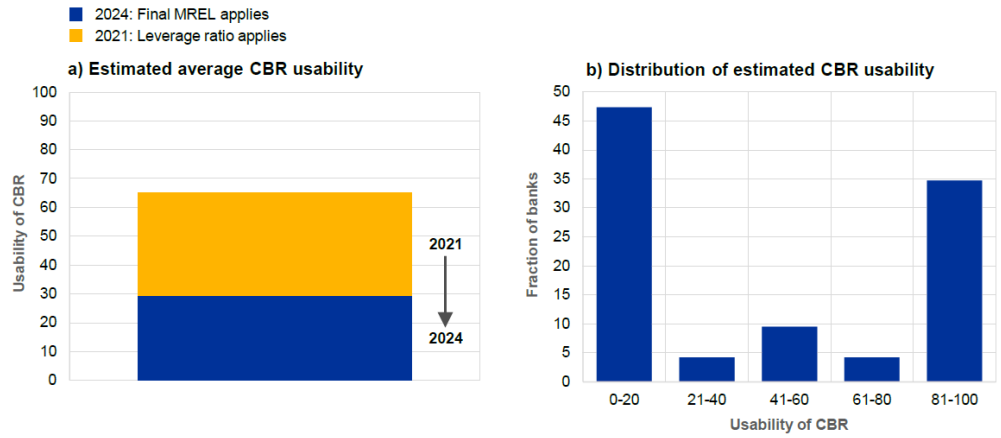
The analysis considers buffer usability from the perspective of CBR in the risk-weighted capital stack. This is a natural starting point for the assessment of impediments presented by parallel requirements.

The results show, however, substantial heterogeneity across regions, across countries and in particular across bank types. As regards regional and international heterogeneity, the leverage ratio tends to pose a greater constraint for buffer usability in western and northern European banks than in southern and central eastern Europe.

Chart 1

CBR usability – baseline scenario

(in percent)



Notes: In Panel A the usability of the CBR is weighted according to banks' nominal CBR. The baseline scenario assumes closed shortfalls and a minimum management buffer of at least 1% of risk-weighted assets in 2024 when the final MREL rules apply. Funding needs are assumed to be closed with the cheapest available funding source. Panel B shows the distribution of CBR

When the MREL is also factored in, aggregate buffer usability may decline further in all regions. Panel A in the chart shows the estimated average usability of the CBR in our baseline scenario. As regards bank heterogeneity, CBR usability varies significantly across banks (see Panel B).

Around one-third of the banks examined are estimated to have full or a very high level of CBR usability, but for more than half of the banks use of the CBR would seem to be substantially constrained if not totally impossible.

The report:
https://www.esrb.europa.eu/pub/pdf/reports/esrb.ATFreport211217_capitalbuffers~a1d4725ab0.en.pdf

Looking through higher energy prices? Monetary policy and the green transition

Isabel Schnabel, Member of the Executive Board of the ECB, at a panel on "Climate and the Financial System" at the American Finance Association 2022 Virtual Annual Meeting, Frankfurt am Main

EUROPEAN CENTRAL BANK
EUROSYSTEM

Looking through higher energy prices? Monetary policy and the green transition

Isabel Schnabel, Member of the ECB's Executive Board

Remarks at a panel on "Climate and the Financial System" at the American Finance Association 2022 Virtual Annual Meeting, 8 January 2022

In 2021 the global economy was shaken by a major energy crisis. Prices for oil, gas and electricity surged as our economies reopened after the shutdowns imposed in response to the coronavirus (COVID-19) outbreak.

Though last year's events were extraordinary on many levels, spikes in energy prices are a common phenomenon. Since the 1970s, sharp movements in energy prices have been a recurring source of economic dislocations and volatility.

And yet, the roots of today's shock are likely to go deeper. While in the past energy prices often fell as quickly as they rose, the need to step up the fight against climate change may imply that fossil fuel prices will now not only have to stay elevated, but even have to keep rising if we are to meet the goals of the Paris climate agreement.

In my remarks today, I will discuss the challenges that such prospects pose to both fiscal and monetary policymakers in an environment in which the

supply of cheaper and greener sources of energy will only gradually be able to meet rapidly rising demand.

I will argue that governments will need to push the energy transition forward, while at the same time protecting the most vulnerable members of society from energy poverty.

Central banks, in turn, will have to assess whether the green transition poses risks to price stability and to which extent deviations from their inflation target due to a rise in the contribution from energy to headline inflation are tolerable and consistent with their price stability mandates.

I will explain that there are instances in which central banks will need to break with the prevailing consensus that monetary policy should look through rising energy prices so as to secure price stability over the medium term.

Fast rise in carbon prices helps accelerate the green transition

The world economy will have to undergo a far-reaching transformation to be able to live up to the Paris agreement to limit the increase in the global average temperature to 1.5° Celsius above pre-industrial levels.

At the heart of these efforts is the need to radically cut greenhouse gas emissions. According to the United Nations, global emissions would need to drop by 7.6% each year between 2020 and 2030 to reach the Paris target.

By way of comparison, in 2020, when global economic activity came to a virtual standstill, emissions fell by only 5.8%.

There is broad agreement that meeting these ambitious targets requires putting a global price on carbon, and it requires doing so swiftly.

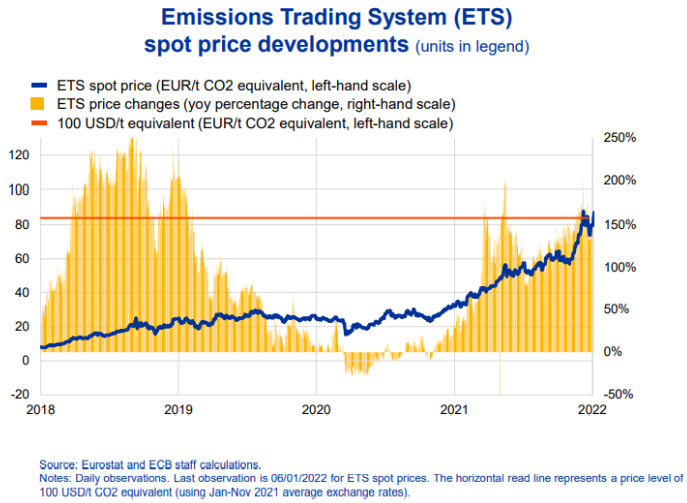
At present, only 21.5% of global emissions are covered by carbon pricing instruments and only 4% are covered by a price of more than USD 40.

