Monday, June 7, 2021

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

Dear members and friends,

Virginia Woolf has said that *for most of history, anonymous was a woman*. Today anonymous are also shell corporations, without beneficial ownership information.

I liked this presentation. Kenneth A. Blanco, Director, Financial Crimes Enforcement Network, testified before the Senate Committee on Banking, Housing and Urban Affairs, and he did an excellent job.

He has discussed the elimination of anonymous shell corporations by collecting beneficial ownership information, in order to preserve national security and protect people from harm.

He spoke about:

- an arms dealer who sold weapons to a terrorist organization,
- executives from a supposed investment group that perpetrated a Ponzi scheme that defrauded more than 8,000 investors, most of them elderly, of over $1 billion,
- a complex nationwide criminal network that distributed oxycodone by flying young girls and other couriers carrying pills all over the United States,
- a New York company that was used to conceal assets, including those designated for providing financial services to entities involved in a nuclear and ballistic missile program,
- a former college athlete who became the head of a gambling enterprise and a violent drug kingpin who sold recreational drugs and steroids to college and professional football players,

- a corrupt treasurer who received over $1 billion in bribes.

He said that these crimes are very different, as are the dangers they pose and the damage caused to innocent and unsuspecting people. The defendants and bad actors come from every walk of life and every corner of the globe. The victims—both direct and indirect—include Americans exposed to terrorist acts; elderly people losing life savings; a young mother becoming addicted to opioids; a college athlete coerced to pay extraordinary debts by violent threats; and an entire country driven to devastation by corruption. But all these crimes have *one thing in common:* shell corporations were used to hide, support, prolong, or foster the crimes and bad acts committed against them.

These criminal conspiracies thrived at least in part because the perpetrators could hide their identities and illicit assets behind shell companies. Had beneficial ownership information been available, and more quickly accessible to law enforcement and others, it would have been harder and more costly for the criminals to hide what they were doing.

Law enforcement could have been more effective and efficient in preventing these crimes from occurring in the first place, or could have intercepted them sooner and prevented the scope of harm these criminals caused from spreading.

Learn more at number 7 below. Welcome to our Top 10 list.

Best regards,

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Number 1

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Thank you, Neil [Stewart] for the introduction and for having me today as you discuss the important and timely topic of climate and ESG disclosures. I very much look forward to hearing from Janine [Guillot] and Julie [Bell Lindsay]. You both bring years of experience and significant expertise to these issues, and your organizations, SASB and CAQ, have contributed significantly to the development and understanding of ESG disclosure and assurance related to such disclosures.

This is a highly sophisticated audience of accountants, auditors, attorneys, and other professionals, with deep knowledge concerning public company accounting and other disclosures – how to identify, prepare, and verify them. The SEC needs your advice, your thoughts, and your expertise as we endeavor to craft a rule proposal for climate and ESG disclosures.

As we all debate and deliberate over these issues, a great deal of attention is focused on the concept of materiality. Materiality is a fundamental proposition in the securities laws and in our capital markets more broadly. The system for public company disclosure is generally oriented around providing information that is important to reasonable investors.

Although the SEC must craft the rules, and companies, with the help of lawyers and accountants, must comply with them, the viewpoint of the reasonable investor is the lens through which we all are meant to operate.

From a policy perspective, it is unfailingly simple and makes perfect sense: those with the money are the ones who decide how to spend it. And there is a clear corollary to that point – reinforced by Supreme Court precedent – which is that investors are also the ones who decide what information they need to make those choices.

But as debates around climate and ESG disclosure have intensified, I have found through dozens if not hundreds of conversations that a number of misconceptions about materiality – what it is and what it is not – have proliferated.

For example, many appear to believe that materiality currently works almost preternaturally, on its own with no need for regulatory involvement, to produce all important information from all public companies at all times. Many have also come to believe (incorrectly) that the SEC is legally prohibited from requiring specific disclosures unless it can demonstrate that each such disclosure is individually material to the bottom line of every public company.

