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, November 2022

Dear members and friends,

The European Insurance and Occupational Pensions Authority (EIOPA) published its Risk Dashboard based on Solvency II data from the second quarter of 2022. The results show that insurers' exposures to macro and market risks are currently the main concern for the insurance sector.

All other risk categories, such as profitability and solvency, climate as well as digitalisation and cyber risks stay at medium levels.

Macro risks remain a key source of concern amid a further decrease in global GDP growth expectations and high CPI forecasts for the main geographical areas, even as unemployment remains low.

The weighted average of 10 year swap rates increased. Central banks continue the normalisation of their monetary policy.

Market risks are currently at a high level. Volatility in bond and equity markets continue to top last year's average.

Property prices remain at the same level. Insurers' median exposure to bonds and equity remain relatively unchanged while median exposure to property slightly increased in Q2 2022.

Credit risks remain relatively moderate. CDS spreads remain at low levels for government bonds and financial bonds while further increasing for non-financial corporate bonds in the third quarter of 2022.

Risks	Level	Trend (Past 3 months)	Outlook (Next 12 months)
1. Macro risks	high	↘	↗
2. Credit risks	medium	→	↗
3. Market risks	high	↑	↗
4. Liquidity and funding risks	medium	→	→
5. Profitability and solvency	medium	↗	→
6. Interlinkages and imbalances	medium	↘	→
7. Insurance (underwriting) risks	medium	→	→
8. Market perceptions	medium	↗	→
9. ESG related risks	medium	→	↗
10. Digitalisation & Cyber risks	medium	↓	↗

Insurers' relative exposure to different bonds categories remained broadly stable while slightly decreasing for government bonds in Q2. The median average credit quality of insurers' investments remained stable.

Profitability and solvency risks remain constant with returns for insurers decreased in the second quarter of 2022 across all three return indicators (return on excess of aseets over liabilities, return on assets and return on premiums). The increase of interest rates since the beginning of 2022 may be the main driver behind insurers' high SCR ratios.

Due to the current increase of interest rates, insurers booked market to market losses on derivatives given that they are typically positioned to hedge against interest rates declines.

Regarding market perceptions, insurance life and non-life stocks underperformed. The median price-to-earnings ratio of insurance groups is largely unchanged. The median of CDS spreads of insurers further

increased even as insurers' external ratings remained broadly stable since the last assessment.

On climate risks, insurers maintained their relative exposure to green bonds while the ratio of investments in green bonds over the total green bond outstanding slightly decreased. The growth of green bonds in insurers' portfolios has decreased, while the growth of green bonds outstanding is stable.

The materiality of digitalisation and cyber risks for insurance as assessed by supervisors decreased slightly. Nevertheless, cyber security issues and concerns of a hybrid geopolitical conflict remain.

The cyber negative sentiment indicates an increased concern in the third quarter of 2022 while the frequency of cyber incidents decreased compared to the same quarter last year.

Key observations:

- Risk levels for the European insurance sector remain broadly constant.

- Macro-related risks remain significant for the insurance sector. Forecasted GDP growth at global level further decreased and CPI forecasts remained at high level for main geographical areas. Unemployment rate for main geographical areas remained at low level. Weighted average of 10 years swap rates increased. Central banks continue the normalization of their monetary policy.

- Credit risks remain relatively moderate. The CDS spreads remain at low levels for government bonds and financial bonds, amid further increasing for nonfinancial corporate bonds in the third quarter of 2022. Insurers' relative exposure to different bonds categories remained broadly stable while slightly decreasing for government bonds in Q2-2022. The median average credit quality of insurers' investments remained stable.

- Market risks remain stable compared to the previous assessment. Volatility in bond and equity market remained at higher than last year average. Property prices remain at the same level. The median insurers' exposure to bonds, equity remain relatively unchanged while median exposure to property slightly increased in Q2 2022.

- Profitability and solvency risks remain at medium level. Given the decrease in returns for insurers in the second quarter of 2022, the three return indicators (return on excess of aseets over liabilities, return on assets and return on premiums) decreased. The increase of interest rates

since the beginning of 2022 might be the main driver behind the high SCR ratios.

- Interlinkage and imbalance risks remain at medium level. Due to the current increase of interest rate, insurers realised market to market losses on derivatives because they are positioned to hedge interest rates declines.

- Market perceptions remain at medium level. Insurance life and non-life stocks underperformed. The median price-to-earnings ratio of insurance groups remained around the same level. The median of CDS spreads of insurers further increased. Insurers' external ratings remained broadly stable since the last assessment.

- Climate risks remain at medium level. Insurers mantained their relative exposure into green bonds, while the ratio of investments into green bonds over the total green bond outstanding slightly decreased. The growth of green bonds in insurers' portfolios has decreased, while the growth of green bonds outstanding is stable.