According to a recent survey, most climate economists think the price of carbon should be above USD 75 to reach net zero emissions by 2050.

The median response of USD 100 is consistent with what Nicholas Stern and Joseph Stiglitz recently estimated to be the carbon price in 2030 necessary to achieve the goals of the Paris Agreement.

In the EU, prices under the Emissions Trading System (ETS) have recently started to rapidly approach these levels, in part reflecting expectations that the EU is committed to delivering on the clean energy transition (Slide 2).

EU carbon price increased sharply in 2021, accelerating the green transition



In early December, ETS prices reached a new record high of nearly €90 per tonne of carbon, almost three times as high as at the beginning of 2021, and a multiple of their level a few years ago.

The measurable rise of carbon prices will help accelerate the green transition. If persistent, it strongly disincentivises new investments in fossil fuel energy carriers.

Two parallel developments are reinforcing the effects of a higher carbon price.

One is the European Commission's Fit for 55 package – an ambitious set of reform proposals, which was presented in July last year.

It includes a recommendation to significantly strengthen the ETS and widen its scope, which currently covers only around 40% of the EU's greenhouse gas emissions.

The Fit for 55 package also proposes a review of the EU Energy Taxation Directive, with the aim of raising the minimum tax rate for inefficient and polluting fuels, and lowering those for efficient and clean fuels.

The second development is the ongoing transformation in financial markets.

Sustainable investment is no longer a “nice to have” policy but has become an essential ingredient in most investor portfolios. Many institutional investors have started to materially reduce their exposures to fossil fuel energy producers and have redirected capital to more environmentally acceptable low-carbon alternatives.

ECB analysis shows that financial markets are increasingly serving as a corrective device.

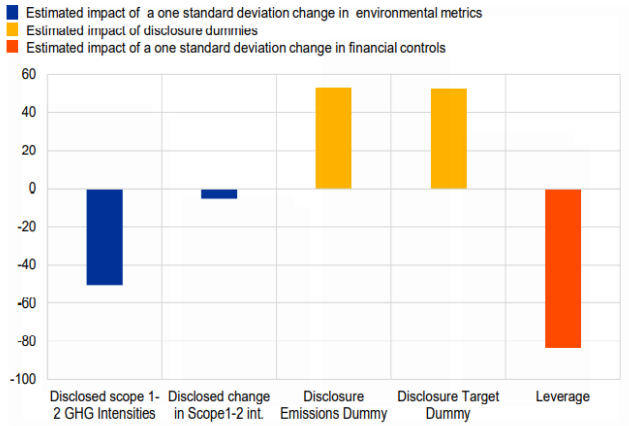
It finds that market prices have started to reflect the premium demanded by investors for exposures to climate-related risks. There is a positive relationship between the greenhouse gas emissions resulting from a firm’s operations and credit risk estimates, as measured by credit ratings and market-implied distance to default.

The magnitude of the effect is economically relevant. On average, it is comparable to that of traditional determinants of credit ratings, such as leverage (Slide 3). The analysis also finds that disclosing emissions and emission reduction targets helps lower credit risk premia.

Financial markets as a corrective device, with high emissions implying higher credit risk

Impact of transition risk metrics on credit ratings vis-a-vis leverage

(y-axis: percentage of a credit notch)



Source: Carbone, Giuzio, Kapadia, Krämer, Nyholm and Vozian (2021), “The low-carbon transition, climate commitments and firm credit risk”, ECB Working Paper No 2631.
Notes: The first two columns represent the estimated magnitude of a one standard deviation increase in disclosed Scope 1 and 2 GHG intensities and disclosed changes in Scope 1 and 2 GHG intensities, respectively. The third and fourth columns reflect the impact of the decision to disclose GHG emissions and make a forward-looking commitment, respectively. The fifth column shows the impact of a one standard-deviation increase in leverage. The coefficients are obtained via a panel regression of credit ratings on environmental variables, firm-level, sectoral and country controls as well as time fixed effects. Ordered logit estimators lead to similar results.

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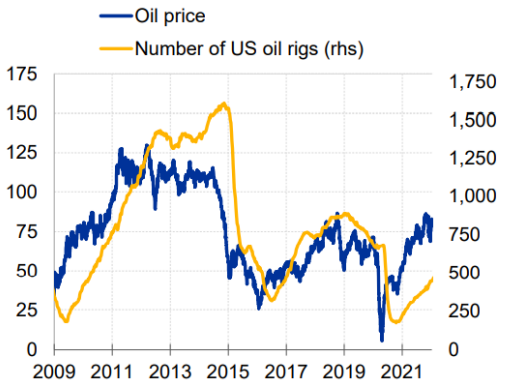
Since financial markets are global, these developments seem to have started to produce tangible climate-related effects even in countries that do not yet have a national carbon price, such as the United States.

Last year’s strong economic expansion, for example, was characterised by an atypically slow response of US shale oil production to rising oil prices, as such investments may no longer prove profitable to investors over the medium term – at least not to the same extent as they have done in the past, or as returns may become even more volatile (Slide 4).

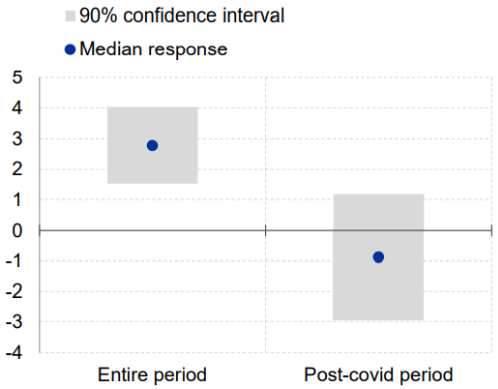
Oil production is responding more slowly to rising oil prices

Oil price and US shale production
(lhs: USD per barrel, rhs: number of oil rigs)



Sources: Bloomberg and Baker Hughes.
Latest observation: 06/01/2022 (oil price), 31/12/2021 (rig count).

