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Monday, July 25, 2022

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,

This is an unusual editorial. We will start with some *DNA for Non – Biologists,* and we will discuss *DNA computing,* biocryptography and biosteganography. What do you think, can we replace 0 and 1 with adenine (A), thymine (T), guanine (G) and cytosine (C)? Can we use as storage medium synthesized DNA molecules with A, T, G, and C in a sequence corresponding to the order of the bits in a digital file?

DNA stands for deoxyribonucleic acid. Eukaryote is any cell or organism that possesses a clearly defined nucleus. Humans and many other organisms have eukaryotic cells.

In eukaryotes, the DNA is inside the nucleus. DNA is made of chemical building blocks called nucleotides. A DNA molecule consists of two long polynucleotide chains. Each of these chains is known as a DNA chain, or a DNA strand.

The four types of nitrogen bases found in nucleotides are: adenine (A), thymine (T), guanine (G) and cytosine (C). Remember these names, they will be used like the 0 and 1 in computing. As we will see below, the data, instead of being stored in 0s and 1s, will now be stored in the form of A, T, G, C. The order, or sequence, of these bases determines what biological instructions are contained in a strand of DNA.

DNA sequencing is the process of determining the order of the four bases: thymine (T), adenine (A), cytosine (C), and guanine (G) in a molecule of DNA. Comparing healthy and mutated DNA sequences can diagnose diseases and guide patient treatment. It allows for faster and individualized medical care.

The complete genetic information of an organism is called genome. The study of the genome is called genomics. Humans inherit one half of their DNA from their father and one half from their mother.

DNA computing

In DNA computing, computations are performed using biological molecules, not traditional silicon chips. Richard Feynman introduced the idea in 1959, but DNA computing was formally demonstrated in 1994, when Leonard Adleman presented how molecules could be used to solve computational problems.

Three years after Leonard Adleman's huge step, researchers from the University of Rochester developed logic gates made of DNA. This is another huge step, as logic gates convert binary code moving through a computer into signals that the computer uses to perform operations.

These logic gates are an important step toward creating a computer that has a structure similar to that of an electronic PC. But there are some important differences: The large supply of DNA makes it a cheap resource, and DNA computers are way smaller than today's computers.

In DNA computing, instead of the 0 and 1 (the binary alphabet used by traditional computers), we use the four-character genetic alphabet, A, G, C, and T - where A is adenine, G is guanine, C is cytosine, and T is thymine. To store a binary digital file as DNA, the individual bits are converted from 0 and 1 to the letters A, C, G, and T that represent adenine, cytosine, guanine, and thymine. The physical storage medium is a synthesized DNA molecule with adenine, cytosine, guanine, and thymine in a sequence corresponding to the order of the bits in the digital file. To recover the data, the sequence A, C, G, and T of the DNA is decoded back into the original sequence of bits 0 and 1.

DNA computing is harnessing the enormous parallel computing ability and high memory density of bio-molecules and is changing dramatically what is possible in cryptography. DNA cryptography includes encryption and steganography. We can produce encoded DNA (enDNA) by transforming a binary string into the quaternary code of DNA nucleotides, A, G, C, and T. But we will learn more about it below.

DNA is an excellent medium for data storage, with information density of petabytes of data per gram (a petabyte is 1 million gigabytes). The quantity of data that can be stored in biological mediums far exceeds the capacity of magnetic tapes and disks.

There are 4 nucleotides, and each nucleotide can store 2 bits as a binary string (A = 00, T = 01, C = 10, G = 11). A set of 4 nucleotides can store 1 byte. Over 10 trillion DNA molecules can fit into an area no larger than 1 cubic centimeter, and with this amount of DNA, a computer would be able to hold 10 terabytes of data. We need more? We simply add more DNA molecules.

Researchers have successfully encoded audio, images and text files into synthesized DNA molecules, and then successfully read the information from the DNA and recovered the files.

With DNA storage, we can store massive quantities of data in media having very small physical volume. A huge advantage of DNA storage over optical, magnetic, and electronic media, is the fact that DNA molecules can survive for thousands of years, so a digital archive encoded in this form could be recovered by people after thousands of years.

DNA storage technology will not become obsolete. It's not like floppy disks or CDs. With DNA storage we also dramatically improve environmental sustainability, and we have way less greenhouse gas emissions, energy consumption and water use.

The main disadvantages of DNA storage are the slow encoding speed and the high cost. But year after year we have less costs and higher speed. The technology will become commercially viable on a large scale in a few years, to the point where DNA storage can function effectively for general backup applications and even primary storage.

Today, we have the technology to manufacture DNA molecules with arbitrary sequences. It is good to say that the molecules we make are not biological DNA, they're synthetic DNA. There's no life, no cells, no organisms involved in this type of digital data storage. We're using DNA as a medium to store information, *synthetic DNA*.

Biosteganography

During the Cold War, spies used *microdot* cameras to photograph and reduce documents onto a single tiny piece of film. The piece of film could be embedded into the text of a letter as small as a period (.). Microdots were also hidden in other things.

The FBI's March 2020 Artifact of the Month was more than just a toy—it was a tool of espionage tradecraft. A German spy used this doll to smuggle secret photographs to Nazi Germany. The photos were reduced in size so that the film they were on was as small as the period at the end of a sentence. Spies hid this film, called a "microdot," on the doll, where it was virtually invisible to regular censors.

How did microphotography work? Spies would photograph espionage material with a camera. Then, through a special contraption of lenses, they would copy the image, reduce it in size, and imprint it on especially

sensitized film. The Germans concealed microdots on letters and other materials they could carry across borders or mail to dead letter boxes in Europe. (A dead letter box was a fake address that acted as a cutout between a spy and German intelligence headquarters).

In *DNA Steganography*, we can also encrypt hidden messages within microdots, this time within DNA encoded microdots. We have a plain text message, we encrypt it, and then we convert the letters of the encrypted message into combinations of Thymine (T), Adenine (A), Cytosine (C), and Guanine (G), creating a synthetic strand of DNA - we create synthesized DNA with adenine, cytosine, guanine, and thymine in a sequence corresponding to the order of the bits in the digital file.