- Digitalisation and cyber risks are at medium level. The materiality of these risks for insurance as assessed by supervisors slightly decreased yet cyber security issues and concerns of a hybrid geopolitical conflict remain. Cyber negative sentiment indicates an increased concern in the third quarter of 2022 while the frequency of cyber incidents decreased compared to the same quarter last year

To read more:

https://www.eiopa.europa.eu/tools-and-data/statistics-and-risk-dashboards/risk-dashboard_en

https://www.eiopa.europa.eu/sites/default/files/financial_stability/risk_dashboard/october_2022_risk_dashboard.pdf

Public Consultation on Issues Paper on Insurance Sector Operational Resilience

Comments due by 6 January 2023

Operational resilience has become an increasingly important area of focus, particularly in light of rapidly evolving technology and innovation, changes to where and how people are working, and an increasing cyber threat landscape.

While the concept of operational resilience may not be new to insurers, there is a recognition of the importance to adapt supervisory regimes to account for the growing resilience of insurers on digital systems, the adoption and implementation of new technologies, and the potential for insurance firms to rely on third party providers to assist in implementation and support.

In response to these emerging trends, the IAIS' Operational Resilience Task Force (ORTF) has now published for consultation its Issues Paper on Insurance Sector Operational Resilience.

The paper identifies issues impacting operational resilience in the insurance sector and provides examples of how supervisors are approaching these developments, with consideration of lessons learnt during the Covid-19 pandemic.

Recognising that operational resilience is a broad and evolving area, the paper addresses three specific operational resilience sub-topics concerning areas the ORTF considers as matters of significant and increasing operational risk and, therefore, of immediate interest to supervisors:

- Cyber resilience
- Third-party outsourcing
- Business Continuity Management

Feedback on the paper is invited by 6 January 2023, 24.00 (Basel time). All consultation questions are optional, so stakeholders may comment only on a subset of questions. After this deadline, the consultation tool will be closed, and it will no longer be possible to submit comments.

How to provide feedback:

The consultation is now open. Please use the consultation tool available at:

https://web.iaisweb.org/iaisconsultations/consultationintro/BCD33DEBBE325CDB83FEDF02B625C2F4/9A60EB984525E31997CA0A66318146998E0374F3474C47DDBFFE908E76549BEDF5BFA17006163F2EF21341D10D9BAB93

IAIS Consultation

Public Consultation on Issues Paper on Insurance Sector Operational Resilience

Cover note:

Feedback on the paper is invited by **6 January 2023 24.00 (Basel time)**. All consultation questions are optional, so stakeholders can choose to comment only on a subset of questions. After the deadline, the consultation tool will be closed, and it will no longer be possible to submit comments.

Only comments submitted through the tool will be considered. All comments will be published on the IAIS website unless the option to keep comments confidential is chosen from the tool.

Please note that some formatting (eg bullet points) may not be preserved when copying and pasting your comments into the consultation tool from other software such as Microsoft Word.

Next

Instructions for use are available when you access the tool. Only comments submitted through the tool will be considered. All comments will be published on the IAIS website unless the option in the tool to keep comments confidential is chosen.

Please note that some formatting (eg bullet points) may not be preserved when copying and pasting your comments into the consultation tool from other software such as Microsoft Word.

To read more: https://www.iaisweb.org/uploads/2022/10/Issues-Paper-on-Insurance-Sector-Operational-Resilience.pdf

https://www.iaisweb.org/2022/10/public-consultation-on-issues-paper-on-insurance-sector-operational-resilience/

Progress Report on Climate-Related Disclosures

FSB FINANCIAL STABILITY BOARD

Executive summary

Work to strengthen the comparability, consistency and decision-usefulness of climate-related financial disclosures has moved forward rapidly over the past year.

A milestone has been the publication in March 2022 by the newly established International Sustainability Standards Board (ISSB) under the IFRS Foundation of two Exposure Draft standards, on general sustainability-related and climate-related disclosures, for public consultation with the aim to issue the final standards by early 2023, subject to feedback.

The timely issuance of a final global baseline climate reporting standard, ready for adoption across jurisdictions, is critical to provide decision-useful information to investors and other stakeholders on climate-related risks and opportunities.

Interoperability between the common global baseline and national and regional jurisdictionspecific requirements is essential.

The ISSB standards aim to establish a common global baseline that is interoperable with jurisdictions' frameworks through a building block approach that will drive more comparability and consistency on common climate disclosures across jurisdictions.

This will help avoid harmful fragmentation and unnecessary costs for preparers of disclosures. It can also ensure that disclosures by different firms are made on a common basis, and that users can compare and aggregate exposures across jurisdictions.

Alongside a global baseline reporting standard on climate, there is a growing recognition of the importance of global assurance standards to drive reliability of disclosures.

The International Auditing and Assurance Standards Board (IAASB) is working to develop a new sustainabilityrelated assurance framework and the International Ethics Standards Board for Accountants (IESBA) is developing sustainability-related ethics and independence standards, in both cases supported by IOSCO.

The FSB's July 2021 Report on Promoting Climate-Related Disclosures had reported that, already, a large majority of FSB jurisdictions had set or planned to set requirements, guidance or expectations for both financial institutions and non-financial corporates.

Since then most FSB jurisdictions have taken additional actions. In particular, several emerging market and developing economies (EMDEs) have taken active steps to incorporate climate-related information in mainstream disclosures.