Response of world crude oil production three months after oil demand shocks
(percent)



Sources: Bloomberg, Refinitiv, IEA and ECB staff calculations.
Notes: "Entire period": 06/2015 – 08/2021, "Post-covid period": 06/2020 – 08/2021.
Latest observation: August 2021

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In other words, even in the absence of a global carbon price, which remains essential, there are growing signs that the green transition is accelerating around the globe.

Transition phase may bring protracted period of higher energy inflation

While such relative price changes are desirable and intended, they may weigh on the economy if firms and households cannot substitute more expensive carbon-intensive energy with greener and cheaper alternatives.

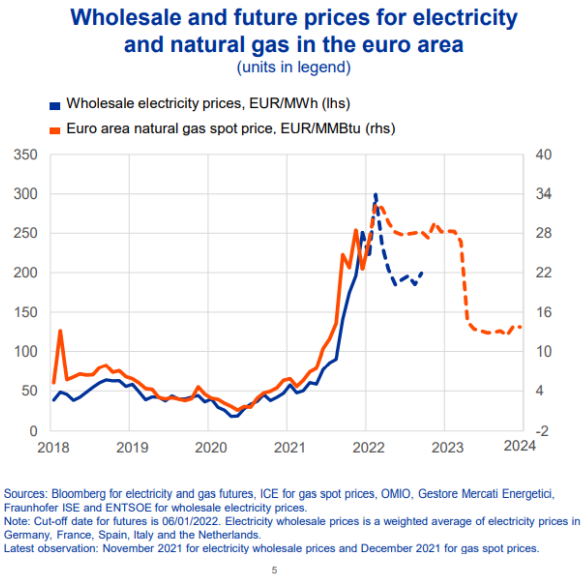
Higher carbon prices work in part by stimulating investments and innovation in low-carbon technologies. But these investments will take time. At present, renewable energy has not yet proven sufficiently scalable to meet rapidly rising demand.

In the EU, renewable energies currently account for only around 20% of energy consumption. The Fit for 55 package proposes increasing this share in the EU to 40% by 2030.

The combination of insufficient production capacity of renewable energies in the short run, subdued investments in fossil fuels and rising carbon prices means that we risk facing a possibly protracted transition period during which the energy bill will be rising.

Gas prices are a case in point.
Last year's adverse weather conditions, which constrained the production of renewable energy, have led to significant demand and supply imbalances in the gas market as global growth accelerated, pushing gas prices to new record highs (Slide 5).

Gas and electricity prices may stay elevated as green transition accelerates



The green transition may reinforce these imbalances in the future. In many countries, especially in Asia but also in the euro area, gas – being half as polluting as coal – is seen as a stopgap solution in the secular shift to a greener energy system.

In the EU, rising gas prices have a direct and immediate impact on wholesale electricity prices, which are linked to the short-run marginal costs of gas-fired power plants.

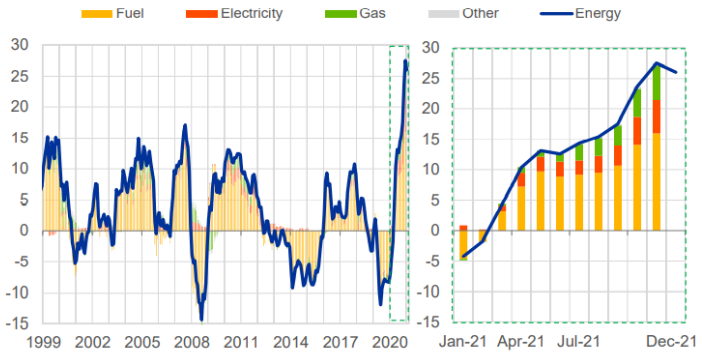
In November, wholesale electricity prices in the euro area reached €196 per megawatt hour, nearly four times as much as the average in the two years preceding the outbreak of the pandemic (Slide 5).

As a result, energy price inflation in the euro area, as measured by the energy sub-index of the harmonised index of consumer prices (HICP), reached a historical high in November last year, with electricity and gas jointly accounting for more than a third of the total increase, also a new historical high (Slide 6).

Energy, in turn, has been the prime factor behind the sharp rise in overall consumer price inflation in the euro area, with the HICP standing at 5.0% in December 2021 according to Eurostat's flash estimate, which was the highest level recorded since the euro was introduced in 1999 (Slide 7).

Energy price inflation reached record high in 2021

HICP energy and components
(annual percentage changes; percentage point contributions)



Source: Eurostat and ECB staff calculations

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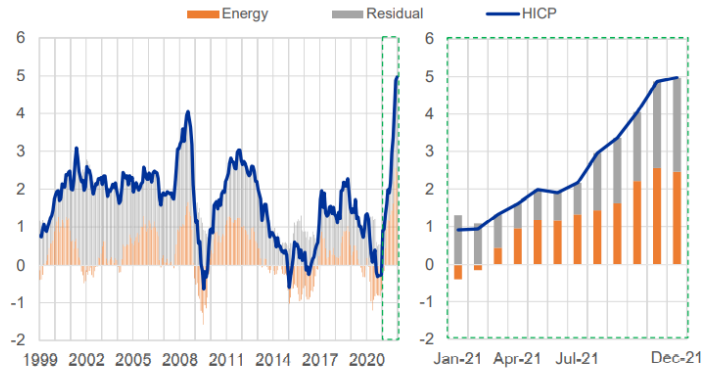
More than half of the recent rise in HICP inflation reflects higher energy price inflation

Energy contribution to HICP
(annual percentage changes; percentage point contributions)



Source: Eurostat and ECB staff calculations.

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Between April and December 2021, energy contributed, on average, more than 50% to HICP inflation.

Governments need to advance the green transition and protect the most vulnerable

These developments pose significant challenges to policymakers – both governments and central banks. On the fiscal side, many governments have responded to rising energy prices by imposing tax cuts, price caps or rebates to shield the most vulnerable households from the sharp rise in gas, fuel and electricity prices.

Because energy expenditures are typically highly inelastic and constitute a particularly large share of income for less well-off households, carbon taxes tend to be regressive.

Already in 2020, 8% of the population in the European Union (EU), or around 36 million people, said that they were unable to keep their home adequately warm.

Energy poverty is a serious threat to the cohesion of our society and to the support for climate-related policies. Compensation measures are therefore important.

But such measures need to be designed in a way that does not reduce the incentives to lower carbon emissions.

