

Any Comments?

FSB consults on regulatory, supervisory and oversight recommendations for “global stablecoin” arrangements, 14 April 2020

<https://www.fsb.org/2020/04/fsb-consults-on-regulatory-supervisory-and-oversight-recommendations-for-global-stablecoin-arrangements/>

“So-called “stablecoins”, like other crypto-assets, have the potential to enhance the efficiency of the provision of financial services, but may also generate risks to financial stability. The FSB’s recommendations call for regulation, supervision and oversight that is proportionate to the risks, and stress the need for flexible, efficient, inclusive, and multi-sectoral cross-border cooperation, coordination and information sharing arrangements that take into account the evolution of “global stablecoin” arrangements and the risks they may pose over time.”

FSB consults on effective practices for cyber incident response and recovery, 20 April 2020

<https://www.fsb.org/2020/04/fsb-consults-on-effective-practices-for-cyber-incident-response-and-recovery/>

“Cyber incidents pose a threat to the stability of the global financial system. In recent years, there have been a number of major cyber incidents that have significantly impacted financial institutions and the ecosystems in which they operate. A major cyber incident, if not properly contained, could seriously disrupt financial systems, including critical financial infrastructure, leading to broader financial stability implications.”

FSB consults on guidance on assessing the adequacy of financial resources for CCP resolution, 4 May 2020

<https://www.fsb.org/2020/05/fsb-consults-on-guidance-on-assessing-the-adequacy-of-financial-resources-for-ccp-resolution/>

“This guidance consists of two Parts. Part I sets forth guidance on assessing the adequacy of financial resources to absorb losses and to cover other costs in resolution and Part II sets forth guidance on approaches to the treatment of CCP equity in resolution. This guidance does not replace or supersede the Key Attributes, the FMI Annex or the FSB 2017 Guidance and does not cover every aspect of those documents. Existing guidance contained in those documents, even if not restated or referred to in this document, remains relevant to CCP resolution.”

IOSCO consults on outsourcing principles to ensure operational resilience, 28 May 2020

<https://www.iosco.org/news/pdf/IOSCONEWS567.pdf>

“The proposed Principles on Outsourcing are based on IOSCO’s 2005 Outsourcing Principles

for Market Intermediaries and the 2009 Outsourcing Principles for Markets but their application has been expanded to include trading venues, market participants acting on a proprietary basis, credit rating agencies and financial market infrastructures."

IOU

Sally Davies and Christopher Kent, "US dollar funding: an international perspective", CGFS Papers No. 65, 18 June 2020

<https://www.bis.org/publ/cgfs65.htm>

"This report seeks to understand better the role of US dollar funding in the global financial system by: (i) taking stock of its structure and evolution since the global financial crisis (GFC); (ii) assessing its resilience and highlighting its potential vulnerabilities; and (iii) identifying implications for policy."

Stefan Avdjiev, Patrick McGuire and Goetz von Peter, "International dimensions of EME corporate debt", BIS Quarterly Review, June 2020

https://www.bis.org/publ/qtrpdf/r_qt2006b.htm

"International credit can be fickle and subject to sudden stops during periods of global economic stress. Non-financial corporate borrowers that rely on credit from abroad are vulnerable to reversals in capital flows. Similarly, corporates that borrow in foreign currency may face problems rolling over their debt when the local currency depreciates or global dollar funding conditions tighten. This feature draws on several BIS data sets to examine corporates' external and foreign currency debt for key emerging market economies on the eve of the Covid-19 outbreak."

Saleem Bahaj and Ricardo Reis, "Jumpstarting an international currency", Bank of England Staff Working Paper No. 874, 12 June 2020,

<https://www.bankofengland.co.uk/working-paper/2020/jumpstarting-an-international-currency>

"Monetary and financial policies that lower the cost of credit for working capital in a currency outside of its country can provide the impetus for that currency to be used in international trade. This paper shows this in theory, by exploring the complementarity in the currency used for financing working capital and the currency used for invoicing sales. Financial policies by a central bank can jump-start the use of its currency outside a country's borders."

Garth Baughman and Jean Flemming, "Global Demand for Basket-Backed Stablecoins", Board of Governors of the Federal Reserve System Finance and Economics Discussion Series (FEDS), June 2020

<https://www.federalreserve.gov/econres/feds/global-demand-for-basket-backed-stablecoins.htm>

"We develop a model where persistent trade shocks create demand for a basket-backed stablecoin, such as Mark Carney's "synthetic hegemonic currency" or Facebook's recent

proposal for Libra. In numerical simulations, we find four main results. First, because of general equilibrium effects of the basket currency on the volatility of currency values, overall demand for that currency is small. Second, despite scant holdings of the basket, its global reach may contribute to substantial increases in welfare if the basket is widely accepted, allowing it to complement holdings of sovereign currencies. Third, we calculate the welfare maximizing composition of the basket, finding that optimal weights depend on the pattern of international acceptance, but that basket composition does not significantly affect welfare. Fourth, despite potential welfare improvements, low demand for the basket currency from buyers limits sellers' incentives to invest in accepting it, suggesting that fears of a so-called global stablecoin replacing domestic sovereign currencies may be overstated."

Dirk Niepelt, "Reserves for All? Central Bank Digital Currency, Deposits, and Their (Non)-Equivalence", International Journal of Central Banking, June 2020

<https://www.ijcb.org/journal/ijcb20q2a6.htm>

"This paper offers a macroeconomic perspective on the "Reserves for All" (RFA) proposal to let the general public hold electronic central bank money and transact with it. I propose an equivalence result according to which a marginal substitution of outside money (e.g., RFA) for inside money (e.g., deposits) does not affect macroeconomic outcomes. I identify key conditions for equivalence and argue that these conditions likely are violated, implying that RFA would change macroeconomic outcomes. I also relate the analysis to common arguments found in discussions on RFA and point to inconsistencies and open questions."