Given the import of materiality to the current debate regarding climate and ESG disclosures, this is an opportune moment to discuss some of these myths and misconceptions – especially with this audience, one that is well-equipped to bring careful thought and analysis to these issues.

Myth #1: ESG matters (indeed all matters) material to investors are already required to be disclosed under the securities laws.

Let me start with the myth that I believe is the most prevalent. We frequently hear that new climate or ESG disclosure requirements are unnecessary because the existing disclosure regime already requires the disclosure of all material information.

This is simply not true, and reflects a fundamental misunderstanding of the securities laws. Public company disclosure is not automatically triggered by the occurrence or existence of a material fact. There is no general requirement under the securities laws to reveal all material information. Rather, disclosure is only required when a specific duty to disclose exists.

In a seminal Supreme Court case on materiality, Basic v. Levinson, the court found that preliminary merger negotiations may be material, affirming that materiality is to be gauged through the eyes of the "reasonable investor."

But Basic also acknowledged the fundamental principle that, under the securities laws, an omission of information – even material information – is not actionable absent a duty to disclose.

In Basic, the duty to disclose the pre-merger negotiations arose out of public statements the company made asserting that it was unaware of any developments that might explain high trading volumes and price fluctuations in its shares.

So, what are the possible sources of a duty to disclose? A duty may arise by virtue of an explicit SEC disclosure requirement, such as those set forth in Regulation S-K. A duty may also arise, as it did in Basic, in order to make other statements made by a company materially accurate or not misleading.

Let's take political spending by public companies as an example because it illuminates the principles behind both types of possible duties. We know that this type of information can be extremely important to reasonable investors.

Indeed the SEC received over a million requests to require such disclosures. As the late founder of Vanguard, John Bogle, once said "corporate managers are likely to try to shape government policy in a way that serves their own interests over the interests of their shareholders."

When companies use shareholder funds for political influence, it stands to reason that shareholders would want to be able to assess for themselves whether such spending is in their interests.

But companies rarely disclose political spending in reports filed with the SEC for the simple reason that there are no explicit SEC rules requiring such disclosure.

As I mentioned, another means by which a duty may arise is through statements a company makes on a topic which may then require the disclosure of additional information "necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading."

In other words, if a company makes statements on a topic, a duty may arise to disclose additional information needed to ensure that those statements are materially accurate and complete.

Continuing with the political spending example, after the events at the Capitol on January 6th, we saw companies increasingly making public pledges regarding their political spending practices.

One might argue that these public pledges give rise to a duty to disclose their actual political contributions – not unlike the duty to disclose merger negotiations in Basic – to ensure that such statements are not misleading, especially if actual contributions run contrary to these pledges. But such a duty would arise only based on discretionary statements made by management, not solely on the basis that information regarding political contributions is material to investors.

The bottom line is that absent a duty to disclose, the importance or materiality of information alone simply does not mandate its disclosure.

The securities laws currently include little in the way of explicit climate or other sustainability disclosure requirements.

In many instances, therefore, disclosure may be required only when a particular discussion of climate is collateral to something else disclosed by the company. The same is true for many ESG matters that lack express disclosure requirements. Thus, climate and ESG information important to a reasonable investor is not necessarily required to be disclosed simply because it is material.

To read more:
https://www.sec.gov/news/speech/lee-living-material-world-052421

Number 2

Remarks

Vice Chair for Supervision Randal K. Quarles, at the National Association of Insurance Commissioners International Insurance Forum

Thank you for inviting me to speak today. Over the years, I have enjoyed working with many of the insurance regulators participating in this conference, and I look forward to the day—already very near—when we will again have such events in person.

The Federal Reserve has a closer connection to the insurance industry than most realize. Insurance and insurers relate closely to the Federal Reserve's mission to provide the nation with a safe, flexible, and stable financial system.

