Monday, February 1, 2021

Top 10 risk and compliance related news stories and world events that (for better or for worse) shaped the week's agenda, and what is next

Dear members and friends,

Christine Lagarde, president of the European Central Bank, gave a great presentation at the ILF conference on Green Banking and Green Central Banking. I enjoyed the introduction:

"In the famous fable "Belling the Cat", a group of mice gather to discuss how to deal with a cat that is eating them one by one.

They hatch a plan to put a bell on the cat so they can hear it coming and escape before being caught.

When it comes to who will actually do it, however, each mouse finds a reason why they are not the right mouse for the job, and why another mouse should do it instead.

The cat never does receive a bell – and the story ends poorly for the mice.

In many ways, that fable describes mankind's reaction to the threats posed by climate change.

Already in 1986, the front cover of Der Spiegel showed Cologne cathedral half-submerged by water and the headline declared a *Climate Catastrophe*.

This is just one example, among many, that demonstrates that people were aware of the risks posed by climate change a generation ago.

Yet, while many people agreed on the seriousness of the issue, and that something had to be done, concrete action has been much less prevalent."

I have remembered the famous fable many times in my life, especially when I had to bridge the difference between ideas and their feasibility. But I have never thought that the fable also describes mankind's reaction to the threats posed by climate change. This is an amazing connection.

The fable (not edited by Christine Lagarde):

The Mice once called a meeting to decide on a plan to free themselves of their enemy, the Cat. At least they wished to find some way of knowing when she was coming, so they might have time to run away. Indeed, something had to be done, for they lived in such constant fear of her claws that they hardly dared stir from their dens by night or day.

Many plans were discussed, but none of them was thought good enough. At last a very young Mouse got up and said:

"I have a plan that seems very simple, but I know it will be successful.

All we have to do is to hang a bell about the Cat's neck. When we hear the bell ringing, we will know immediately that our enemy is coming."

All the Mice were much surprised that they had not thought of such a plan before. But in the midst of the rejoicing over their good fortune, an old Mouse arose and said:

"I will say that the plan of the young Mouse is very good. But let me ask one question: Who will bell the Cat?"

Read more at number 5 below. Welcome to the top 10 list.

Best regards,

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enisa
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Criminals continue to take advantage of coronavirus vaccine roll-out as phishing email reports soar

Action Fraud is raising awareness of another coronavirus vaccine scam, after it received a high volume of reports relating to a phishing email on Monday 25 January.

ActionFraud
National Fraud & Cyber Crime Reporting Centre
0300 123 2040

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Adopting Encrypted DNS in Enterprise Environments

Number 1

FSB Work Programme for 2021

The Financial Stability Board's (FSB) work programme for 2021 reflects a strategic shift in priorities in the COVID-19 environment.

The work programme aims to maximise the value of FSB work to foster global financial stability while preserving the capacity for the FSB to respond to new issues that may emerge.

The FSB will reinforce its forward-looking monitoring of developments to identify, assess and address new and emerging risks to global financial stability, and continue to assess the functioning of the regulatory framework put in place after the 2008 global financial crisis.

This note summarises the ongoing and planned FSB initiatives in 2021 organised by:

(1) priority areas of work and new initiatives;

(2) work programme items that are continuing or reaching completion; and

(3) regular monitoring and reporting.

The Annex provides an indicative timeline of the FSB's publication planned for 2021.

Date	Report	Comment
February	Country peer review of Indonesia	
March	Country peer review of the United Kingdom	
April	Factors to be considered to prepare for an orderly unwinding of COVID-19 support measures	G20 deliverable
	Final report of the evaluation of TBTF reforms for banks	G20 deliverable
May	Quantitative targets for cross-border payments roadmap: Consultative document	
June	Practices paper for operationalising bail-in execution	

July	Policy proposals to enhance MMF resilience: Consultative report	G20 deliverable
	Lessons learnt from the COVID Event: Interim report	G20 deliverable
	Report on availability of data on climate-related financial stability risks and data gaps	G20 deliverable
	Promotion of globally comparable, high quality and auditable standards of disclosure in sustainability reporting	G20 deliverable
	Progress report on implementation of benchmark reform	G20 deliverable
October	Policy proposals to enhance MMF resilience: Final report	G20 deliverable
	Report on progress in the NBFI work programme	G20 deliverable
	Annual report on implementation and effects of financial regulatory reforms	G20 deliverable
	Lessons learnt from the COVID Event: Final report	G20 deliverable
	Progress report on the regulation, supervision and oversight of global stablecoins	G20 deliverable
	Report on cyber incident reporting	G20 deliverable
	Quantitative targets for cross-border payments roadmap: Final report	G20 deliverable
	Progress report on implementation of the cross-border payments roadmap	G20 deliverable
November	Identification of G-SIBs for 2021	
	2021 Resolution Report	
December	Annual Global Monitoring Report on NBFI	
	Report on financial resources for CCP resolution	

1. Priority areas of work and new initiatives

Supporting international cooperation and coordination on the COVID-19 response.

The FSB, with its broad and diverse membership of national authorities, international standard setters and international bodies, continues to promote financial stability during market stress related to COVID-19.

This work will continue to include: assessments of vulnerabilities in the global financial system; sharing information on policy responses; assessing their effectiveness and coordinating the future timely unwinding of the temporary measures taken; and monitoring, with the standardsetting bodies (SSBs), the use of flexibility and consistency of policy responses with existing international financial standards.

- Work on COVID-19 responses will continue in a flexible mode, including on specific COVID-19 related vulnerabilities and policy issues, and be adjusted as needed.

- As a new project, the FSB will work with SSBs to assess initial lessons learnt from COVID-19 for financial stability, and report them to the G20.

Enhancing the resilience of the non-bank financial intermediation (NBFI) sector, while preserving its benefits.

The FSB's holistic review of the March market turmoil1 lays out a comprehensive and ambitious work programme for strengthening the resilience of NBFI.

The FSB will coordinate and oversee work on NBFI under this programme for 2021 and beyond, which will be carried out within the FSB as well as by SSBs and international organisations over the next two years.

- Work in 2021 will focus on the specific issues identified in the holistic review, including money market funds (MMFs), open-ended funds, margining practices, liquidity, structure and resilience of core bond markets, and cross-border USD funding. The FSB will also launch an evaluation on the effects of G20 financial reforms on bond market liquidity.

- Key deliverables under the NBFI work programme in 2021 are policy proposals to enhance MMF resilience and a report on progress in the work programme for strengthening NBFI resilience.

