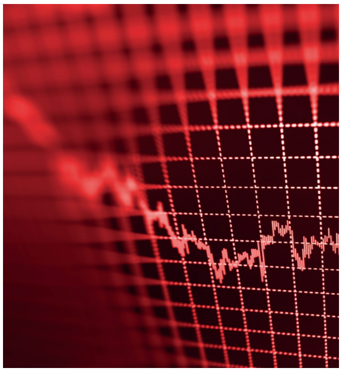
IN THE NEWS...

BIS RAISES WARNINGS ON CANADA, CHINA AND HONG KONG

The Chinese, Canadian and Hong Kong economies have been named by the Bank for International Settlements (BIS) as at risk of being hit by banking crises. According to early-warning indicators compiled by the bank, these economies have built up significant levels of financial risk and indebtedness compared to their GDP.

Canada, whose economy grew at its fastest rate for six years in 2017, has accumulated significant household and business debt. Household borrowing is also a feature in China and Hong Kong's economies, according to the study.

While China's bank stress indicators have improved overall since 2015, as regulators move to deleverage and ease credit levels, the BIS has said that its credit-to-GDP ratio has seen



improvement, suggesting the government is making progress in efforts to reduce risk levels.

UK ANALYSIS OF BREXIT FLAGS GAINS AND LOSSES

The UK government's leaked economic impact analysis of Brexit set out some small gains – but significant losses resulting from Brexit. It found that under a World Trade Organization-style arrangement, UK GDP would be lower by a cumulative 7.7% over 15 years, while under a European Economic Area deal it would be lower by 1.6%.

If you read through the prism of the EU's draft guidelines for negotiation, the impact assessment shows some more positive signs. For instance, the UK government's impact analysis assumes there will be tariffs on food and agricultural goods, while the EU draft guidelines suggests tariff-free trade in goods across sectors, providing a deal is struck on fishing rights.

The EU also argues the case for mutual recognition of professional qualifications, which might result in the continuation of cross-border services, as long as Britain meets 'host state rules' for regulations in the EU.

As a counterpoint, the free trade agreement modelled in the UK analysis suggests a £60bn hit to the economy annually, or around 3% of national income. UK officials estimate that a trade deal with the US would provide an uplift of only 0.2%, while deals with other major economies would bring benefits of between 0.1% and 0.4%.

XIAOCHUAN HERALDS CASHLESS PAYMENTS

The head of China's central bank has signalled a commitment to digital payments and currencies, and has said that physical cash may one day become obsolete in the People's Republic. Governor of the People's Bank of China Zhou Xiaochuan confirmed that the central bank is looking carefully at digital currencies as a means of bringing about a more efficient and cheaper payments infrastructure.

At the same time, China is cracking down on cryptocurrencies. Last year it banned Bitcoin exchanges and Xiaochuan's position remains that they do not serve the economy. "We must prevent major mistakes that would lead to irreparable losses, so we are cautious," he said. "We don't like creating products for speculation and making people have the illusion that they can get rich overnight."

UK TAX OFFICIALS DEBATE TAXING TECH GIANTS' INCOME

Treasury officials in the UK are considering taxing the revenue of technology giants rather than taking a share of profits, in a move that would represent a radical departure from established practice.

The suggestion is aimed at addressing perceived unfairness in the level of tax paid by such companies. But the proposal drew fire from tax specialists, who said it would lead to double taxation.

FIVE MINUTES ON...

EARLY-WARNING INDICATORS

In Basel, Switzerland, the Bank for International Settlements (BIS) tracks and analyses data with a view to identifying vulnerabilities in the global financial system.

BIS analysts look at household and international debt (including cross-border FX debt), which the bank classifies as 'early-warning indicators' or EWIs.

The bank's EWIs are predicated on the idea that banking crises have their roots in a disruptive financial cycle. A large financial boom can in turn create the conditions for banking distress, potentially at a systemic level. The BIS's historic data and statistical resources make it possible for analysts to flag an economic scenario with red or amber signals.

By its own admission, the bank's amber and even red signals do not always presage a financial crisis. The BIS uses historical data and puts the probability of a financial crisis at 50% following a red signal. Even then, the impact may not be immediate.

A key indicator, the credit-to-GDP gap is used by the EU as a key measure within its common capital requirements legislation. Since this measure is not entirely unambiguous, banking authorities are allowed discretion in determining whether crisis prevention action is warranted.

For more on the BIS's EWIs, visit the international financial institution's website at bis.org/publ/qtrpdf/r_qt1803e.htm

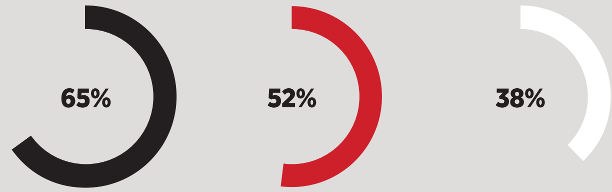
Perceived risks

SURVEYS & REPORTS

THE 2018 ASSOCIATION OF FINANCIAL PROFESSIONALS/ MARSH & McLENNAN *RISK SURVEY REPORT* THROWS LIGHT ON THE STRATEGIC, TECHNOLOGICAL AND EXTERNAL RISKS THAT FINANCE AND TREASURY PROFESSIONALS PERCEIVE GLOBALLY

The current level of business risk remains a challenge. Some 49% of finance professionals surveyed believe their organisations are exposed to more earnings uncertainty compared with three years ago; and 35% say risk is more difficult or significantly more difficult to predict over the same time frame.

Strategic risk, such as competitive risk and industry disruption, and cyberthreats continue to be of significant concern.

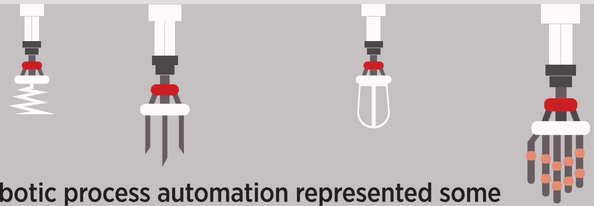


put strategic risks in their top three current concerns

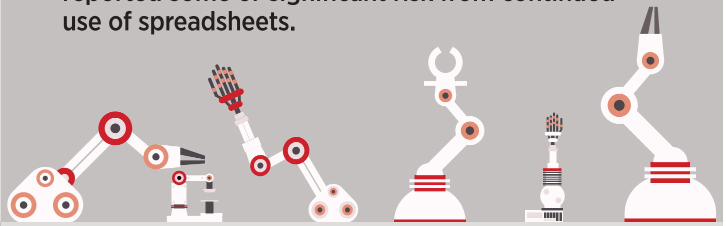
put cybersecurity in their top three

put political risks and regulatory uncertainty in the US, reflecting increased optimism in that respect compared with the survey from the previous year

Some respondents said emerging technologies have brought new risks, but few reported significant impact. For instance, **61%** did not anticipate exposure to new risk from distributed ledger technology or blockchain.



Robotic process automation represented some or significant risk to a majority. Just under half reported some or significant risk from continued use of spreadsheets.



Organisations are only moderately prepared for risk. Just over half lack a formal risk appetite statement, while 17% are in the process of developing one.

have updated financial planning processes

have established financial buffers

have revised board risk reports

have undertaken stress testing

Respondents reported their organisations are using various methods to develop defined risk appetite and implement associated guidelines on risk appetite.