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Randal K. Quarles: America's Vital Interest in Global Efforts to Promote Financial Stability

Speech by Randal K. Quarles, Vice Chairman for Supervision of the Federal Reserve System, at the Utah Bankers Association 110th Annual Convention, Sun Valley Inn, Sun Valley, Idaho, 27 June 2018

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Good afternoon. It is a particular honor for me be here to address the Utah Bankers Association, which is like coming home in two ways: First, to Sun Valley, which is our family's deeply rooted second home--my wife's great grandfather established the first sawmill in the Wood River Valley near Hailey almost 150 years ago--and second, to Utah, the place that, like all of you, I dearly love and where I have always lived, despite a career that seems determined to keep taking me elsewhere.

One of those elsewheres is Washington, and as a Utahan who has spent most of his career in the private sector advising and investing in the banking industry, I think I have a pretty good idea of how things look, from your vantage point, when someone from Washington shows up to give a speech.

Since the financial crisis, bankers have had to adjust to challenging and evolving economic conditions and to many new regulations. At times, smaller and regional banks have been left wondering how actions in Washington focused on systemic vulnerabilities and the largest institutions were relevant to how they fund their businesses and in turn finance the aspirations of families, farmers, ranchers, and other entrepreneurs.

I'll start today by trying to address those questions and provide a brief update on steps the Congress and the Federal Reserve are taking related to financial regulation. A decade after the crisis, implementation of the major post-crisis reforms is largely complete, and we have entered a new phase that is aimed at reviewing and improving regulations to ensure that they are achieving their aims in the most effective and efficient manner. I will explain more about that approach, and, relevant to your businesses, efforts to tailor regulation so it is appropriate for the size and business model of different institutions. I will also briefly describe pending regulatory changes passed last month by Congress, which I believe will further tailor regulations for banks, with particular benefit to community and regional banks.

But I want to devote much of my time today to a broader message about the connection between these improvements in post-crisis regulation and the fundamental purpose of those regulations: to do what must be done to protect our economy from another severe financial crisis. Banks of all sizes have a shared interest in ensuring that regulation is efficient and appropriately tailored to promote a strong, fair, and competitive market for financial services. Likewise, banks have a shared interest in ensuring that regulation overall promotes a strong and stable financial system that keeps credit flowing to households and businesses in the communities you serve.

Among the truths revealed by the financial crisis, one of the most important was the recognition that the vulnerabilities that had developed in the financial system were global in nature and that the problems our institutions and markets faced in the United States were inextricably connected to conditions and decisions outside our borders. Other governments likewise found that problems in the United States spilled over to their financial systems and economies. To cite just one example, it is well known now that the rapid growth of securitization of residential mortgages in the United States was a prominent factor driving up home lending and driving down lending standards. I think it is not as well known that a large share of those securities were being created, traded, and held by entities outside the United States.

Some of the most important steps taken since the crisis to make our financial system more resilient have involved collecting information, identifying and monitoring stresses in the global financial system, and establishing and raising international standards.

As I have noted, the improvements the Federal Reserve is making to financial regulation here in America, including tailoring, will help level the playing field for banks and help ensure you are able to continue to compete and serve your customers. The benefits of this for Utah banks are clear. But banks in Utah and elsewhere also benefit from a strong and stable global financial system, and as history has demonstrated, this in turn depends on strong international standards that help level the playing field. A strong and stable financial system depends also on transparency that helps both the private sector and regulators detect and deter vulnerabilities that could harm the U.S. economy.

So I'd also like to talk to you today about one of the important international bodies created since the crisis to promote global financial stability, the Financial Stability Board (FSB) and tell you why I believe America's active participation in the FSB is important to our nation, and even, as remote as it might seem, relevant to your businesses.

But let me begin with a topic of more immediate interest and offer a brief overview of legislation and regulatory action by the Federal Reserve that I know is important to you and your institutions. First, a little context: like our economy, the condition of the U.S. banking industry is strong. First quarter profits for all banks hit a new record of $56 billion. Banks are well capitalized and positioned to increase lending to finance investment in a strengthening economy. Community banks are also doing well. According to Federal Reserve data on more than 5,000 community-based holding companies, community banks reported net income of $20.6 billion during 2017, up 4 percent from the year before. Like larger banks more recently, this result was the product of particularly strong loan activity, with recent year-over-year loan growth of 7.7 percent, which was substantially above the increase last year in the banking industry as a whole.

