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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,

It is February 2023, one year after a major development.



February 2022 was an important month for *hydrogen* production, distribution, storage, use, research and development.

After the outbreak of the war in Ukraine, the European Union decided to phase out Russian energy imports as quickly as possible. The political commitments and decisions to replace fossil fuels were well accepted by all advocates of a clean energy future that ask for the decarbonization of many major industries. Hydrogen plays a key role in this clean energy future.

Technologies for the production, storage, transportation and use of hydrogen as an energy source are available today, but investments are necessary for the broader application that requires scaling up solutions.

Hydrogen may be produced through a variety of processes. Some are clean, some are not so clean:

1. *'Electricity-based hydrogen'* refers to hydrogen produced through the electrolysis of water (in an electrolyser, powered by electricity), regardless of the electricity source. The full life-cycle greenhouse gas emissions of the production of electricity-based hydrogen depends on how the electricity is produced.
2. *'Renewable hydrogen' or 'Clean hydrogen'* is hydrogen produced through the electrolysis of water (in an electrolyser, powered by electricity), and with the electricity stemming from renewable sources. The full life-cycle greenhouse gas emissions of the production of renewable hydrogen are close to zero. Renewable hydrogen may also be produced through the reforming of biogas (instead of natural gas) or biochemical conversion of biomass, if in compliance with sustainability requirements.
3. *'Fossil-based hydrogen'* refers to hydrogen produced through a variety of processes using fossil fuels as feedstock, mainly the reforming of natural gas or the gasification of coal. This represents the bulk of hydrogen produced today. The life-cycle greenhouse gas emissions of the production of fossil-based hydrogen are high.
4. *'Fossil-based hydrogen with carbon capture'* is a subpart of fossil-based hydrogen, but where greenhouse gases emitted as part of the hydrogen production process are captured. The greenhouse gas emissions of the production of fossil-based hydrogen with carbon capture or pyrolysis are lower than for fossil-fuel based hydrogen, but the variable effectiveness of greenhouse gas capture (maximum 90%) needs to be taken into account.

The 8th of July 2020, the European Commission released the communication with title "A hydrogen strategy for a climate-neutral Europe". According to the Commission, hydrogen is enjoying a *renewed and rapidly growing attention* in Europe and around the world.

Hydrogen can be used as a feedstock, a fuel or an energy carrier and storage, and has many possible applications across industry, transport, power and buildings sectors. Most importantly, it does not emit CO₂ and almost no air pollution when used. It thus offers a solution to decarbonise industrial processes and economic sectors where reducing carbon emissions is both urgent and hard to achieve.

All this makes hydrogen essential to support the EU's commitment to reach carbon neutrality by 2050 and for the global effort to implement the Paris Agreement while working towards zero pollution.

Technological developments and the urgency to drastically reduce greenhouse emissions, are opening up new possibilities. Every week new investment plans are announced, often at a gigawatt scale.

Between November 2019 and March 2020, market analysts increased the list of planned global investments from 3,2 GW to 8,2 GW of electrolyzers by 2030 (of which 57% in Europe) and the number of companies joining the International Hydrogen Council has grown from 13 in 2017 to 81.

In transport, hydrogen is also a promising option where electrification is more difficult. In a first phase, early adoption of a hydrogen can occur in captive uses, such as local city buses, commercial fleets (e.g. taxis) or specific parts of the rail network, where electrification is not feasible. Hydrogen refuelling stations can easily be supplied by regional or local electrolyzers, but their deployment will need to build on clear analysis of fleet demand and different requirements for light- and heavy-duty vehicles.

Hydrogen fuel cells should be further encouraged in **heavy-duty road vehicles**, alongside electrification, including coaches, special purpose vehicles, and long-haul road freight given their high CO₂ emissions. The 2025 and 2030 targets set out in the CO₂ Emission Standards Regulation are an important driver to create a lead market for hydrogen solutions, once fuel cell technology is sufficiently mature and cost-effective. Projects of the Horizon 2020 Fuel Cells and Hydrogen Joint Undertaking (FCH-JU) are aiming to accelerate Europe's technological lead.

Hydrogen fuel-cell trains could be developed to more viable train commercial routes that are difficult or not cost-effective to electrify: about 46 % of the mainline network is still being served by diesel technology today. Certain fuel-cell hydrogen train applications (e.g. Multiple Units) can already be cost competitive with diesel today.

For **inland waterways and short-sea shipping**, hydrogen can become an alternative low emission fuel, especially since the Green Deal emphasises that CO₂ emission in the maritime sector must have a price. Scaling up fuel cell power from one42 to multiple megawatts and using renewable hydrogen for the production of synthetic fuels, methanol or ammonia - with higher energy density – are required for longer-distance and deep-sea shipping.

Hydrogen can become in the longer-term an option to decarbonise the **aviation and maritime sector**, through the production of liquid synthetic kerosene or other synthetic fuels. These are “drop-in” fuels that can be used with existing aircraft technology, but implications in terms of energy efficiency have to be taken into account. In the longer-term,

hydrogen-powered fuel cells, requiring adapted aircraft design, or hydrogen-based jet engines may also constitute an option for aviation. To realise these ambitions will require a roadmap for the considerable long-term research and innovation efforts, including under Horizon Europe, the Fuel Cell and Hydrogen Joint Undertaking and possible initiatives as part of the Hydrogen Alliance.