More broadly, the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations continue to be referenced as the common basis in most FSB jurisdictions, and many jurisdictions have set out specific metrics or guidance that provide additional detail beyond the recommendations.

Steps to improve the reliability of climate-related disclosures by firms are still at an early stage in most jurisdictions.

Looking ahead to the finalisation of ISSB standards, more than half of FSB jurisdictions state that they already have or are putting in place structures and processes to bring the ISSB standards into local requirements, once finalised.

Authorities note a number of challenges to be addressed in the implementation of the ISSB climate standard, such as consistency and comparability of disclosures across jurisdictions and across firms, data availability, proportionality, transition arrangements, and materiality.

This report highlights the findings of the 2022 TCFD Status Report that reports encouraging further progress in companies' disclosure practices across a wide range of types of firms including asset managers and asset owners as well as non-financial companies.

The percentage of companies disclosing information aligned with TCFD Recommendations and the amount of climate-relevant information in such disclosures has increased.

Even with this continued progress, the TCFD remains concerned that not enough companies are disclosing decisionuseful climate-related financial information, which may hinder investors, lenders, and insurance underwriters' efforts to appropriately assess and price climate-related risks. During the period until the ISSB global baseline standard is agreed and the implementation of that standard across jurisdictions begins to be monitored, there is a continuing need to maintain momentum by monitoring and reporting on progress in firms' climate disclosures.

The FSB therefore requests TCFD to prepare another progress report on firms' disclosures in 2023.

Table of Contents

To read more: https://www.fsb.org/wp-content/uploads/P131022-2.pdf

Remarks by FDIC Acting Chairman Martin J. Gruenberg on the American Bankers Association Annual Convention "The Financial Risks of Climate Change"

Thank you very much for giving me the opportunity to speak with you this morning. I particularly want to express my appreciation to Rob Nichols for the invitation.

I would like to share with you some thoughts this morning on a topic that has received considerable attention and is the source of some concern within the banking industry, particularly with smaller institutions – the financial risks associated with climate change, and the impact they may have on the financial system and financial regulation.

Before I begin, there are two points that I want to make clear:

First, the FDIC's core mission is to maintain stability and public confidence in the U.S. financial system. We carry out this mission through responsibilities for deposit insurance, banking supervision, and the orderly resolution of failed banks, including systemically important financial institutions.

Therefore, our role with respect to climate change is centered on the financial risks that climate change may pose to the banking system, and the extent to which those risks impact the FDIC's core mission and responsibilities.

Second, the FDIC is not responsible for climate policy. As such, we will not be involved in determining which firms or sectors financial institutions should do business with. These types of credit allocation decisions are responsibilities of financial institutions.

We want financial institutions to fully consider climate-related financial risks—as they do all other risks—and continue to take a risk-based approach in assessing individual credit and investment decisions.

There are three parts to this speech.

First, a general discussion of the financial risks of climate change.

Second, a section defining with some specificity climate-related financial risk.

And third, a discussion of what the FDIC has been doing in regard to the financial risks of climate change.

Climate Change is a Risk to the Financial System

The financial system has always had severe weather events to contend with and, thus far, the banking industry has handled these events well.

Agricultural banks know well the effects that drought conditions can have on farming communities; banks in the west understand the impacts of wildfires; and coastal banks have long responded to the annual threat of tropical storms and hurricanes.

However, changing climate conditions are bringing with them challenging trends and events, including rising sea levels, increases in the frequency and severity of extreme weather events, and other natural disasters.

These trends challenge the future resiliency of the financial system and, in some circumstances, may pose safety and soundness risks to individual banks.

It is the goal of our work on climate-related financial risk to ensure that the financial system continues to remain resilient despite these rising risks.

Historically, we have viewed financial crises as stemming from developments in the economy or the financial system. In the United States, this was true of the banking crisis of the 1930s, the thrift crisis of the 1980s, and the global financial crisis of 2008.

We have not generally considered sources exogenous to the economic and financial systems as potential causes of financial crises.

However, we have learned from the pandemic that exogenous shocks can have a profound impact on the economy and financial system. In 2020, the Financial Stability Oversight Council (FSOC), made up of the U.S. Treasury and the federal financial regulatory agencies, described COVID-19 as “the biggest external shock to hit the post-war U.S. economy.”

Climate change and the potential responses to limit its effects could also result in exogenous shocks to the banking system.
There is broad consensus among financial regulatory bodies, both domestically and abroad, that the effects of climate change and the transition to reduced reliance on carbon-emitting sources of energy

present unique and significant economic and financial risks, and, therefore, an emerging risk to the financial system and the safety and soundness of financial institutions.

The Financial Stability Board (FSB) of the G-20 countries has warned that climate-related risks may also have a profound impact on the stability of the global financial system. In 2020, the FSB stated that "climate-related risks may also affect how the global financial system responds to shocks" and could "amplify credit, liquidity and counterparty risks and challenge financial risk management in ways that are hard to predict."

Last October, the FSOC issued a public report that identified climate change as an emerging threat to the U.S. financial system, stating that "climate change will likely be a source of shocks to the financial system in the years ahead."