Turning to recent regulatory developments, the big news, of course, is the Economic Growth, Regulatory Relief and Consumer Protection Act sponsored by Senator Crapo, passed by Congress at the end of May and signed by the President. Before I get to that, let me briefly mention some things the Federal Reserve and other agencies have done--in some cases presaging steps taken in the new legislation--to reduce the regulatory burden on community and regional banks.

One supervisory improvement is a Federal Reserve program called Bank Exams Tailored to Risk, or the BETR program. It uses financial metrics to differentiate the level of risk between banks before examinations and assist examiners in tailoring examination procedures to minimize the regulatory burden for firms that engage in low-risk activities, while subjecting higher-risk activities to more testing and review. Another initiative has been to shift a significant amount of the Federal Reserve's examination activity offsite.

Additionally, the Federal Reserve, along with other agencies, took action to simplify the reporting responsibilities of smaller banks with a new streamlined Call Report form in 2017. Based on feedback from community banks, we and other regulators also increased the threshold for requiring an appraisal on commercial real estate loans from $250,000 to $500,000. Looking ahead, the Federal Reserve is developing a revised approach to determining "control" under the Bank Holding Company Act that could help banks raise capital and facilitate nonbank investments.

I will now discuss the new law, which preserves the most important post-crisis reforms for the largest firms while directing the Federal Reserve and other agencies to make numerous changes that should reduce the regulatory burden for community and regional banks. On the Volcker rule, the legislation calls for exempting the vast majority of banks with $10 billion or less in assets from reporting requirements, which the Federal Reserve supported, due to the lack of trading activity that community banks engage in. This overtook efforts by the Fed and other regulatory agencies to refine the Volcker rule, but the bottom line is that this broad exemption is law and in the process of being implemented.

Another change in the new legislation raises the asset threshold for bank holding companies eligible for the Small Bank Holding Company Policy Statement from $1 billion to $3 billion. The law also exempts bank holding companies with $50 billion to $100 billion in assets from enhanced prudential standards and exempts banks with less than $100 billion in assets from future stress testing. The lifting of this threshold importantly allows the Federal Reserve to tailor its rules for these firms moving forward while retaining the ability to protect the safety and soundness of the system.

I mentioned steps related to Call Report streamlining, and the legislation addresses this topic also, allowing reduced Call Report requirements for certain banks with less than $5 billion in assets. For banks that are well managed and well-capitalized, the asset threshold was raised for a longer, 18-month examination cycle from $1 billion to $3 billion. The legislation would also exempt from an appraisal requirement rural properties for loans of less than $400,000, under certain circumstances.

A common theme in the legislation and the Fed's steps to improve our regulation and supervision is tailoring. As the Fed continues to evaluate the effectiveness and efficiency of regulations, I expect tailoring will be a guiding principle.

Let me now address international efforts to promote financial stability, specifically those centered in the Financial Stability Board.

In the run-up to the crisis, as I'm sure you all know, decades of relative stability in the United States had left both the financial industry and government agencies complacent about potential threats. And even though financial crises had occurred during that time in some advanced economies, it is fair to say that the United States and other nations did not place a high probability on a crisis that could be global in nature. As a result, international coordination and collaboration on financial stability was limited, and there was a shortage of detailed and standardized information about financial conditions and vulnerabilities in different countries.

As the crisis descended and the global nature of the problems became clear, the United States and other major economies, working through the Group of Twenty nations, created the Financial Stability Board to coordinate their efforts to stabilize the global financial system, reform international financial regulation, and share information. [1] The FSB includes central banks, finance ministries and regulators from 24 nations, the European Union, and also international organizations such as the International Monetary Fund and important global financial standard-setting bodies. Unlike other global organizations, the FSB includes multiple agencies from each government in recognition of the fact that financial stability is a responsibility shared across many parts of any government. From the United States, the Federal Reserve, the U.S. Treasury Department, and the Securities and Exchange Commission are members.

Some of you may reasonably be wondering, at this point of the speech, how we got from rural appraisals in Utah to the Financial Stability Board in Switzerland. How are the conditions in 2008 and 2009 that led to creation of the FSB relevant to community banking? Let us remind ourselves how that global financial crisis and ensuing recession looked to communities in Utah and the bankers who serve them.

