Solvency 2 News, January 2024

The European Insurance and Occupational Pensions Authority (EIOPA) has published its Supervisory Convergence Plan for 2024.

In line with EIOPA's mandate to build a strong, fair and common supervisory culture and promote consistent supervisory practices in the European Union, the Supervisory Convergence Plan identifies EIOPA's priorities to enhance supervisory convergence over the course of 2024.

Similarly to last years' plan, the priorities for 2024 revolve around the following three main areas:

- the practical implementation of the common supervisory culture and the development of supervisory convergence tools;
- the risks to the internal market and the level playing field;
- and the supervision of emerging risks.

EIOPA will, amongst other priorities, initiate a review of the Guidelines on the Supervisory Review Process under Solvency II.

This review aims to reflect on the learnings from the implementation of Solvency II and promote further convergence towards high-quality supervision, giving room for supervisory judgement to assess which parts of the text are no longer needed as well as flexibility to deal with national specificities and avoiding being too prescriptive.

EIOPA will also continue working on the further development of the supervisory assessments of conduct risks and its supervisory approach to ESG risks. Finally, the development of SupTech tools will remain a priority.

To preserve trust and coherence in the internal market, EIOPA will continue enhancing supervisory convergence in areas potentially impacting the internal market by promoting benchmark studies on internal models and developing guidance to the National Competent Authorities on the supervision of private equity-owned insurance undertakings.

Acknowledging the emerging risks, EIOPA also included among its priorities the implementation of the new framework on digital operational resilience (DORA) where supervisory convergence will be key.

EIOPA will likewise continue monitoring the digital transformation of insurance undertakings and identify ways to help supervisors deal with new challenges, particularly in overseeing the use of artificial intelligence by insurance undertakings.

Further information about EIOPA's supervisory convergence tools, including the full list of all priorities is available in the plan.

IT SECURITY AND GOVERNANCE-RELATED RISKS, INCLUDING CYBER RISK

- EIOPA will work together with the EBA and ESMA via the Joint Committee on fulfilling the policy mandates under the Regulation on digital operational resilience for the financial sector (Digital Operational Resilience Act (DORA)). In addition to the development of the Policy mandates, the ESAs will have to prepare for the new roles and tasks stemming from DORA (e.g., the oversight framework, the management of reporting of major ICT-related incidents etc.). In 2024 the ESAs will start the projects to adapt their internal processes and systems to be able to cope with the new regulatory requirements. Supervisory convergence on supervision of ICT risk will also be important in the context of DORA.

To read more: https://www.eiopa.europa.eu/system/files/2023-12/Supervisory%20Convergence%20Plan%20for%202024.pdf

A new era for corporate taxation in the EU enters into force

1 January 2024 – Ground-breaking new EU rules come into effect, introducing a minimum rate of effective taxation of 15% for multinational companies active in EU Member States.

The framework will bring greater fairness and stability to the tax landscape in the EU and globally, while making it more modern and better adapted to today's globalised, digital world.

The entry into force of the minimum effective taxation rules, unanimously agreed by Member States in 2022, formalises the EU's implementation of the so-called 'Pillar 2' rules agreed as part of the global deal on international tax reform in 2021.

While almost 140 jurisdictions worldwide have now signed up to those rules, the EU has been a front-runner in translating them into hard law.

By lowering the incentive for businesses to shift profits to low-tax jurisdictions, Pillar 2 curbs the so-called "race to the bottom"—the battle between countries to lower their corporate income tax rates in order to attract investment.

It is already delivering results, with a number of zero tax jurisdictions around the world having announced the introduction of a corporate income tax for the companies in scope.

In detail

The rules will apply to multinational enterprise groups and large-scale domestic groups in the EU, with combined financial revenues of more than €750 million a year.

They will apply to any large group, both domestic and international, with a parent company or a subsidiary situated in an EU Member State.

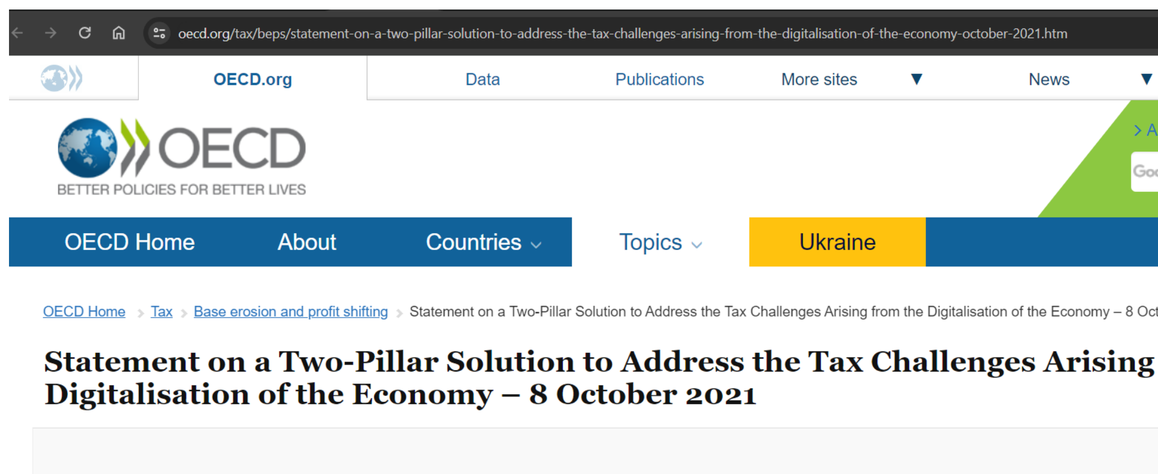
The Directive includes a common set of rules on how to calculate and apply a 'top-up tax' due in a particular country should the effective tax rate be below 15%.

