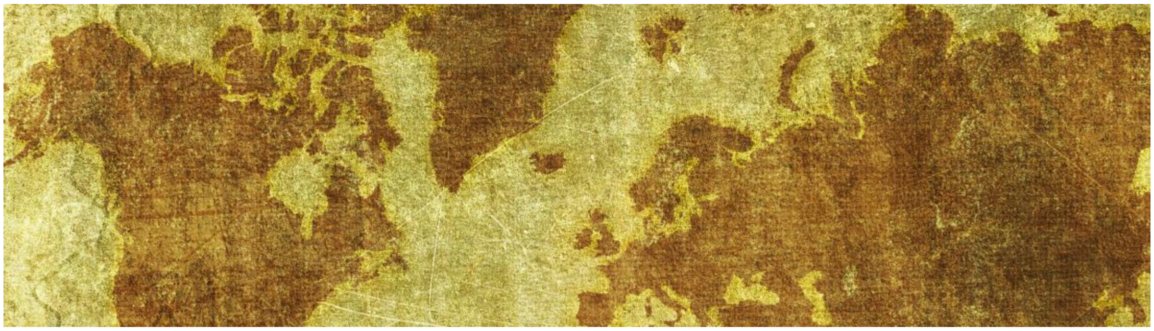
Solvency ii Association
1200 G Street NW Suite 800 Washington DC 20005-6705 USA
Tel: 202-449-9750 Web: www.solvency-ii-association.com



Solvency 2 News, February 2018

Dear certified professionals, members, and friends.

Today we will start with the “Revised Single Programming Document 2017-2019” from EIOPA.

“EIOPA’s work is designed and developed to provide value to Europe and its citizens.

The way to do so is to act as a modern, competent and professional organisation, with sound and effective governance arrangements, efficient processes and a positive reputation.

To achieve its goal, EIOPA is following the principles of independence, transparency and accountability.

To develop EIOPA further as a credible supervisory Authority within the European System of Financial Supervision we are following three main strategic priorities:

First, enhancing supervisory convergence, second, reinforcing preventive consumer protection and third, preserving financial stability.

Supervisory convergence becomes key in a period where effective implementation of Solvency II is both a challenge and an opportunity, and we want to make the utmost out of the latter.

A true Single Market demands level playing field and quality regulation and supervision.

The trust of consumers in the area of financial sector, including insurance and pensions, deserves being enhanced, and EIOPA is targeting a range of measures to be a key contributor to its enhancement, with the customer interest at its centre.

Coming out of an unprecedented financial crisis, that has severely affected the economy and the people, we are fully committed to contribute anticipating and mitigating unintended developments for the financial sector and will make use of stress tests, risk indicators and other tools to be in the frontline of action for the Insurance and Pensions sectors.

The Single Programming Document (SPD) consists of two parts.
The first part sets up the direction of the development of our Authority and the relevant business strategic objectives and actions for the period 2017 - 2019.

The second part outlines the tasks EIOPA is mandated to, and will perform, in the course of the specific year in which the SPD applies (2017, 2018 and then 2019).

The current document combines the aim of providing clear information to stakeholders on our goal and mandate, including a transparent description of deliverables, together with concrete business objectives for the teams and individuals working at EIOPA, key for internal management.

This SPD is the reflection of efficient internal governance, planning and coordination followed within EIOPA in the past years.

All the actions and deliverables indicated have undergone a solid prioritisation assessment and were carefully checked against required and available financial and human resources, expertise and skills.

Each work stream and project indicated in the SPD is monitored by robust performance indicators supported by clear internal control standards.

In order to ensure business continuity and high-quality deliverables, dedicated focus is given to associated risks and how they are managed within EIOPA.

In line with EIOPA's principles of transparency and accountability, the SPD presents our revenues, expenditures, staffing and organisational structure in a detailed and comprehensive manner.

Full transparency, efficiency and accountability are building blocks for managing public resources, as they belong to all European citizens.

The needle in our compass when performing our tasks has been, and will continue to be, bringing added value to the European Union financial supervision and by that contributing to financial stability and addressing the needs of European citizens."

To read more:

https://eiopa.europa.eu/Publications/Administrative/EIOPA%20SPD%20 2017-2019%20including%20AWP%202018.pdf

The Solvency II Review: What happens next?

Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA)

Ladies and Gentlemen,

I would like to congratulate the National Bank of Belgium, Jean Hilgers and his colleagues, for organising this event and thank you for the invitation to deliver the introductory speech, which I do with great pleasure.

Ten years after the emergence of the financial crisis, we are now in a different phase of the regulatory cycle naturally influenced by the new political priorities of increasing investment and economic growth.