Community banks, as we all know, engaged in little of the risky activity that was the basis of the crisis. But few community banks, I think, were unaffected by the competitive forces that were unleashed in the years leading up to 2008. When short-term wholesale funding froze up, and securitizing loans became impossible, and Fannie Mae and Freddie Mac effectively failed, community banks were affected. And when your customers were hit hard by the crisis, community banks were affected too. In two years, from 2007 to 2009, the unemployment rate in Utah more than tripled. As it usually does, Utah weathered the Great Recession better than most places, but it was still the toughest economic times our state has faced in many decades, and of course, this profoundly affected banks and their customers.

While that was occurring, the Federal Reserve and governments in other countries affected by the crisis were tackling several challenges in trying to strengthen financial regulation and oversight. One fundamental problem was information, specifically the lack of information about risks and vulnerabilities both within and across jurisdictions. The Federal Reserve and other U.S. agencies had some tools to help assess prudential risks for U.S.-based firms when the crisis hit. Information sharing about systemic financial vulnerabilities was more limited, particularly for conditions outside the United States. For one, we did not understand the importance of some financial vulnerabilities or had only limited information on them, such as interconnectedness across financial firms, and therefore we were unable to share information. We also failed to appreciate the ways in which the shadow banking system that had grown up outside the institutions we oversaw had become interconnected with those institutions. The existing global forums for discussion of these issues were considered less important or were focused on just one financial sector, and membership was often limited to a handful of industrial countries. We now understand the importance of taking a global view on financial vulnerabilities, and we are learning from each other about how to fill the gaps in understanding and data that exist.

An additional challenge that the United States faced, in responding to the crisis and establishing more effective oversight and higher standards was the inability to enforce such rules in a global financial system without common, more uniform standards. If some of the activities threatening financial stability occurred outside the United States and in jurisdictions with lower standards, raising standards in the United States would be both ineffective in fully stabilizing the financial system, and could put U.S. firms at a competitive disadvantage, which would be only an added disincentive to embrace effective standards.

Every nation, of course, seeking to make its financial system more resilient faced these same challenges and disincentives, an example of the problem of collective action that points nations toward international cooperation.

If the FSB had been in place before the crisis and working on identifying and assessing vulnerabilities to financial stability, that may have allowed us to take action at an earlier stage, frame our response with more information, and possibly mitigate some of the devastating consequences. I can attest to the FSB's improvement over the pre-crisis discussions that took place internationally because during the first Bush Administration I was a delegate to the informal and more limited group that preceded the FSB.

An important part of the FSB's work is to endorse minimum standards in different areas; for example, identifying the key attributes of effective resolution planning for systemically important firms. In addition, the FSB is in the early stages of some critical work that examines the effects that reforms and standards are having. Are they doing what we intended them to do? Have there been unintended consequences? Can we make the reforms more efficient; that is can we achieve the same effects while lowering the burden on institutions and supervisors?

Once again, you might be wondering why something like resolution regime-planning should matter to community bankers. You might be hoping that I get back to the good news I delivered earlier, about steps being taken in Washington to tailor regulation and reduce the regulatory burden on community banks. But, of course, these are two sides of the same coin. Appropriately reducing the regulatory burden for community banks is possible when we can get an accurate picture of the risks and vulnerabilities in the broader financial system, which Utah's banks are part of and depend on. Tailoring does not mean abandoning our responsibility to promote a stable financial system, but embracing it, assisted by FSB efforts to ensure that reforms are having the intended effects and supported by the global standards that the FSB and other international standard-setting bodies are able to establish and promote.

In closing, I want to address an issue relevant to any international organization, which is sovereignty. More specifically, we sometimes hear concerns that international bodies such as the FSB threaten our sovereignty by imposing rules on the United States, which would be a concern.

Let me be clear: the FSB has no enforcement powers, no legal authority to command its members to do anything, and not even authority, as in some international organizations, to induce action based on contractual obligations. The FSB does not impose obligations, it addresses problems--problems that are of great importance to the United States and which, because of the global nature of the financial system, we cannot address alone. The United States and other governments created the FSB and participate in it because it is in our national interests to do so, and that is really the basis of its effectiveness. The United States is not weaker or less independent by participating in the FSB or other standard-setting bodies. On the contrary, when rightly structured our participation in these groups makes our financial system significantly stronger by ensuring that the U.S. perspective is part of the discussions and reflected in standards agreed to. Our consumers and businesses are more secure and prosperous because the FSB helps make sure that all countries are doing their share in promoting financial stability and not gaining an unfair advantage.