Welcome to the Top 10 list.

Best regards,

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The algorithms are designed to protect data created and transmitted by the Internet of Things and other small electronics.



*Number 1***Additional Insights on the Remediation Process**

The Public Company Accounting Oversight Board (the “Board” or PCAOB) oversees the audits of public companies, and certain Securities and Exchange Commission (SEC)- registered brokers and dealers, to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

The PCAOB is committed to promoting compliance with its professional standards and rules.

One important means by which the PCAOB does this is through its inspections program, to accurately assess, drive improvement in, and communicate the elements of audit quality.

Section 104(g)(2) of the Sarbanes-Oxley Act (the “Act”) provides that, in connection with the inspection of a public accounting firm registered with the PCAOB, no portion of an inspection report that deals with criticisms of or potential defects in the quality control systems of that firm (“quality control criticisms,” QCCs, or “criticisms”) will be made public if those are addressed by the firm to the Board’s satisfaction within 12 months of the date of the inspection report.

Since 2013, when the inspection staff issued guidance to firms on the remediation process (“Staff Guidance”), the Board has made a substantial number of remediation determinations.

This has enabled the inspection staff to develop insights into how firms remedy criticisms in their quality control systems, as well as to identify some emerging trends and challenges related to remediation.

This Spotlight reflects the staff’s current remediation program and the previous Board and Staff Guidance, including the Board’s 2006 release (PCAOB Release No. 104- 2006-077) addressing the process for Board determinations regarding firms’ efforts to address QCCs in inspection reports (“Board Statement”) and Staff Guidance, each of which is available on the PCAOB’s website.

The staff is currently evaluating the Staff Guidance to determine what changes in the Staff Guidance may be needed. Pending the conclusion of

that evaluation, the staff is sharing its current observations in this Spotlight.

Process

PCAOB inspections of firms are designed to review portions of selected audits of public companies and to evaluate elements of a firm's quality control system.

Each inspection results in a report, specific to the quality control system components of each firm inspected, which may summarize identified deficiencies.

QCCs, if any, appear in Part II – Observations Related to Quality Control – of an inspection report.

The Act requires that QCCs in Part II of an inspection report remain nonpublic when the report is first issued.

The following steps then occur:

1. Consistent with PCAOB Rule 4009, a firm has 12 months from issuance of the inspection report to submit evidence or otherwise demonstrate to the inspection staff that it has taken steps to remediate the QCC.
2. The inspection staff then evaluates the firm's remedial efforts and makes a recommendation to the Board regarding the determination as to whether the firm has remediated the QCC.
3. The Board makes a determination as to whether the firm has remediated, to the Board's satisfaction, each QCC in Part II of the inspection report.
4. Firms have a right under the Act to request review by the SEC within 30 days of receiving notice of an adverse determination by the Board.
5. Unless the SEC overturns the Board determination that a firm did not remediate a QCC to the Board's satisfaction, that QCC will be made public.

This Spotlight discusses the inspection staff's insights regarding step 2 of this process, in which the inspection staff evaluates the firm's remedial efforts and makes a recommendation to the Board.

Guidance

The Act sets out a standard for the Board’s remediation determinations that affords the Board substantial discretion.

Two documents provide public guidance on how the Board and the inspection staff assess whether a firm has remediated a quality control deficiency to the satisfaction of the Board. These documents are the Board Statement and the Staff Guidance referred to above.

The inspection staff refers firms with QCCs in Part II of their inspection reports to these documents when providing their inspection reports, and the inspection staff is available to discuss these documents with firms during their remediation periods.

The Board Statement provides information about the Board’s process for determining whether a firm has addressed QCCs to the satisfaction of the Board for purposes of Section 104(g)(2) of the Act.

A favorable remediation determination reflects the Board’s assessment that, among other things, a firm has acted in good faith and, consistent with Section 104(g)(2)’s requirement that a firm address QCCs not later than 12 months after the date of the inspection report, “the firm has identified steps suited to the particular objective and is...making reasonable progress in implementing those steps” (footnote omitted).

As noted in the Board Statement: “The Board’s process is based on the proposition that each firm knows best how to manage its operations and to define the specific methods by which it can address a particular quality control criticism. This allows each firm to craft effective remedies based on its specific organizational structure and operations.”

To read more:

https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/remediation-spotlight.pdf?sfvrsn=2ae461df_3



*Number 2***Getting the full picture - the road ahead for climate stress testing**

Dr Sabine Mauderer, Member of the Executive Board of the Deutsche Bundesbank, at the 2023 European Banking Authority workshop on climate risk stress testing.

*1. Introduction*

Ladies and gentlemen,

- How does climate change affect the economy?
- What impact does climate change have on growth and inflation?
- How does climate change affect the financial system?

Policymakers need answers to these questions.

Understanding climate-related risks and their transmission channels is essential for designing targeted policies. Central banks and supervisors have outstanding analytical capabilities.

Dealing with financial risks is our bread and butter business. This ample expertise can help to strengthen the understanding of climate-related financial risks. These risks are not a new risk category per se. Climate risk drivers can exacerbate “traditional” financial risks and existing vulnerabilities, such as credit risks and market risks.

Stress tests have been an integral part of the toolbox of central banks and supervisors for a long time. Stress tests provide valuable insights into the risk exposure and resilience of individual banks and the financial system. Climate stress tests can complement common stress tests to give a fuller picture.