If a subsidiary company is not subject to the minimum effective rate in a foreign country where it is located, the Member State of the parent company will also apply a top-up tax on the latter.

In addition, the Directive ensures effective taxation in situations where the parent company is situated outside the EU in a low-tax country which does not apply equivalent rules.

Background

With this historic law, the EU's pledge to be among the first to implement the OECD tax reform, has come to fruition. Ensuring a global minimum level of taxation for Minimum corporate taxation is one of the two work streams of the global OECD agreement (Pillar 2) - the other is the partial re-allocation of taxing rights (known as Pillar 1).



You may visit: https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm

The latter will adapt the international rules on how the taxation of corporate profits of the largest and most profitable multinationals is shared amongst countries, to reflect the changing nature of business models and the ability of companies to do business without a physical presence.

To read more:
https://ec.europa.eu/commission/presscorner/detail/en/ip_23_6712

EU banks' liquidity coverage ratio declined but remains well above the minimum requirement

The European Banking Authority (EBA) published its report on liquidity measures, which monitors and evaluates the liquidity coverage requirements currently in place in the EU.

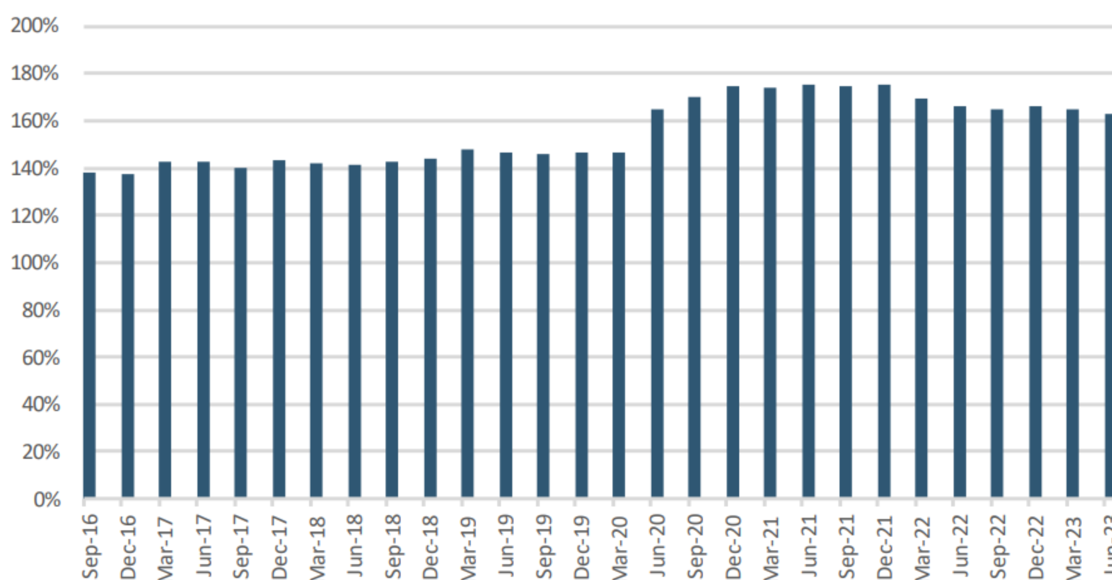
Between June 2022 and June 2023, the EU banks' liquidity coverage ratio (LCR) declined but remained comfortably above the minimum requirement.

However, within this review period there were important fluctuations in the components of the ratio, driven mostly by changes in the banks' allocation of funding deposits and the ongoing reduction of central bank liquidity.

Unlike the LCR in domestic currency, EU banks' LCR in foreign currencies remained below 100%.

EU banks' LCR buffers remain meaningfully higher than the minimum requirement. However, during the review period from June 2022 to June 2023, EU banks' LCR showed a decline of 3 percentage points and ended up at a level of 163%, as of June 2023.

Figure 1: LCR evolution (weighted average)



Source: Supervisory reporting and EBA calculations.

This relatively moderate decline on a year-on-year basis masks some important developments in the underlying components of the ratio.

In the fall of 2022, there was a marked decline in the net outflows (the denominator of the LCR) that was only partly offset by a decline in High-Quality Liquid Assets (HQLAs), the nominator of the LCR.