Defining Climate-Related Financial Risk

Financial institutions are likely to be affected by both the physical risks and transition risks associated with climate change. Together these are generally referred to as climate-related financial risks.

Physical Risks

Physical risks generally refer to the harm to people and property arising from acute, climate-related events, such as hurricanes, wildfires, floods, and heatwaves, as well as chronic shifts in the climate, including higher average temperatures, changes in precipitation patterns, sea level rise, and ocean acidification.

Transition risks generally refer to stresses to certain financial institutions or sectors arising from the shifts in public investment, consumer and business preference, or technologies associated with a transition toward reduced carbon reliance.

While physical and transition risks are separate and distinct risks faced by the financial system, both may materially increase the risks posed to a financial institution's financial condition.

For example, acute physical risks, such as flooding, hurricanes, wildfires, and droughts, may result in sudden, significant, and recurring damage to properties securing exposures held by financial institutions or may otherwise disrupt the operations of their business clients. Some of these properties may be properties that financial institutions currently consider to be outside of flood plains or in areas less prone to this type of damage.

Longer-term physical risks, such as rising average temperatures and sea levels may increase the risk to property values and drive migration patterns, which may result in detrimental impacts to household wealth, corporate profitably, local economies and municipalities.

Further, growing physical risk impacts, including their economic costs, may also have an increasing influence on behavior as individuals and businesses prioritize geographic areas less exposed to physical risks.

While current insurance policies may cover some or all of the loss associated with many severe weather events, policies may over time become more expensive or unavailable to cover losses for a particular geographic area or business activity, particularly if faced with increasing severity and frequency of severe weather events.

Additionally, while the U.S. government may provide assistance with the costs associated with many severe weather events, financial institutions should not be wholly dependent on this assistance, whether directly or indirectly.

To read more: https://www.fdic.gov/news/speeches/2022/spoct0322.html

Between mounting risks and financial innovation - the fintech ecosystem at a crossroads

Denis Beau, First Deputy Governor of the Bank of France, at the FinTech R:Evolution 2022, organised by France FinTech, Paris.

Ladies and gentlemen,

First of all, I would like to thank the France Fintech association and its President Alain Clot for inviting me to participate again in this important event for the French fintech ecosystem.

Since we met last year, the macroeconomic environment has changed radically. The effects of Covid are continuing to disrupt global supply chains; to that, the Ukraine conflict has added major economic disruption.

This potentially "stagflationary" shock is affecting the fintech sector, not just via its short-term impact on household and corporate demand, but also via the risk of a tightening of financing conditions.

Against this backdrop, beyond the observation that the macroeconomic outlook is darkening, I would first like to talk briefly about the mounting risks to our innovation ecosystem, before going on to highlight how the Banque de France and ACPR can help to tackle them.

I- An environment marked by mounting risks

Regarding the rise in risks, I would first like to underline that one of the corollaries of the digitalisation of the financial sector is an exacerbation of **cyber risk.** This is currently the **number one** operational risk to financial players, even more so in the context of Russia's war in Ukraine. Cyber risk can jeopardise the stability of the entire financial system; it also tends to undermine confidence in innovation, which is one of the cornerstones of our future economic development.

Second, the profound reconfiguration of value chains in the financial sector is raising two potential risks. First, the risk of excessive fragmentation. Fragmentation can of course be beneficial as it creates competition – the rise of fintechs is the best proof of this – but it can also

be a source of inefficiency if it leads to a lack of interoperability, especially in payment solutions and market infrastructures. The second risk is that of a loss of sovereignty, if essential functions are taken out of the hands of European players and supervisors. I'm thinking here in particular of data, its usage and location.

Third, the relative youth and indeed immaturity of ecosystems can be a source of instability – which we need to make sure is limited for the overall financial system.

In this respect, certain economic models appear to be incompatible with the promises they make, as well as with customer expectations. I would like here to remind you of and reiterate the warnings issued by the ACPR in July this year regarding "mini-loans" and instalment payments, and especially on the critical need to clearly inform customers, verify their solvency and respect usury rates.

As part of our financial stability mandate, we at the Banque de France and ACPR pay particularly close attention to the exposure of certain business models to an economic turnaround, their dependency on third-party service providers, and any operational weaknesses that might emerge: in a dynamic and creative ecosystem, weak links and contagion effects pose a real risk to the stability of the financial system.

Within the crypto-asset and DeFi ecosystem, the collapse of the Terra-Luna system and its destabilising knock-on effects, is of course a prime example of this, even if it occurred in an ecosystem that was disconnected from real finance, and had no impact on the financial system.

II- How can the Banque de France and ACPR help to tackle these risks?

In response to these mounting risks, the Banque de France and ACPR can help the ecosystem to develop along the right path.

A. Future regulation

First, by contributing to the development of regulation that is adapted to the transformations under way. Regulation reduces uncertainty and puts all competitors on a level playing field, so that they are not exposed, for example, to competition from "rogue" players. Of course, it is possible that certain regulations may unduly hinder innovation. This is why I would like to remind you here of the importance of dialogue between authorities and innovators in order to identify real use cases and strike a fair balance between, on the one hand, the goals of protecting customers and financial stability, and on the other, operational realities.