2. Climate scenarios – A glimpse of possible futures

Stress tests are forward-looking analytical exercises that build on baseline and adverse scenarios.

The same goes for climate stress tests. This is where climate scenarios come into play. Climate scenarios give us a glimpse of different possible future outcomes. They can help us to understand how climate-related risks could

evolve and what the implications might be for the economy and the financial system.

The Network for Greening the Financial System (NGFS) has developed and repeatedly refined a set of six climate scenarios. The scenarios fall into three categories and explore the impact of climate change (physical risk) and climate policy (transition risk). In the orderly scenarios, the early and gradual introduction of climate policies leads to subdued physical and transition risks.

The disorderly scenarios assume that climate policies are delayed or divergent across countries and sectors. These scenarios are associated with higher transition risk as, for instance, carbon prices might need to rise sharply and abruptly.

In the hot house world scenarios, global warming cannot be limited due to insufficient global efforts. As a result, extreme weather events become more severe and more frequent. Physical risks increase drastically.

All these NGFS scenarios help quantify the economic impacts of different emission and policy pathways. They show that both climate change and policies to contain it come at a price. But taking ambitious climate action too late or failing to act altogether would be much more costly in the end.

For instance, what happens if we keep delaying action today but still want to reach net zero by mid-century? This scenario shows that a delayed transition would lead to a drastic surge in carbon prices from 2030 onwards.

By 2050, carbon prices would have to rise to nearly 400 dollars per ton in this scenario. The scenarios already put a price tag on policy action – or lack thereof. In order to further improve the usability of the scenarios, the NGFS is continuously bringing them up to date.

In September 2022, the NGFS published the Phase III update, which introduced several enhancements. For instance, the modelling of physical risks was improved.

This iteration considered, for the first time, the impacts of acute physical risks under different scenarios. In addition, the granularity in the transport and industry sectors was improved, giving a clearer picture of transition risks.

The NGFS scenarios help central banks and supervisors to beef up macro models and climate stress tests.

For example, ECB Banking Supervision used macro-financial scenarios that are based on the NGFS scenarios for its 2022 climate stress test. The Bundesbank is working on a top-down climate stress test that will also build on the NGFS scenarios.

In its 2021 Financial Stability Review, the Bundesbank explored the impact of transition risks on the German financial system. This assessment was also based on the NGFS scenarios.

3. Challenges & way forward

These examples all show that climate scenarios are a useful tool for assessing climate-related risks. Having said that, some obstacles and challenges remain.

Allow me to touch upon three of them.

The first challenge concerns time horizons. Standard stress tests usually look at time horizons of one to three years.

By contrast, climate scenarios have considered much longer time horizons of 10-30 years, as it may take longer for climate-related risks to materialise and for climate policies to have an effect. These long time horizons carry the risk of climate scenarios underestimating the near-term impact of climate-related risk. A number of factors compound the problem.

Which brings me to the second challenge. The non-linearity of climate change means that various tipping points may cause rapid shifts with far-reaching consequences. As a result, climate-related risks are surrounded by deep uncertainty and tail risks cannot be ruled out. For these reasons, the NGFS has described the first climate scenario analyses as learning opportunities that need further fine-tuning.

The NGFS is exploring additional scenarios and looking at options for introducing short-term scenarios. Moreover, the NGFS aims to further expand and improve the sectoral granularity and the geographic coverage as well.

Other factors to consider going forward are geopolitical shifts and changes in global energy markets. Russia's invasion of Ukraine has upended energy markets, with likely long-term impacts for energy prices and energy security.

These developments also carry implications for the transition to net zero and the associated risks. On the one hand, high and volatile prices reinforce

incentives to speed up the energy transition and boost renewable energy. On the other hand, as governments are moving to secure energy supplies and keep energy prices in check, there is a non-negligible risk of carbon lock-in.

For instance, according to the International Energy Agency (IEA), global coal consumption hit an all-time high in 2022.

Likewise, new, longer-term contracts for liquefied natural gas deliveries may complicate the transition away from fossil fuels. In this environment, the NGFS sees a higher risk of a delayed or disorderly transition.

The network is working on including these developments in the upcoming iteration of the climate scenarios. These planned updates will further enhance the usability of the NGFS scenarios.

Last but not least, the issue of data availability and data quality has been a longstanding problem. We all know that the lack of consistent and granular data continues to be an obstacle that complicates the adequate calibration of shocks in stress testing models. Central banks and supervisors can play a part in overcoming this obstacle.

Last summer, the NGFS launched a directory for climate data with over 700 links to relevant data sources. The directory supports financial sector stakeholders in finding relevant climate-related data sources and facilitates access to these data.

In addition, in December 2021, the NGFS published a guide on climate-related disclosures for central banks. The Eurosystem took up this “invitation”. Starting in March 2023, it will publish climate-related information on its corporate bond holdings and its non-monetary policy portfolios on a yearly basis.

The Bundesbank already took a first step in July 2022. We published our first climate report and disclosed the climate impact of our non-monetary policy portfolio.

In this way, central banks and supervisors can help to improve the data situation.

Brussels is also taking action to tackle this issue. The EU’s Corporate Sustainability Reporting Directive (CSRD) will gradually come into effect from 2024 onwards. The CSRD will require around 50,000 companies to disclose detailed information on sustainability matters.