It would be a serious mistake if governments, faced with rising energy prices, would backtrack from their commitment to reduce emissions. Governments should also not slow down the pace of the transition or delay the phasing out of fossil fuel subsidies.

Two recent proposals by the European Commission go in the right direction.

One is the introduction of the Social Climate Fund, which aims to address the social impact of higher energy prices resulting from the proposed broadening of the scope of the ETS towards the building and transport sectors, both of which will affect households in particular.

The other is the proposed system for EU countries to jointly procure strategic reserves of gas that can be released in the event of supply shortages. At present, capacity utilisation of gas storage facilities in Europe is just under two-thirds, almost 20% below seasonal norms. Energy buffers will help limit the volatility of gas prices.

Green transition poses upside risks to medium-term inflation

For central banks, the challenges are equally profound. In the past, central banks have typically looked through energy shocks, for good reasons.

Most of the time, such shocks have been short-lived, meaning that a policy response would have amplified the negative effect of rising energy prices on aggregate demand and output and, given the long lags in policy transmission, exerted downward pressure on inflation at a time when the shock is likely to have already faded.

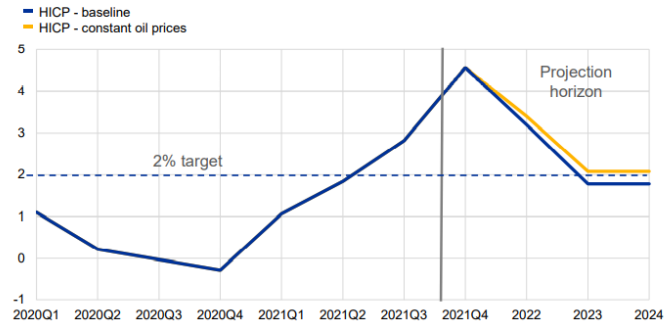
Temporary supply-side shocks therefore typically warrant a deviation from the target in the short run, provided price stability is restored over the medium term and inflation expectations remain anchored.

This insight also motivates our policy response today. In our baseline scenario, the current energy shock is expected to fade over the projection horizon.

The Eurosystem staff projections are based on gas and oil futures prices, which suggest that energy prices should decline measurably this year, thereby significantly contributing to the projected decline in HICP headline inflation over the medium term (Slides 5 and 8).

Medium-term inflation projected to be near target, with upside risks from energy prices

Past and projected HICP inflation
(annual percentage changes)



Source: Eurostat, Eurosystem staff projections (December 2021) and ECB staff calculations.
Notes: Quarterly values are reported until 2021Q4, annual values from 2022 onwards. The vertical line indicates the start of the projection horizon.

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Such technical assumptions, however, are surrounded by significant uncertainty. In the past, futures prices have often significantly under- or overpredicted energy price inflation. These risks are arguably even larger today.

To see this, it is enough to look at the profile of the projected inflation path: the decline of headline inflation to levels below 2% at the end of the projection horizon hinges on the assumption, derived from futures curves, that in 2023 and 2024 energy is not expected to contribute to headline inflation.

History suggests that such a profile would be unusual. Since 1999, energy has contributed, on average, 0.3 percentage points to annual headline inflation. Sensitivity analysis conducted by Eurosystem staff suggests that it is enough for oil prices to remain at November 2021 levels for HICP inflation in 2024 to reach our target (Slide 8).

The scale of the energy transition, and the political determination behind it, implies that these estimates could be conservative.

Potentially protracted supply and demand imbalances related to "transition fuels", such as gas, as well as the fact that carbon prices are likely to rise further, and to extend to more economic sectors, mean that the contribution of energy and electricity prices to consumer price inflation could be above – rather than below – its historical norm in the medium term.

The energy transition therefore poses measurable upside risks to our baseline projection of inflation over the medium term.

At our Governing Council meeting in December, such risks were one factor in deciding on a step-by-step reduction in the pace of asset purchases over the coming quarters.

The pace of the adjustment, with net purchases under our asset purchase programme (APP) falling back to €20 billion by October, is consistent with what Alan Greenspan previously called a "risk-management approach" to monetary policy.

It prescribes that central banks should not only consider the most likely future path of the economy, but the entire distribution of risks around that path with a view to keeping sufficient optionality to address all inflation contingencies.

Rising energy prices may require a departure from a "looking through" policy

The question, then, is: if energy inflation were to prove more persistent than currently anticipated under our baseline scenario, at what point could we no longer afford to look through such a shock?

I see two scenarios where monetary policy would need to change course.

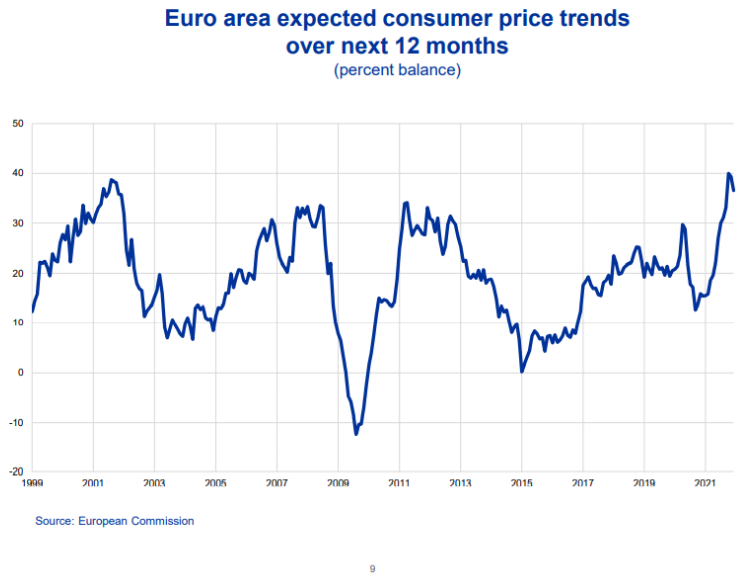
A deanchoring of inflation expectations

The first would occur if we were to detect signs that inflation expectations have become deanchored. Consumer price expectations are particularly susceptible to changes in the prices of goods that we purchase frequently. Energy, and petrol in particular, are part of this basket of goods.