To read more: https://www.fsb.org/wp-content/uploads/P200121.pdf

Number 2

EIOPA publishes the second paper on the methodological principles of insurance stress testing with focus on liquidity

The European Insurance and Occupational Pensions Authority (EIOPA) published the second paper in a series of papers on the methodological principles of insurance stress testing.

The Methodological Paper is a follow-up to the consultation with stakeholders and focuses on the liquidity component. Overall, it is a further step in enhancing EIOPA's stress testing framework.

In particular, the paper sets out methodological principles that can be used to design bottom-up stress test exercises to assess the vulnerability of insurers to liquidity shocks.

The conclusions are based on the current understanding and knowledge of the liquidity risk in the insurance industry. Hence, this might evolve in the future to reflect also the experience gained in the assessment of such risk at European and global level.

Amid the increasing consideration given to liquidity risk by the insurance industry and by the supervisors at European and global level, and in the absence of a commonly adopted liquidity framework for industry in the European Union, the paper depicts a conceptual approach to the assessment of the liquidity position of insurers under adverse scenarios.

To read more:
https://www.eiopa.europa.eu/content/methodological-principles-insurance-stress-testing_en

https://www.eiopa.europa.eu/sites/default/files/financial_stability/insurance_stress_test/methodological-principles-liquidity.pdf

Number 3

EU-wide stress testing

The European Banking Authority (EBA) will launch its 2021 EU-wide stress test exercise with the publication of the macroeconomic scenarios on 29 January at 18:00 CET. The EBA expects to publish the results of the exercise by 31 July 2021.

This section is dedicated to the EBA EU-wide stress tests and provides information about the methodologies and the scenarios used, as well as any additional supporting information released by the EBA during the conduct of the exercise.

EBA's role in stress testing

One of the responsibilities of the European Banking Authority (EBA) is to ensure the orderly functioning and integrity of financial markets and the stability of the financial system in the EU.

To this end, the EBA is mandated to monitor and assess market developments as well as to identify trends, potential risks and vulnerabilities stemming from the micro-prudential level.

One of the primary supervisory tools to conduct such an analysis is the EU-wide stress test exercise. The EBA Regulation gives the Authority powers to initiate and coordinate the EU-wide stress tests, in cooperation with the European Systemic Risk Board (ESRB).

The aim of such tests is to assess the resilience of financial institutions to adverse market developments, as well as to contribute to the overall assessment of systemic risk in the EU financial system.

The EBA's EU-wide stress tests are conducted in a bottom-up fashion, using consistent methodologies, scenarios and key assumptions developed in cooperation with the ESRB, the European Central Bank (ECB) and the European Commission (EC).

Number 4

Public policy for big techs in finance

Introductory remarks by Mr Agustín Carstens, General Manager of the BIS, at the Asia School of Business Conversations on Central Banking webinar, "Finance as information", Basel, 21 January 2021.

Introduction

The financial sector has always been information-hungry and an avid adopter of technology.

It is said that in the Renaissance, Venetian traders were among the first adopters of the telescope, to keep watch for incoming ships.

Early information could give traders an edge in buying and selling assets.

Financial institutions were also among the first adopters of the telegraph and of satellite images, again aiming to achieve an information advantage.

Over time, the volume of information available has grown and grown – and finance has continued to use this information to allocate funds and risks in the economy.

Is today any different? We have smartphones, machine learning and blockchains, but are we seeing fundamental changes in the role of information?

In my remarks, I'd like to focus on one thing that has changed, namely who is offering financial services.

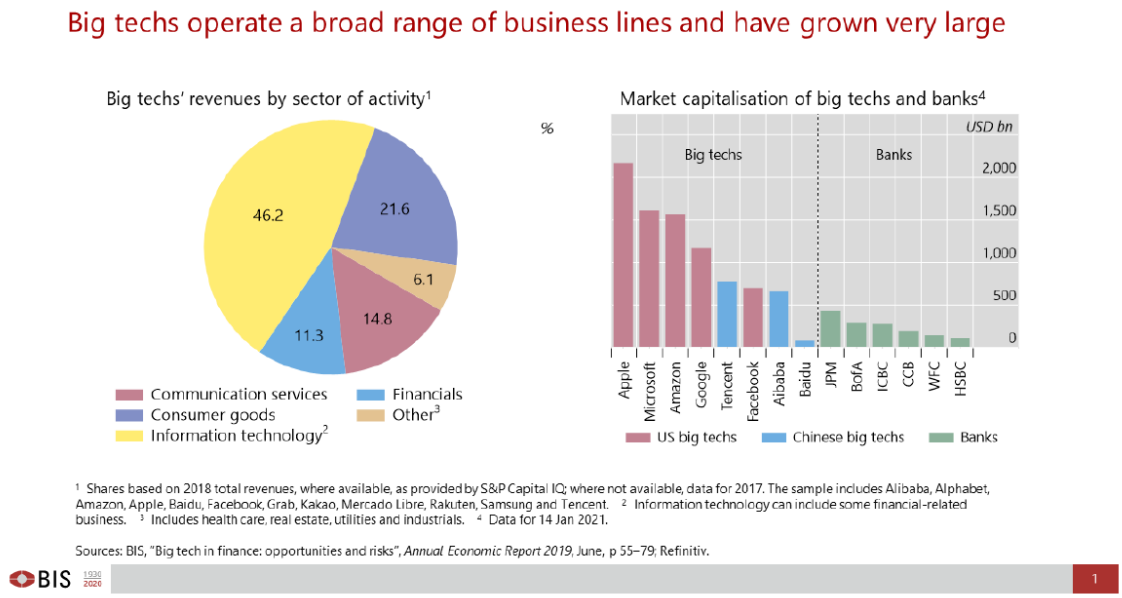
Recently, we've seen the entry of big techs, which are able to exploit their massive data, networks and range of activities.

The entry of big techs requires a comprehensive public policy approach that combines financial regulation, competition policy and data privacy.

Big techs operate a broad range of business lines and have grown very large

Big techs have done something quite remarkable: within less than two decades: they have gone from being startups to dominating a range of markets. This is unprecedented.

Today, their reach extends across a wide range of industries, of which finance is only one. You can see this in the left-hand panel of Slide 1. Indeed, financial services make up only 11% of big techs' revenues so far.



And – to quote the Latin proverb "nomen est omen" ("the name is a sign") – they have become very large.

As a result of their control over key digital platforms in e-commerce, search and social media, big techs are able to gather, process and communicate huge volumes of data.