While in my view it makes perfect sense to evaluate and review the recent reforms in order to mitigate any unintended consequences and increase proportionality, I strongly believe that we should not abandon the core values of stability and consumer protection that presided to these reforms.

We cannot forget that the post-crisis regulatory agenda was the right response to restore the loss of confidence in the financial sector.

Furthermore, to build up sustainable long-term investment and economic growth we need a stable and strong insurance sector that adequately prices risks, applies robust risk management strategies and treats customers fairly.

Regulatory certainty is an important value that we all should preserve. In line with this principle, the review of Solvency II follows a structured process envisaged in the legislative texts:
- by 2018, the review of the Solvency Capital Requirement (SCR)
and,

- by 2021, the overall review of the regime, including the treatment of long-term guarantees (LTG).

Review of the SCR

EIOPA received calls for advice from the EU Commission focused on three main themes:

- Reducing complexity,
- Enhancing proportionality and,
- Removal of unjustified constraints to financing.

EIOPA is committed to evidence-based policymaking and to the overall principles of Solvency II. That means that our proposals will be based on the data available on the different risks and our judgements will be always focused on the main objectives of Solvency II, namely the protection of policyholders and beneficiaries and the stability of the market.

Changes must be carefully justified and clearly necessary. If there are unintended consequences, we must tackle them.

In terms of evaluation, we always put to ourselves a number of basic questions:

- What is the evidence available?

- Is this a material issue?

- Would the change be prudent and in line with the Solvency II objectives?

- Are there trade-offs, for example between greater granularity and simplicity?

- What is the overall impact of the changes?

We developed very detailed technical and analytical work and followed an open and transparent consultation process, which allowed all stakeholders to contribute to the review.
At the end of October last year, we submitted to the EU Commission the first set of advice covering a number of important issues.

EIOPA's proposed changes foresee simplifications to the calculation of risks such as lapse and mortality. To reduce over-reliance of insurance undertakings on external credit ratings in the calculation of the SCR, EIOPA recommended applying simplified calculations by nominating only one credit rating agency and calculating capital requirements for the remaining non-complex assets only subject to credit quality step 3 (i.e. BBB rating).

EIOPA also advised to create a new asset class for non-listed guarantees issued by regional governments and local authorities to ensure improved risk-sensitivity of the calculations.

Furthermore, the advice identified the need for the extension of the application of the look-through approach to related undertakings that invest on behalf of the insurer.

It also included the proposal for the use of undertaking specific parameters for reinsurance stop-loss treaties to allow for better reflection of the risk profile.

With respect to risk mitigation techniques, EIOPA recommended to better recognise strategies to hedge financial risks where the exposure is changing frequently.

Finally, EIOPA carried out an analysis of the loss-absorbing capacity of deferred taxes (LAC DT) across the European Economic Area including supervisory and industry practices.

The results of the analysis showed that for 75% of the close to 100 billion euros of LAC DT there are consistent practices but for the remaining 25% of LAC DT, namely the part related to the calculation of expected future profits, there are material differences in approach.

Our second Advice, to be submitted to the European Commission at the end of this month, will include proposals to deal with this issue.

This second advice will also cover, in between others:

- The recalibration of a number of risks (standard parameters of premium and reserve risks, mortality and longevity risks and natural catastrophe risks)

- The review of the methodology on interest rate risk, in light of the emergence of negative interest rates

- The review of the cost of capital methodology included in the calculation of the risk margin

- A more granular treatment of the risks related to unrated debt and unlisted equity

Long-term guarantees

Another important area in the overall review of Solvency II is the LTG. What is our role here? We are required to provide an annual report on the LTG measures until 1 January 2021.

We already published two of our annual reports in December 2016 and December 2017. These reports are fact based and provide a good basis to understand the impact and the sensitivity of these measures.

It is already clear that the LTG measures, taken collectively, are being widely used. More than 25% (783 out of 2945) of the undertakings in the European Economic Area use one of voluntary measures, accounting for 74% of technical provisions of European insurers. On a Europe-wide basis, the volatility adjustment is the most frequently used measure.

The impact of the LTG measures is significant. For the ones using them, they result in an increase in the SCR ratio of an average of 69 percentage points.

In line with the SII Directive requirements, EIOPA will continue to publish annual reports on the LTG and intend to finalize its work by 2020 with an advice to the EU Commission.

Analysing the impacts of Solvency II

Building up evidence and knowledge towards the 2021 overall review, EIOPA is attentive to the different impacts on the market.

The recent investment survey points to a search-for-yield behaviour of insurers, which is a natural reaction to the low interest rate environment.

The increased exposure to more illiquid investments and to non-traditional asset classes, such as infrastructure, improves asset diversification but also demands new risk management capabilities from insurers and closer supervisory scrutiny. At the same time, in line with our expectations, the first observations from the impact of Solvency II point to an increase in long-term investment and a stable allocation to equity.