The initiative will address data gaps, which will also help to increase the reliability of climate stress tests. At the same time, the absence of granular data is no excuse for inaction.

4. Conclusion

Let me conclude.

Climate scenarios and climate stress tests are not perfect yet and the results they provide have to be taken with a grain of salt. Nonetheless, they are already viable instruments for shedding light on the exposure and resilience of banks to climate-related risks.

Central banks and supervisors have to continue along this path and further refine climate scenarios and climate stress tests. This includes striking a balance between short-term and long-term scenarios as well as bridging data gaps.

As the work continues, climate scenarios will become more usable and climate stress tests will paint a clearer picture. In order to facilitate progress with climate scenarios and climate stress tests, international coordination and exchange is vital. This workshop is an excellent opportunity to find common ground on the challenges that lie ahead.

To read more:

<https://www.bundesbank.de/en/press/speeches/getting-the-full-picture-the-road-ahead-for-climate-stress-testing-738186>



*Number 3***Big techs in finance - a bildungsroman that is far from over**

François Villeroy de Galhau, Governor of the Bank of France, at the high-level BIS conference "Big techs in finance – implications for public policy", Basel.



Ladies and Gentlemen,

It is a pleasure for me to introduce the second day of this BIS high-level conference on big techs in finance. While it is a pity to do so from a distance, perhaps that is fitting for a conference on the changes in our working lives brought by digital innovation.

Very early on, big techs saw finance as a natural complement – and booster – to their core businesses, launching a technological revolution that might bring many benefits to consumers, across different fields such as payments and stablecoin issuance.

Big techs have met with success on some of these roads, and less so on others. Interestingly, some of these developments do not exactly match what we could have expected even four years ago.

We can therefore consider big techs' entry into finance as a bildungsroman – a sort of coming of age story – with promising early years and somewhat disappointing learning years partly behind us.

Building on this already significant experience, the maturity years may be ahead of us – but that will only be possible under consistent conditions.

*I. Big techs and finance: a bildungsroman unfolding under our eyes**A. Promising early years*

From the onset big techs were “data rich” and benefited from a global customer base and strong brand recognition.

In order to keep their lead in innovation, big techs acquired a large number of start-ups and fin techs. In the end, their huge financial means enabled them to set up, and then consolidate, powerful oligopolies.

In the wake of US GAFAMs, Chinese BATX emerged to serve their domestic market, and expanded into Asia.

All big techs started diversifying their activities, among others in the financial sector where they first launched innovative digital means of payments, for instance Google Pay in 2011 and Apple Pay in 2014.

This chapter of the book is crystal-clear: big techs were highly successful in this area. Digital / mobile wallet payments represent around 27% of e-commerce payments in Europe, 36% in India and 69% in Asia.

Not only do payments feed into their “DNA loop”, but big techs helped turn payments into a glittering business, with e-commerce and social media offering opportunities for innovations to prosper.

The value of cashless payments consequently increased by 15% in 2021 in both advanced and emerging economies, even more quickly than the trend of the last decade, and this acceleration is expected to continue in the next few years, notably for wallets.

Big techs were then considered major competitors of banks and financial institutions – and sometimes even central banks.

In 2019, Facebook unveiled its Libra project that consisted of issuing stablecoins pegged to several currencies, claiming cheap and efficient payment solutions (including for cross-border payments) and greater financial inclusion.

Around the same time the strange word "cryptocurrencies" appeared, a word that hurt the ears of politicians and central bankers. From time immemorial, money had been sovereign in order to be reliable and lasting.

B. Disappointing learning years?

Needless to say Libra had its risks. I will not list them all, but it raised very significant concerns about financial stability, money laundering, etc.

The issues at stake reached far beyond mere financial regulation, and also included more acutely than ever the question of competition.

This is when big techs entered their learning years in finance, confronting reality.

Libra did not materialise, even after it was adjusted and rebranded as Diem.

Existing stablecoins are issued by players other than big techs, mainly from the digital asset industry.

Incidentally, after the failures and/or crimes committed by some of them, it is high time to regulate cryptos in full and to require licensing.

Let us not kid ourselves into believing that we can count on the so called “crypto winter “ which has actually lasted for over a year now, to make the problem disappear by itself. That would be a dangerous illusion and would further delay supervision that is so badly needed.

All jurisdictions agree in principle to regulate, under the common FSB umbrella. But let us not only write reports and elaborate ever more sophisticated thoughts, let us act, starting with comprehensive and effective regulation in the US, as has been done in Europe, and as the UK is on its way to doing with its proposed new set of rules that would bring a broad range of cryptoasset activities into the scope of financial services regulation.

This is obviously good news, as long as this proposal ensures consistency with existing legislation, notably in Europe. To that end, I suggest the FSB to monitor closely the implementation of its own recommendations on cryptos, as the Basel Committee does on banking regulations.

More broadly, big techs did not make the breakthrough in traditional banking activities that many had expected: why is that? Regulatory constraints certainly stand as a first explanation, especially since they were tightened following the great financial crisis.

Both lending and deposit-taking are highly regulated in most advanced economies, and big techs tend to set up partnerships with banks in these countries rather than create a fully-owned subsidiary for instance.