Not surprisingly, they have become among the largest companies in the world, operating in multiple jurisdictions. As seen in the right-hand panel of Slide 1, big techs like Google, Apple, Facebook and Amazon in the United States and Alibaba and Tencent in China have market capitalisations that far surpass those of the largest banks.

Why? The DNA of big techs

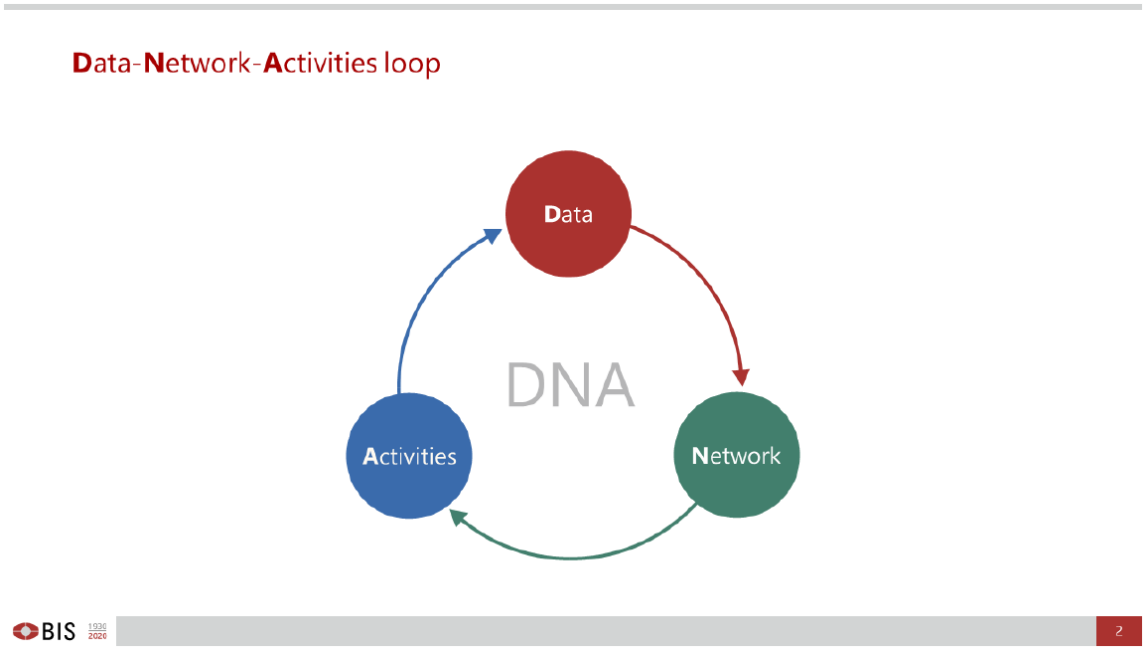
Why have they gotten so large? Big tech business models rest on enabling direct interactions among a large number of users. This may be in e-commerce – such as Alibaba and Amazon; social media – such as Tencent or Facebook; or search – such as Baidu or Google.

An essential by-product of their business is the massive user data they collect. They exploit natural network effects, generating further user activity.

As an example, payment services generate transaction data, network externalities facilitate the interaction among users, and this helps serve needs related to other activities (such as credit).

But these activities will provide further data and will again fuel the DNA feedback loop.

Data analytics, network externalities and interwoven activities (DNA) constitute the key features of big techs' business models (Slide 2). These three elements reinforce each other.



To read more: https://www.bis.org/speeches/sp210121.pdf

Number 5

Climate change and central banking

Keynote speech by Ms Christine Lagarde, President of the European Central Bank, at the ILF conference on Green Banking and Green Central Banking, Frankfurt am Main

In the famous fable "Belling the Cat", a group of mice gather to discuss how to deal with a cat that is eating them one by one.

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The cat never does receive a bell – and the story ends poorly for the mice.

In many ways, that fable describes mankind's reaction to the threats posed by climate change.

Already in 1986, the front cover of Der Spiegel showed Cologne cathedral half-submerged by water and the headline declared a "Climate Catastrophe".

This is just one example, among many, that demonstrates that people were aware of the risks posed by climate change a generation ago.

Yet, while many people agreed on the seriousness of the issue, and that something had to be done, concrete action has been much less prevalent.

It is with this history in mind that I want to talk about the role of central banks in addressing climate change.

Clearly, central banks are not the main actors when it comes to preventing global heating.

Central banks are not responsible for climate policy and the most important tools that are needed lie outside of our mandate.

But the fact that we are not in the driving seat does not mean that we can simply ignore climate change, or that we do not play a role in combating it.

Just as with the mice in the fable, inaction has negative consequences, and the implications of not tackling climate change are already visible.

Globally, the past six years are the warmest six on record, and 2020 was the warmest in Europe.

The number of disasters caused by natural hazards is also rising, resulting in $210 billion of damages in 2020.

An analysis of over 300 peer-reviewed studies of disasters found that almost 70% of the events analysed were made more likely, or more severe, by human-caused climate change.

That said, there are now signs that policy action to fight climate change is accelerating, especially in Europe.

We are seeing a new political willingness among regulators and fiscal authorities to speed up the transition to a carbon neutral economy, on the back of substantial technological advances in the private sector.

This increased action is often considered as a source of transition risk, which we need to take into account and reflect in our policy framework.

This is not "mission creep", it is simply acknowledging reality.

Yet the transition to carbon neutral is not so much a risk as an opportunity for the world to avoid the far more disruptive outcome that would eventually result from governmental and societal inaction.

Scenarios show that the economic and financial risks of an orderly transition can be contained.

Even a disorderly scenario, where the economic and financial impacts are potentially substantial, represents a much better overall outcome in the long run than the disastrous impact of the transition not occurring at all.

It now seems likely that faster progress will be made along three interlocking dimensions.

Each of them lies outside the remit of central banks, but will have important implications for central bank balance sheets and policy objectives.

Including, informing and innovating

The first dimension along which we expect rapid progress is including the true social and environmental cost of carbon into the prices paid by all sectors of the economy.

Appropriate pricing can come via direct carbon taxes or through comprehensive cap and trade schemes.

Both are used to some extent in the EU.

It is likely, though, that the next steps in Europe will come mainly via the EU's Emissions Trading System (ETS), a cap and trade scheme.

The ETS is an essential infrastructure, although it has not always been successful in the past at delivering a predictable price of carbon.

Moreover, it currently covers only around half of EU greenhouse gas emissions and a significant amount of allowances continue to be given for free.