A tiny piece of DNA with the message is then placed into a normal piece of DNA which is then mixed with DNA strands of similar length. The mixture is then dried on paper that can be cut into microdots, with each dot containing billions of strands of DNA. It is very difficult to detect, and only one strand from the billions of strands within the microdot contains the message, that is also encrypted.

What about digital watermarking? Well, it can only become better. We can place tiny DNA authentication stamps to easily detect counterfeits or copyright infringements.

The moral of the story: Don't buy books from John le Carré for the summer. Buy some DNA computing books. Just kidding, of course.

Welcome to the Top 10 list.

Best regards,

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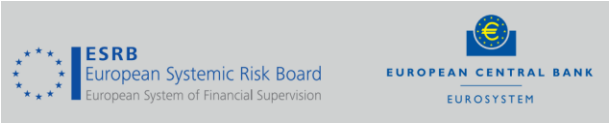

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Number 1

Executive Order on Protecting Access to Reproductive Healthcare Services

By the authority vested in me as President by the Constitution and the laws of the United States of America, it is hereby ordered as follows:

Section 1. Policy. Nearly 50 years ago, Roe v. Wade, 410 U.S. 113 (1973), articulated the United States Constitution's protection of women's fundamental right to make reproductive healthcare decisions. These deeply private decisions should not be subject to government interference. Yet today, fundamental rights — to privacy, autonomy, freedom, and equality — have been denied to millions of women across the country.

Eliminating the right recognized in Roe has already had and will continue to have devastating implications for women's health and public health more broadly. Access to reproductive healthcare services is now threatened for millions of Americans, and especially for those who live in States that are banning or severely restricting abortion care. Women's health clinics are being forced to close — including clinics that offer other preventive healthcare services such as contraception — leaving many communities without access to critical reproductive healthcare services. Women seeking abortion care — especially those in low-income, rural, and other underserved communities — now have to travel to jurisdictions where services remain legal notwithstanding the cost or risks.

In the face of this health crisis, the Federal Government is taking action to protect healthcare service delivery and promote access to critical reproductive healthcare services, including abortion. It remains the policy of my Administration to support women's right to choose and to protect and defend reproductive rights. Doing so is essential to justice, equality, and our health, safety, and progress as a Nation.

Sec. 2. Definitions. (a) The term "agency" means any authority of the United States that is an "agency" under 44 U.S.C. 3502(1), other than one considered to be an independent regulatory agency, as defined in 44 U.S.C. 3502(5).

(b) The term "reproductive healthcare services" means medical, surgical, counseling, or referral services relating to the human reproductive system, including services relating to pregnancy or the termination of a pregnancy.

Sec. 3. Protecting Access to Reproductive Healthcare Services. (a) Within 30 days of the date of this order, the Secretary of Health and Human Services shall submit a report to the President:

(i) identifying potential actions:

(A) to protect and expand access to abortion care, including medication abortion; and

(B) to otherwise protect and expand access to the full range of reproductive healthcare services, including actions to enhance family planning services such as access to emergency contraception;

(ii) identifying ways to increase outreach and education about access to reproductive healthcare services, including by launching a public awareness initiative to provide timely and accurate information about such access, which shall:

(A) share information about how to obtain free or reduced cost reproductive healthcare services through Health Resources and Services Administration-Funded Health Centers, Title X clinics, and other providers; and

(B) include promoting awareness of and access to the full range of contraceptive services, as well as know-your-rights information for those seeking or providing reproductive healthcare services; and

(iii) identifying steps to ensure that all patients -- including pregnant women and those experiencing pregnancy loss, such as miscarriages and ectopic pregnancies — receive the full protections for emergency medical care afforded under the law, including by considering updates to current guidance on obligations specific to emergency conditions and stabilizing care under the Emergency Medical Treatment and Labor Act, 42 U.S.C. 1395dd, and providing data from the Department of Health and Human Services concerning implementation of these efforts.

(b) To promote access to reproductive healthcare services, the Attorney General and the Counsel to the President shall convene a meeting of private pro bono attorneys, bar associations, and public interest organizations in order to encourage lawyers to represent and assist patients, providers, and third parties lawfully seeking these services throughout the country.

Sec. 4. Protecting Privacy, Safety, and Security. (a) To address potential heightened safety and security risks related to the provision of reproductive healthcare services, the Attorney General and the Secretary of Homeland

Security shall consider actions, as appropriate and consistent with applicable law, to ensure the safety of patients, providers, and third parties, and to protect the security of clinics (including mobile clinics), pharmacies, and other entities providing, dispensing, or delivering reproductive and related healthcare services.

(b) To address the potential threat to patient privacy caused by the transfer and sale of sensitive health-related data and by digital surveillance related to reproductive healthcare services, and to protect people seeking reproductive health services from fraudulent schemes or deceptive practices:

(i) The Chair of the Federal Trade Commission (FTC) is encouraged to consider actions, as appropriate and consistent with applicable law (including the Federal Trade Commission Act, 15 U.S.C. 41 et seq.), to protect consumers' privacy when seeking information about and provision of reproductive healthcare services.

(ii) The Secretary of Health and Human Services shall consider actions, including providing guidance under the Health Insurance Portability and Accountability Act, Public Law 104-191, 110 Stat. 1936 (1996) as amended by Public Law 111-5, 123 Stat. 115 (2009), and any other statutes as appropriate, to strengthen the protection of sensitive information related to reproductive healthcare services and bolster patient-provider confidentiality.

(iii) The Secretary of Health and Human Services shall, in consultation with the Attorney General, consider actions to educate consumers on how best to protect their health privacy and limit the collection and sharing of their sensitive health-related information.

(iv) The Secretary of Health and Human Services shall, in consultation with the Attorney General and the Chair of the FTC, consider options to address deceptive or fraudulent practices related to reproductive healthcare services, including online, and to protect access to accurate information.