Like some other effective organizations, a source of the FSB's power is that it functions by consensus. That can make reaching decisions more difficult, but it also yields decisions that can be truly effective solutions because all participants feel a stake in them. It is useful when the credibility and commitment of the decisions are especially important, such as when my Fed colleagues and I set monetary policy. At the FSB, relying on consensus helps 68 agencies and other members from two dozen countries with different perspectives and agendas come together around our shared interest in a stable global financial system.

International negotiations and standard-setting is not the best approach to all problems, but in my past experience as a Treasury Department official, it is often the best way to tackle problems that are global in scope.

By actively participating in the FSB and engaging with its members at a high level, the United States is supporting high international standards that are equal to those in the United States. Our standards will be most effective when other major economies embrace them in a consistent manner. The goal is to limit the risks of another financial crisis and do what we can to promote prosperity and a bright future for the people you serve so faithfully in the great state of Utah.

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[1] The FSB was created in April 2009 and was the successor of a less-formal group known as the Financial Stability Forum.

Fonte: QUARLES, Randal K. *America's Vital Interest in Global Efforts to Promote Financial Stability*. Disponível em: <https://www.federalreserve.gov/newsevents/speech/quarles20180627a.htm> Acesso em: 28 de junho de 2018

Benoît Cœuré: The future of financial market infrastructures: spearheading progress without renouncing safety

Speech by Benoît Cœuré, Member of the Executive Board of the ECB, at the Central Bank Payments Conference, Singapore, 26 June 2018

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I wish to thank the organisers for inviting me to speak here today. [1] It's great to see so many familiar faces and to be back in Singapore, which as an undeniably cosmopolitan city is a particularly suitable backdrop for talks on the multifaceted nature of today's global market infrastructures.

The message I would like to convey in my remarks this morning is simple: while I share the excitement around distributed ledgers, blockchain and digitalisation more broadly, and while I believe that, like in the past, central banks should not shy away from potentially disruptive technological innovations, we should be mindful of the potential financial stability consequences and we should start by first picking the low hanging fruit and upgrading our current payment systems.

In fact, I believe that an incremental modernisation of our existing retail and wholesale payment systems may well succeed in bringing about many of the benefits promised by the current crop of immature technologies.

The challenges of digital innovation

Let me start with the challenges first.

There is no doubt that the fourth industrial revolution is dramatically changing the way we communicate, the way we shop, the way we learn and, quite frankly, great parts of the way we live our lives. Artificial intelligence and exponential increases in computing power are forcing firms to re-examine how they do business.

The financial services industry is no exception. Digitalisation has already left bustling stock exchange floors in demise. High-frequency trading is increasingly shaping market dynamics. And in the future, thousands of financial analysts may be replaced with robo-advisors.

The financial industry is often the industry spearheading technological change. Distributed ledger technologies (DLT) are a case in point. They have applications well beyond finance. The diamond industry, for example, is using digital ledgers to track and record their assets. But it is the financial sector, and payments in particular, where progress is arguably moving fastest.

Financial institutions and market infrastructures worldwide are exploring DLT for payments and post-trading. [2] The World Food Program uses a blockchain-based system to handle payments for food aid in Jordan. [3]

Central banks, as both overseers and operators of payment systems, and as sole issuers of banknotes, cannot afford to ignore these disruptive trends.

The central banking community, and the Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI), which I chair, and the Markets Committee chaired by Jacqueline Loh, are keeping a close eye on how promising technologies, such as DLT, may serve the wider public. [4]

This is not just a philosophical discussion. Although cash still reigns supreme in the vast majority of countries, it may be sidelined sooner rather than later.

If cash were to disappear, trust in the currency, a key public good, would be dependent on the creditworthiness of private entities. With bitcoin and other crypto assets we have seen large and unpredictable price swings and outright cyber heists that may expose people to the risk of losing their savings; this demands that central banks take these risks seriously.

Were central banks to issue their own digital currencies, people would be able to hold a central bank liability comparable to cash, without the risks associated with commercial money.

However, as things stand today, the possible adverse financial stability implications of introducing central bank digital currencies call for the greatest caution [5], while the underlying DLT that would enable these digital tokens to be introduced are still immature, costly to maintain and possibly prone to vulnerabilities.