The effective price of carbon is expected to rise if the EU's targets for reducing emissions are to be reached.

Modelling by the OECD and the European Commission suggests that an effective carbon price between €40–60 is currently needed, depending on how stringent other regulations are.

The introduction of the ETS Market Stability Reserve and the review of the ETS scheduled for this year should provide the opportunity to deliver a clear path towards adequate carbon pricing.

The second dimension where we expect to see progress is greater information on the exposure of individual companies.

At present, information on the sustainability of financial products – when available – is inconsistent, largely incomparable and at times unreliable.

That means that climate risks are not adequately priced, and there is a substantial risk of sharp future corrections. Yet for an open market economy to allocate resources efficiently, the pricing mechanism needs to work correctly.

This requires a step change in the disclosure of climate-related data using standardised and commonly agreed definitions.

While TCFD-based disclosures have underpinned public/private efforts to better inform, disclosure needs to be at a far more granular level of detail than is currently available.

In Europe climate disclosures are governed by the Non-Financial Reporting Directive (NFRD), which is currently under review.

The Eurosystem has advocated for mandatory disclosures of climate-related risks from a far greater number of companies, including non-listed entities.

Moreover, disclosures should be complemented by forward-looking measures that assess the extent to which both financial and non-financial firms are aligned with climate goals and net zero commitments.

The European Taxonomy Regulation that entered into force last year is also an important milestone along this path.

But it still needs to be fleshed out with concrete technical criteria and complemented by an equivalent taxonomy for carbon-intensive activities.

A further essential step is the consistent and transparent inclusion of climate risks in credit ratings. Here, again, we have high hopes that progress will now speed up.

While adequate carbon prices and greater information on exposures will help provide incentives to decarbonise, that economic transformation cannot take place without the third dimension: substantial green innovation and investment.

Both, however, require a complex ecosystem of which finance is a key element, so we expect to see increasing availability of green finance.

Green bond issuance by euro area residents has grown sevenfold since 2015, reaching €75 billion in 2020 – this represents roughly 4% of the total corporate bond issuance.

We need to see funding for green innovation increasing from other market segments as well, especially as recent analyses point to the beneficial role of equity investors in supporting the green transition.

Assets under management by investment funds with environmental, social and governance mandates have roughly tripled since 2015, and a little more than half of these funds are domiciled in the euro area.

Completing the capital markets union should provide a further push to support equity-based green finance by fostering deep and liquid capital markets across Europe.

Simultaneous progress along each of these three dimensions increases the likelihood of substantial economic change in the near term.

That is so because movement along each dimension reinforces progress along the others and magnifies the effectiveness of climate policy.

For example, the economic impact of higher carbon prices depends on the availability of alternative green technologies.

In the past, a sudden and substantial increase in carbon taxes could have resulted in an economic downturn, substantial stranded assets and threats to financial stability.

Today, however, solar power is not only consistently cheaper than new coal or gas-fired plants in most countries, but it also offers some of the lowest cost electricity ever seen.

Green finance and innovation are also developing rapidly.

Introducing well-signalled carbon pricing therefore becomes more feasible and could further sharpen incentives both to develop new technologies and to carry out the substantial investment required for the widespread adoption of the green technologies that already exist.

Climate change and central banks

Today, then, central banks face two trends – more visible impacts of climate change and an acceleration of policy transition.

Both trends have macroeconomic and financial implications and have consequences for our primary objective of price stability, for our other areas of competence including financial stability and banking supervision, as well as for the Eurosystem's own balance sheet.

Central banks are both aware of those consequences, and determined to mitigate them.

Much has already been accomplished and more is under way:

The founding of the Network for Greening the Financial System (NGFS), with membership including all major central banks, is testament to that collective engagement with climate change.

At the ECB, we are now launching a new climate change centre to bring together more efficiently the different expertise and strands of work on climate across the Bank. Climate change affects all of our policy areas.

The climate change centre provides the structure we need to tackle the issue with the urgency and determination that it deserves.

In the area of financial stability and banking supervision, the ECB has taken concrete steps towards expanding the financial system's understanding of climate risks and its ability to manage them.

We have issued a guide on our supervisory expectations relating to the management and disclosure of climate-related and environmental risks.

A recent survey of the climate-related disclosures of 125 banks suggests there is still a way to go. It evaluated climate disclosures across several basic information categories.

Only 3% of banks made disclosures in every category, and 16% made no disclosure in any category.

ECB Banking Supervision has requested that banks conduct a climate risk self-assessment and draw up action plans, which we will begin assessing this year.

We will conduct a bank-level climate stress test in 2022.

The ECB is also currently carrying out a climate risk stress test exercise to assess the impact on the European banking sector over a 30-year horizon.

Preliminary results from mapping climate patterns to the address-level location of firms' physical assets show that in the absence of a transition, physical risks in Europe are concentrated unevenly across countries and sectors of the economy.

But there is more: climate change also impacts our primary mandate of price stability through several channels. This is why climate change considerations form an integral part of our ongoing review of our monetary policy strategy.

Climate change can create short-term volatility in output and inflation through extreme weather events, and if left unaddressed can have long-lasting effects on growth and inflation.

Transition policies and innovation can also have a significant impact on growth and inflation.

These factors could potentially cause a durable divergence between headline and core measures of inflation and influence the inflation expectations of households and businesses.

The transmission of monetary policy through to the interest rates faced by households and businesses could also be impaired, to the extent that increased physical risks or the transition generate stranded assets and losses by financial institutions.

According to a recent estimate by the European Systemic Risk Board, a disorderly transition could reduce lending to the private sector by 5% in real terms.

And climate change can also have implications for our monetary policy instruments.

First, the Eurosystem's balance sheet itself is exposed to climate risks, through the securities purchased in the asset purchase programmes and the collateral provided by counterparties as part of our policy operations.

Furthermore, several factors associated with climate change may weigh on productivity and the equilibrium interest rate, potentially reducing the space available for conventional policy.

For example, labour supply and productivity may diminish as a result of heat stress, temporary incapability to work and higher rates of mortality and morbidity.

Resources may be reallocated away from productive use to support adaptation, while capital accumulation may be impaired by rising destruction from natural hazards and weaker investment dynamics related to rising uncertainty.

And the increase in short-term volatility and accelerated structural change could hamper central banks' ability to correctly identify the shocks that are relevant for the medium-term inflation outlook, making it more difficult to assess the appropriate monetary policy stance.

Our strategy review enables us to consider more deeply how we can continue to protect our mandate in the face of these risks and, at the same time, strengthen the resilience of monetary policy and our balance sheet to climate risks.