This decline in net outflows is mostly explained by banks shifting retail deposits to categories that are exempted from the calculation of the outflows, while the decline in HQLAs mostly reflected the gradual reduction in excess liquidity by several EU central banks.

In the first half of 2023 the HQLAs continued to decline with a temporary acceleration in March following the turmoil in the global banking markets, while the net outflows remained stable.

Within the sample of institutions, large banks saw their LCR declining while small and medium-sized banks increased their ratios.

The ongoing reduction of central bank liquidity has a negative impact on EU banks' LCRs. In addition to the impact that resulted from the gradual unwinding of the asset purchase programmes by the ECB and the Swedish Riksbank, banks in the euro area repaid EUR 337bn of the targeted longer-term refinancing operations (TLTRO) loans in June 2023.

These repayments resulted in a drop in the LCR by -3.55 percentage points for the affected banks on average.

The decline in liquid assets for banks with TLTRO funds was two times higher than for the banks with no such liabilities. At the end of June 2023, euro area banks reported EUR 438bn of remaining TLTRO balances.

As has been the case in previous years, EU banks continue to hold lower liquidity buffers in foreign currencies.

The LCR in US dollar slightly improved during the period of review from June 2022 to June 2023 but remained below 100%. Over the same period the LCR in GBP deteriorated.

The ability of banks to access the market for currency swaps may become constrained during periods of stress.

This was also evidenced by the widening of the cross-currency basis swaps during the March 2023 turmoil in the global banking markets.

Banks and competent authorities need to pay attention to any unjustified shortfalls in foreign currency LCRs to avoid risks crystallising in volatile market conditions.

Finally, the present Report also contains an assessment of the impact of the LCR on the banks' lending activities. It also includes detailed analysis of the effect of the ongoing reduction of central bank liquidity on the LCR.

Contents

List of figures 3

List of tables 6

Abbreviations 7

Executive summary 8

Introduction 12

Analysis of the LCR and its components 14

Box 1: The impact of the June 2023 TLTRO repayment on the liquidity profile of Euro area banks 22

Box 2: Estimating the impact of a potential increase of Minimum Reserve Requirement on the banks' liquidity metrics 29

Box 3: Interactions between non-standard monetary policy measures and the LCR liquidity buffer 35

Analysis of the LCR by business model 42

LCR — analysis of currency mismatch 51

LCR — impact on lending 65

The unwind mechanism of the LCR 70

To read more: https://www.eba.europa.eu/publications-and-media/press-releases/eu-banks-liquidity-coverage-ratio-declined-remains-well-above

https://www.eba.europa.eu/sites/default/files/2023-12/82ad9abc-826d-478e-bd80-29813f6ed94a/Report%20on%20Liquidity%20Measures%20under%20Article%20509%281%29%20of%20the%20CRR.pdf

ESMA presents methodology for climate risk stress testing and analysis of the financial impact of greenwashing controversies

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, published two articles, one outlining an approach to modelling the impact of asset price shocks from adverse scenarios involving climate-related risks, the other exploring the use of ESG controversies for the purpose of monitoring greenwashing risk.

Risk article: Dynamic modelling of climate-related shocks in the fund sector

The article presents a methodological approach to modelling climate-related shocks in the fund sector, which includes dynamic impacts, such as inflows and outflows from investors and portfolio rebalancing by managers. The analysis focuses on the overall direction of these effects, finding that investor outflows can worsen falls in fund values following an initial shock.

19 December 2023
ESMA50-524821-3073

ESMA TRV Risk Analysis Sustainable Finance

Dynamic modelling of climate-related shocks in the fund sector

The article: https://www.esma.europa.eu/sites/default/files/2023-12/ESMA50-524821-3073_TRV_Article_Dynamic_modelling_climate_shocks_fund_sector.pdf

Dynamic modelling of climate-related shocks in the fund sector is part of ESMA's work in relation to its mandates in the area of climate stress testing.

To anticipate the impact of climate-related shocks on the financial system, the European Commission has mandated the ESAs to perform regular climate change stress tests or scenario analyses and to develop methods, parameters and scenarios for supervisors to use in their own climate stress testing.

In addition, the ESAs have a mandate to conduct a coordinated one-off climate change stress test across the financial sector in coordination with the European Central Bank (ECB) and the European Systemic Risk Board (ESRB), reporting results by 1Q25.

Risk article: Financial impact of greenwashing controversies

The article highlights how data on ESG controversies can be useful to monitor potential reputational risks around greenwashing. It also outlines the challenges involved in using such data. The number of greenwashing controversies involving large European firms increased between 2020 and 2021 and tended to be concentrated within a few firms belonging to three main sectors, including the financial sector. Growing public scrutiny highlights the importance of clear policy guidance by regulators and efforts by supervisors to ensure the credibility of sustainability-related claims.

You may visit: https://www.esma.europa.eu/sites/default/files/2023-12/ESMA50-524821-3072_TRV_Article_The_financial_impact_of_greenwashing_controversies.pdf

The analysis on the financial impact of greenwashing controversies is important since the transition to a low-carbon economy requires trust in the commitment and ability of corporates companies to adapt their business operations to help deliver climate-related objectives. However, greenwashing risks undermine this trust by sapping consumer and investor confidence, underlining the importance of monitoring and tackling the problem.