On the European regulatory front, several important projects are under way or about to be launched. I would like to mention two.

1/ First, open finance. In the ongoing discussions in Europe on this issue, I draw at least two lessons from the directives on payment services: first, the quality of the data provided via APIs is crucial; second, the issue of paying for access to data should not be taboo.

Open data can be a formidable innovation driver, for the benefit of consumers: the ecosystem needs to be ready to seize this opportunity.

With this in mind, I encourage you to come and talk to the French supervisors (the ACPR and AMF), to properly identify real use cases and thereby ensure the future regulatory framework is as relevant as possible.

2/ The second important project: decentralised finance or DeFi. A first milestone has been reached with the Markets in Crypto-Assets (MiCA) regulation.

This will de facto impose rules on certain DeFi players, via its section on stablecoins. MiCA also lays some of the groundwork for the next phase, which is the broader regulation of decentralised finance in general.

Here again, we will contribute to reflections at the European level, drawing on our dialogue with the French ecosystem. There are a number of questions that we need to respond to collectively:

- Within this ecosystem, which economic models add value for the real economy?

- How can we make decentralised finance accessible on a broader scale to the general public, under conditions that genuinely guarantee trust?

- What regulatory approach should we adopt to each of the different "modules" of decentralised finance, and how can we regulate operations that are sometimes completely decentralised?

Some of the problems are complex, but we need to find solutions together because decentralised finance will not develop without a regulatory framework.

B. Our achievements, our action on innovation

Of course, adapting the regulatory framework does not, on its own, respond to all the challenges. At the Banque de France and ACPR, we

firmly believe that, to help meet them, we also need to play an active part in innovation.

1/ This is why innovation is at the heart of our corporate strategy, with the creation of Le Lab, our innovation hub. Its mission is both to catalyse in-house innovations by supporting all our central bank functions, and to develop links with our ecosystems, be this the world of research or the economic world.

Our target, and I want to stress this point, is to work more and more with you, through calls for contributions or thematic hackathons. In a few weeks, the Banque de France will host a dedicated platform for these challenges.

2/ For us, being a player in innovation also means supporting the tokenisation of securities by offering the safest and most liquid settlement asset directly on the blockchain, and improving cross-border and cross-currency payments.

This is the objective of our experiments on a wholesale CBDC. It is what we tested with our first nine experiments conducted in 2021, which we are now going to take further with three new experiments in 2022.

This is why we are working within the Eurosystem to support the experiments that will be conducted from 2023 onwards as part of the European Pilot Regime, by providing payment solutions in tokenised central bank money.

We are also participating actively in the Eurosystem's work on a potential retail CBDC, also called the "digital euro", which would be used by the general public in everyday payments.

3/ I shall finish with an example of the application of our experimentation approach in the field of supervision. This method also allows the ACPR to respond to several challenges: encourage supervised players to take advantage of new technologies to ensure their compliance and the security of the financial system, and prepare the supervision of the future.

It is with this in mind that in March we launched an experiment in collaborative methods to combat money laundering and terrorist-financing (AML/CFT). This is a subject that is in the general interest, the solution to which can be collective, as recently estimated by the Financial Action Task Force (FATF).

Which is why the ACPR proposed a method of co-construction to economic players, by organising a Tech Sprint on 13 September this year. Its goal was

to examine several different solutions aimed at pooling data while at the same time keeping it confidential. The event was a resounding success: 12 teams made up of 23 firms proposed a broad range of innovative techniques.

The ACPR will continue its work with teams of voluntary banks and technical service providers, and will share the findings widely.

It is time for me to conclude now with a simple message. Now that we have reached this crossroads, it is only together that we can find the right path to follow, by sharing our experience and our expertise.

Our commitment on this is clear: to accompany you so that we can together contribute to the vitality and resilience of our economy.

To read more: https://www.banque-france.fr/en/intervention/between-mounting-risks-and-financial-innovation-fintech-ecosystem-crossroads

The U.S. Dollar and Central Bank Digital Currencies

Governor Christopher J. Waller, Board of Governors of the Federal Reserve System, at "Digital Currencies and National Security Tradeoffs," a symposium presented by the Harvard National Security Journal, Cambridge, Massachusetts.

Thank you, Professor Jackson, and thank you to the Harvard National Security Journal for the invitation to speak at this symposium.

As the payment system continues to evolve rapidly and the volume of digital assets continues to grow, it is critical to ensure that we keep both the benefits and risks of digital assets in the policy conversation, including the implications for America's role in the global economy and its place in the world.

My speech today focuses on exactly this issue and on an aspect of the digital asset world that is now the center of domestic and international attention—central bank digital currencies (CBDCs) and how they relate to the substantial international role of the U.S. dollar.

In January 2022, the Federal Reserve Board published a discussion paper on CBDCs to foster a broad and transparent public dialogue, including the potential benefits and risks of a U.S. CBDC.

To date, no decisions have been made by the Board on whether to move forward with a CBDC. But my views are well known.

As I have said before, I am highly skeptical of whether there is a compelling need for the Fed to create a digital currency.

I am not a national security expert. But one area where economics, CBDCs, and national security dovetail is the role of the dollar.