That naturally involves evaluating the feasibility, efficiency and effectiveness of available options, and ensuring they are consistent with our mandate.

The ECB is also assessing carefully, without prejudice to the primary objective of price stability, how it can contribute to supporting the EU's economic policies, as required by the treaty.

Europe has prioritised combating climate change and put in place targets, policies and regulations to underpin the transition to a carbon-neutral economy.

While the Eurosystem is not a policy maker in these areas, it should assess its potential role in the transition.

We recognise that our active role in some markets can influence the development of certain market segments. The ECB currently holds around a fifth of the outstanding volume of eligible green bonds.

Standardisation helps nascent markets gain liquidity and encourages growth. And our eligibility criteria can provide, in this context, a useful coordination device.

For example, since the start of this year, bonds with coupon structures linked to certain sustainability performance targets have been eligible as collateral for Eurosystem credit operations and for outright purchases for monetary policy purposes.

We have also taken action with regards to our non-monetary policy portfolio, namely our own funds and pension fund.

The ECB raised the share of green bonds in its own funds portfolio to 3.5% last year and is planning on raising it further as this market is expected to grow in the coming years.

Investing parts of the own funds portfolio in the green bond fund of the Bank for International Settlements marks another step in this direction.

A shift of all conventional equity benchmark indices tracked by the staff pension fund to low-carbon equivalents last year significantly reduced the

carbon footprint of the equity funds. Other central banks are also aligning decisively their investment decisions with sustainability criteria.

Conclusion

Let me conclude.

Climate change is one of the greatest challenges faced by mankind this century, and there is now broad agreement that we should act. But that agreement needs to be translated more urgently into concrete measures.

The ECB will contribute to this effort within its mandate, acting in tandem with those responsible for climate policy.

Unlike the mice in the fable, not only do we have to recognise that we cannot keep waiting for someone else to act, we also must recognise that the burden cannot fall on one party alone.

There is no single panacea for climate change, and combating it requires rapid progress along several dimensions.

Relying on just one solution, or on one party, will not be enough to avoid a climate catastrophe. And here we can actually learn something from mice. As the Roman playwright Plautus wrote, "How wise a beast is the little mouse, who never entrusts its safety to only one hole."

Number 6

China's New Development Stage and Hong Kong SAR's New Opportunities

Guo Shuqing, Party Secretary and Deputy Governor of the People's Bank of China, at the 14th Asian Financial Forum.

Ladies and gentlemen,

Good morning!

It's a great honor to speak at the Asian Financial Forum.

Today's world is witnessing historic changes. Asia may play a prominent role in the development of the world's civilization as it once did a few centuries ago.

And recently China has set out clear development objectives. By 2035, it will achieve socialist modernization.

By 2050, it will develop into a modern socialist country that is strong, prosperous, democratic, culturally advanced, harmonious and beautiful.

The 2035 objective means: China will become a global leader in innovation, a moderately developed country in terms of per capita GDP, and a country with rule of law well-established.

It will also see its cultural soft power significantly enhanced, environment fundamentally improved and people in well-rounded development.

It would be a huge disaster if China and other Asian countries reached modernization in the same way as Europe, US and Japan.

Over-exploitation and an increasingly fragile environment have already sent out warning signals. In the past two decades, frequent infectious diseases were probably related to expanded human activities.

Given that we haven't defeated COVID-19, were there to be any new epidemic, it's hard to imagine how we could cope.

Hence, sustainable development is the only way forward for humanity. In 2020, President Xi Jinping announced that China will strive to reach peak carbon emissions by 2030 and carbon neutrality by 2060.

We have made great progress in green development. Currently, China's installed renewable power capacity accounts for roughly 30% of the global total. And energy consumption per unit steadily decreased by about 25% over the past 8 years.

We should try to achieve more efficient and higher quality development. China has achieved great success in reform and opening-up, thanks to the initiative and creativity of the Chinese people.

Today, as input intensity of traditional production factors declines, innovation should become the key driver of modernization.

We need to deepen policy reforms in the areas of science, technology, education and finance, and nurture more talents.

Meanwhile, entrepreneurship, scientist spirit and craftsman spirit should be encouraged. The financial system should better support venture capital, engineering projects and basic R&D.

We should aim for more equitable and secure development. In the past few decades, numerous workers and farmers have grown into well-known entrepreneurs, specialists and technicians.

We believe, in the future, more common people will rise as world-class experts.

With wider access to education, our newly employed have received higher education on average. Now, West and Central China have paced up their growth.

We will continue to equally support the development of the public and non-public sectors. We stand firmly against monopoly and unfair competition.

We insist that financial innovation be placed under prudential regulation. And we will endeavor to prevent and mitigate various risks, consolidate national security, maintain law and order, and defend sovereignty and dignity.

We should strive for common prosperity and improve the quality of people's lives.

The urban-rural gaps in development and income are narrowing. Enormous progress has been made towards common prosperity.

China's middle income population has been growing, up from 100 million to over 400 million in the past 10 years.

While the fair market determines the factor returns, we will improve the second and tertiary income distribution mechanisms to better the distribution structure of income and wealth.

However, at present, China's development is still imbalanced. There are a lot of difficulties ahead. Since 2020, developed economies have adopted ultra-loose monetary and fiscal policies. The global financial market has been diverging severely from the real economy.

Global inflation and asset bubbles have become increasingly worrisome. Hence, we are ready to enhance macroeconomic policy coordination with other countries to new challenges to the world economy.

For a long time, China's economic and social development have had positive global impacts. Over the past decade, China contributed 30% on average to global growth.

Yet internationally there were some negative remarks on China. Twenty years ago, it was said that China was not a market economy and needed a transition.

More recently, they accused China of state capitalism because China has a strong public sector and its industrial policies distort the market. This is a big misunderstanding. Here let's make five points of clarification.

First, the private sector now accounts for 60% of China's economy, while before 1978 there was hardly any. If there were so-called state capitalism and state protection, how could this be achieved?

Second, China's industrial policies have been consistent with the market-oriented reform. At the end of the 1970s, China encouraged light industry and lifted import restrictions on consumer goods.

From TV sets to washing machines, and from sedans to trucks, the large inflow of foreign goods made China an "Expo of Brands of All Nations". Since the late 1980s, our main policies have been to prevent duplicated constructions resulting from over competition.

In the past 10 years, we have closed down lots of high-energy-consuming, high-polluting and over-leveraged companies. Thanks to open, fair and full competition, China now has the widest range of industries in the world.