Over the past year, consumer price expectations for the next 12 months have increased sharply (Slide 9). In October, when energy accounted for more than half of the rise in measured inflation, they reached the highest

level since the euro was introduced in 1999 and have remained close to record highs since then.

Consumer price expectations hit record high in 2021



The experience of the 1970s, when rising energy prices triggered a harmful price-wage spiral, emphatically demonstrated that allowing inflation expectations to drift away from the target makes it significantly costlier to bring inflation back to target, both in terms of lost output and higher unemployment.

So far, however, there are no signs of broader second-round effects. Wage growth and demands by unions remain comparatively moderate. But in an environment of large excess savings and protracted supply disruptions, the energy transition may lead to inflation remaining higher for longer, thereby potentially raising the risks of inflation expectations destabilising.

In this case, monetary policy would need to respond to, rather than look through, higher inflation to preserve price stability over the medium term.

Not all energy shocks are alike

The other scenario in which policy would require adjustment is if the nature of the shock were to change.

More than a decade ago, the seminal paper by Lutz Kilian established that not all oil price shocks are alike. Their effects on the economy critically depend on the underlying source of the shock.

Rising oil prices due to stronger aggregate demand, for example, are associated with an increase in real economic activity, calling for a different

monetary policy response than if oil prices were to rise in response to supply disruptions in the oil market.

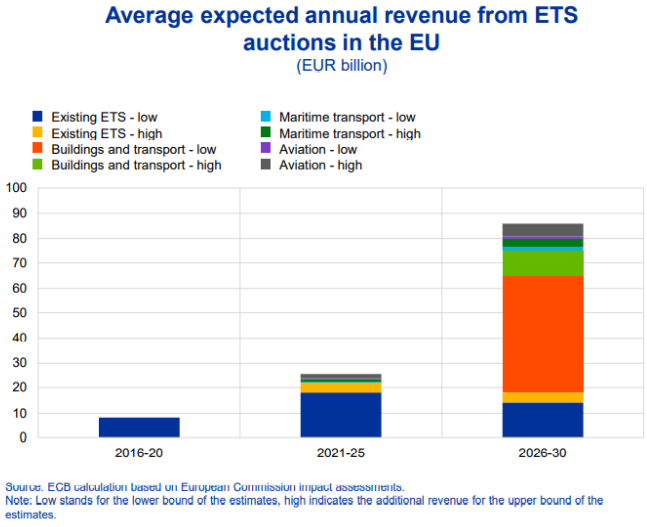
A carbon tax may share some of the characteristics of an adverse oil supply shock. Higher energy prices could weigh on economic activity and thereby put downward pressure on consumer price inflation in the medium term. In this case, monetary policy should "look through" temporary deviations of inflation from its target.

But a carbon tax differs from an adverse oil supply shock in two fundamental ways.

One is that the transformation of our economies through large-scale public and private investment programmes and the subsequent adoption of more efficient and greener technologies is expected to boost, rather than weigh on, economic growth and thereby support wages and aggregate demand.

The second aspect is that, for an energy-importing economy such as the euro area, oil supply shocks are negative terms-of-trade shocks, raising inflation and transferring wealth abroad. But a carbon tax is ultimately a domestic levy that shifts financial resources from the private to the public sector.

Revenues from higher carbon price are expected to increase measurably



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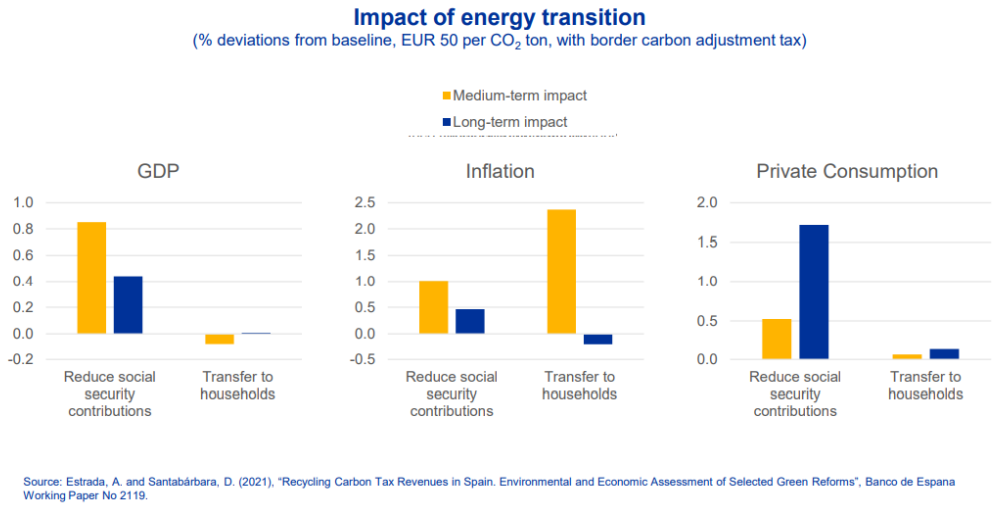
In the EU, for example, the coming years are expected to see significant increases in ETS revenues. ECB calculations, based on European Commission data, suggest that they will rise from €14 billion in 2019 to up to €86 billion annually in the period 2026-30 (Slide 10).

The proposed carbon border adjustment tax, which will put a carbon price on selected imports, as well as higher minimum tax rates on fossil fuels and other national tax initiatives, will further raise revenues.

Eurosystem economists show, based on the example of Spain, that what governments would do with such revenues will shape the response of the economy to the energy transition.

For example, lump-sum transfers to households and electricity bill subsidies, as currently implemented by many governments, can largely cushion the negative short-term effects of rising energy prices on consumption and GDP (Slide 11).

Energy transition does not necessarily weigh on growth and inflation in the medium term



Source: Estrada, A. and Santabárbara, D. (2021), "Recycling Carbon Tax Revenues in Spain. Environmental and Economic Assessment of Selected Green Reforms", Banco de Espana Working Paper No 2119.

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Alternatively, if revenues are used to cut other distorting taxes, such as social security contributions, thereby reducing the labour tax wedge, a carbon tax may in fact boost economic activity, even in the short term. And since new activity will likely arise in greener sectors, part of the increase in GDP will be permanent, potentially raising inflation both over the short and medium term.

These findings are not just hypothetical. An emerging strand of empirical evidence finds no robust negative effects of carbon taxes on GDP growth and employment. If anything, the evidence is consistent with a modest positive impact.