In addition, the low-rate environment that prevailed until recently may have been unfavourable to new banks – as their business model relies strongly on the value of sight deposits –, and an ageing population in advanced economies may have preserved loyalty to incumbent banks and insurance companies which benefit from high public trust.

For the first time, big techs may now be touching on the limits of their core business models, and might seek further diversification, as financial activities already account for around 11% of their revenues.

So the question is: will this breakthrough in finance happen at all? Time will tell, but in my view, disintermediation by big techs remains a plausible

scenario. The massive and prosperous tech firms can learn from their difficulties and enter into the space of banking and finance.

This raises the question of the conditions under which big techs could broaden their reach.

To read more:

<https://www.banque-france.fr/en/intervention/big-techs-finance-bildungsroman-far-over>



*Number 4***Big techs in finance: forging a new regulatory path**

Agustín Carstens, General Manager, Bank for International Settlements, at the BIS conference "Big techs in finance – implications for public policy", Basel, Switzerland.



It is my great privilege to welcome you today to the BIS conference on big techs in finance – implications for public policy.

This high-level conference brings together prominent officials from international bodies, central banks and supervisory authorities, as well as renowned academics and private sector representatives.

It will provide a unique forum to exchange views on the most pressing policy challenges associated with big techs' involvement in the financial sector.

Current circumstances have allowed us to invite you to join us in person here in Basel, and it gives me great pleasure to see many of you could accept our invitation. Of course, let me also welcome those of you who are joining us remotely today.

Big techs and data

We at the BIS have been closely following large technology firms (big techs) and their advances into finance. Big techs' reach extends across a wide range of industries, with existing core businesses grounded in e-commerce and social media, among others. From this base, they have expanded into finance.

To understand how big techs can easily make forays into finance, one must grasp the key role of data. Indeed, big techs have fully embraced the centrality of data in the digital economy. This is what distinguishes them from other firms. It also shapes their unique characteristics. Let me mention those that are particularly relevant for policymakers.

First, big techs can overcome limits to scale in financial services provision by using user data from their existing businesses. Their business model

revolves around users' direct interactions and the data generated as a by-product of these interactions. They use that data to offer a range of services that exploit the inherent network effects in digital services, a phenomenon where more users attract ever more users.

In this way, big techs can establish a substantial presence in financial services very quickly through what we call the “data-network-activities” (DNA) loop.

Second, big techs collect different types of data from the various business lines they straddle. They are uniquely positioned to combine that data to uncover patterns and insights that can help them improve their services or offer new ones.

This combination of different types of data across sectors carries efficiency gains and is key to big techs' provision of digital services.

Third, big techs are unrivalled experts in data management and analysis. They devote significant resources to developing or acquiring state-of-the-art technologies. After all, access to large troves of data generates value only if you also have the technological capabilities to analyse it and monetise it.

Big techs have been pioneers in leveraging artificial intelligence techniques for this purpose.

To be sure, these capabilities have high fixed costs, but once that is overcome the marginal cost of handling more data is negligible. Therefore, big techs benefit from significant economies of scale in their use of data.

For other firms, reaping the benefits of such economies of scale is a tall order. Data management is thus at the core of big tech activities, and the financial sector is all about managing information. Coupled with big techs' relentless drive to expand, their growing and already substantial footprint in financial services should come as no surprise.

Moreover, the trend towards greater digitalisation, which the Covid-19 pandemic has accelerated, has allowed big techs to fortify their market positions even further.

Public policy challenges

Given their size and customer reach, big techs' entry into finance could trigger rapid change in the industry, generating both opportunities and challenges.

The potential benefits of big techs' entry into finance include improved customer outcomes, increased financial market efficiency and enhanced financial inclusion.

For example, BIS research has shown that access to innovative (QR code-based) payment methods provided by big techs helps micro firms build up credit history, and the use of big tech credit can ease access to bank credit. And there are many more examples.

To read more: <https://www.bis.org/speeches/sp230208.pdf>



Number 5

SUPERVISORY CONVERGENCE PLAN FOR 2023



Convergence of supervisory practices should be built on a common interpretation of laws and regulations, and without prejudice to the application of supervisory judgment or of the proportionality principle.

Convergence of supervisory practices is not only achieved or assessed by outputs, i.e. by the number, quality and impact of supervisory tools published or assessments performed.

Convergence is also about working together as a supervisory community. The process of developing common benchmarks for supervisory practices, performing reviews, engaging in challenging interactions and providing training to NCAs in itself leads to supervisory convergence and EIOPA has observed an important development in these area.

Therefore, to achieve a high, effective and consistent level of supervision across Europe, EIOPA continues to confirm supervisory convergence as one of its main strategic goal for the years to come.

The Covid-19 pandemic, increasing losses arising from natural catastrophes and other more recent macro-economic trends (e.g. the invasion of Ukraine by Russian Forces, the energy and cost of living crisis) have demonstrated that ensuring supervisory convergence in extreme situations is even of greater relevance.

For 2023, EIOPA will continue its work on supervisory convergence as a collective effort by all NCAs and EIOPA staff.

1.1. COMMON SUPERVISORY CULTURE

As expected by any solid structure, the framework of supervisory convergence needs to be built upon clear, well-known and commonly understood foundations.

EIOPA's booklet, "A common supervisory culture — Key characteristics of high quality and effective supervision", was the first step in building such framework and continues to be a foundation for supervisors work.