To read more: https://www.esma.europa.eu/press-news/esma-news/esma-presents-methodology-climate-risk-stress-testing-and-analysis-financial

NIST Identifies Types of Cyberattacks That Manipulate Behavior of AI Systems

1. AI systems can malfunction when exposed to untrustworthy data, and attackers are exploiting this issue.

2. New guidance documents the types of these attacks, along with mitigation approaches.

3. No foolproof method exists as yet for protecting AI from misdirection, and AI developers and users should be wary of any who claim otherwise.

Adversaries can deliberately confuse or even “poison” artificial intelligence (AI) systems to make them malfunction — and there’s no foolproof defense that their developers can employ. Computer scientists from the National Institute of Standards and Technology (NIST) and their collaborators identify these and other vulnerabilities of AI and machine learning (ML) in a new publication.

Their work, titled Adversarial Machine Learning: A Taxonomy and Terminology of Attacks and Mitigations (NIST.AI.100-2), is part of NIST’s broader effort to support the development of trustworthy AI, and it can help put NIST’s AI Risk Management Framework into practice. The publication, a collaboration among government, academia and industry, is intended to help AI developers and users get a handle on the types of attacks they might expect along with approaches to mitigate them — with the understanding that there is no silver bullet.

“We are providing an overview of attack techniques and methodologies that consider all types of AI systems,” said NIST computer scientist Apostol Vassilev, one of the publication’s authors. “We also describe current mitigation strategies reported in the literature, but these available defenses currently lack robust assurances that they fully mitigate the risks. We are encouraging the community to come up with better defenses.”

AI systems have permeated modern society, working in capacities ranging from driving vehicles to helping doctors diagnose illnesses to interacting with customers as online chatbots. To learn to perform these tasks, they are trained on vast quantities of data: An autonomous vehicle might be shown images of highways and streets with road signs, for example, while a chatbot based on a large language model (LLM) might be exposed to records of online conversations. This data helps the AI predict how to respond in a given situation.

One major issue is that the data itself may not be trustworthy. Its sources may be websites and interactions with the public. There are many opportunities for bad actors to corrupt this data — both during an AI system’s training period and afterward, while the AI continues to refine its behaviors by interacting with the physical world. This can cause the AI to perform in an undesirable manner. Chatbots, for example, might learn to respond with abusive or racist language when their guardrails get circumvented by carefully crafted malicious prompts.

"For the most part, software developers need more people to use their product so it can get better with exposure," Vassilev said. "But there is no guarantee the exposure will be good. A chatbot can spew out bad or toxic information when prompted with carefully designed language."

In part because the datasets used to train an AI are far too large for people to successfully monitor and filter, there is no foolproof way as yet to protect AI from misdirection. To assist the developer community, the new report offers an overview of the sorts of attacks its AI products might suffer and corresponding approaches to reduce the damage.

The report considers the four major types of attacks: evasion, poisoning, privacy and abuse attacks. It also classifies them according to multiple criteria such as the attacker's goals and objectives, capabilities, and knowledge.

Evasion attacks, which occur after an AI system is deployed, attempt to alter an input to change how the system responds to it. Examples would include adding markings to stop signs to make an autonomous vehicle misinterpret them as speed limit signs or creating confusing lane markings to make the vehicle veer off the road.

Poisoning attacks occur in the training phase by introducing corrupted data. An example would be slipping numerous instances of inappropriate language into conversation records, so that a chatbot interprets these instances as common enough parlance to use in its own customer interactions.

Privacy attacks, which occur during deployment, are attempts to learn sensitive information about the AI or the data it was trained on in order to misuse it. An adversary can ask a chatbot numerous legitimate questions, and then use the answers to reverse engineer the model so as to find its weak spots — or guess at its sources. Adding undesired examples to those online sources could make the AI behave inappropriately, and making the AI unlearn those specific undesired examples after the fact can be difficult.

Abuse attacks involve the insertion of incorrect information into a source, such as a webpage or online document, that an AI then absorbs. Unlike the aforementioned poisoning attacks, abuse attacks attempt to give the AI incorrect pieces of information from a legitimate but compromised source to repurpose the AI system's intended use.

"Most of these attacks are fairly easy to mount and require minimum knowledge of the AI system and limited adversarial capabilities," said co-author Alina Oprea, a professor at Northeastern University. "Poisoning attacks, for example, can be mounted by controlling a few dozen training samples, which would be a very small percentage of the entire training set."

The authors — who also included Robust Intelligence Inc. researchers Alie Fordyce and Hyrum Anderson — break down each of these classes of attacks into subcategories and add approaches for mitigating them, though the publication acknowledges that the defenses AI experts have devised for adversarial attacks

thus far are incomplete at best. Awareness of these limitations is important for developers and organizations looking to deploy and use AI technology, Vassilev said.