As such, if the future path of energy prices threatens to push headline inflation above our target in the medium term, and if growth and demand prospects remain consistent with firm underlying price pressures, monetary policy needs to act to defend price stability.

Conclusion

Let me conclude.

Carbon prices in the EU and elsewhere increased sharply last year, reinforcing efforts to reduce carbon emissions as fast as possible and accelerating investments in green technologies.

As the shift in the energy mix towards cheaper and less carbon-intensive fuels will take time, a rising carbon price, higher tax rates across a range of fossil fuels, and relatively inelastic energy demand may lead to continuous upward pressure on consumer prices in the transition period.

These developments pose challenges to both fiscal and monetary policy.

Governments will have to protect the most vulnerable parts of society from higher energy prices in a way that does not delay the green transition. Monetary policy, for its part, cannot afford to look through energy price increases if they pose a risk to medium-term price stability.

This could be the case if prospects of persistently rising energy prices contribute to a deanchoring of inflation expectations, or if underlying price pressures threaten to lift inflation above our 2% target as rising carbon prices and the associated shifts in economic activity boost rather than suppress growth, employment and aggregate demand over the medium term.

Thank you.

Revisiting an important speech

Dynamic Regulation for a Dynamic Society

Chair Gary Gensler, before the Exchequer Club of Washington, D.C.

Thank you for the kind introduction. As is customary, I'd like to note that my views are my own, and I'm not speaking on behalf of the Commission or SEC staff.

I'd like to share with you all that we lost an SEC alum, Robert Birnbaum, this past December. Though I didn't get to know Bob personally, he accomplished a lot in his remarkable life. After leaving the SEC, he went on to lead the New York Stock Exchange.

While at our agency, though, Bob contributed to a seminal report called the Special Study. This report was published in 1963 — exactly 30 years after Franklin Delano Roosevelt and Congress came together, in the depths of the Great Depression, to think about how our capital markets could work better for the American public.

The 1963 report described our securities laws as "a proven legislative achievement." And yet, the staff wrote, "no regulation can be static in a dynamic society." They continued, "unanticipated changes in the markets and the broader public participation should be accompanied by corresponding investor protection."

Indeed, a lot had changed in the capital markets over the previous 30 years. Based upon that report, Congress would go on to amend the securities laws over the next dozen years, bringing SEC oversight to over-the-counter markets, facilitating a national market system, and banning fixed commissions.

Over the past several decades, our markets have continued to evolve in an even more dramatic way. Policymakers have continued to change our laws and our regulations in response.

We are blessed with the largest, most sophisticated, and most innovative capital markets in the world. The U.S. capital markets represent about 40 percent of the globe's capital markets. This exceeds even our impact on the world's gross domestic product, where we hold a 24 percent share.

But, as Bob's team noted, we cannot take this for granted; "no regulation can be static in a dynamic society." In 2022, nearly six decades after the publication of the Special Study, that core idea still rings so true.

Today, I'd like to share with you a couple of guiding principles I think about when it comes to making regulations "dynamic" in shaping the SEC's agenda for 2022:

- First, continuing to drive efficiency in our capital markets

- Second, modernizing our rules for today's economy and technologies

Driving Efficiency in Our Capital Markets

Let me start with efficiency.

Why does efficiency matter?

Efficiency in capital markets is about lowering costs of intermediation for those who use capital — issuers — and those who own capital — investors. This fits directly into our mission, which is to protect investors, facilitate capital formation, and maintain that which sits between investors and issuers: fair, orderly, and efficient markets.

Today, the financial sector, including the capital markets, banking, and insurance, represents about 8 percent of America's economy. In 1963, when the Special Study was published, the sector had a 3.5 percent share. While a lot has changed in our economy since then, I think the SEC still has a role to play to help drive greater efficiency here.

Further, one study found that the costs of financial intermediation over time were as high in 2014 as they were in 1900. The scholar found this "puzzling," as advances in technology "should lower the physical transaction costs of buying, pooling and holding financial assets."

To promote efficiency, over the decades Congress has given us a number of tools to foster competition and transparency. Congress made significant amendments to our statutes in 1975, partly in response to the Special Study. In the very first line of that bill, it says they were "amend[ing] the Securities Exchange Act of 1934 to remove barriers to competition." That word, "competition," appears 20 times in the text.

Congress returned to this idea of competition again in 1996. In rulemaking, Congress said, the Commission must consider efficiency, competition, and capital formation, in addition to investor protection and the public interest.

Those are tools that, if used correctly, can lead to greater productivity and lower economic rents.

Hence, I've directed our staff to make recommendations up and down the capital markets about how we can drive towards greater efficiency through competition and transparency. This includes various sectors: the $50 trillion equity markets; our $23 trillion Treasury markets, whose "issuers" are the American public and the Department of the Treasury; and other aspects of the $25 trillion non-Treasury fixed income markets. It also includes the fund management area.

Let's take a quick look at one area of fund management in particular: private equity and hedge funds. These funds hold about $17 trillion in gross assets under management. While we don't know the exact costs of doing business in this sector, there may be around $250 billion in fees and expenses each year.

If we can use our authorities to bring greater transparency and competition into that market, that helps portfolio companies on the one hand, and the pensions and endowments that are investing in that space on the other. Similarly, if we can drive efficiencies across other key sectors of the capital markets, that too would help issuers and investors.

Modernizing Our Rule Set for Today's Economy and Technologies

Next, I'd like to turn to updating our rule set for today's economy and technologies.

Markets and business models have long evolved in response to new technologies; as Bob Birnbaum's team noted, they are "dynamic." I believe that innovation can bring greater access, efficiency, and innovation to our capital markets, as well as economic growth.

Our central question is this, though: When new technologies come along and change the face of finance, how do we continue to achieve our core public policy goals?

Here again, Bob's team gives us some insights. By 1963, the development of communications systems after World War II had made it easier for broker-dealers to transact directly. One of the main things Bob and his team were looking at was this over-the-counter market.

They wrote, "In the 'old days,' one of the major tasks was to locate a market—a task often performed by mail. Now…markets for most securities can be located almost instantaneously and transactions consummated within a matter of seconds."

If that was true of 1963, it is true by several orders of magnitude today. “A matter of seconds” can be an eternity in today’s markets!