For example, current crypto assets still fail to ensure clear and legally certain settlement finality [6], which is a necessary condition for a safe and efficient payment system, as emphasised by the Principles for Financial Market Infrastructures (PFMI) issued by the CPMI and the International Organization of Securities Commissions (IOSCO).

In fact, the predecessors of the CPMI under the chairmanships of Hans Meyer and Wayne Angell spent the better part of a decade getting finality right for interbank payment systems. [7] Up until the 1990s, the risk that net settlement positions could be unwound meant that the failure of a single bank could lead to a cascade of failures. [8]

This systemic risk was one of the main motivations for introducing real-time gross settlement (RTGS) systems around the world. In other words, one has to wonder if uncertainty of finality is a price worth paying for any payment system.

Given these prevailing flaws, I believe central banks should pursue a two-track strategy.

First, they should continue to study new technologies closely and experiment and engage with the industry, whether fintech or techfin.

In the case of the ECB, we have already established a DLT infrastructure within the EU central bank community, which currently serves, first and foremost, as a learning tool. We have also teamed up with the Bank of Japan on the Stella project – a series of studies on the potential use of DLT for financial market infrastructures. [9]

Remaining on top of technological developments also means that, in the CPMI, we need to constantly take the pulse of our existing international standards. But so far, it is fair to say that the PFMI have proven flexible enough to accommodate technological change, be it through complementary guidance – on cyber for example – or through high-level strategies, such as on wholesale payments fraud, as I will explain later.

The second part of the strategy central banks should pursue entails drawing on less-disruptive existing technologies to make our current payment systems, which are convenient and have earned public trust, more efficient and safer.

At the current juncture, this essentially means doing three things:

1. making retail payment systems instant and available 24/7;
2. modernising our RTGS systems; and
3. enhancing cyber resilience.

Let me briefly touch upon each of these three issues, starting with retail payment systems.

Making retail payment systems instant and available 24/7

Today an increasing number of non-bank payment service providers are entering the domestic payments business, sometimes offering faster payments than the banks they are competing with.

Instant payment solutions can significantly increase the speed of retail payments. [10] With instant payments, funds are settled with finality and are available for use by the recipient within seconds, 24 hours a day, seven days a week, 365 days a year.

Since bitcoin transactions take, on average, about 15 minutes to validate, and even bitcoin enthusiasts acknowledge that this type of settlement cannot be considered reasonably irrevocable before at least one hour has passed, instant payments may render large parts of the alleged benefits of crypto assets redundant.

Instant payment solutions have been implemented, or are in the process of being developed, in many countries across the world. Here in Singapore, the launch of FAST ("Fast and Secure Transfers") has resulted in a fundamental renewal of the payments infrastructure, with significant benefits for both merchants and customers. [11]

Later this year, the ECB will launch the TARGET Instant Payment Settlement (TIPS) service. In a currency union, instant payment solutions are not just about fostering innovation and improving customer convenience. They are also about promoting further financial integration among Member States.

Indeed, in the euro area, where different legal frameworks and customer habits prevail, there is always a risk of new fragmentation arising from the development of national or closed-loop solutions which are not interoperable. To counter this risk, the European payments industry is now launching a truly pan-European instant payments scheme.

TIPS therefore not only has the potential to help better prepare incumbents for the challenges arising from digital giants, such as Alibaba, Apple and Google, who are integrating payment services into their ecosystems, it also has the potential to be a catalyst for spurring progress in two old failings of our current system: cross-border retail payments and financial inclusion. [12]

Cross-border payments not only allow shoppers to easily buy goods online from overseas, but also allow foreign workers to send money home, supporting financial inclusion and development. However, these payment channels are generally much slower, less transparent and far more expensive than domestic ones.

Improvements here are the best way of rising to the challenges arising from currently unsafe crypto assets. I believe this should be a key priority for international action.

Modernising real-time gross settlement systems

This brings me to my second point, the modernisation of our RTGS systems. Their names imply that these systems are already fast. They settle transactions between financial market infrastructures, central banks and credit institutions in real time.

But these systems are often built on legacy technologies, sometimes dating back to the 1980s, and have been created to meet local needs for participants.

Since then, however, the financial system has become truly global, with banks increasingly operating across borders and time zones through participation in multiple payment systems. A key element of many RTGS system modernisation projects is therefore implementing a messaging standard that works across the globe.