Sec. 5. Coordinating Implementation Efforts. (a) The Secretary of Health and Human Services and the Director of the Gender Policy Council shall establish and co-chair an Interagency Task Force on Reproductive Healthcare Access (Task Force). Additional members shall include the Attorney General and the heads of other agencies as determined by the Secretary of Health and Human Services and the Director of the Gender Policy Council. The Task Force shall work to identify and coordinate activities to protect and strengthen access to essential reproductive healthcare services. In addition, the Task Force shall coordinate Federal

interagency policymaking, program development, and outreach efforts to address barriers that individuals and entities may face in seeking and providing reproductive healthcare services. The Department of Health and Human Services shall provide funding and administrative support as may be necessary for the performance and functions of the Task Force.

(b) The Attorney General shall provide technical assistance, as appropriate and consistent with applicable law, concerning Federal constitutional protections to States seeking to afford legal protection to out-of-State patients and providers who offer legal reproductive healthcare.

Sec. 6. General Provisions. (a) Nothing in this order shall be construed to impair or otherwise affect:

(i) the authority granted by law to an executive department or agency, or the head thereof; or

(ii) the functions of the Director of the Office of Management and Budget relating to budgetary, administrative, or legislative proposals.

(b) This order shall be implemented consistent with applicable law and subject to the availability of appropriations.

(c) This order is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the United States, its departments, agencies, or entities, its officers, employees, or agents, or any other person.

JOSEPH R. BIDEN JR.
THE WHITE HOUSE,
July 8, 2022.

Number 2

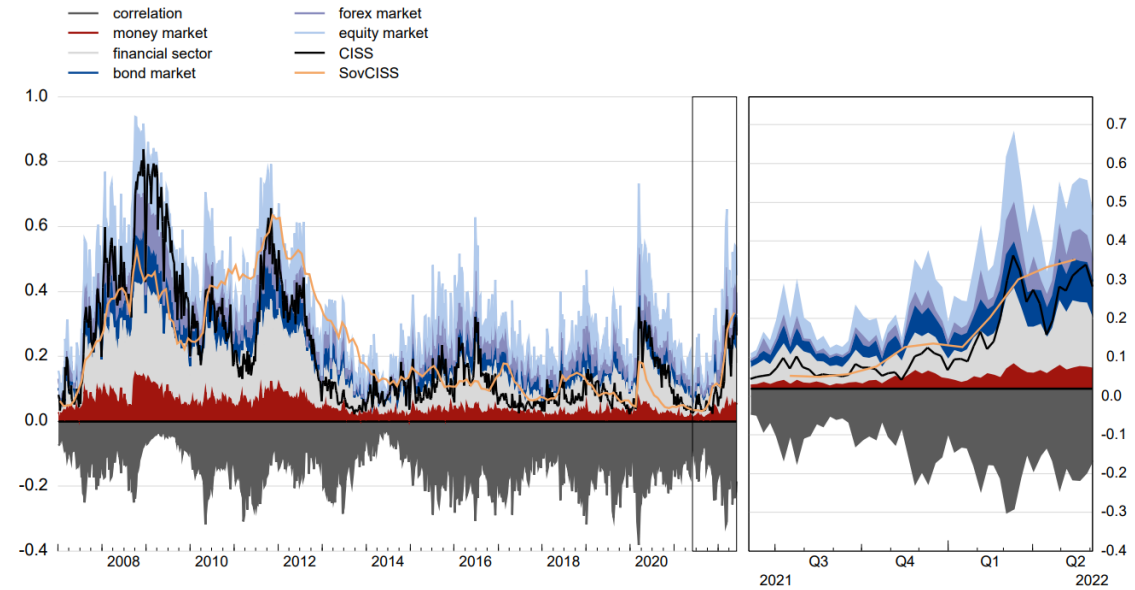
ESRB risk dashboard

ESRB European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

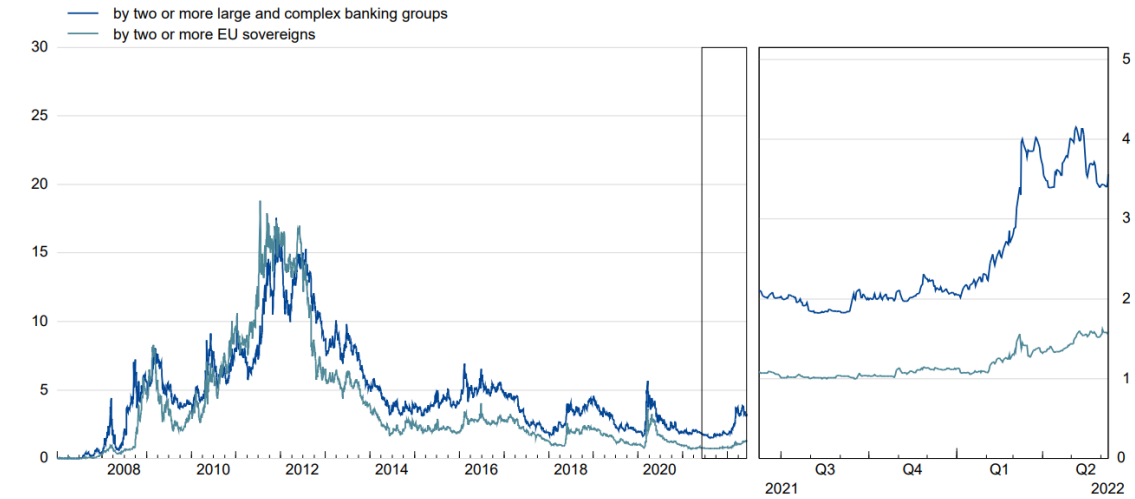
Interlinkages and composite measures of systemic risk

1.1 Composite indicator of systemic stress
(Last observation: 3 Jun. 2022)



Sources: Thomson Reuters, ECB and ECB calculations.