The booklet defines the following five key characteristics of high-quality and effective supervision: risk-based and proportionate, forward-looking,

preventive and proactive, challenging, sceptical and engaged, comprehensive and conclusive.

The work developed by EIOPA on supervisory convergence always have this characteristics into account.

A common supervisory culture cannot however be built overnight. It is a long journey where supervisors progressively work together, adopt a focused approach and challenge each other along the way.

In this way, supervisors build a strong and fair supervisory culture that promotes consumer protection and enhances the stability of the financial system for the benefit of Europe's business, economy and citizens.

As processes and procedures are easier to align than behaviours, convergence will occur at different paces but evolution should be visible.

The implementation of a common supervisory culture requires constant change and evolution.

This was recognised in the last amendments to the ESAs Regulations, in particular the amendments to article 29 of EIOPA Regulation, where tools such as establishing Union strategic supervisory priorities, establishing coordination groups to promote supervisory convergence and identify best practices or develop and maintain an up-to-date Union supervisory handbook have been identified.

It is of utmost importance that the supervisory community has, at all levels, easy access to EIOPA tools as well as the ability and willingness to use them. It is also important that whenever possible supervisory convergence tools are made public.

For this reason EIOPA promotes supervisory convergence through the release (after the public consultation) of public supervisory convergence tools, such as Opinions or Supervisory Statements when possible.

There are, however, certain contents that should be kept confidential among supervisors.

Although good use of the different tools was made, EIOPA has also considered that it is important to be more transparent on its Supervisory Handbook.

Following-up the publication of the Introduction and the table of contents of its Supervisory Handbook in October 2021, EIOPA is working on a strategy towards the public disclosure of some content of the handbook.

To read more:

https://www.eiopa.europa.eu/sites/default/files/publications/supervisory_convergence_plan_for_2023.pdf

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Number 6

EIOPA moves to close data gaps by revising reporting of occupational pensions



The European Insurance and Occupational Pensions Authority (EIOPA) has decided to revise the information it receives from national supervisors on occupational pensions, amending the system in place since 2018.

The new decision, which will be applicable as of **1 January 2025**, closes important data gaps on emerging risks and fixes inconsistencies that have been reported to EIOPA over the past years.

The main changes compared to the previous regime concern better proportionality measures for small occupational pension funds and the inclusion of information on:

- high-level, look-through data on all investments in investment funds (including UCITs) as well as information on derivative positions – to fully understand the risk exposures of institutions for occupational retirement provision (IORPs) and the products they invest in,
- cross-border data – to accurately monitor cross-border relationships.

EIOPA has incorporated the feedback it received from stakeholders during the public consultation, in particular regarding proportionality.

The new decision eases reporting requirements for small occupational pension funds, exempting IORPs with less than EU 50 million in total assets from the full set of reporting as opposed to the previous threshold of EUR 25 million.

Moreover, new data requirements on the quarterly reporting of derivatives and cash flows will only be mandatory for IORPs with more than EUR 1 billion of assets under management.

The amendments make the reporting of occupational pensions information more proportionate and better fit-for-purpose.

It will allow EIOPA to better identify and assess the risks, resulting in the improved protection of pension scheme members and beneficiaries.

To read more:

https://www.eiopa.europa.eu/document-library/decision/decision-of-board-of-supervisors-eiopas-regular-information-request_en



*Number 7***An important next step on our AI journey**

Sundar Pichai, CEO of Google and Alphabet



AI is the most profound technology we are working on today. Whether it's helping doctors detect diseases earlier or enabling people to access information in their own language, AI helps people, businesses and communities unlock their potential. And it opens up new opportunities that could significantly improve billions of lives.

That's why we re-oriented the company around AI six years ago — and why we see it as the most important way we can deliver on our mission: to organize the world's information and make it universally accessible and useful.

Since then we've continued to make investments in AI across the board, and Google AI and DeepMind are advancing the state of the art. Today, the scale of the largest AI computations is doubling every six months, far outpacing Moore's Law. At the same time, advanced generative AI and large language models are capturing the imaginations of people around the world.

In fact, our Transformer research project and our field-defining paper in 2017, as well as our important advances in diffusion models, are now the basis of many of the generative AI applications you're starting to see today.

Introducing Bard

It's a really exciting time to be working on these technologies as we translate deep research and breakthroughs into products that truly help people. That's the journey we've been on with large language models.

Two years ago we unveiled next-generation language and conversation capabilities powered by our Language Model for Dialogue Applications (or LaMDA for short).

We've been working on an experimental conversational AI service, powered by LaMDA, that we're calling Bard. And today, we're taking another step

forward by opening it up to trusted testers ahead of making it more widely available to the public in the coming weeks.

Bard seeks to combine the breadth of the world's knowledge with the power, intelligence and creativity of our large language models. It draws on information from the web to provide fresh, high-quality responses.

Bard can be an outlet for creativity, and a launchpad for curiosity, helping you to explain new discoveries from NASA's James Webb Space Telescope to a 9-year-old, or learn more about the best strikers in football right now, and then get drills to build your skills.

To read more:

<https://blog.google/technology/ai/bard-google-ai-search-updates/>



Number 8

Applying AI to some of the world's biggest challenges



At Google, we believe that AI can provide new ways of approaching problems and meaningfully improve people's lives. With AI, we have another tool to explore and address hard, unanswered questions. What if people could predict natural disasters before they happen? Track disease as it spreads, to eliminate it sooner? Or dramatically improve the lives of people with disabilities?