Another consequence of the low interest rate environment is the acceleration of the pace of change in business models, especially in life insurance, with the move towards contracts with lower and more flexible guarantees and, in some countries, the significant increase of pure unit-linked products.

While this is a natural management reaction to ensure the long-term sustainability of the insurers commitments and optimize capital in a Solvency II environment, it also increases the transfer of risks to policyholders. I believe that this last evolution deserves further reflection from a regulatory perspective.

We will thoroughly analyse the new evidence available on the risks and characteristics of the long-term life insurance products, especially concerning the illiquidity characteristics of the liabilities and the corresponding ability of insurers to mitigate short-term volatility by holding assets throughout the duration of the commitments, even in times of market stress.

There is specific work to do in this area, in order to explore the development of a specific regulatory treatment to the spread and equity risk charges associated to long-term assets backing certain types of truly long-term illiquid liabilities, while maintaining the sound market consistent orientation and the principles of policyholder protection of Solvency II.

The intention should be to study possible adjustments to the regime to better recognize the true risks of long-term transparent retirement savings products, for the benefit of consumers and the whole economy.

Towards a comprehensive insurance regulatory framework

While Solvency II is undoubtedly a great achievement for the European Union insurance sector and for the protection of policyholders, there are still some areas where progress is needed to complete a comprehensive European Union insurance regulatory framework. I am talking about a macro-prudential framework, including the specific issue of systemic risk, recovery and resolution mechanisms and insurance guarantee schemes.

The macro-prudential framework

The insurance sector plays a relevant role in achieving a stable financial system, supporting long-term sustainable economic growth. Thus, mitigating the likelihood and the impact of a systemic crisis in insurance should be an important policy objective.

Work needs to be done towards the establishment of a comprehensive European Union macro-prudential framework for insurance that takes into account the specific nature of the insurance business and funding models and defines insurance specific objectives and instruments. In our view, this framework needs to be consistent with Solvency II.

EIOPA will be publishing in the coming days two papers in this area, covering a possible holistic framework to analyse systemic risk in the insurance sector and the Solvency II tools with a macro-prudential impact. We want to foster a proper discussion with all stakeholders on these important issues and we look forward for your input.

Recovery and resolution mechanisms and insurance guarantee schemes

In July 2017 EIOPA published an Opinion on the Harmonisation of the Recovery and Resolution Framework for (Re)Insurers across the European Union addressed to the European Parliament, the Council of the European Union and the European Commission.

The existing fragmented landscape of national recovery and resolution frameworks could cause significant barriers to the resolution of (re)insurers, particularly of cross-border groups. To reduce this risk, to avoid unnecessary economic cost stemming from uncoordinated decision making processes between national authorities and to ensure orderly resolution, European action is required.

Therefore, EIOPA calls for a minimum degree of harmonisation in the field of recovery and resolution for (re)insurers with the objective to increase policyholder protection and financial stability in the European Union. To achieve this objective EIOPA proposes the following four building blocks where the definition of a common approach is key:

- Preparation and planning

- Early intervention
- Resolution
- Cross-border cooperation and coordination

The harmonised recovery and resolution framework should cover all (re)insurers subject to the Solvency II framework and be applied in a proportionate manner.

EIOPA is continuing its work in this area focussing on resolution funding and insurance guarantee schemes.

We believe that the overall review of Solvency II in 2021 should consider all these issues to ensure the coherence between the micro and the macro elements, avoid the emergence of conflicting incentives to insurers, and facilitate the implementation of the regimes by the respective authorities.

To finalise I would like to emphasize that the work on the review of Solvency II will benefit from the ongoing EIOPA initiatives on ensuring a consistent implementation of the new regime.

Supervisory convergence is the main strategic priority of EIOPA and its objectives are to develop a common supervisory culture, guaranteeing a level playing field and preventing regulatory arbitrage in the internal market with the ultimate goal of safeguarding a similar level of protection to all policyholders and beneficiaries in the European Union.

Thank you for your attention.

Looking into the crystal ball
A report on emerging technologies and security challenges

The time has come for ENISA to take a look at the crystal ball of technology; In particular looking at what are considered to be emerging technologies and what might be their prospective usage scenarios.

Considering emerging technologies and applications is an important step in assessing future security needs.

ENISA has performed this effort in collaboration with external experts from academia and industry.

Starting with a small number of individuals, it is planned to expand this assessment by engaging additional experts, both within and outside ENISA committees and bodies.

For the time being, the initial sight to emerging technologies has shown that currently top technological challenges are:

- The Internet of Things,
- Autonomous systems,
- Next generation virtualized infrastructures (including SDN and 5G),
- Upcoming societal challenges,
- Virtual and Augmented reality,
- The Internet of Bio-Nano Things,
- AI and Robotics.