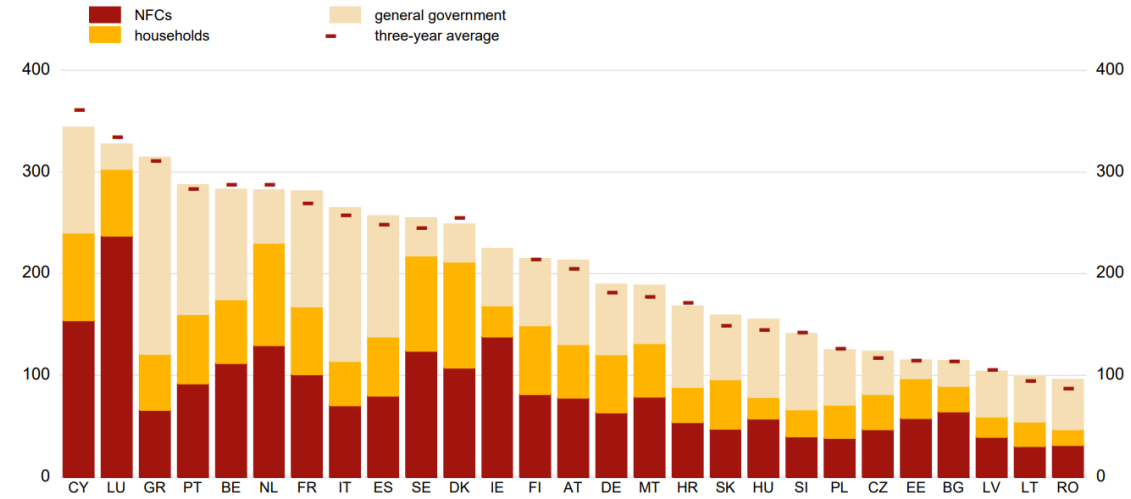
Probability of a simultaneous default



Sources: Bloomberg, Thomson Reuters and ECB calculations.

2.5 Aggregate debt-to-GDP ratio

a. Level
(EU; percentages; last observation: Q4 2021)



Sources: ECB and European Commission.

To read more:
https://www.esrb.europa.eu/pub/pdf/dashboard/20220906_rdb_external~ead8a1175c..pdf

Number 3

FINMA revises capital requirements for banks

The Swiss Financial Market Supervisory Authority FINMA is adjusting its implementing regulations in the area of capital requirements for banks.

Switzerland is thereby adopting the last improvements to banking regulation foreseen by the international Basel III standards following the last financial crisis. FINMA will conduct a consultation until *25 October* 2022.

The international Basel III banking standards include rules on eligible capital, on the amount of capital required to absorb losses, on risk diversification, liquidity and disclosure.

Legislative and regulatory authorities have introduced the Basel III package of reforms developed in response to the last financial crisis into Swiss law gradually since 2013.

The introduction of the so-called final Basel III standards marks the end of this process.

The final Basel III standards change the rules for calculating capital requirements, particularly for credit and market risks as well as for operational risks.

Besides increasing the risk sensitivity of the capital requirements, the new rules seek to improve the comparability of the capital requirements and key indicators based on these.

For example, the degrees of freedom for models approaches subject to approval, which banks use to calculate their capital requirements for credit and market risks, have been reduced.

The requirements for operational risks must now be calculated using a single standardised approach.

In the past, two standardised approaches and one models approach were available for this. In addition, a so-called output floor will ensure that from 2028 the risk-based capital requirements for banks with models approaches are not below 72.5% of the requirements calculated using standardised approaches.

To introduce the final Basel III standards, the Federal Council is adjusting its Capital Adequacy Ordinance and FINMA is adjusting its associated implementing regulations in the form of five new FINMA ordinances. At the same time, FINMA is repealing five of six relevant FINMA circulars.

The Federal Department of Finance is putting the Federal Council ordinance out for consultation until 25 October 2022 (cf. Federal Department of Finance press release).

At the same time, FINMA is conducting the consultation on its ordinances. The Federal Council's Capital Adequacy Ordinance and the associated FINMA ordinances are scheduled to enter into force on *1 July 2024*.

To read more:
https://www.finma.ch/en/news/2022/07/20220704-mm-anhoerung-basel/

Number 4

Basel Committee on Banking Supervision

High-level considerations on proportionality

July 2022

Proportionality in financial system regulation and supervision may ensure that the applicable rules and supervision practices are consistent with banks' systemic importance and risk profile and are appropriate for the broader characteristics of a particular financial system.

The Core principles for effective banking supervision (BCPs), which are applicable to all banks in all jurisdictions, embed proportionality as a principle.

The Basel Framework, which sets minimum requirements for internationally active banks in Committee member jurisdictions, also allows for a degree of proportionality by providing options to implement simpler standardised approaches.

While the simpler standardised approaches in the Basel Framework may also be suitable for banks that are not internationally active, in some cases regulation might require even further adaptation.

These high-level considerations and the accompanying technical annexes aim to provide practical support to authorities seeking to implement proportionality in these situations in their domestic frameworks.

In line with its mandate to strengthen the regulation, supervision and practices of banks worldwide to enhance financial stability, the Committee has conducted work on proportionality over a number of years.

In November 2019, the Committee and the Basel Consultative Group (BCG) issued a statement clarifying that proportionality can take different forms, which for non-Committee member jurisdictions may include the implementation of requirements that are broadly consistent with the Basel Framework and compliant with the BCPs.

The Committee has discussed proportionality extensively with the broader banking supervisory community, including BCG members and non-members. The Committee also published two global surveys on proportionality, one of them jointly with the World Bank.

These surveys demonstrated that proportionality has been widely adopted and implemented in different ways.

The surveys and discussions also highlighted that proportionality raises many practical policy challenges, as authorities seek to balance the regulatory requirements in a way that supports financial stability.

In response to these findings, these voluntary high-level considerations have been developed by the BCG.

They aim to support the decision-making process of proportionality in a broad variety of jurisdictions, in a way that would not undermine financial stability and/or the safety of financial institutions.