What does this mean for the 2020s? Some will jump to crypto, of course. I’ll leave that for your questions. Before that, let me raise a couple of other categories as well:

To me, the most dramatic change to our markets is the use of predictive data analytics and artificial intelligence. Predictive data analytics, including machine learning, are increasingly being adopted in finance — from trading, to asset management, to risk management. Though we’re still in the early stages of these developments, I think the transformation we’re living through now could be every bit as big as the internet was in the 1990s.

While these developments can increase access and choice, they also raise important public policy considerations, including conflicts of interest, bias, and systemic risks.

Innovation doesn’t come just from updating software and hardware; it also comes from the manner in which products are offered. One example today is around how many issuers have sought alternative ways to access public markets through special purpose acquisition companies (SPACs) and direct listings.

Beyond the innovations and technologies, our economy is changing in other ways. Today, investors are demanding additional information from companies beyond what they’ve sought historically, with respect to climate risk, human capital, and cybersecurity risk. Our core bargain from the 1930s is that investors get to decide which risks to take, as long as public companies provide full and fair disclosure and are truthful in those disclosures.

All of this is exciting. Innovation and evolution keep our markets the most robust in the world. Our role at the SEC, though, is to help ensure that we still achieve our public policy goals as mandated in our mission.

Again, “no regulation can be static in a dynamic society.”

Looking Forward

Before I conclude, a few thoughts on 2022.

We made good progress in 2021, finalizing a handful of rules and proposing many others. We have much more to come on the SEC’s Agency Rule List.

I'm often asked to prioritize the remaining items on our rulemaking agenda. When will we vote on what?

At their core, those questions are more about sequencing than prioritization. Staff is working hard on proposals. When they and my fellow Commissioners think they're ready, we'll put them out for public comment and, when appropriate, finalize items.

The process is intentionally flexible; it's about getting proposals right, based upon the economic analysis and our legal authorities, and learning from public feedback. I encourage you all to weigh in on those proposals when they're available. We also have an Open Commission Meeting next week, so stay tuned for that.

I just want to say something about this incredible agency.

Since joining the SEC last spring, I have been struck by the sheer breadth and scope of the agency's work. We oversee every corner of the $100-trillion capital markets — all of its sectors, from equity markets to municipal bonds, and functions, from accounting and auditing to disclosure to fund management. Nearly half of our agency works as cops on the beat in our terrific Divisions of Examinations and Enforcement. Behind the scenes, so many folks are making our operations hum. All this, despite the challenges presented by this pandemic.

They make me proud to be their colleague; they do right by the American public every day. I know they made Bob Birnbaum proud as well. I am grateful to call them teammates and look forward to continue collaborating with them in 2022.

Thank you and I'm happy to answer any questions.

Introducing Privacy Center

Meta

- We're introducing Privacy Center, a new place to learn more about our approach to privacy across our apps and technologies.

- Privacy Center provides helpful information about five common privacy topics: sharing, security, data collection, data use and ads.

- Privacy Center is now available to a limited number of people using Facebook on desktop in the US, and we plan to roll it out to more people and more of our apps in the coming months.

Today, we're introducing Privacy Center to educate people on their privacy options and make it easier to understand how we collect and use information. In Privacy Center, you can learn about our approach to privacy, read up on our Data Policy and learn how to use the many privacy and security controls that we offer.

To start, Privacy Center is now available to some people using Facebook on desktop, and we will roll it out to more people and apps in the coming months. We've built a number of privacy and security controls across our apps and technologies over the years, and our goal is for Privacy Center to serve as a hub for those controls and privacy education.

The current version of Privacy Center has five modules, each containing guides and controls related to a common privacy topic:

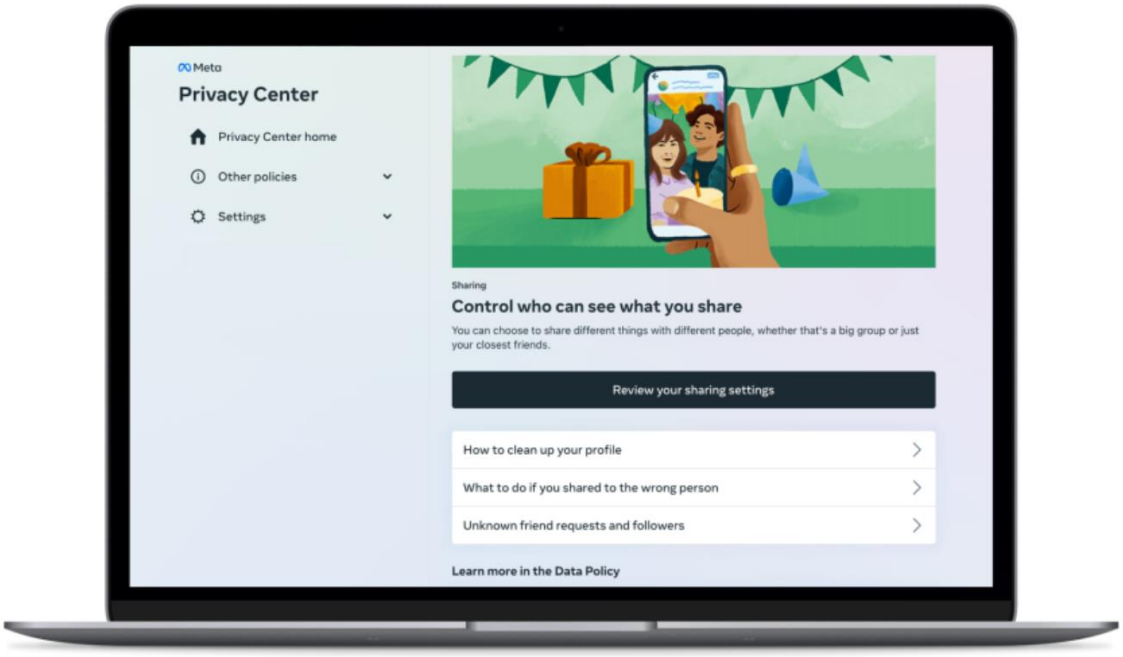
- Security: You can brush up on account security, set up tools like two-factor-authentication or learn more about how Meta fights data scraping.