"Despite the significant progress AI and machine learning have made, these technologies are vulnerable to attacks that can cause spectacular failures with dire consequences," he said. "There are theoretical problems with securing AI algorithms that simply haven't been solved yet. If anyone says differently, they are selling snake oil."

To read more: https://www.nist.gov/news-events/news/2024/01/nist-identifies-types-cyberattacks-manipulate-behavior-ai-systems

Statement on the Approval of Spot Bitcoin Exchange-Traded Products

Gary Gensler, Chair of the U.S. Securities and Exchange Commission

Today, the Commission approved the listing and trading of a number of spot bitcoin exchange-traded product (ETP) shares.

I have often said that the Commission acts within the law and how the courts interpret the law. Beginning under Chair Jay Clayton in 2018 and through March 2023, the Commission disapproved more than 20 exchange rule filings for spot bitcoin ETPs. One of those filings, made by Grayscale, contemplated the conversion of the Grayscale Bitcoin Trust into an ETP.

We are now faced with a new set of filings similar to those we have disapproved in the past. Circumstances, however, have changed. The U.S. Court of Appeals for the District of Columbia held that the Commission failed to adequately explain its reasoning in disapproving the listing and trading of Grayscale's proposed ETP (the Grayscale Order).

The court therefore vacated the Grayscale Order and remanded the matter to the Commission. Based on these circumstances and those discussed more fully in the approval order, I feel the most sustainable path forward is to approve the listing and trading of these spot bitcoin ETP shares.

The Commission evaluates any rule filing by a national securities exchange based upon whether it is consistent with the Exchange Act and regulations thereunder, including whether it is designed to protect investors and the public interest.

The Commission is merit neutral and does not take a view on particular companies, investments, or the assets underlying an ETP.

If the issuer of a security and the listing exchange comply with the Securities Act, the Exchange Act, and the Commission's rules, that issuer must be provided the same access to our regulated markets as anyone else.

Importantly, today's Commission action is cabined to ETPs holding one non-security commodity, bitcoin.

It should in no way signal the Commission's willingness to approve listing standards for crypto asset securities. Nor does the approval signal anything about the Commission's views as to the status of other crypto assets under the federal securities laws or about the current state of non-compliance of certain crypto asset market participants with the federal securities laws.

As I've said in the past, and without prejudging any one crypto asset, the vast majority of crypto assets are investment contracts and thus subject to the federal securities laws.

Investors today can already buy and sell or otherwise gain exposure to bitcoin at a number of brokerage houses, through mutual funds, on national securities exchanges, through peer-to peer payment apps, on non-compliant crypto trading platforms, and, of course, through the Grayscale Bitcoin Trust. Today's action will include certain protections for investors:

First, sponsors of bitcoin ETPs will be required to provide full, fair, and truthful disclosure about the products. Investors in any bitcoin ETP that is listed and traded will benefit from the disclosure included in public registration statements and required periodic filings.

While these disclosures are required, it is important to note that today's action does not endorse the disclosed ETP arrangements, such as custody arrangements.

Second, these products will be listed and traded on registered national securities exchanges. Such regulated exchanges are required to have rules designed to prevent fraud and manipulation, and we will monitor them closely to ensure that they are enforcing those rules.

Furthermore, the Commission will fully investigate any fraud or manipulation in the securities markets, including schemes that use social media platforms.

Such regulated exchanges also have rules designed to address certain conflicts of interest as well as to protect investors and the public interest.

Further, existing rules and standards of conduct will apply to the purchase and sale of the approved ETPs. This includes, for example, Regulation Best Interest when broker-dealers recommend ETPs to retail investors, as well as a fiduciary duty under the Investment Advisers Act for investment advisers.

Today's action does not approve or endorse crypto trading platforms or intermediaries, which, for the most part, are non-compliant with the federal securities laws and often have conflicts of interest.

Third, Commission staff is separately completing the review of registration statements for 10 spot bitcoin ETPs simultaneously, which will help create a level playing field for issuers and promote fairness and competition, benefiting investors and the broader market.

Since 2004, this agency has had experience overseeing spot non-security commodity ETPs, such as those holding certain precious metals. That experience will be valuable in our oversight of spot bitcoin ETP trading.

Though we're merit neutral, I'd note that the underlying assets in the metals ETPs have consumer and industrial uses, while in contrast bitcoin is primarily a

speculative, volatile asset that's also used for illicit activity including ransomware, money laundering, sanction evasion, and terrorist financing.

While we approved the listing and trading of certain spot bitcoin ETP shares today, we did not approve or endorse bitcoin. Investors should remain cautious about the myriad risks associated with bitcoin and products whose value is tied to crypto.

To read more: https://www.sec.gov/news/statement/gensler-statement-spot-bitcoin-011023

NIST SP 800-55 Vol. 1 (Initial Public Draft)
Measurement Guide for Information Security: Volume 1 — Identifying and Selecting Measures

The initial public drafts of NIST Special Publication (SP) 800-55, Measurement Guide for Information Security, Volume 1 – Identifying and Selecting Measures and Volume 2 – Developing an Information Security Measurement Program are available for comment after extensive research, development, and customer engagement.