The accompanying technical annexes offer illustrative elements that authorities may wish to consider as they address the specific policy challenges related to proportionality in their jurisdiction.

These considerations and the technical annexes build upon the Committee's work on proportionality, domestic experiences from across the world, international discussions and academic work, and the broad exchange of views across the supervisory community.

Importantly, these high-level considerations and technical annexes are not a standard and do not contain any prescriptive requirements.

They should not be understood as a modification to the Basel Framework, the BCPs or any of the Committee's standards, guidelines or sound practices.

Neither these considerations nor the accompanying technical annexes will be used by the Committee to assess proportionality in member or non-member jurisdictions and will not be used in the Committee's Regulatory Consistency Assessment Programme (RCAP).

High-level considerations

Financial systems are heterogeneous. Characteristics that tend to vary across financial systems include the distribution of banks' size, international activity, level of sophistication and predominance of domestically owned (including government-owned) versus foreign-owned banks.

Some financial systems include both large internationally active banks and small banks serving local communities. Other financial systems consist

primarily of small local institutions, some of which might undertake bank-like activities without themselves being banks.

The distribution of banks within a financial system may influence the approach to proportionality.

In a number of jurisdictions, simpler rules are implemented for less complex banks in banking systems that also include large, internationally active banks subject to the Basel Framework.

For some non-Committee members with simple and homogenous banking systems, it might be appropriate to apply simpler rules to all banks.

However, simplifications that might be appropriate for small banks in jurisdictions with less complex banking systems are not necessarily appropriate for small banks in more complex financial markets.

Like financial institutions, supervisory authorities also differ across jurisdictions.

For example, supervisory authorities may have different legal powers, organisational arrangements, availability of resources and levels of independence.

In general, these factors tend to influence the design and implementation of proportionate regulation and supervision frameworks.

In addition to these overarching issues, authorities are invited to bear in mind the following considerations to help ensure the proportionality approach being considered is consistent with financial system robustness, safeguards financial stability and limits regulatory arbitrage opportunities across and within jurisdictions.

To read more: https://www.bis.org/bcbs/publ/d534.pdf

Number 5

Inflation Expectations Increase at Short Term, But Decline at Medium and Longer Terms; Home Price Growth Expectations Decline Sharply

FEDERAL RESERVE BANK *of* NEW YORK

The Federal Reserve Bank of New York's Center for Microeconomic Data released the June 2022 Survey of Consumer Expectations, which shows an increase in short-term inflation expectations, but a decline in medium-term and longer-term inflation expectations.

Home price growth expectations declined sharply, along with year-ahead spending growth expectations. Credit access perceptions and expectations continued to deteriorate. Similarly, households' perceptions and expectations for current and future financial situations both deteriorated.

The main findings from the June 2022 Survey are:

Inflation

- Median one-year-ahead inflation expectations increased to 6.8%, from 6.6% in May, marking a new series high. In contrast, median three-year ahead inflation expectations decreased to 3.6% from 3.9%. The increase in short-term expectations was driven by respondents over age 60 and respondents with at least some college education. The decline in medium-term expectations was broad-based across education and income groups. Our measures of disagreement across respondents (the difference between the 75th and 25th percentiles of inflation expectations) increased at the one-year-ahead horizon and remained unchanged at the three-year-ahead horizon.

- Median five-year ahead inflation expectations, which have been elicited in the monthly SCE core survey on an ad-hoc basis since the beginning of this year, declined to 2.8% from 2.9%. After being stable at 3.0% during the first three months of the year, the series has trended down slightly. Disagreement across respondents in their five-year ahead inflation expectations has been trending up during this period and increased again in June.

- Median inflation uncertainty—or the uncertainty expressed regarding future inflation outcomes—increased at the one-year ahead horizon to a new series high but remained unchanged at the three-year ahead horizon. Uncertainty at the five-year ahead horizon increased.

- The median expected change in home prices one year from now dropped sharply to 4.4% from 5.8%. This is the lowest reading of the series since February 2021. The decline, the second largest recorded in the survey's series only to the sharp drop at the onset of the pandemic, was broad based across age, education, and income groups. The decline was largest in the West census region.

- Expectations about year-ahead price changes increased by 0.1 percentage point for gas (to 5.6%), rent (to 10.3%), medical care (to 9.5%), and college education (to 8.7%). The median one-year-ahead expected change in the price of food decreased by 0.1 percentage point to 9.2%.

Labor Market

- Median one-year-ahead expected earnings growth remained unchanged at 3.0% in June for the sixth consecutive month.

- Mean unemployment expectations—or the mean probability that the U.S. unemployment rate will be higher one year from now—increased by 1.8 percentage points to 40.4%, its highest level since April 2020. The increase was driven by respondents with annual household incomes over $50k.

- The mean perceived probability of losing one's job in the next 12 months rose to 11.9% from 11.1% but remains well below its pre-pandemic reading of 13.8% in February 2020. The mean probability of leaving one's job voluntarily in the next 12 months declined to 18.6%, from 20.3% in May, remaining well below the pre-pandemic reading of 22.2% in February 2020.

- The mean perceived probability of finding a job in the next three months (if one's current job was lost) declined to 56.8% from 58.2% but remains slightly above its 12-month trailing average of 56.2%.

Household Finance

- The median expected growth in household income increased by 0.2 percentage point in June to 3.2%. The increase was broad based across education groups.

- Median year-ahead household spending growth expectations retreated from its series high in May, declining by 0.6 percentage point to 8.4% but remaining well above its 2021 average of 5.0%. The decline was the first this year and driven by respondents over age 40, those without any

college education, and those with annual household incomes under $50k.

- Perceptions of credit access compared to a year ago continued to deteriorate in June, with the share of respondents finding it harder to obtain credit now than a year ago reaching a series high. Expectations about future credit availability deteriorated as well, with more respondents expecting that it will be harder to obtain credit in the year ahead.

- The average perceived probability of missing a minimum debt payment over the next three months increased by 0.2 percentage point to 11.3%. This is the highest reading of the series since May 2020, and comparable to its pre-pandemic level of 11.4% in February 2020.