Advocates for creating a U.S. CBDC often assert how it is important to the long-term status of the dollar, particularly if other major jurisdictions adopt a CBDC. I disagree. As I will discuss, the underlying reasons for why the dollar is the dominant currency have little to do with technology, and I believe the introduction of a CBDC would not affect those underlying reasons.

I offer this view, again, in the spirit of dialogue, knowing how important these issues are, and I am very happy to engage in vigorous debate regarding my view. I remain open to the arguments advanced by others in this space.

The Role of the U.S. Dollar

After World War II and the creation of the Bretton Woods system, the U.S. dollar served as the central currency for the international monetary system.

Other countries agreed to keep the exchange value of their currencies fixed to the dollar, and eventually, countries came to settle international balances in dollars. That role has continued long after the Bretton Woods system dissolved.

By any measure, the dollar is the dominant global currency—for funding markets, foreign exchange transactions, and invoicing. It also is the world's predominant reserve currency.

In terms of the dollar's reserve currency status, 60 percent of disclosed official foreign reserves are held in dollars, far surpassing the shares of other currencies, with the majority of these dollar reserves held in safe and liquid U.S. Treasury securities.

Even in a world of largely floating exchange rates, many countries either implicitly or explicitly anchor their currencies to the dollar; together, these countries account for about half of world gross domestic product.

The dollar is by far the dominant currency for international trade. Apart from intra-European trade, dollar invoicing is used in more than three-fourths of global trade, including 96 percent of trade in the Americas.

Approximately 60 percent of international and foreign currency liabilities—international banking loans and deposits as well as international debt securities—are denominated in dollars.

And the dollar remains the single most widely used currency in foreign exchange transactions. Why does this matter to the United States?

As indicated in the Board's CBDC discussion paper, the dollar's international role lowers transaction and borrowing costs for U.S. households, businesses, and government.
It widens the pool of creditors and investors for U.S. investments. It may insulate the U.S. economy from shocks from abroad.

It also allows the United States to influence standards for the global monetary system.

The dollar's role doesn't only benefit the United States. The dollar serves as a safe, stable, and dependable form of money around the world. It serves as a reliable common denominator for global trade and a dependable settlement instrument for cross-border payments.

In the process, it reduces the cost of transferring capital and smooths the world of global payments, including for households and businesses outside of America.

For example, consider the dollar's role in foreign exchange markets. To make a foreign exchange transaction between two lightly traded currencies, it is often less expensive to trade the first currency with the dollar, and then to trade the dollar with the second currency, rather than to trade the two currencies directly.

The factors driving the dollar's role as a reserve currency are well researched and well demonstrated, including the depth and liquidity of U.S. financial markets, the size and openness of the U.S. economy, and international trust in U.S. institutions and the rule of law.

We must keep these factors in mind in any debate regarding the long-term importance of the dollar.

To read more:
https://www.federalreserve.gov/newsevents/speech/waller20221014a.htm

Results of the Bank of England 2021-22 central counterparty supervisory stress-test published

Bank of England

The Bank of England has published the results of its first public supervisory stress-test of UK central counterparties (CCPs).

The exercise took place over 2021-22 with the clearing services of all UK CCPs, ICE Clear Europe Limited, LCH Limited, and LME Clear Limited, in scope.

The exercise assessed the credit and liquidity resilience of these CCPs under a severe market stress scenario and the simultaneous default of selected clearing member groups.

It was exploratory in nature, aiming to identify potential vulnerabilities or gaps in resilience, rather than testing CCPs against a pass-fail threshold.

The severe market stress scenario consisted of shocks to the prices of a wide range of products cleared by the UK CCPs, and was designed to be at the limits of historical observations.

The findings showed that the UK CCPs were resilient to this market stress scenario and the simultaneous default of the two clearing member groups who, in defaulting, create the largest losses or most negative liquidity balances. While results vary across CCPs, no CCP experienced full depletion of prefunded financial resources or a negative liquidity balance.

The exercise also included a reverse stress test where CCPs are subjected to combinations of increasingly severe assumptions to identify what might fully deplete their prefunded and non-prefunded resources.

The findings will now be used in conjunction with feedback to the Bank's Discussion Paper on CCP supervisory stress-testing to help further develop and refine the Bank's CCP supervisory stress-testing regime. The Bank intends to publish a final framework document for CCP supervisory stress-testing in the course of 2023.

Sir Jon Cunliffe, Deputy Governor for Financial Stability, said:

"The conclusion of the Bank's first public CCP stress-test marks a major milestone in the development in the supervision and regulation of CCPs. While the stress test was exploratory, with no pass-fail assessments, the results are evidence of the overall resilience of the UK CCPs.

We will engage these CCPs on our findings, which will help the Bank target its supervision and inform CCPs' approach to risk management. This stress test supports our commitment, in line with the UK's status as a global financial centre, to regulating CCPs with due transparency and in line with international best practice."

Executive summary

In October 2021, the Bank announced the launch of the 2021–22 Supervisory Stress Test (SST) of UK Central Counterparties (CCPs) (the 2021–22 CCP SST).