AI can help, but it's not a silver bullet: tackling these questions requires a concerted, collaborative effort across all sectors of society. At Google, we believe that we can meaningfully contribute, drawing on the scale of our products and services, investment in AI research, and our commitment to using and developing AI responsibly. We're doing that through AI for Social Good, a program that focuses Google's AI expertise on solving humanitarian and environmental challenges.

Our work through the program centers around supporting core research and engineering efforts and empowering the social sector with tools, resources and funding, while engaging with partners across all sectors to have the biggest impact. Further, we are tackling problems within public health, nature & society, climate & energy, accessibility and crisis response.

We also strongly believe the ability to find these solutions relies on the expertise of people around the world. That's why we've opened up research centers in Japan, India, Israel, and Accra and are also partnering with nonprofits, academia and public sector organizations to create systemic solutions.

Why we focus on AI (and to what end)

We believe that AI, including its core methods such as machine learning (ML), is a foundational and transformational technology.

AI enables innovative new uses of tools, products, and services, and it is used by billions of people every day, as well as businesses, governments, and other organizations.

AI can assist, complement, empower, and inspire people in almost every field, from everyday tasks to bold and imaginative endeavors.

It can unlock new scientific discoveries and opportunities, and help tackle humanity's greatest challenges—today and in the future.

As many have highlighted, we believe that AI has the potential to benefit people and society through its capacity to:

- Make information more useful and available to more people, everywhere, often helping overcome barriers including access, disabilities and language
- Assist people and organizations to make decisions, solve problems, be more productive and creative in their daily and work lives
- Enable innovation that leads to new, helpful products and services for people, organizations, and society more broadly
- Help tackle current and pressing real world challenges, such as public health crises, natural disasters, climate change, and sustainability
- Help identify and mitigate societal biases and structural inequities (e.g. socio-economic, sociodemographic and regional inequities)
- Enable scientific and other breakthroughs to address humanity's greatest future opportunities and challenges (e.g. medical diagnosis, drug discovery, climate forecasting).

To read more: <https://ai.google/social-good/>

<https://ai.google/static/documents/google-why-we-focus-on-ai.pdf>



Number 9

The future of AI is now



Introducing the new Bing - Ask real questions, get complete answers, and turn ideas into content with Bing—your AI-powered copilot for the web.

Help me plan a trip to London

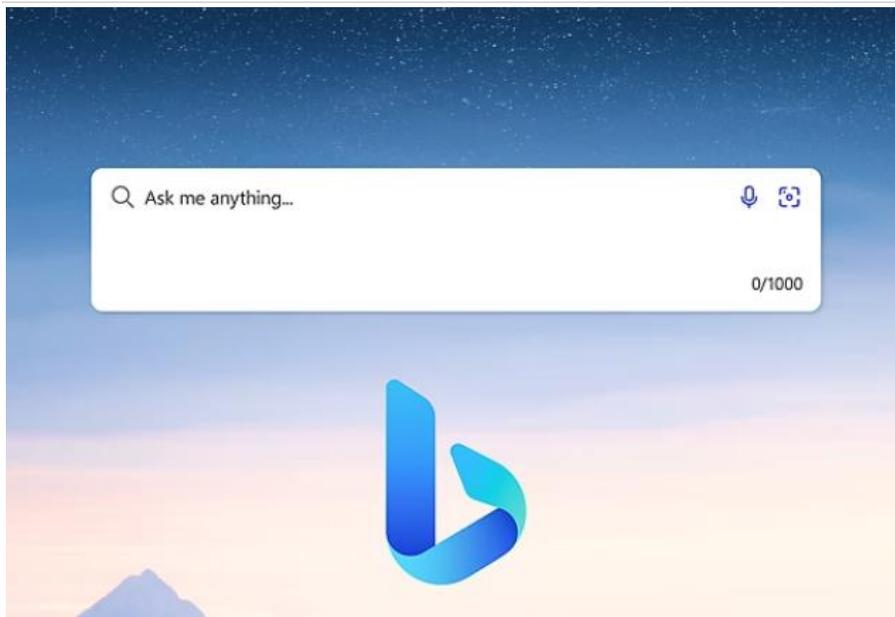
✓ Generating answers for you...

Sure, I can help you plan a trip to London. London is a great city to visit, with iconic attractions, historic museums, and vibrant neighborhoods. You can find things to do in London, from sightseeing tours to fun-filled days out, on visitlondon.com ¹. You can also book a London Pass to make the most of popular attractions ² or a one-day hop-on hop-off bus tour to explore the sights at your own pace ³. You can find cheap flights to London from \$99 on KAYAK ⁴ and London vacation packages from \$849 on Expedia ⁵.

When is the best time to visit

✓ Generating answers for you...