- The median expectation regarding a year-ahead change in taxes (at current income level) decreased by 0.1 percentage point to 4.5%.

- Median year-ahead expected growth in government debt decreased by 0.8 percentage point to 11.1%.

- The mean perceived probability that the average interest rate on saving accounts will be higher 12 months from now increased to 35.7% from 35.0% , its highest level since January 2019.

- Perceptions about households' current financial situations compared to a year ago deteriorated in June, with more respondents reporting being financially worse off than they were a year ago. Respondents were also more pessimistic about their household's financial situation in the year ahead, with fewer (more) respondents expecting their financial situation to improve (deteriorate) a year from now.

- The mean perceived probability that U.S. stock prices will be higher 12 months from now decreased to 33.8% from 36.2%.

To read more:
https://www.newyorkfed.org/newsevents/news/research/2022/20220711

Number 6

APRA releases findings of post-implementation review of Basel III liquidity reforms

The Australian Prudential Regulation Authority (APRA) has released an information paper to authorised deposit-taking institutions (ADIs) presenting the findings of the post-implementation review (PIR) of the Basel III liquidity reforms.

The review found that the reforms have been effective in strengthening liquidity risk management and the financial resilience of the banking system, and the benefits of regulation have significantly outweighed the associated costs. However, there remain some potential opportunities to improve the efficiency of the prudential framework that will be further explored as part of a review of Prudential Standard APS 210 Liquidity, due to commence in 2023.

The information paper is available on the APRA website at: https://www.apra.gov.au/news-and-publications/apra-releases-findings-of-post-implementation-review-of-basel-iii-liquidity

In March 2022, APRA initiated a post-implementation review (PIR) of the Basel III liquidity reforms in Australia.

The key findings and next steps of the PIR are set out below. On the basis of the feedback and analysis in the PIR, APRA's overall assessment is that the reforms have been effective in strengthening liquidity risk management and the financial resilience of the banking system, and the benefits of regulation have significantly outweighed the associated costs.

There remain, however, some potential opportunities to improve the efficiency of the prudential framework, which APRA will review next year.

Background: Basel III reforms

In response to learnings from the global financial crisis (GFC), the Basel III liquidity reforms were introduced eight years ago in Australia with the commencement of the revised Prudential Standard APS 210 Liquidity (APS 210) in 2014.

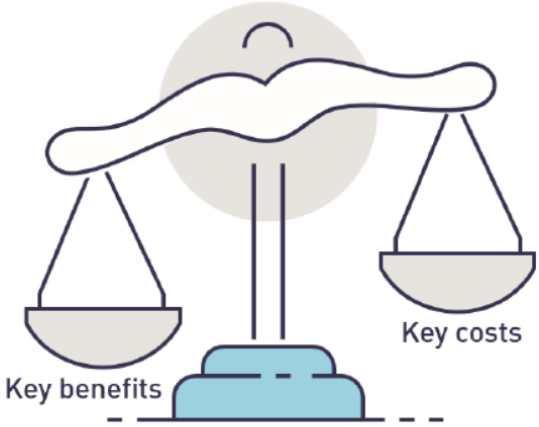
The two core measures of the reforms, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), became effective from 2015 and 2018 respectively.

The revised standard for liquidity, APS 210, aimed to address deficiencies in the previous liquidity framework, align APRA's liquidity regime with international best practice, and reduce the likelihood of the need for (and degree of) government intervention or support in any future liquidity crisis.

The liquidity reforms were important in reinforcing financial safety and system stability and requiring higher standards for bank liquidity management to address weaknesses that emerged internationally during the GFC.

Figure 1. Timeline of the Basel III liquidity reforms in Australia

- Greater resilience to liquidity problems for entities and system
- Reduced likelihood of government intervention or support
- Better access to international markets



- Initial and on-going compliance costs
- Higher funding costs due to balance sheet management changes
- Other potential impacts

Number 7

Monitoring systemic risks in the EU securitisation market

July 2022

ESRB
European Systemic Risk Board
European System of Financial Supervision

This Report has been produced in the light of the responsibility of the European Systemic Risk Board (ESRB) for macroprudential oversight of the EU securitisation market and it is the ESRB's first report of this kind.

Article 31 of Regulation (EU) 2017/24021 (also known as the EU Securitisation Regulation or SECR) states that in order to highlight financial stability risks the ESRB should, in collaboration with the European Banking Authority (EBA), publish a report on the financial stability implications of the EU securitisation market at least every three years.

The first edition of this report focuses on traditional (i.e. off-balance sheet) securitisations. By the end of 2022 the ESRB, in collaboration with all the European Supervisory Authorities (ESAs), should also publish another report assessing the impact on financial stability of the introduction of simple, transparent and standardised (STS) on-balance-sheet (i.e. synthetic) securitisations.

The report shows that the EU securitisation market is small compared with that of the United States and that it has shrunk since the global financial crisis (GFC) of 2008. At around €0.7 trillion in the second quarter of 2021 (in terms of notional amounts), the EU securitisation market is small viewed against the US market of around €9.8 trillion.

This difference reflects structural features of the US securitisation market. For example, in the United States, securitisation plays a more important role for market-based funding than in the EU, where banks often use securitised loans as collateral to access central bank funding.

Moreover, in the United States, a large share of securitisations, in particular mortgage-backed securities, is guaranteed by US government agencies such as the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), whereas in the EU such guarantees are not widespread.

Over the past ten years the EU securitisation market has shrunk by around 40% (from €1.2 trillion in 2012). This is also reflected in the size of new issuances before and after the GFC, which were as high as €819 billion in 2008 compared with €181 billion in 2013.

By the second quarter of 2021 new issuances amounted (on an annualised basis) to €171 billion. Compared with the total assets of the EU banking system, which is the main source of origination for EU securitisations, the size of the EU securitisation market is small at around 2% in the second quarter of 2021.

In terms of the types of assets that are securitised, the EU securitisation market is largely composed of residential mortgage-backed securities (RMBSs), but has recently become more diverse.