This exercise is the Bank's first public CCP SST, and follows the Bank's (non-public) pilot CCP SST exercise in 2019, the publication of the Bank's Discussion Paper on Supervisory Stress Testing of Central Counterparties, and the Bank's participation in the European Securities and Markets Authority's (ESMA) EU-wide CCP Stress-Test exercises.

Purpose and design

This exercise is exploratory in nature. It aims to identify potential vulnerabilities and gaps in CCP resilience, rather than testing CCPs against particular pass-fail thresholds. The findings will be used to support and inform the Bank's supervisory and regulatory activities.

The lessons from running this exercise will also be used to support the continued development of the Bank's framework for CCP supervisory stress testing, in conjunction with the feedback received on the Bank's Discussion Paper on Supervisory Stress Testing of Central Counterparties.

The 2021–22 CCP SST exercise was launched in October 2021. It explores the individual and system-wide credit and liquidity resilience of the three UK CCPs (ICE Clear Europe Limited (ICEU), LCH Limited (LCH), and LME Clear Limited (LMEC)) and each of their Clearing Services.

In particular, the impact on CCPs' financial and liquidity resources is examined under a combined baseline severe financial market stress scenario (the 'Baseline Market Stress Scenario') plus the simultaneous default of selected Clearing Member groups (including in their capacity as service providers). The selected Clearing Member default scenarios include, but are not limited to, the default of the Cover-2 population at each CCP Clearing Service.

The exercise also explores the impacts of this Baseline Market Stress Scenario and the default of certain groups of Clearing Members on the non-defaulting Clearing Member and client populations at the UK CCPs.

The Baseline Market Stress Scenario consists of shocks to the prices of a wide range of products cleared by the UK CCPs. It is calibrated to be broadly equivalent in overall severity to the worst historical market stress scenario for each UK CCP Clearing Service (as at the time of the launch of this exercise in October 2021).

This scenario does not – and cannot – cover all possible sizes and combinations of market price shocks to which CCPs could be exposed. For example, the scenario is not focused on large hypothetical shocks that go far beyond historical limits in specifically selected asset classes or products.

In addition, sensitivity analysis and reverse stress-testing techniques are used to test CCP resilience against increasingly conservative assumptions. Reverse stress testing is used to evaluate CCPs' resilience to increasingly challenging combinations of assumptions that are intentionally well beyond historical precedence and regulatory requirements, and in combination are extremely severe.

This includes an examination of CCP resilience against additional market stress scenarios that overall are more severe than those historically observed and contain individual market shocks greater than historically observed for a variety of products.

To read more:
https://www.bankofengland.co.uk/news/2022/october/results-of-the-boe-2021-22-central-counterparty-supervisory-stress-test-published

https://www.bankofengland.co.uk/stress-testing/2022/ccp-supervisory-stress-test-results-2021-22

Privacy Policy

We're updating our Privacy Policy with effect from 2 December 2022.

Introduction

This privacy policy ("Privacy Policy") applies to the personal information that TikTok processes in connection with TikTok apps, websites, software and related services (the “Platform”), that link to or reference this Privacy Policy.

Data Controller: If you live in the European Economic Area (“EEA”), the United Kingdom (“UK”), or Switzerland, TikTok Technology Limited, an Irish company (“TikTok Ireland”), and TikTok Information Technologies UK Limited (“TikTok UK”), a UK company, ("TikTok," "our," "we," or "us") are the joint controllers of your information processed in connection with this Privacy Policy.

What Information We Collect

We collect your information in three ways: Information You Provide, Automatically Collected Information, and Information From Other Sources. More detail is provided below.

Information You Provide

Profile Information. We collect information that you provide when you set up an account, such as your date of birth, username, email address and/or telephone number, and password. You can add other information to your profile, such as a bio or a profile photo.

User Content. We collect the content you create or publish through the Platform, such as photographs, videos, audio recordings, livestreams, and comments, and the associated metadata (such as when, where, and by whom the content was created).

Even if you are not a user, information about you may appear in content created or published by users on the Platform. We collect User Content through pre-loading at the time of creation, import, or upload, regardless of whether you choose to save or upload that User Content, for example, to recommend music based on the video.

We also collect content (such as text, images, and video) from your device's clipboard if you choose to copy and paste content to or from the Platform or share content between it and a third party platform. In addition, we

collect location information (such as tourist attractions, shops, or other points of interest) if you choose to add the location information to your User Content.

Direct Messages. If you communicate with others using direct messages, we collect the content of the message and the associated metadata (such as the time the message was sent, received and/or read, as well as the participants in the communication). We do this to block spam, detect crime, and to safeguard our users.

Your Contacts. If you choose to import your contacts, we will collect information from your device's phone book or your social media contacts. We use this information to help you make connections, including when you are using our "Find Friends" function and to suggest accounts to you.

Purchase Information. We collect your payment card information or other third-party payment information (such as PayPal) where payment is required. We also collect your transaction and purchase history.

Surveys, Research, and Promotions. We collect information you provide if you choose to participate in a survey, research, promotion, contest, marketing campaign, or event conducted or sponsored by us.