Third, SOEs in general are subject to negative subsidies from the government budget. The average tax on SOEs is almost twice of that on private companies. SOEs have in fact undertaken more social responsibilities.

Actually, one of the important drivers for long-term and rapid growth of private and foreign firms is tax concession.

The SOE-related government budget has been mainly used to resettle redundant workers, subsidize social security and public services.

Fourth, banks and SOEs are financially independent from each other. Chinese banks are among the most profitable banks in the world. This couldn't be possible if they had been providing subsidies to SOEs over the long term.

The credit market is also highly competitive. And banks' ownership has long been well diversified. Under such background, tunneling interests to SOEs is impossible, even for banks with a big state ownership.

Fifth, the strong competitiveness of Chinese products is not due to lack of labor protection. China is a socialist country.

The Constitution and other laws provide strong protection for people's interest, allowing employees to participate in corporate management and labor union activities.

The Employee Representative Conference of China's medium and large companies is rarely seen in other countries. In the past 10 years, the income of Chinese workers has grown rapidly. Migrant workers have their income doubled.

We don't think strikes and demonstrations are good ways to solve labor disputes. Through consultation and oversight by multiple parties, win-win results can be achieved for both employees and employers. Therefore, people's wealth and welfare can grow in tandem with economic development.

Ladies and gentlemen,
In the past 40 years, Hong Kong has played a pivotal role in every stage of China's development. Hong Kong is not only China's Hong Kong, but also

Asia's Hong Kong and the world's Hong Kong. And Hong Kong will regain its vitality in the new development stage of China and Asia.

Hong Kong is vital to China's new development pattern of dual circulations. Hong Kong connects China's domestic and international circulations. Hong Kong plays a prominent role in China's two-way flow of trade, investment, finance, legal, tourism and cultural activities.

It is indispensable in many aspects. So it is necessary for Hong Kong to further strengthen the cooperation and collaboration with the mainland.

Hong Kong can play an important role in developing the Greater Bay Area. The Greater Bay Area offers opportunities for deepening the economic, trade and financial cooperation in the region, in the country, and in the world.

We will provide greater market access to firms from Hong Kong to facilitate their development. The Greater Bay Area will definitely become a model in our modernization drive.

Hong Kong can contribute to developing the global innovation centers of science and technology. The 14th five-year plan proposes to support the Greater Bay Area, along with Beijing and Shanghai, to build national science centers and regional innovation hubs.

In 2019, Hong Kong was named one of the three BIS innovation hubs. Shenzhen has been recognized as China's Silicon Valley. Hong Kong and Shenzhen can support and benefit each other in digital economy, biomedicines and artificial intelligence, etc.

Hong Kong is significant in growing offshore renminbi business. A strong and resilient economy will have a strong and resilient currency. RMB is one of the few emerging global currencies.

Now Hong Kong is the world's largest RMB offshore market. It can engage in more RMB businesses at a larger scale. It can also attract more global clients and pool larger volume of RMB funds.

As an offshore financial center, Hong Kong can better participate in China's opening up, and can also steadily promote RMB internationalization.

We should further improve the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect and the Bond Connect, and together to facilitate the cross-border financial cooperation and development.

As an international financial center, Hong Kong is embracing the opportunities of the new century. "Reform and opening up" and "one-country, two systems" are China's basic national policies.

They will remain unchanged. The National Security Law put an end to the violence and turmoil which were called "a beautiful sight to behold" by some western politicians. It also dealt a heavy blow to anti-China forces and separatists.

It provides a strong guarantee for social stability in Hong Kong. At present, both the world and China are going through significant changes. They will bring more favorable conditions for Hong Kong. We firmly believe Hong Kong, as a global financial center, will be more stable and prosperous.

Ladies and gentlemen,

The COVID-19 haze will eventually be cleared away. We will work together with other countries and share the opportunities and benefits of globalization.

Wish this forum a great success!

Wish you all good health!

Thank you very much.

Number 7

Fake apps responsible for rise in attacks targeting remote devices

The number of organisations experiencing malware attacks on remote devices has increased over the past year since the COVID-19 global pandemic began, which is detailed in a recent Cloud Security Report by Wandera. You may visit:
https://www.wandera.com/cloud-security-report-2021eapvoeasdasdasdcaz/wandera-cloud-security-report-2021/

Some of the attacks on remote workers involved targeting victims by using phishing emails, which if clicked on, tricked victims into downloading malicious applications, reporting to be tools to help with 'improving productivity at home' but instead allowed attackers to gain access to corporate devices.

It was reported that around a third of the devices compromised in this type of attack, continued to access work email and around 10% continued to access cloud services, which could potentially give the attackers even more access to corporate networks. You may visit:
https://www.zdnet.com/article/fake-collaboration-apps-are-stealing-data-as-staff-struggle-with-home-working-security/

The NCSC's home working and mitigating malware and ransomware guidance explains how organisations can protect themselves against cyber attacks whilst working online. You may visit:
https://www.ncsc.gov.uk/guidance/home-working

https://www.ncsc.gov.uk/guidance/mitigating-malware-and-ransomware-attacks

Number 8

2020 REPORT ON CSIRT-LE COOPERATION
A study of the roles and synergies among selected EU Member States/EFTA countries

The purpose of this report is to further explore and support the cooperation between computer security incident response teams (CSIRTs), in particular national and governmental (n/g) CSIRTs, and law enforcement agencies (LEAs) and their interactions with the judiciary (prosecutors and judges).

This report follows a number of previous reports published by the European Union Agency for Cybersecurity (ENISA), including Tools and methodologies to support cooperation between CSIRTs and law enforcement (ENISA, 2017), Improving cooperation between CSIRTs and law enforcement: legal and organisational aspects, Cooperation between CSIRTs and Law Enforcement: interaction with the Judiciary (ENISA, 2017a), An Overview on Enhancing Technical Cooperation between CSIRTs and LE (ENISA, 2019a) and Roadmap of the cooperation between CSIRTs and LE (ENISA, 2019b).

This report proposes a methodology to analyse the legal and organisational framework, the roles and duties of CSIRTs, LEAs and the judiciary, and their required competences, as well as synergies and potential interferences in their activities related to their responses to cyber incidents and fight against cybercrime, respectively.

In addition, this report aims to present a detailed analysis focusing on some Member States (MSs) and European Free Trade Association (EFTA) countries, namely Czechia, France, Germany, Luxembourg, Norway, Portugal, Romania and Sweden.