Of course, migrating from a legacy payment standard incurs costs. So, as with any other technological upgrade, it is important that a critical mass moves towards the new standard. The Eurosystem is leading by example here.

We are implementing the ISO 20022 standard and offering multi-currency functionalities in our infrastructures. In the near future, both payment and securities settlement services will also undergo a technical and functional consolidation. Specifically, we will roll out a new RTGS system with enhanced functionalities and optimised liquidity management for the participants. The new service is scheduled to go live in November 2021.

Cross-border interoperability is just one area where progress can be made. Extending access to our RTGS system to regulated non-bank payment service providers is another avenue that promises to make our current systems fit for the future.

Fintechs are challenging the traditional way payments are made. Some of them offer valuable and safe services to customers. Wider access by these new non-bank payment service providers to central bank payment systems can spur further digital innovation and enhance financial stability by increasing the amount of final settlements conducted in risk-free central bank money. And it would once more reduce the appeal of crypto assets that, if not adequately regulated, may endanger financial stability should they become more widely used over time.

So, overall, there are good reasons to continue to work on improving our current market infrastructures. By embracing innovation and modern technologies, and by promoting inclusion and common standards, I am confident that we will be able to meet the growing expectations that consumers and stakeholders have of the evolving role of today’s payment systems.

Enhancing cyber resilience

One of these expectations also relates to safety. As we are extending operating hours, allowing for more access and increasing interoperability, there will be larger “attack surface” in the system. The most efficient and fastest systems are useless if they are not bulletproof, if they can be hacked easily or if they expose consumers to disproportionate risks.

This brings me to the third point I mentioned at the beginning of my remarks – the need to make our current systems safer against the rising number of cyberattacks.

Cyber incidents are becoming much more frequent and increasingly sophisticated – to the point that they now pose a critical threat to market infrastructures and the entire financial ecosystem. This is why the modernisation of our systems must go hand-in-hand with increasing their cyber resilience.

Failure to adequately protect against cyberattacks may have far-reaching repercussions. Take wholesale payment systems as an example. A breakdown of these systems, even if only temporarily, would threaten financial stability, endanger the provision of liquidity by central banks and jeopardise the implementation of monetary policy.

This is also why G7 finance ministers and central bank governors recently took part in a simulation of the day after a major cyber incident in the financial sector. This exercise showed that a major cyber incident would require an internationally coordinated response, and highlighted areas where the G7 Cyber Expert Group could help address potential coordination issues, including areas beyond the traditional reach of regulators, such as third-party providers. [13]

In short, wholesale payment systems are for financial markets what electricity is for households. Anyone who has read Ted Koppel's illuminating *Lights Out* will understand what I mean. [14]

To help protect our systems, the CPMI and IOSCO published guidance on cyber resilience for financial market infrastructures (FMIs) already back in June 2016. [15] The guidance offers recommendations for measures that FMIs should take to anticipate, withstand, contain and rapidly recover from cyberattacks.

On top of this, last month the CPMI issued a strategy for reducing the risk of wholesale payments fraud. [16] The strategy aims to galvanise wholesale payment systems, network messaging providers, banks, overseers and supervisors to work together in strengthening the security of the financial ecosystem and its endpoints, all of which are being increasingly exploited by adversaries.

CPMI member central banks are committed to acting as a catalyst for effective and coherent operationalisation of the strategy within and across jurisdictions and systems. We will monitor progress throughout this year and next to determine the need for further action.

At the ECB, we have recently accelerated our efforts to put these initiatives into practice and to strengthen our cyber resilience more broadly. More specifically, earlier this year we did four things:

- We introduced the cyber resilience oversight expectations, which set out detailed best practices to operationalise the CPMI-IOSCO guidance. These expectations are now being finalised following a public consultation.
- We established the Euro Cyber Resilience Board for pan-European Financial Infrastructures, a forum that brings together high-level FMI representatives, service providers and authorities with the aim of raising awareness of common cyber challenges and acting as a catalyst for joint initiatives and solutions. [17]
- Our third initiative was introducing a European Framework for Threat Intelligence-Based Ethical Red Teaming (TIBER-EU), which supports FMIs and other financial

entities in conducting the highest level of cyber resilience testing in a multi-jurisdiction and multi-authority context. [18]

- And finally, we adopted the aforementioned CPMI wholesale payments security strategy as the competent authority for two wholesale payment systems in the euro area – TARGET2 and EURO1.