Dealing with COVID-19

Wenqian Huang and Előd Takáts, "The CCP-bank nexus in the time of Covid-19", BIS Bulletin No. 13, 11 May 2020

<https://www.bis.org/publ/bisbull13.htm>

"In spite of the turbulence, CCPs remained resilient, as intended by the post-crisis reforms of financial market infrastructures. Higher margins should be expected during heightened turbulence, but the extent of the procyclicality of margining is the consequence of various design choices."

Egemen Eren, Andreas Schrimpf and Vladyslav Sushko, "US dollar funding markets during the Covid-19 crisis - the international dimension", BIS Bulletin No. 15, 12 May 2020

<https://www.bis.org/publ/bisbull15.htm>

"Non-US banks were impacted disproportionately by the large outflows from prime MMFs during the Covid-19 crisis and the associated stress in unsecured funding markets. These banks are some of the heaviest issuers of unsecured short-term paper (eg three-month CP and CDs) in US money markets due to their lack of a stable dollar retail deposit base. As during the Great Financial Crisis (GFC), MMFs constituted the main dollar lenders to non-US banks."

Peter Hördahl and Ilhyock Shim, "EME bond portfolio flows and long-term interest rates

during the Covid-19 pandemic”, BIS Bulletin No. 18, 20 May 2020

<https://www.bis.org/publ/bisbull18.htm>

“Bond portfolio outflows from emerging market economies (EMEs) are typically associated with currency depreciation and rising domestic long-term interest rates. This relationship asserted itself in a particularly stark way during the Covid-19 crisis in mid-March 2020. The relationship between bond portfolio outflows and long-term rates varies across EMEs, depending on factors such as bond market depth, FX market functioning and sovereign risk. The impact of these factors on the relationship has been thrown into sharper relief during the Covid-19 pandemic.”

Yavuz Arslan, Mathias Drehmann and Boris Hofmann, “Central bank bond purchases in emerging market economies”, BIS Bulletin No. 20, 02 June 2020

<https://www.bis.org/publ/bisbull20.htm>

“While EMEs had already introduced various unconventional balance sheet policy measures to provide liquidity to domestic markets after the Great Financial Crisis (GFC) and the 2013 taper tantrum, local currency bond purchases were generally not used on these occasions. That a large number of countries have launched such programmes in recent weeks has therefore expanded the policy toolkit for use in meeting the challenges from capital flow and exchange rate swings.”

Marlene Amstad, Giulio Cornelli, Leonardo Gambacorta and Dora Xia, “Investors' risk attitudes in the pandemic and the stock market: new evidence based on internet searches”, BIS Bulletin No. 25, 26 June 2020

<https://www.bis.org/publ/bisbull25.htm>

“We show that traditional rivers of equity markets – such as changes in the value of the US dollar, oil prices, measures of risk aversion – and the unconventional monetary policy measures adopted are not able to fully capture the evolution of stock market prices during this period.”

What's Next for the Capital Markets?

European Commission High Level Forum, “A New Vision for Europe's Capital Markets: Final Report of the High Level Forum on the Capital Markets Union”, June 2020

https://ec.europa.eu/info/sites/info/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf

“Fragmented and – for many financial instruments – illiquid EU secondary markets translate into higher costs of issuance and trade execution for businesses than in more developed capital markets. The EU post-trading landscape remains fragmented along national lines, thwarting potential cost savings, which may result from competitive pressure and scale effects. Central securities depositories (CSDs) that provide essential settlement services and ensure that a transaction can be concluded with the delivery of a security and payment, continue to face regulatory hurdles in the cross-border provision of services. End investors have difficulties and incur higher costs when exercising rights associated with the ownership of

securities, as national rules on allocation of ownership rights and execution of entitlements differ across Member States. This discourages them from investing cross-border."

Post-Trade Technology Market Practitioner Panel, "The Future of Post-Trade: Findings from the Post-Trade Technology Market Practitioner Panel", 02 June 2020

<https://www.bankofengland.co.uk/report/2020/the-future-of-post-trade>

"The Panel identified a number of areas that pose particular problems during post-trade processing:

- KYC and AML checks; uncleared margin and collateral related processes;*
- Trade enrichment;*
- Internal and external data reconciliation;*
- Handling the errors, exceptions, and breaks;*
- Processing corporate actions (eg share splits, mergers) and derivative life-cycle events (eg novation, fee payments)*
- Protecting against fraud and cyber-risk."*

HKEX, "Market Demand for Building an International Central Securities Depository in the Asian Time Zone and the Advantages of Hong Kong", June 2020

https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2020/CCEO_ICSD_e_202006.pdf?la=en

"Given Hong Kong's unique status as a financial centre connecting Asian and international financial markets, coupled with its robust financial system and connectivity framework, setting up an ICSD financial infrastructure in Hong Kong that conforms to international standards is expected to further enhance the post-trade custody, clearing and settlement and collateral management capabilities in the Asian time zone."

DTCC, "DTCC Unveils Proposals to Explore Further Digitalization in the Public & Private Markets", 18 May 2020,

<https://www.dtcc.com/news/2020/may/18/dtcc-unveils-proposals-to-explore-further-digitalization>

"DTCC's proposals are contained in two case studies that advance the organization's efforts to evaluate new ways to enhance post-trade processes through the digitalization of assets. The case studies – Project Ion and Project Whitney – are the latest efforts by DTCC to examine the potential use of DLT, asset digitalization and other emerging technologies. Project Ion seeks to build on DTCC's successful efforts over the past several years to further optimize the settlement process in the public markets, while Project Whitney considers opportunities to provide increased levels of digitalization throughout the private market asset lifecycle."