The data for this report were collected via desk research and interviews with subject-matter experts.

The data collected showed, among other things, that:

- The communities make efforts to avoid interferences where possible and attempt to create effective partnerships and take advantage of their synergies to support each other in the fight against cybercrime; however, some interferences might occur during incident handling and cybercrime investigations.

- There are examples of joint training activities, mainly involving two communities (CSIRTs and LEAs or LEAs and the judiciary, especially prosecutors) and, more rarely, involving all three communities, in particular in the form of joint exercises. These joint training activities help enhance overall the competences required to respond to cybercrime.

- There has been no significant impact of the coronavirus disease 2019 (COVID-19) pandemic on cooperation and interaction between the three communities and their ability to function. In some instances, interaction among the communities has increased, with even daily interactions, to ensure that each community is kept up to date. As the COVID-19 pandemic has continued, the use of online tools to facilitate meetings and events has become the norm.

  This report, the 2020 handbook and the 2020 toolset on CSIRT and LE (law enforcement) cooperation (ENISA, 2021) are a set of deliverables complementing each other as follows:

- The report analyses roles, duties, competences, synergies and potential interferences across the three communities (CSIRTs, LE and judiciary).

- The handbook helps a trainer explain these concepts through scenarios.

- The toolset contains exercises for trainees based on these scenarios.

To read more:
https://www.enisa.europa.eu/publications/2020-report-on-csirt-le-cooperation

Number 9

Criminals continue to take advantage of coronavirus vaccine roll-out as phishing email reports soar

Action Fraud is raising awareness of another coronavirus vaccine scam, after it received a high volume of reports relating to a phishing email on Monday 25 January.

The email, which attempts to trick people into handing over their bank details, was reported more than 1,000 times in 24 hours. It appears to come from the NHS and asks the recipient to click on a link to accept or decline an invitation to receive the coronavirus vaccine. If they click accept, they are asked to input personal information and their bank card details.

The national reporting centre for fraud and cyber crime has previously warned about coronavirus vaccine scams, with many people reporting receiving fake text messages purporting to be from the NHS.

Head of Action Fraud, Pauline Smith, is warning the public to remain vigilant as fraudsters continue to act:

"It's despicable that fraudsters will take advantage of such an important tool in the fight against this evil and deadly disease. Not only are the people being targeted with this email at risk of losing money, or having their identity stolen, but they are also at risk of not receiving the real vaccine.

"The public have been fantastic at reporting these scams to us and raising awareness in their local community as well. But unfortunately, as this latest phishing campaign shows, we still have to remain cautious and alert. Remember: anything purporting to be from the NHS asking you to pay for the vaccine, or provide your bank account or card details, is a scam."

How to protect yourself

In the UK, coronavirus vaccines will only be available via the National Health Services of England, Northern Ireland, Wales and Scotland. You can be contacted by the NHS, your employer, a GP surgery or pharmacy local to you, to receive your vaccine. Remember, the vaccine is free of charge. At no point will you be asked to pay.

The NHS will never:

- ask you for your bank account or card details.

- ask you for your PIN or banking password.
- arrive unannounced at your home to administer the vaccine.
- ask you to prove your identity by sending copies of personal documents such as your passport, driving licence, bills or pay slips.

If you receive a call you believe to be fraudulent, hang up. If you are suspicious about an email you have received, forward it to report@phishing.gov.uk. Suspicious text messages should be forwarded to the number 7726 which is free of charge.

If you believe you are the victim of a fraud, please report this to Action Fraud as soon as possible by calling 0300 123 2040 or visiting www.actionfraud.police.uk

Number 10

Adopting Encrypted DNS in Enterprise Environments

Use of the Internet relies on translating domain names (like “nsa.gov”) to Internet Protocol addresses. This is the job of the Domain Name System (DNS).

In the past, DNS lookups were generally unencrypted, since they have to be handled by the network to direct traffic to the right locations.

DNS over Hypertext Transfer Protocol over Transport Layer Security (HTTPS), often referred to as DNS over HTTPS (DoH), encrypts DNS requests by using HTTPS to provide privacy, integrity, and “last mile” source authentication with a client’s DNS resolver.

It is useful to prevent eavesdropping and manipulation of DNS traffic.

While DoH can help protect the privacy of DNS requests and the integrity of responses, enterprises that use DoH will lose some of the control needed to govern DNS usage within their networks unless they allow only their chosen DoH resolver to be used.

Enterprise DNS controls can prevent numerous threat techniques used by cyber threat actors for initial access, command and control, and exfiltration.

Using DoH with external resolvers can be good for home or mobile users and networks that do not use DNS security controls.

For enterprise networks, however, NSA recommends using only designated enterprise DNS resolvers in order to properly leverage essential enterprise cybersecurity defenses, facilitate access to local network resources, and protect internal network information.

The enterprise DNS resolver may be either an enterprise-operated DNS server or an externally hosted service.

Either way, the enterprise resolver should support encrypted DNS requests, such as DoH, for local privacy and integrity protections, but all other encrypted DNS resolvers should be disabled and blocked.

However, if the enterprise DNS resolver does not support DoH, the enterprise DNS resolver should still be used and all encrypted DNS should be disabled and blocked until encrypted DNS capabilities can be fully integrated into the enterprise DNS infrastructure.

This guidance explains the purpose behind the DoH design and the importance of configuring enterprise networks appropriately to add benefits to, but not hinder, their DNS security controls.

The following recommendations will assist enterprise network owners and administrators to balance DNS privacy and governance.

What is DoH?

Domain Name System (DNS) over Hypertext Transfer Protocol over Transport Layer Security (HTTPS), often referred to as DNS over HTTPS (DoH), encrypts DNS requests to provide privacy, integrity, and "last mile" source authentication for DNS transactions with a client's DNS resolver.

It is useful to prevent eavesdropping and manipulation of DNS traffic (T1040, T1565.002).

While DoH can help protect the privacy of DNS requests and the integrity of responses, enterprises that use DoH will lose some of the control needed to govern DNS usage within their networks unless they allow only their designated DoH resolver to be used.

These essential protective DNS controls can prevent numerous threat techniques used for initial access, command and control, and exfiltration, such as phishing links to malicious domains, connections using dynamic name resolution, and commands hidden in DNS traffic (TA0001, TA0011, TA0010, T1566.002, T1568, T1071.004).

The enterprise DoH resolver may be either an enterprise-operated DNS server or an external resolver from a protective DNS provider.