Knowing that the above list is not exhaustive, ENISA will continue the dialogue with experts to complement it.

For the above emerging technology areas both technological and cyber-security challenges are presented in this report.

By taking into account the emerging security challenges, the most important cyber security areas have been identified by means of “emerging security related areas”.

These are:

- Elaboration on Certification,
- Coordination of actions in cyber space,
- Development of trustworthiness,
- Coverage of complete lifecycle,
- The future of cryptography,
- Future Identification technologies,
- Use of Artificial Intelligence and Machine Learning in cyber security,
- Increasing end-user involvement.

ENISA believes that these cyber security areas will present challenges to the cyber security community in the years to come and hopes that they will be extensively discussed within its stakeholder communities.

Last but not least, in this work input that has been received by the ENISA Permanent Stakeholder Group (PSG) is being mentioned.

In a similar manner, input will be integrated through an interaction with the new PSG that will have its kick-off end of October 2017. In this manner, both previous and new contributions from PSG will be put in the context of the areas presented in this report, widening thus significantly the number of contributors.

To read more:
https://www.enisa.europa.eu/publications/looking-into-the-crystal-ball

Improving recognition of ICT security standards

Recommendations for the Member States for the conformance to NIS Directive

www.enisa.europa.eu European Union Agency For Network and Information Security

This report is a continuation and an extension of previously carried out ENISA work on approaches to the NIS Directive by Member States, which have provided recommendations on standardisation and have outlined the use and management of CSIRTs.

This document provides the results of an assessment of the maturity of the implementation of the European Cyber Security Standardisation activities in the EU Member States with respect to the NIS Directive concerning measures for a high common level of security of network and information systems across the Union.

The main assertions this report makes include the following:

• Standardisation for compliance with the NIS Directive is essential;

• Recognition of standardisation in policy is low;

• Utilisation of standards give value to Member States and their infrastructure;

• Utilisation of standards raises Cyber Security levels;

• Utilisation of standards provides sustainability and interoperability at European level.

The current market research has clearly shown that the information security/cyber security standard development ecosystem is healthy and fast moving.

Few gaps actually exist and to implement the NIS Directive choosing the rights ones and implementing them is of paramount importance.

In the scope of this survey a questionnaire was sent to the Member States representatives and used as the basis of data gathering either in the form of interviews, or by directly completing it and sending responses to the authors.

A summary of the responses given have been collated and summarised.

The content of these responses does not allow to identify whether Member States perceive the existence of a gap in current available standardisation.

However, the content, and general limitations in the cohesion amongst Member States suggests that there is insufficient guidance from the specialists in the field (e.g. national normalization institutes, European institutions etc.), on which of the many standards available are to be used.

It is reasonably straightforward and it follows on the current rate on transposition, to suggest that all Member States are aware of the NIS Directive and their responsibilities in implementing it.

What is less clear is the role that standards have in the NIS Directive implementation.

There is insufficient information with regard to the responses to conclude that a lack of knowledge of standards exists.

This suggests however that if an appropriate standard is available, it will be adopted.

For example, even though the ISO27000 series of standards are in the form of broad guidance, there is a well established eco-system that addresses their implementation.

A major concern is that the NIS Directive domain, and compliance with the NIS Directive requirements, is often perceived as a purely national prerogative.

Where international, cross-border, information sharing is required, this has been perceived as in the domain of existing CSIRT relationships used for reporting security incidents and not directly as an element of NIS Directive compliance.

At the operational level there is very little specified for standards-based NIS Directive compliance and this is one area where ETSI, for example, has made some contributions.

However, there are no mandates at either national or European level to guide this activity at the implementation level.

In light of the above, the following solutions are recommended to mitigate the lack of overall awareness and trainings on the role of standards in NIS Directive compliance and to encourage wide deployment of common security platforms in the OES and PDS entities:

• Training initiatives by the European Commission and ENISA through workshops for Member States' relevant agencies

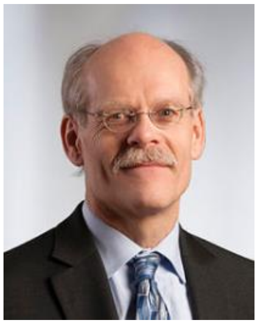
• Promotion of new work items in the European SDOs for some areas (e.g. criteria for defining OES / DSP) or the adoption of appropriate standards in Europe where existing (for example information exchange, where several mature efforts already are in place, like STIX)

• Repeat the information gathering as performed within the elaboration of this study after an adequate interval of time

To read more:
https://www.enisa.europa.eu/publications/improving-recognition-of-ict-security-standards

Basel III: Are we done now?