- Sharing: You can visit this guide if you have questions about who sees what you post, or how you can clean up old posts on your profile using tools like Manage Activity.

- Collection: Learn about the different types of data that Meta collects, and how you can view that data through tools like Access Your Information.

- Use: Learn more about how and why we use data, and explore the controls we offer to manage how your information is used.

- Ads: Learn more about how your information is used to determine the ads you see, and make use of ad controls like Ad Preferences.



People who have access to this initial launch can find Privacy Center by navigating to Settings and Privacy on the desktop version of Facebook. As we expand Privacy Center, we will add more ways to access it in places where you may have privacy concerns.

We'll continue to update Privacy Center and add more modules and controls to help people understand our approach to privacy across our apps and technologies.

To read more: https://about.fb.com/news/2022/01/introducing-privacy-center/

Project Helvetia Phase II: Settling tokenised assets in wholesale CBDC

Project Helvetia was a multi-phase investigation by the BIS Innovation Hub, the Swiss National Bank (SNB) and the financial infrastructure operator SIX.

Project Helvetia Phase II was concluded in January 2022. It demonstrated that a wholesale central bank digital currency (wCBDC) **can be integrated** with existing core banking systems and processes of commercial and central banks. Furthermore, it showed that issuing a wCBDC on a distributed ledger technology (DLT) platform operated and owned by a private sector company is feasible under Swiss law.

The experiment – conducted together with five commercial banks – explored the settlement of interbank, monetary policy and cross-border transactions on the test systems of SIX Digital Exchange (SDX), the Swiss real-time gross settlement system – SIX Interbank Clearing (SIC) – and core banking systems.

Project Helvetia is purely experimental and does not indicate that the SNB intends to issue wCBDC.

BIS Innovation Hub

“Tokenisation and distributed ledger technology (DLT) could bring significant changes to the financial system.

Phase I of Project Helvetia showed that wholesale central bank digital currency (wCBDC) can be used to settle tokenised assets in central bank money.

Phase II – as described in this report – expanded on the practical complexities, legal questions and policy implications of issuing wCBDC.

Phase II showcased the continued collaboration between the Swiss National Bank, SIX and the BIS Innovation Hub, together with five commercial banks. Building on earlier work, it successfully demonstrated how infrastructures based on DLT can integrate and interoperate with a range of existing systems.

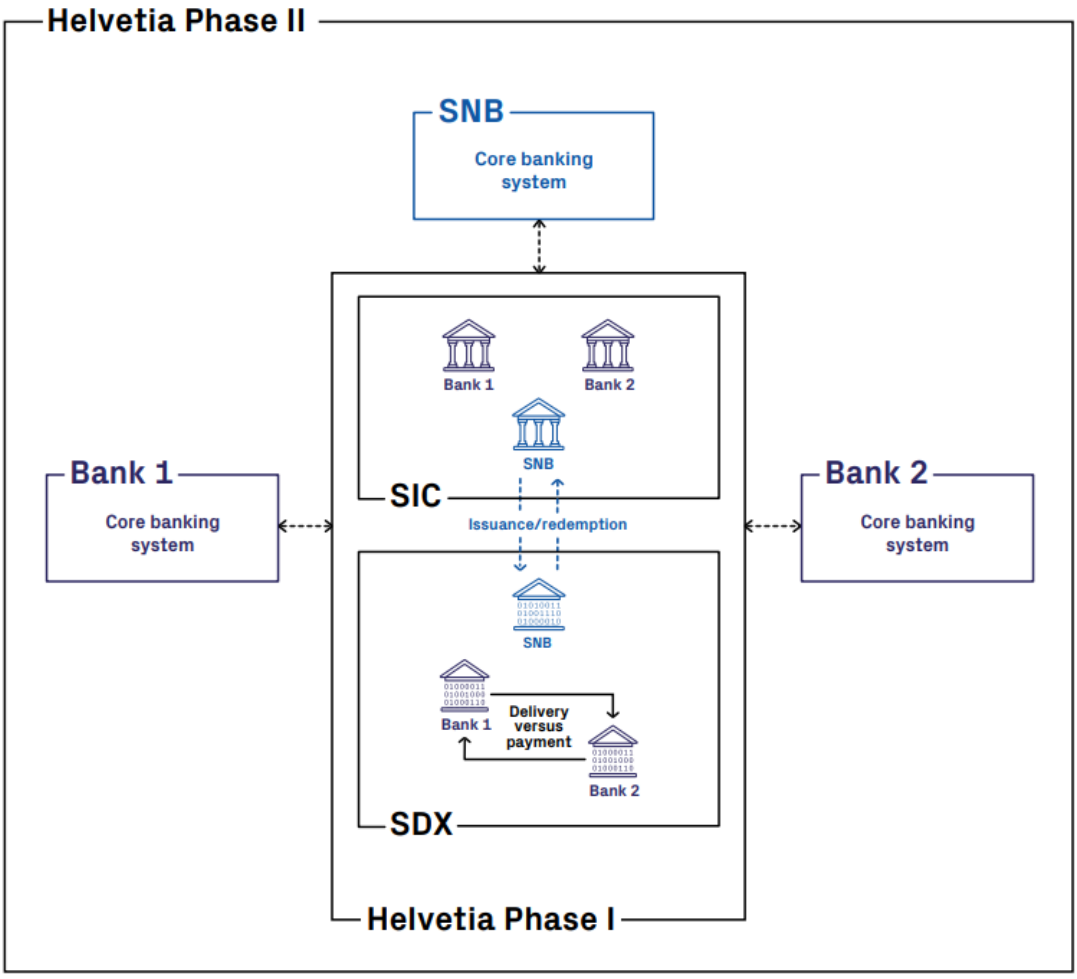
In this way, innovation is harnessed to preserve the best elements of the current financial system while also unlocking potential new benefits. As DLT goes mainstream, this will become more relevant than ever.

I wish to thank our partners for their excellent teamwork. The opportunities and challenges of innovation and interoperability in the financial ecosystem can only be addressed cooperatively.

Project Helvetia continued our demonstration of what the future could look like – and how we can work together to get there."

Benoît Cœuré
Head, BIS Innovation Hub

Graph 1: Overview of wCBDC experiment in Phase I and II



To read the paper: https://www.bis.org/publ/othp45.pdf

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