For example, the share of RMBSs in the total EU outstanding decreased from 68% in 2017 to 61% in the second quarter of 2021, while the shares of securitisations backed by loans to small and medium-sized enterprises (SMEs) loans and other asset-backed securities (ABSs) increased from 9% to 12% and from 21% to 26% respectively over the same period.

The EU securitisation market is concentrated in a few Member States and banks are the main holders of securitisations.

In the second quarter of 2021 almost 80% of total outstanding securitisations in the EU were backed with loans located in Spain, France, Italy and the Netherlands, reflecting the active and extensive use of securitisation in these Member States.

EU banks remain the main holders of EU securitisations. Nonetheless, EU banks retain securitisations mostly for use as collateral in central bank operations.

In the second quarter of 2021 euro area banks held 84% of the total market value of euro area securitisations. Of these, 40% of securitisations held by euro area banks had an AAA external credit rating.

The next largest holders of euro area securitisations were investment funds (including money market funds or MMFs) and insurance corporations, with 7% and 5% of the total market value respectively.

Most tranches of EU securitisations are rated as investment grade, although the impact of the coronavirus (COVID-19) pandemic and its aftermath on the securitisation market remains to be seen.

In the year following the start of the COVID-19 pandemic, the share of securitisations with an investment grade rating stood at 96% in the second quarter of 2021 compared with 93% in 2014.

In addition, the number of rating upgrades have outnumbered rating downgrades since the start of the pandemic.

The introduction of a cross-sectoral securitisation framework in the EU including a more risk-sensitive prudential framework and the introduction of the simple, transparent and standardised (STS) label may have contributed to the overall quality of securitisations, in particular those fulfilling the STS criteria, which is also reflected by a preferential risk weight treatment.

However, the economic outlook for the EU economy remains uncertain and depends among other things on the effectiveness of vaccination programmes, the time and speed with which government support will be scaled back and geopolitical developments following Russia's invasion of Ukraine.

This report focuses on EU RMBSs. The focus on EU RMBSs reflects three main considerations.

First, RMBSs are the largest segment of the EU securitisation market, representing more than 60% of total outstanding securitisations in the EU at the second quarter of 2021.

Second, housing represents a major part of household wealth, while residential mortgages represent a major part of bank lending. Recessions associated with real estate market developments tend to be more harmful than other recessions (Crowe et al., 2012).

Third, since 2016 the ESRB has repeatedly warned about vulnerabilities in the residential real estate market in a number of Member States, including some that are important originators of EU RMBSs.

The report sets out a monitoring framework that focuses on systemic risk, in particular owing to excessive leverage and interconnectedness.
The monitoring framework is organised around three groups of indicators that the ESRB deems to be the most relevant from a macroprudential perspective:

(i) broad market indicators,

(ii) leverage indicators, and

(iii) interconnectedness and concentration indicators.

For the purpose of monitoring the RMBS market in the EU, this report draws on three data sources: the Centralised Securities Database (CSDB), the European DataWarehouse (EDW) and the ECB's Securities Holdings Statistics (SHS).

To read more:
https://www.esrb.europa.eu/pub/pdf/reports/esrb.report_securisation.20220701~27958382b5.en.pdf?f6dea1a4f9feaf5354409a2e0acf8a1a

Number 8

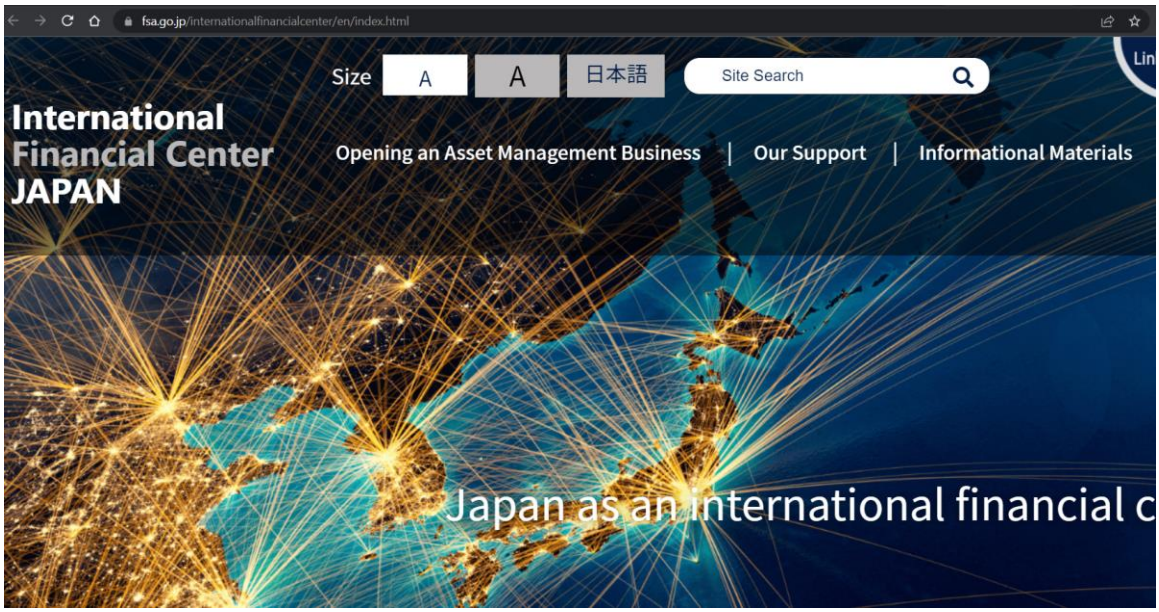
The updated Japanese International Financial Center website

Financial Services Agency

Japan is the third wealthiest economy and third largest pension market in the world. However, it has yet to perform at its full potential as a financial center. Over 18 trillion dollars of cash equivalent assets on household's balance sheet is waiting to be mobilized by talented asset managers.