Keynote speech by Mr Stefan Ingves, Chairman of the Basel Committee on Banking Supervision, at the Institute for Law and Finance conference on "Basel III: Are we done now?", Goethe University, Frankfurt am Main.



Introduction

Good morning, and thank you for inviting me to deliver the keynote speech.

The title of this conference is "Basel III: Are we done now?". Let me answer this question at the outset: yes, we are done, but that doesn't mean the work has ended. In some respects, it's only just beginning.

While finalising Basel III was an important milestone, work remains to

(i) implement Basel III nationally in a full, timely and consistent manner;

(ii) evaluate its effectiveness in reducing the excessive variability of risk-weighted assets (RWAs); and

(iii) continue to monitor and assess emerging risks. My remarks this morning will focus on these three topics.

Basel III: from 2010 to 2017

But let me start with a brief review of the Basel III framework, which has been ten years in the making.

As you know, the Basel III framework is a central element of the Basel Committee's response to the global financial crisis. The initial phase of Basel III reforms, published in 2010 (BCBS 2010(a)), focused on addressing some of the main shortcomings of the pre-crisis regulatory framework, including:

- improving the quality of bank regulatory capital by placing a greater focus on going-concern loss-absorbing capital in the form of Common Equity Tier 1 (CET1) capital;

- increasing capital requirements to ensure that banks can withstand losses in times of stress;

- enhancing risk capture by revising areas of the risk-weighted capital framework that proved to be acutely miscalibrated, including the global standards for market risk, counterparty credit risk and securitisation;

- adding macroprudential elements to the regulatory framework, by: (i) introducing capital buffers that are built up in good times and can be drawn down in times of stress to limit procyclicality; (ii) establishing a large exposures regime that mitigates systemic risks arising from interlinkages across financial institutions and concentrated exposures; and (iii) putting in place a capital buffer to address the externalities created by systemically important banks;

- specifying a minimum leverage ratio requirement to constrain excess leverage in the banking system and complement the risk-weighted capital requirements; and

- introducing an international framework for mitigating excessive liquidity risk and maturity transformation, through the Liquidity Coverage Ratio and Net Stable Funding Ratio.

These reforms have demonstrably helped to strengthen the global banking system. Since 2011, the Tier 1 leverage ratio of major internationally active banks has increased by over 65% (from 3.5% to 5.8%), while their CET1 risk-weighted ratio has increased by over 70% (from 7.2% to 12.3%).

The bulk of this change was achieved by an increase in banks' CET1 capital resources (from €2.1 trillion to €3.7 trillion). There has also been a corresponding reinforcement of banks' liquidity: holdings of liquid assets have increased by 30% (from €9.2 trillion to €11.6 trillion).

There are also clear social benefits from these reforms. During the global financial crisis, the weaknesses in the banking sector were transmitted to the rest of the financial system and the real economy, resulting in substantial costs. Ten years after the start of the crisis, the global economy is still recovering from its effects. These costs include much higher public debt, increased unemployment and substantial output losses.

To give just one example, a recent study estimates that the cumulative output loss resulting from financial crises is in the order of 100% of GDP in net present value terms.

This output loss would probably have been much larger without the massive public sector interventions. The increase in banks' capital and liquidity resources will help mitigate both the probability and impact of future banking crises.

But a major faultline remained in the regulatory framework, namely, the way in which RWAs were calculated. At the peak of the global financial crisis, a wide range of stakeholders lost faith in banks' internally modelled risk-weighted capital ratios.

The complexity and opacity of internal models, the degree of discretion provided to banks in modelling risk parameters, and the use of national discretions all contributed to an excessive degree of RWA variation.

A growing number of studies by authorities, academics and the private sector pointed to a worryingly large variation in banks' estimated RWAs (BCBS (2013a,b)).

For example, one study found that banks' reported capital ratios could vary by 50% for the same hypothetical portfolio.2 The loss in the public's confidence in banks' reported capital ratios clearly highlighted the need for tighter limits to the way in which RWAs are calculated and greater transparency.

The recently finalised Basel III reforms seek to restore the credibility of RWA calculations, and as a result the public's confidence in the banking system, by:

- enhancing the robustness and risk sensitivity of the standardised approaches for credit risk and operational risk, which will make banks' capital ratios more comparable;

- constraining the use of internally modelled approaches, including by removing the use of the most advanced modelled approaches for certain credit risk asset classes and for calculating operational risk; and

- complementing the risk-weighted capital ratio with a finalised leverage ratio and a revised and robust output floor.

Collectively, the set of Basel III reforms addresses a number of shortcomings in the pre-crisis regulatory framework and provides a foundation for a resilient banking system that will help mitigate the impact of future banking crises and the build-up of systemic vulnerabilities.

The post-crisis framework will also help the banking system support the real economy and contribute to economic growth.