All of these efforts are multilateral and predicated on strong cross-country collaboration. Some of our initiatives are pan-European, but others, such as TIBER-EU, are entity-agnostic, meaning that they can – and will – be used to harmonise processes not only for FMIs and other financial entities within Europe but also beyond.

Conclusion

Let me conclude.

The multilateral efforts I have just described reflect the growing recognition by both industry participants and regulators that we should see the global payment system for what it really is: an essential global public good whose integrity is increasingly being challenged by malicious cyberattacks and fraud attempts by individuals. In the future, it may also be challenged by adverse spillovers of otherwise well-intended government actions meant to protect data privacy and national security. Such spillovers may create new fault lines across the system.

To better understand these spillovers and to guard against fragmentation, we need strong multilateral cooperation more than ever. Let's work together to make our payment systems faster, cheaper and safer – and let's shield them from the sound and fury of politics.
Thank you.

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[1] I would like to thank Elin Amundsen, Takeshi Shirakami and Morten Bech for their contributions to this speech. I remain solely responsible for the opinions contained herein.

[2] See Committee on Payments and Market Infrastructures (2017), Distributed ledger technology in payment, clearing and settlement. An analytical framework, Bank for International Settlements, February.

[3] See Bank for International Settlements (2018), Cryptocurrencies: looking beyond the hype, Annual Economic Report, Chapter V, June.

[4] See Committee on Payments and Market Infrastructures and Markets Committee (2018), Central bank digital currencies, Bank for International Settlements, March; and Cœuré, B. and Loh, J. (2018), "Bitcoin not the answer to a cashless society", op-ed published in the Financial Times, 13 March.

[5] See Committee on Payments and Market Infrastructures and Markets Committee (2018), op. cit.

[6] See also Bank for International Settlements (2018), op. cit.

[7] See, for example, Group of Experts on Payment Systems of the central banks of the Group of Ten countries (1989), Report on netting schemes (Angell Report), Bank for International Settlements, February; and Committee on Interbank Netting Schemes of the central banks of the Group of Ten countries (1990), Report of the Committee on Interbank Netting Schemes of the central banks of the Group of Ten countries (Lamfalussy Report), Bank for International Settlements, November.

[8] This could happen, for example, due to “zero hour rules”, a provision in the insolvency law of some countries whereby the transactions conducted by an insolvent institution after midnight on the date the institution is declared insolvent are automatically ineffective by operation of law.

[9] See ECB and Bank of Japan (2017), “Payment systems: liquidity saving mechanisms in a distributed ledger environment”, a joint research project of the European Central Bank and the Bank of Japan – STELLA, September.

[10] See also Committee on Payments and Market Infrastructures (2016), Fast payments – Enhancing the speed and availability of retail payments, November.

[11] See Menon, R. (2016), “An Electronic Payments Society”, keynote address at the Sim Kee Boon Institute Conference on FinTech and Financial Inclusion, 19 August.

[12] See Committee on Payments and Market Infrastructures (2018), Cross-border retail payments, February. The report sets out a holistic view of cross-border retail payments to analyse the market and identify issues and challenges. Also see Committee on Payments and Market Infrastructures and the World Bank Group (2016), Payment aspects of financial inclusion, April. This report outlines guiding principles to help central banks and other stakeholders achieve effective financial access and broader financial inclusion.

[13] See G7 Cyber Expert Group (2017), “Fundamental elements for effective assessment of cybersecurity in the financial sector”, 20 October.

[14] Koppel, T. (2015), Lights Out: A Cyberattack, A Nation Unprepared, Surviving the Aftermath, Broadway Books.

[15] See Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions (2016), Guidance on cyber resilience for financial market infrastructures, June.

[16] See Committee on Payments and Market Infrastructures (2018), Reducing the risk of wholesale payments fraud related to endpoint security, May.

[17] See Cœuré, B. (2018), “A Euro Cyber Resilience Board for pan-European Financial Infrastructures”, introductory remarks at the first meeting of the Euro Cyber Resilience Board for pan-European Financial Infrastructures, Frankfurt, 9 March.

[18] See ECB (2018), TIBER-EU FRAMEWORK – How to implement the European framework for Threat Intelligence-based Ethical Red Teaming, May.

Fonte: CŒURÉ, Benoît. *The future of financial market infrastructures: spearheading progress without renouncing safety.* Disponível em: <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180626.en.html> Acesso em: 28 de junho de 2018

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