Within this context, the Japanese government is working as "one team" to expand its role as an international financial center. While simplified market entry and company setup procedures are prime examples of our efforts on eliminating financial obstacles, we are also vigorously pursuing bold tax incentives and providing one-stop seamless support for living and doing business in Japan.

Japan's stable political and legal systems, high level public security and quality of life, and wide variety of natural attractions will be invaluable assets for your entry into the Japanese market.



You may visit:
https://www.fsa.go.jp/internationalfinancialcenter/en/index.html

Number 9

Next Generation of Intelligence Analysts Present Research on Foreign Social Media Campaigns

Partnerships are vital to the National Security Agency (NSA), and an academic relationship forged with Mercyhurt University last year is already paying dividends for both parties.

NSA established an Educational Partnership Agreement (EPA) with Mercyhurst University in August of 2021, just one of a multitude of partnership efforts between the agency and academia.

The EPA between NSA and universities/non-profit organizations sets the foundation to support education efforts for students in science, technology, engineering, and mathematics (STEM), as well as in language and other skills.

Following the establishment of the EPA, seniors from Mercyhurst University's Intelligence Studies program have been working with Academic Engagement's Intelligence Analyst Focused Area Liaison (IAFAL) program to conduct research and complete their capstone project on foreign social media campaigns designed to influence U.S. audiences.

"I was honored to mentor and work with the students and am impressed by the research they achieved in three months," said Joe Reinhard, the first IAFAL for Mercyhurst University.

Following the students' capstone presentation, Angie Painter, NSA's higher education advocate in Academic Engagement, partnered with representatives from NSA's Cybersecurity Collaboration Center (CCC) and National Cryptologic Museum to facilitate a tour where the students learned about NSA's mission, the history of signals intelligence in the 20th century, and unclassified cyber work being done by the CCC.

You may visit:
https://www.nsa.gov/About/Cybersecurity-Collaboration-Center/

While touring the CCC, the students learned how NSA partners with various cybersecurity entities and how they work together to detect cyber threats in software and hardware.

"The IAFAL program within the Academic Engagement partnership with Mercyhurst University represents the future of NSA's hiring initiative for the next generation of intelligence analysts," said Pamela Jock, then-chief of Academic Engagement.

"NSA's ability to engage with academic partners is vital to its success, and the intelligence analysts produced by Mercyhurst University are critical to the next generation of NSA experts," she added.

NSA maintains various academic partnerships to develop the talent and tools needed to meet future national security challenges. These partnerships help cultivate the next generation of experts in science, technology, engineering, math, language and analysis to help broaden the pool of skilled cybersecurity professionals who can protect the nation from cyberattacks. Visit NSA.gov/Academics to learn more about NSA's academic partnership efforts.

Number 10

Helping users stay safe: Blocking internet macros by default in Office (and recent developments)

Microsoft

Update 7/8/2022:

Following user feedback, we have rolled back this change temporarily while we make some additional changes to enhance usability. This is a temporary change, and we are fully committed to making the default change for all users.

*Regardless of the default setting, customers can block internet macros through the Group Policy settings described in **this article**.*

We will provide additional details on timeline in the upcoming weeks.

It's a challenging time in software security; migration to the modern cloud, the largest number of remote workers ever, and a global pandemic impacting staffing and supply chains all contribute to changes in organizations. Unfortunately, these changes also give bad actors opportunities to exploit organizations:

For years Microsoft Office has shipped powerful automation capabilities called active content, the most common kind are macros. While we provided a notification bar to warn users about these macros, users could still decide to enable the macros by clicking a button.

Bad actors send macros in Office files to end users who unknowingly enable them, malicious payloads are delivered, and the impact can be severe including malware, compromised identity, data loss, and remote access.

Changing Default Behavior

We're introducing a default change for five Office apps that run macros:

VBA macros obtained from the internet will now be blocked by default.

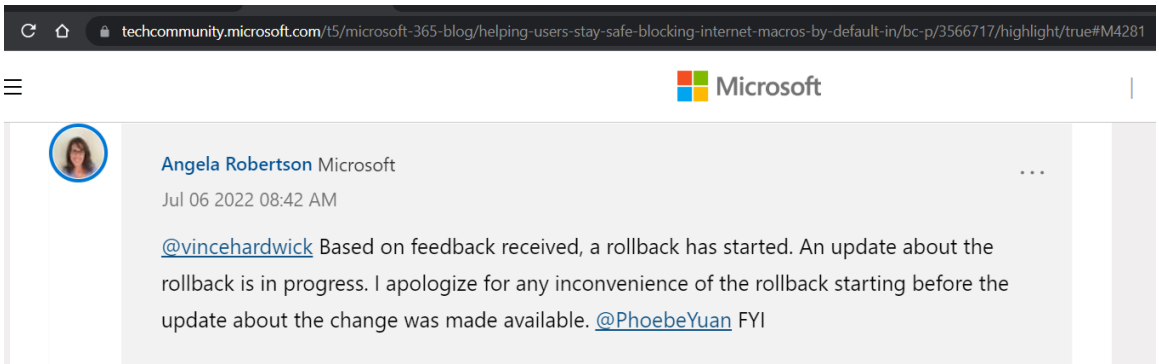
For macros in files obtained from the internet, users will no longer be able to enable content with a click of a button. A message bar will appear for users notifying them with a button to learn more.

The default is more secure and is expected to keep more users safe including home users and information workers in managed organizations.

This change only affects Office on devices running Windows and only affects the following applications: Access, Excel, PowerPoint, Visio, and Word. The change will begin rolling out in Version 2203, starting with Current Channel (Preview) in early April 2022. Later, the change will be

available in the other update channels, such as Current Channel, Monthly Enterprise Channel, and Semi-Annual Enterprise Channel.

At a future date to be determined, we also plan to make this change to Office LTSC, Office 2021, Office 2019, Office 2016, and Office 2013.



To read more: https://techcommunity.microsoft.com/t5/microsoft-365-blog/helping-users-stay-safe-blocking-internet-macros-by-default-in/bc-p/3566717/highlight/true#M4281

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