Full, timely and consistent implementation: more than just words

But are these reforms enough, or does more need to be done? The answer depends in part on the extent to which the reforms are implemented in a full, timely and consistent manner across jurisdictions. To borrow the words of Goethe (1829): "willing is not enough, we must do".

The Basel Committee's standards are global minimum standards. The Committee has no supranational authority, its decisions carry no legal force, and it cannot impose fines or sanctions.

Rather, once the Committee agrees on a standard, its member jurisdictions are responsible for converting this standard into law or regulation.

So internationally agreed standards that are not properly implemented will ultimately have no impact in practice.

It is therefore imperative that the Basel standards are effectively implemented by all the Committee's jurisdictions.

To this end, the Committee's flagship Regulatory Consistency Assessment Programme (RCAP) monitors the timely adoption of Basel standards across jurisdictions and reviews whether standards are completely and consistently adopted by member jurisdictions.

They also highlight any deviations from the Basel framework. As a result of the RCAPs, over 1,200 deviations were identified as part of the peer reviews focusing on the initial Basel III capital reforms. Two thirds of Basel Committee members have risk-weighted capital rules that are considered compliant or largely compliant with the Basel standards.

Looking forward, the RCAP will continue to play a key role in ensuring that the recently finalised Basel III reforms are implemented as agreed by the Committee. But let me stress three points.

First, in developing its standards, the Committee actively seeks the views of all stakeholders, public and private.

For example, in finalising Basel III, the Committee consulted extensively with academics, analysts, banks, finance ministries, parliamentarians, market participants and trade associations as well as the general public.

These views were duly considered by the Committee in finalising its standards. So there are plenty of opportunities for all stakeholders to express their views before the standards are finalised. The focus then should be on full, timely and consistent implementation.

Second, in endorsing the finalised Basel III reforms, the Group of Governors and Heads of Supervision (GHOS) has unanimously reaffirmed that they expect full, timely and consistent implementation "of all elements" of the Basel III package (BCBS (2017a)). So I take comfort that all of the Committee's members keep this aim in the forefront of their minds during the implementation phase.

Third, the move to national implementation should not be read as an invitation to reopen policy issues and debates at a domestic level.

While the varying legislative and procedural arrangements used to implement Basel standards across the Committee's membership must be fully respected, it is concerning to see ongoing lobbying efforts by some banks and other stakeholders to undo or dilute aspects of the agreed Basel standards in some jurisdictions.

The unsound expedient of adopting standards that fall below the Basel Committee's minimums can only lead to regulatory fragmentation, and in a bad scenario a potential race to the bottom.

Just getting up close, as we like to say in Sweden, isn't enough to shoot the hare.

Reducing excessive RWA variability: mission accomplished?

Assuming that the Basel reforms are properly implemented, will they reduce excessive RWA variability and restore the credibility of the risk-weighted capital framework? While I am confident that the Basel III reforms are an important step in that direction, the honest answer is that only time will tell.

To that end, the Committee has initiated a rigorous evaluation of its post-crisis reforms, including those that relate to reducing excessive RWA variability.

As the reforms will only start to be implemented from 2022 onwards, this exercise will take several years.

But I believe that the Committee should remain open to the possibility of considering whether additional measures, or revisions to existing measures, are warranted to reduce excessive RWA variability.

In a similar vein, the Committee is also further evaluating the interactions and coherence of its post-crisis reforms. The findings will provide an important input for future deliberations by the Committee about the robustness and effectiveness of its post-crisis framework.

I will not prejudge the outcomes of these evaluations, but let me make three observations.

First, the purpose of these evaluations is not to reopen already agreed standards.

Second, the Basel Committee is a member-led and consensus-based body. Accordingly, the Basel III reforms are a compromise that reflects the different views of its members.

Third, as the Basel reforms are minimum standards, jurisdictions are welcome to apply more conservative requirements should they wish to do so. This could include faster transitional arrangements and/or more conservative steady-state requirements.

Enhancing financial stability: an ongoing journey

If the Basel reforms do reduce excessive RWA variability, is the job then done? Probably far from it. Banking crises are inevitable. So, while the Basel standards cannot prevent all future crises, they can seek to mitigate their likelihood and impact.

This, in turn, requires the Basel Committee to remain vigilant for emerging conjunctural and structural risks. It also needs to monitor how banks are responding to its post-crisis reforms.

All this highlights the importance of supervision as a complementary tool to regulation. Let me say a few remarks about both these issues.

Emerging risks

An example of a topical risk of direct relevance for the Basel Committee is cyber-risk. The banking system is increasingly reliant on information technology, which exposes it to a growing and evolving set of operational risks.

Banks with operationally resilient systems, staff, processes and technology can better adapt to evolving shocks and maintain the provision of critical financial services.