Information When You Contact Us. When you contact us, we collect the information you send us, such as proof of identity or age, feedback or inquiries about your use of the Platform or information about possible violations of our Terms of Service (our "Terms"), Community Guidelines (our "Guidelines"), or other policies.

Automatically Collected Information

Technical Information. We collect certain device and network connection information when you access the Platform. This information includes your device model, operating system, keystroke patterns or rhythms, IP address, and system language.

We also collect service-related, diagnostic, and performance information, including crash reports and performance logs. We automatically assign you a device ID and user ID. Where you log-in from multiple devices, we use information such as your device ID and user ID to identify your activity across devices to give you a seamless log-in experience and for security purposes.

Location Information. We automatically collect information about your approximate location (e.g. country, state, or city) based on your Technical Information (such as SIM card and IP address).

Also, where you enable Location Services for the TikTok app within your device settings, we collect approximate location information from your device. Click here to learn more about how we collect Location Information.

Usage Information. We collect information about how you engage with the Platform, including information about the content you view, the duration and frequency of your use, your engagement with other users, your search history and your settings.

Content Characteristics and Features. We detect and collect characteristics and features about the videos, images, and audio recordings that are part of your User Content, for example, by identifying objects and scenery, the existence or location within an image of a face or other body parts; and the text of words spoken in your User Content. We do this, for example, for content moderation and to provide special effects (such as video filters and avatars) and captions.

Inferred Information. We infer your attributes (such as age-range and gender) and interests based on the information we have about you. We use inferences, for example, to keep the Platform safe, for content moderation and, where permitted, to serve you personalised ads based on your interests.

Cookies. We use cookies and similar tracking technologies to operate and provide the Platform. For example, we use cookies to remember your language preferences, make sure you don't see the same video more than once, and for security purposes.

We also use these technologies for marketing purposes. To learn more about our use of cookies, please see our Web Cookies Policy and Platform Cookies Policy. We will obtain your consent to our use of cookies where required by law.

Information From Other Sources

Advertising, Measurement and Data Partners. Advertisers, measurement and data partners share information with us such as mobile identifiers for advertising, hashed email addresses, and event information about the actions you've taken outside of the Platform.
Some of our advertisers and other partners enable us to collect similar information directly from their website or app by integrating our TikTok Advertiser Tools (such as TikTok Pixel).

Third Party Platforms and Partners. Third party platforms provide us with information (such as your email address, user ID, and public profile) when

you choose to sign up for or log in to the Platform using sign-in features provided by those third parties. We may also receive contact information that you hold or is held about you when contact information is synced with our Platform by you or another user.

When you interact with any third party service (such as third party apps, websites or products) that integrate TikTok Developer Tools, we will receive the information necessary to provide you with features like cross-service authentication or cross-posting. For example, this will happen if you log in to another platform with your TikTok account or if you use TikTok's "share" button on a third party platform to share content from there to the Platform.

Others. We may receive information about you from others, for example, where you are included or mentioned in User Content, Direct Messages, in a complaint, appeal, request or feedback submitted by a user or third party, or if your contact information is provided to us by a user.

To read more: https://www.tiktok.com/legal/page/eea/new-privacy-policy/en

Disclaimer

The Association tries to enhance public access to information about risk and compliance management.

Our goal is to keep this information timely and accurate. If errors are brought to our attention, we will try to correct them.

This information:

- is of a general nature only and is not intended to address the specific circumstances of any particular individual or entity;

- should not be relied on in the particular context of enforcement or similar regulatory action;

- is not necessarily comprehensive, complete, or up to date;

- is sometimes linked to external sites over which the Association has no control and for which the Association assumes no responsibility;

- is not professional or legal advice (if you need specific advice, you should always consult a suitably qualified professional);

- is in no way constitutive of an interpretative document;

- does not prejudge the position that the relevant authorities might decide to take on the same matters if developments, including Court rulings, were to lead it to revise some of the views expressed here;

- does not prejudge the interpretation that the Courts might place on the matters at issue.

Please note that it cannot be guaranteed that these information and documents exactly reproduce officially adopted texts.

It is our goal to minimize disruption caused by technical errors. However some data or information may have been created or structured in files or formats that are not error-free and we cannot guarantee that our service will not be interrupted or otherwise affected by such problems.

The Association accepts no responsibility with regard to such problems incurred as a result of using this site or any linked external sites.

Solvency II Association

At every stage of your career, our association provides networking, training, certification, information, updates, alerts, and services you can use. Join us. Stay current. Take advantage of the new opportunities. Read our monthly newsletter. Get certified.

You can explore what we offer to our members:

1. Membership – Become a standard, premium or lifetime member.
You may visit:
https://www.solvency-ii-association.com/How_to_become_member.htm

2. Monthly Updates – Visit the Reading Room of the association at:
https://www.solvency-ii-association.com/Reading_Room.htm

3. Training and Certification – You may visit: https://www.solvency-ii-association.com/CSiiP_Distance_Learning_Online_Certification_Program.htm

For instructor-led training, you may contact us. We tailor Solvency II presentations, awareness and training programs for supervisors, boards of directors, employees, service providers and consultants.