However, if the enterprise DNS resolver does not support DoH, the enterprise resolver should still be used and all encrypted DNS should be disabled and blocked until encrypted DNS capabilities can be fully integrated into the enterprise DNS infrastructure.

How do DNS and DoH work?

DNS translates domain names to their corresponding Internet Protocol (IP) addresses, allowing web users to more easily access websites.

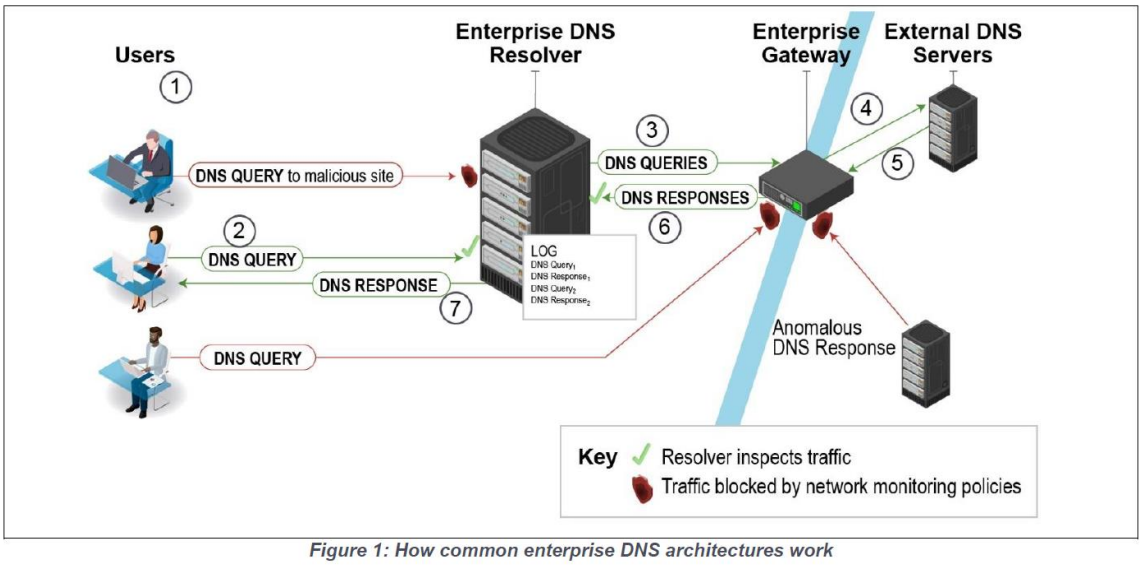

Figure 1: How common enterprise DNS architectures work

1. The user wants to visit a website they do not know is malicious and types the domain name into the web browser.
2. The request for the domain name is sent to the enterprise DNS resolver with a plaintext packet on port 53. Queries that violate DNS monitoring policies may generate alerts and/or be blocked.

With traditional enterprise DNS architectures, once a client submits a DNS query, it will first go to the enterprise recursive DNS resolver, often assigned via Dynamic Host Configuration Protocol (DHCP).

The enterprise DNS resolver will either return the answered query from its cache or forward the query through the enterprise gateway to the external authoritative DNS servers.

The DNS response will return through the enterprise gateway, to the enterprise DNS resolver, and then finally to the client.

During this exchange, both the enterprise DNS resolver and the enterprise gateway can see the plaintext query and response and log it for analysis or block it if it seems malicious or violates enterprise policies

To read more:
https://media.defense.gov/2021/Jan/14/2002564889/-1/-1/0/CSI_ADOPTING_ENCRYPTED_DNS_U_OO_102904_21.PDF

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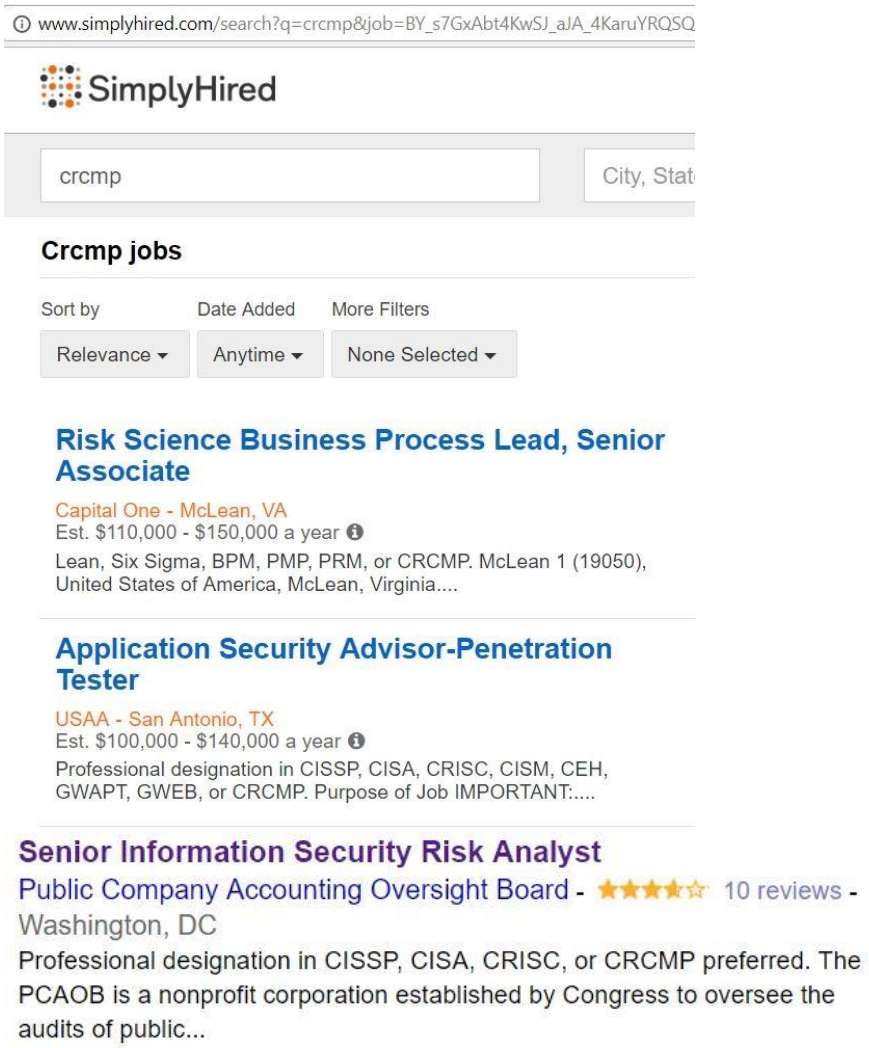

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