The Committee is reviewing its existing cyber-risk measures and will consider whether additional measures are needed to enhance banks' operational resilience.

Behavioural responses to post-crisis reforms

With the Committee's post-crisis reforms now finalised, and with only minor technical issues remaining, the Basel Committee will carefully monitor banks' responses to its reforms.

It will continuously assess banks' behavioural responses, and the potential emergence of any optimisation or arbitrage techniques that may not meet the letter or spirit of the Basel standards. In this case, it will consider whether any measures are needed to address such issues.

Supervision

The Committee's response to the global financial crisis included much more than just regulation. It also encompassed a range of measures to support strong supervision.

These include principles and guidance on corporate governance, risk data aggregation, the prudential treatment of assets, the treatment of weak banks and an updated set of core principles for effective banking supervision. The Committee will step up its efforts to promote improvements in banking supervision practices and principles.

Conclusion

In summary, the finalisation of Basel III in December 2017 represents an important milestone for the Basel Committee's response to the global financial crisis. The full set of Basel III reforms will help enhance the resilience of the banking system.

But we cannot rest on our laurels. Whether it relates to the proper implementation of these reforms, their evaluation, or the assessment of emerging risks, the Basel Committee will continue to exercise its mandate to strengthen the regulation, supervision and practices of banks worldwide.

The agenda changes, but the purpose is constant - to safeguard and enhance financial stability.

PSD2 - will it be a game-changer?

Job Swank, Executive Director of the Netherlands Bank, at ESB's Conversation with Regulators on Innovation in Payment Services, The Hague.

Ladies and gentlemen, I'm grateful to the organizers of this conference for inviting me here. This Conversation with Regulators is the last in a series of events on innovation in payment services, organized by ESB. For those of you who can read Dutch, I highly recommend the dossier Innovatie in Betalen, issued by ESB in September. It has much more to offer than you will hear from me today.

Today's topic is PSD2. PSD2 is a European directive, to be implemented through national legislation. And PSD2 is about payments. To most people, these topics - legislation and payments - are extremely boring, a necessary evil. Probably not to you. Otherwise, you wouldn't be here, but you are certainly a minority.

To read more:
https://www.bis.org/review/r180130c.pdf

Ethics and trust in finance

François Villeroy de Galhau, Governor of the Bank of France, at the 6th "Ethics and Trust in Finance" Global Prize ceremony, Paris.

Ladies and Gentlemen,

It is with great pleasure that I welcome you all to the auditorium of the Banque de France for the 6th "Ethics and Trust in Finance" Global Prize ceremony. I would particularly like to welcome Angel Gurria, Secretary-General of the OECD, and Professor Paul Dembinski, the Co-chair of the prize.

The venue that you have been invited to today sends a message in itself: as the Autorité de contrôle prudentiel et de résolution is backed by the Banque de France, some might have a tendency to think that the bank and insurance supervisor, as the "guardian of the temple", would only be concerned with compliance with prudential rules, which are collective and compulsory.

They might also think that the supervisor would consider that an ethical approach is too poorly defined to be inspected, as each financial institution - and even each professional - has their own perspective on it, and would also consider that an ethical approach leaves them free to look after the interests of their clients.

The philosophers among you will have recognised in this divergence between rules and ethics the classic contrast between Kant's "categorical imperative" and Aristotle's "practical wisdom". But I am thoroughly convinced that in practice, in the financial sector and in society in general, we must respect the rules and behave ethically - even when we are respecting the rules. A number of cases that have recently made the headlines have also shown that citizens and customers alike are becoming increasingly demanding in this regard. Adopting the same reasoning, Paul

Dembinski likes to quote Ricoeur's broader definition of ethics as "a wish for a fulfilled life - with and for others - in just institutions".

1. From this perspective, what is at stake is more than a simple contrast, but the sound balance and dynamic tension between compulsory rules and enduring, freely adopted ethics.

There can be no doubt that the financial sector needs rules. This is not just a question of an activity that involves intermediation between different parties - each of which must be convinced that the rules are being properly applied - but it is also a question of managing risks, while protecting the interests of customers and policyholders. Financial instability also has substantial externalities on the economy, and on social cohesion through unemployment. The recent financial crises have brought the failings of the financial system into focus, not forgetting the impact of new technologies, such as high frequency trading, FinTechs, or crypto-assets.

But rules have their limitations. An ethical approach is needed if we are to respect the spirit of the rules - and not just the letter of the law - and if we are to make informed decisions when clear rules are not available. In addition to financial institutions' in-house ethical practices, the financial sector must now also consider how society - NGOs, the media, fellow citizens included - perceive its activities from an ethical standpoint.