In response to the feedback from the pre-draft call for comment and initial working draft (annotated outline), NIST continued to refine the publications by organizing the guidance into two volumes and developing more actionable and focused guidance in each.

Volume 1 – Identifying and Selecting Measures is a flexible approach to the development, selection, and prioritization of information security measures. This volume explores both quantitative and qualitative assessment and provides basic guidance on data analysis techniques as well as impact and likelihood modeling.

Volume 2 — Developing an Information Security Measurement Program is a methodology for developing and implementing a structure for an information security measurement program.

Table 1. Stevens Scale of Measurement

Scale Level	Definition
Nominal	A nominal scale only looks at classification or identification. Nominal scales are used in surveys and in dealings with either non-numeric variables or numbers that do not have an assigned value. The data collected from a nominal scale can be used for counting, mode, or correlation contingency matrices.
Ordinal	An ordinal scale is similar to a nominal scale in that it primarily uses non-numeric values or numbers that are meant to show ranking. Related statistics include medians and percentiles.
Interval	An interval scale is used when measuring variables with equal intervals between values. When using an interval scale, there is no true zero. Examples of the use of interval scales are temperature or time scales. Interval data allows for quantitative analysis, such as descriptive statistics like frequency, averages, position, and dispersion. Interval statistics include mean, standard deviation, and rank-order correlation.
Ratio	Ratio scales allow for the categorization and ranking of data, similar to an interval scale, but with a true zero and no negative values. Ratio scales allow for numbers to be used for addition, subtraction, multiplication, and division.

*Some organizational motivations may benefit from quantitative assessments, such as trying to determine whether the organization is patching known vulnerabilities in an acceptable amount of time. Knowing the **mean time to remediate a vulnerability** provides more precise insight into patching efficiency than simply knowing the number of vulnerabilities patched in a year. Because the question of **mean time to remediate a vulnerability** deals in non-zero numbers that are attainable to gather, a measurement can be taken, and a mathematically derived answer can be given.*

Type of Assessment	Approach	Example
Risk Assessment	Classical (Value at Risk)	An organization conducting a risk assessment will likely consider their value at risk (VaR) if they were to suffer an adverse information security event. The organization may look at potential losses from downtime, the cost of repairing the environment, or reputational damage.
Risk Assessment	Bayesian	The Bayesian method looks at prior distribution, collected data, and set parameters to make inferences about future outcomes. Using data from SP 800-53 control RA-3(4), Predictive Cyber Analytics, as part of a risk assessment, the inferences found through the Bayesian method allow organizations to make risk-based decisions based on the likelihood of future events.

NIST Special Publication 800
NIST SP 800-55v1 ipd

Measurement Guide for Information Security

Volume 1 — Identifying and Selecting Measures

To read more: https://csrc.nist.gov/pubs/sp/800/55/v1/ipd

FSB Work Programme for 2024

The Financial Stability Board's (FSB) work programme for 2024 aims to maximise the value of its work to foster global financial stability while preserving the capacity for the FSB to respond to new issues that may emerge.

The FSB's work priorities reflect the global nature of financial challenges and their ability to affect the financial system as a whole. These challenges include digitalisation, climate change, and the consequences of shifts in the macroeconomic and interest rate environment.

This note summarises ongoing and planned FSB initiatives in 2024. The Annex provides an indicative timeline of the FSB's planned publications in 2024.

Supporting global cooperation on financial stability. Vulnerabilities in the global financial system continue to be elevated, reflecting high interest rates and an uncertain growth outlook, while vulnerabilities from structural change continue to emerge in areas such as climate change, cyber and crypto-asset markets.

These challenges are increasingly affecting the functioning of the financial system through various channels and make global cooperation on financial stability matters as important now as it was after the 2008 global financial crisis.

The FSB, with its broad and diverse membership of national authorities, international standard setters, and international bodies, continues to promote financial stability in a rapidly evolving environment.

As part of this work, the FSB will continue to participate in the joint FSB-IMF Early Warning Exercise. The FSB is constantly updating its monitoring to identify, assess and address new and emerging risks to global financial stability.

The FSB's surveillance framework forms the basis of this monitoring. Work will continue to more fully integrate monitoring of vulnerabilities associated with technological innovation, climate change and non-bank financial intermediation (NBFI).

Completing resolution reforms. The FSB will continue its work to promote the full implementation of the Key Attributes of Effective Resolution Regimes for Financial Institutions across all sectors.

The focus will be to address the lessons learned from the March 2023 banking turmoil, to finalise the work on central counterparty (CCP) financial resources and tools for resolution and to enhance the process for developing the list of insurers subject to resolution planning.

In 2024, the FSB will:

■ conduct follow-up work on public sector backstop funding mechanisms, operationalisation of bail-in, resolution strategies and tools, and the impact of social media and digital innovation on resolution;

■ finalise its toolbox for CCP resolution authorities to have access to a combination of resources and/or tools to use in CCP resolution; and

■ publish the list of insurers subject to the resolution planning standards of the Key Attributes, based on reporting by member authorities.

