



## GLOSSARY

“Even if there is an agreed upon fixed social objective function and policymakers know the timing and magnitude of the effects of their actions, discretionary policy, namely the selection of that decision which is best, given the current situation and a correct evaluation of the end period position, does not result in the social objective function being maximised. The reason for this apparent paradox is that economic planning is not a game against nature but, rather a game against rational economic agents. We conclude that there is no way control theory can be made applicable to economic planning when expectations are rational.”

**Finn E Kydland & Edward C Prescott (1977), joint winners of the Nobel prize in economics (2004).**

### The Net Stable Funding Ratio *p4*

The Net Stable Funding Ratio (NSFR) is a bank liquidity standard introduced in the wake of the GFC that aims to reduce maturity mis-matches created through the financing of long term assets with short term liabilities. It was

introduced to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding.

### Output Floor: *p5*

The Output Floor is a central measure in the Basel III international banking reform. It sets a lower limit (floor) on the capital requirements (output) that banks calculate when using internal models to calculate capital requirements. The main aim of the output floor is to eliminate the risk that a bank's internal model incorrectly estimates the bank's regulatory capital requirements. Studies have shown that capital requirements calculated by internal models can vary quite significantly, even for the same exposure. The output floor aims to reduce this variability and increase the comparability of capital ratios of banks using internal models.

### Open Banking *p20*

Open Banking refers to a shift in banking that sees the industry moving from a closed data model (where each financial institution retains client's data in-house) to an open data model (where bank clients/customers can opt to share their data with third

parties). This change gives third parties, ordinarily financial technology companies, access to this client/financial data which they can leverage to build and create new applications and services. In the EU ‘Open Banking’ was given legal identification through the revised Directive on Payment Services (PSD2) which came into force in January 2018. PSD2 requires banks to open their payments infrastructure and customer data assets to new forms of payment organisations.

### SEF *p18*

Senior Executive Function (SEF) is a concept that forms part of the Central Bank of Ireland's Senior Executive Accountability Regime (SEAR). The list of SEFs will align closely with the Central Bank's list of pre-approval controlled functions (PCFs) – a list of senior roles within regulated financial services companies that require an individual to obtain approval by the Central Bank before being appointed to such roles. SEAR, once introduced will mandate regulated companies to improve their internal processes by clarifying the roles of their SEFs as part of the regime's efforts to increase individual responsibility of senior executives in regulated entities.

### GFANZ *p3*

The Glasgow Financial Alliance for Net Zero (GFANZ) is a global coalition of financial institutions committed to accelerating decarbonisation with the aim of reaching net zero emissions by 2050. It came to prominence at the UN's COP26 in November 2021. The group is co-chaired by Mark Carney, former Governor of the Bank of England and UN Special Envoy for Climate Action and Finance; Michael Bloomberg, and Mary Schapiro, former chair of the US Securities and Exchange Commission. It represents some 450 financial firms in 45 countries with assets of +\$130 trillion. GFANZ firms' net-zero commitments must use science-based guidelines to reach net-zero emissions by 2050, including 2030 interim target settings. GFANZ membership is split into sub sectors: Net-Zero Banking Alliance (NZBA); Net Zero Asset Managers initiative (NZAM); Net-Zero Asset Owner Alliance; Paris Aligned Investment Initiative; Net-Zero Insurance Alliance (NZIA); Net Zero Financial Service Providers Alliance; and Net Zero Investment Consultants.

*Graphics: (Top Left), Prof. Finn E Kydland; (Centre:) Botta building of the BIS, Basle (R): Mark Carney).*