Clearly, the 2007-09 crisis was partly created by an imbalance: too much trust had been placed in ethics, while the rules were insufficient. The weaknesses in the corporate culture of financial institutions were thrust into the spotlight; incentives to take risks were too powerful and governance was inappropriate.

Certain Anglo-Saxon expressions perfectly illustrate the period: "too big to fail" created a widespread moral hazard, "tick the box" encouraged overly lax self-regulation through a purely formal compliance with the rules... and in so doing, the "light touch" of the British FSA at the time clearly showed its limitations.

Since then, I am happy to say that we have significantly tightened up the rules. With the CRD IV Capital Requirements Directive and Basel III for banks and, at least in Europe, Solvency II for insurers, quantitative requirements have been reinforced to ensure greater resilience, governance of financial institutions has been improved and compensation policies for bankers have been reined in a little.

International regulation is our common good. It strengthens a sound financial system. But as we strengthen international regulation, we must not lower our guard in terms of ethics. Ten years later, this would generate the opposite imbalance to that of 2007-08. In other words, there's a risk that the pendulum could swing back the other way.

2. Ethics must permeate the day-to-day practices and culture of financial institutions.

Over and above the good intentions, declarations and codes of conduct, which did nothing to prevent the excesses that caused the 2008 crisis, the challenge now is for all actors from the bottom to the top of these organisations to adopt an ethical approach.

As the "Banking Conduct and Culture" report of the Group of Thirty, which brought together private and central bankers and academics, asserted, the "tone from the top" must have an "echo from the bottom".

This begins with the Boards of Directors and the management teams, who must always be exemplary, and who need to realise that their behaviour is scrutinised at all times for indications of what is acceptable and what is not, irrespective of their declarations of intent. Actions speak louder than words.

It then requires employees to be trained and informed on ethical standards on a regular basis and not only on their first day on the job. Situations change; new developments can be an opportunity to reconsider existing practices; stakeholder expectations evolve.

Ethics - just like technical issues - must be subject to constant communication and ongoing training. And this is no easy task. As ORSE's report on corporate ethics, responsibility and strategy1 quite rightly reminds us, "Corporate ethics is not built on obedience, but on engagement and discernment". Employees must be able to identify ethical "grey areas" even when their manager or clear rules are not available.

If ethics are to permeate corporate practices, they must form an integral part of HR policies and structures. For example, during selection procedures for external recruitment or internal promotion, particularly for management positions, the integrity of candidates during their career should be seriously assessed and taken into account.

Ethics in themselves have value. Good performances can neither excuse nor compensate for questionable ethical behaviour. Results obtained at the expense of ethical standards should not be rewarded.

On the contrary, they should be penalised in order to send the right message with regards to expected behaviour, including from the managers of the employees concerned.

Diversity within teams, and particularly management teams, should be encouraged. Experience shows that diversity - in terms of gender, social background, education, thinking - is a factor in risk prevention.

An overly homogeneous group does not debate, loses critical thinking and as a result takes more risky decisions.

At a time when technical processes and compliance procedures are becoming increasingly complex and favour dialogue between human and machine, direct human contact should once more be given the importance it deserves.

Employees must be able to approach managers with their questions on ethics in just the same way as they can ask technical questions; with the same ease, the same freedom, the same legitimacy.

No-one should be afraid of raising ethical questions, being concerned about certain practices, or raising ethical concerns, which is now protected by law since the introduction in France of the Sapin II Act.

Alongside the approach offered by human resources, the permeation of ethics into corporate practices and cultures is achieved through their integration into business strategy, and their monitoring and supervision by the three lines of defence - first, management; second, ethics and compliance officers; and third, audit.

Financial institutions must consider corporate culture as a key strategic element rather than a specific field only intended to provide a short-term response to regulatory requirements.

Personally, I am also convinced that in the long term, ethics pays, even if it does not always immediately pay in "cold, hard cash", as the Anglo-Saxons say.

It is only by promoting ethics as a desirable value in themselves that we will obtain the right mix between ethical standards and the regulations necessary for a sound financial system.

And that is why the Prize being awarded today is no stranger to the Banque de France and the ACPR. I hope you all enjoy the ceremony.

Fourth FSB Annual Report

This fourth annual report provides an update on the key activities of the FSB and its audited annual financial statements for the 12-month period ended 31 March 2017.

The report describes the increasing focus of the FSB's work on monitoring implementation and evaluating the effects of the G20 financial regulatory reforms. It provides an update on the activities, publications and decisions by the FSB during the course of the year, and sets out details on the FSB's governance.

The FSB separately publishes an annual report for G20 Leaders on the implementation and effects of the agreed post-crisis international regulatory reforms, the most recent version of which was published in July 2017 and delivered to the G20 Leaders' Summit in Hamburg.

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To read more:
http://www.fsb.org/wp-content/uploads/P160118.pdf

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