Other post March 2023 banking turmoil work. Work will continue to address other issues highlighted by the banking turmoil in March 2023.

This includes work on:

■ Deposit behaviour and the role of technology and social media.

■ Interest rate and liquidity risk in the financial system.

Implementing the systemically important financial institution (SIFI) framework. As part of the FSB framework for SIFIs, the FSB will:

■ Continue its annual review and publication of the list of designated G-SIBs.

■ Monitor insurer systemic risk annually based on the IAIS Holistic Framework reporting.

Enhancing the resilience of NBFI. The NBFI sector has grown faster than the banking sector since the 2008 global financial crisis and has become more diverse. As a result, the importance of NBFI for the financing of the real economy has increased.

The FSB will continue to advance its work programme for enhancing NBFI resilience, which is carried out by the FSB and by standard-setting bodies (SSBs) and international organisations.

This includes:

■ exploring policy recommendations or policy options for non-bank financial leverage,

■ completing the data pilot project to enhance authorities' and the FSB's ability to monitor vulnerabilities associated with open-ended fund liquidity mismatch,

■ enhancing liquidity preparedness of non-bank market participants for margin and collateral calls,

■ conducting new work on the functioning and resilience of repo markets, and

■ publishing its annual Global Monitoring Report on NBFI.

Enhancing cross-border payments. The G20 Roadmap for enhancing cross-border payments, coordinated by the FSB, contains a comprehensive set of actions4 and a framework for monitoring progress toward achieving the quantitative targets that have been set for end2027.

The FSB, working with the Committee on Payments and Market Infrastructures (CPMI) and other SSBs and international organisations, will continue to coordinate taking forward the actions in 2024.

Actions led by the FSB include work on bank and non-bank supervision and work on data frameworks.

The Roadmap places importance on public-private sector partnerships, including the annual Payments Summit and taskforces that were set up in 2023.

To read more: https://www.fsb.org/wp-content/uploads/P240124.pdf

Signal versus noise

Ben Broadbent, Deputy Governor for Monetary Policy of the Bank of England, at the London Business School, London.

We are all aware that the future is unpredictable. When it comes to gauging the economy, however, it's not just the future that's uncertain: so is the present. For all the time and effort put into its forecasts the MPC also spends a great deal of it getting to understand the here and now.

This isn't straightforward. For one thing, it's not always possible to determine precisely what's causing what – to trace the economy we observe back to the underlying forces that are driving it.

Is output growth being moved around by demand or supply? Ditto employment? To take an example of particular relevance right now, has strong wage growth been the result of exceptional tightness of the labour market, especially last year; or is it the "second-round effect" of very high spot inflation in late 2022 and earlier this year?

These things aren't mutually exclusive: almost certainly, both have played a part. But the balance of the two matters. As the direct effects of the pandemic and the war dissipate, wholesale prices of energy and other traded goods have been declining.

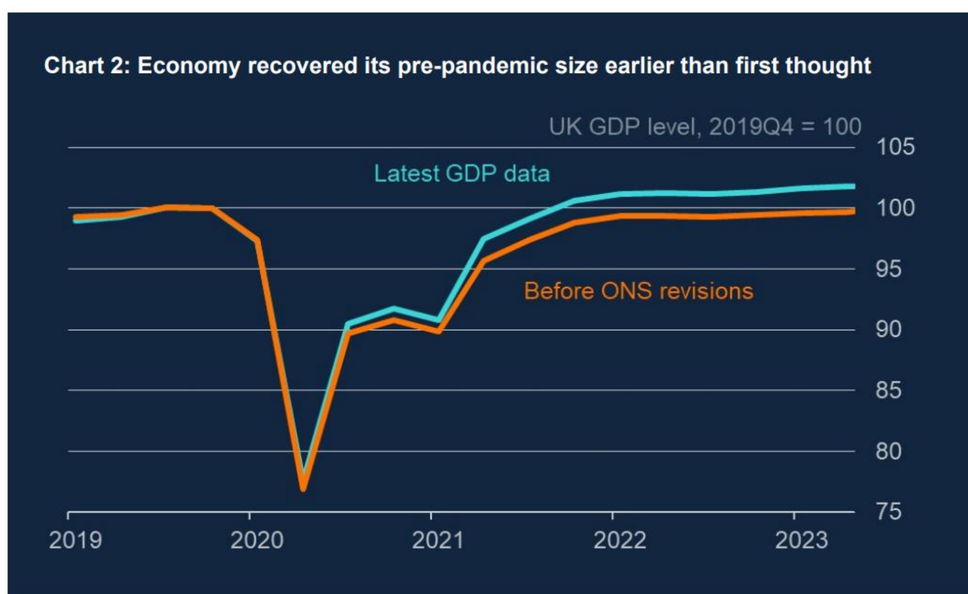
Sources: ONS and Bank calculations. Core output PPI is for manufactured products excluding non-core items. Core output PPI annual inflation is advanced by two months, which maximises correlation with CPI core goods inflation.