The best time to visit London depends on your preferences and budget, but generally speaking, the **spring** (March to May) and the **autumn** (September to November) are the most pleasant seasons, with mild temperatures, green and blooming parks, and fewer crowds than the summer (June to August). ^{1 2 3} The **summer** is also a popular time to visit, with warm and sunny weather, but also higher prices and more tourists. ^{1 2} The **winter** (December to February) is the coldest and wettest season, but also offers festive attractions, lower rates, and fewer queues. ^{2 4}

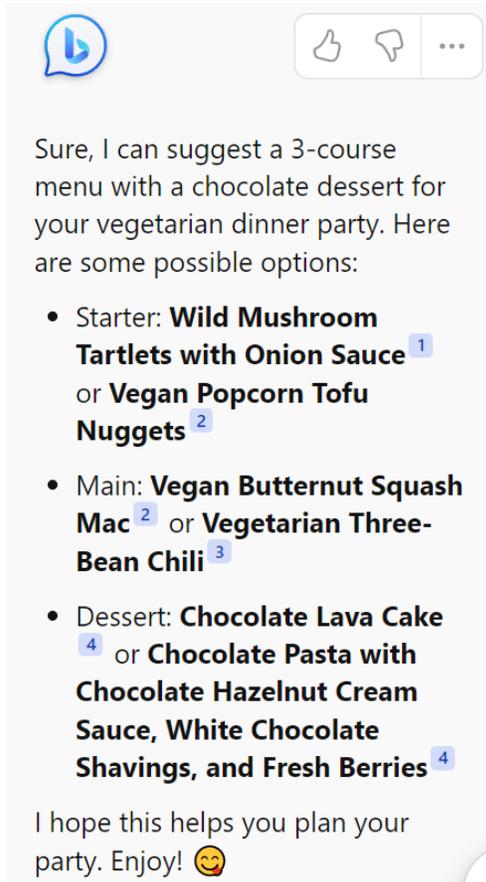


What art ideas can I do with my kid?

I found some **arts and crafts ideas** for a toddler using only cardboard boxes, plastic bottles, paper and string. Here are some examples:

- You can make a **cardboard box guitar** with a tissue box, a cardboard tube, some rubber bands, paint and glue. You can find the instructions here ⁴.
- You can make a **plastic bottle bird feeder** with a 2-liter bottle, some chopsticks, twine, a pin and birdseed. You can find the instructions here ⁷.
- You can make **plastic bottle flowers** with empty water bottles, scissors, paint and pipe cleaners. You can find the instructions here ³.

Create a 3-course menu.



Sure, I can suggest a 3-course menu with a chocolate dessert for your vegetarian dinner party. Here are some possible options:

- Starter: **Wild Mushroom Tartlets with Onion Sauce**¹ or **Vegan Popcorn Tofu Nuggets**²
- Main: **Vegan Butternut Squash Mac**² or **Vegetarian Three-Bean Chili**³
- Dessert: **Chocolate Lava Cake**⁴ or **Chocolate Pasta with Chocolate Hazelnut Cream Sauce, White Chocolate Shavings, and Fresh Berries**⁴

I hope this helps you plan your party. Enjoy! 😊

To read more: <https://www.microsoft.com/en-us/ai?rtc=1>



Number 10

NIST Selects ‘Lightweight Cryptography’ Algorithms to Protect Small Devices

The algorithms are designed to protect data created and transmitted by the Internet of Things and other small electronics.



Lightweight electronics, meet the heavyweight champion for protecting your information: Security experts at the National Institute of Standards and Technology (NIST) have announced a victor in their program to find a worthy defender of data generated by small devices. The winner, a group of cryptographic algorithms called **Ascon**, will be published as NIST’s lightweight cryptography standard later in 2023. You may visit:

<https://csrc.nist.gov/projects/lightweight-cryptography>

Next Steps

NIST’s next steps will be to:

- Publish NIST IR 8454, which describes the details of the selection and the evaluation process
- Work with the Ascon designers to draft the new lightweight cryptography standard for public comments
- Host a virtual public workshop to further explain the selection process and to discuss various aspects of standardization (e.g., additional variants, functionalities, and parameter selections) as well as possible extensions to the scope of the lightweight cryptography project. The tentative dates for the workshop are June 21-22, 2023. More information will be provided in the upcoming weeks.

The chosen algorithms are designed to protect information created and transmitted by the Internet of Things (IoT), including its myriad tiny sensors and actuators.

They are also designed for other miniature technologies such as implanted medical devices, stress detectors inside roads and bridges, and keyless entry fobs for vehicles. Devices like these need “lightweight cryptography” — protection that uses the limited amount of electronic resources they possess.

According to NIST computer scientist Kerry McKay, the newly selected algorithms should be appropriate for most forms of tiny tech.

“The world is moving toward using small devices for lots of tasks ranging from sensing to identification to machine control, and because these small devices have limited resources, they need security that has a compact implementation,” she said. “These algorithms should cover most devices that have these sorts of resource constraints.”

To determine the strongest and most efficient lightweight algorithms, NIST held a development program that took several years, first communicating with industry and other organizations to understand their needs and then requesting potential solutions from the world's cryptography community in 2018.

After receiving 57 submissions, McKay and mathematician Meltem Sönmez Turan managed a multi-round public review process in which cryptographers examined and attempted to find weaknesses in the candidates, eventually whittling them down to 10 finalists before selecting the winner.

To read more:

<https://www.nist.gov/news-events/news/2023/02/nist-selects-lightweight-cryptography-algorithms-protect-small-devices>



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- Experience working with 3rd party vendors is preferred.

You can find more about the demand for CRCMPs at:

https://www.risk-compliance-association.com/CRCMP_Jobs_Careers.pdf

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