This is now feeding through to inflation rates for retail goods prices and the aggregate CPI itself (Chart 1 plots core goods inflation against its wholesale counterpart; there have been similar trends in food and energy markets).

As this happens, one might expect these second-round effects on wage growth and broader domestic inflation to weaken as well, quite independently of the stance of monetary policy.

To the extent the tight labour market is the cause of strong domestic inflation, however, then the economy would need a longer period of below-trend growth – possibly with corresponding consequences for monetary policy – to bring it back into a more sustainable position.

At any rate, the more general point is that it's not always easy to infer the deeper, unobserved causes of economic fluctuations from the directly observable information.



Sources: ONS and Bank calculations. ONS 2023 Blue Book revisions. See Box C in the **November Monetary Policy Report** for more details.

Second, even what we do get to observe – GDP, employment, wages and the like – may not be perfectly measured.

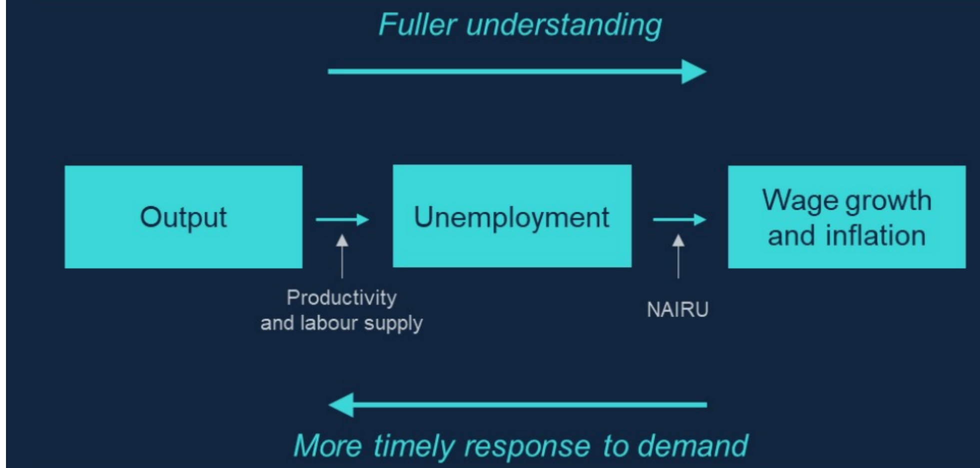
For some things (notably GDP) the relevant information comes in only over time and, as a result, the data are subject to revision.

These changes can be sizeable. Recently, for example, estimated growth during 2020 and 2021 was revised up by almost two percentage points (Chart 2).

As a result the economy is now thought to have reached its pre-pandemic size nearly two years earlier than was previously thought.

To read more:

https://www.bankofengland.co.uk/speech/2023/december/ben-broadbent-speech-at-london-business-school#:~:text=In%20this%20speech%20Ben%20talks,the%20economy%20and%20incoming%20data.



CISA and ENISA enhance their Cooperation

Geopolitics have shaped the cyber threat landscape, bringing like-minded partners closer together in the wake of common cyber challenges and advances in digital technologies.

At the EU-US Cyber Dialogue, ENISA and CISA announced the signing of their Working Arrangement as an important milestone in the overall cooperation between the United States and the European Union in the field of cybersecurity, also following the Joint Statement of European Commissioner Thierry Breton and U.S. Secretary for Homeland Security Alejandro Mayorkas of January 2023.

ENISA's International Strategy directs the Agency to be selective in engaging with international partners and to limit its overall approach in international cooperation to those areas and activities that will have high and measurable added value in achieving the Agency's strategic objectives.

CISA is a key partner to ENISA in achieving these objectives and by extension the EU in achieving a higher common level of cybersecurity.

The Working Arrangement is both a consolidation of present areas of cooperation, as well as opening the door to new ones.

Current examples are the organisation and promotion of the International Cybersecurity Challenge (ICC), exchanging best practices in the area of incident reporting or ad hoc information exchanges on basic cyber threats.

This arrangement is broad in nature and covers both short-term structured cooperation actions, as well as paving the way for longer-term cooperation in cybersecurity policies and implementation approaches.
Cooperation will be sought in the areas of:

1. Cyber Awareness & Capacity Building to enhance cyber resilience: including facilitating the participation as third country representatives in specific EU-wide cybersecurity exercises or trainings and the sharing and promotion of cyber awareness tools and programmes.

2. Best practice exchange in the implementation of cyber legislation; including on key cyber legislation implementation such as the NIS Directive, incident reporting, vulnerabilities management and the approach to sectors such as telecommunications and energy.

3. Knowledge and information sharing to increase common situational awareness: including a more systematic sharing of knowledge and information in relation to the cybersecurity threat landscape to increase the common situational awareness to the stakeholders and communities and in full respect of data protection requirements.

A work plan will operationalise the Working Arrangement and regular reporting at the EU-US Cyber Dialogues is foreseen.

To read more: https://www.enisa.europa.eu/news/cisa-and-enisa-enhance-their-cooperation

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