Insurers play a crucial role in securing the safety and financial stability of American households. Insurers also play a key role in many financial markets, including as among the largest investors in certain asset classes.

Indeed, the Federal Reserve arguably owes its creation, which followed the Panic of 1907, at least in part to the insurance industry. Some scholars have argued that it was the catastrophic 1906 San Francisco earthquake that caused the Panic of 1907.

The 1906 earthquake left over half of San Francisco homeless. Such widespread destruction of one of the country's largest cities had a commensurate effect on the economy and insurance industry.

Fearing that the U.S. financial markets could not absorb that many dollars in asset sales, many European insurers paid claims by withdrawing money from foreign banks and shipping gold across the Atlantic.

The Bank of England's gold supply accordingly dropped 14 percent. It responded to this gold outflow with measures that contributed to the panic and, after an admittedly long chain of events, led to my being here today.

Of course, now we have a different financial system and better means to coordinate an international response to such events.

One of these mechanisms is the Financial Stability Board (FSB), which I chair. Insurance continues to be an important part of the FSB's mission in collaboration with other governments and organizations, particularly the International Association of Insurance Supervisors (IAIS).

So today, I would like to highlight a few of the Federal Reserve's priorities on insurance regulation and supervision, both domestically and internationally.

COVID Event Monitoring and Response

One priority has been monitoring the impact on the insurance industry of what I refer to as the COVID event. And so far, the insurance sector has performed very well. Insurers entered the pandemic with strong capital levels, and the industry has not seen any large defaults. Insurance risk managers and regulators should be proud of this performance.

The COVID event has also affected financial markets. The Fed continues to monitor these effects, including the impact on life insurers of sustained low interest rates.

The long duration of some insurance products, paired with embedded policyholder options, can make it difficult to match cash flows and can create interest rate risk. Additionally, some savings products can be difficult for insurers to market when only returns of near 0 percent can be profitably guaranteed.

And the COVID event has posed some challenges for supervisors. Social distancing has changed how financial products are distributed, how we supervise financial institutions, and how we collaborate in the regulatory community.

For example, though both the IAIS and FSB have worked intensively at a distance—there is an FSB meeting of one sort or another every day of every week—it has been over a year since the IAIS or FSB has met in person.

Capital

Currently the Board's most significant project with respect to insurance and our role in supervision is the development of a capital rule for insurance depository institution holding companies, as required by the Dodd-Frank Act.

We have engaged in a thorough and deliberative process in developing an appropriate capital rule, which has included both an advance notice of

proposed rulemaking and a more recent proposal that we invited comment on. This deliberative approach is working well.

Most of the comments we received on the proposal, which we're calling the Building Block Approach, or BBA, were supportive of both our process and the overall regulatory framework we proposed. And we are currently reviewing these comments and intend to publish a final rule soon.

As we near the completion of this journey, I'd like to recap why we chose to propose the Building Block Approach, which adjusts and aggregates existing legal-entity capital requirements to produce an enterprise-wide capital requirement.

The BBA is meant to address one of our biggest challenges in supervising companies that engage in both banking and insurance operations, which is how different these businesses are. No single, uniform approach to capital regulation is appropriate for companies in both sectors.

The banking capital framework would not appropriately assess the capitalization of insurers. It is primarily based on risk-weighted assets.

This framework would not capture many of insurers' liability risks, such as from natural catastrophes. Nor would any existing insurance capital rule appropriately assess the risks of a bank.

So rather than trying to create a single capital framework that would work for all types of financial institutions, we decided to propose an aggregation approach that incorporates approaches developed specifically for each type of institution and its risks.

The BBA uses the existing and time-tested frameworks that have been tailored specifically to measure appropriately particular risks. It assesses insurance risks using an insurance capital framework and banking risks using our banking capital framework.

The suitability of such an aggregation approach for regulating the capital of a large, internationally active insurance group is being debated currently at the IAIS, as I will discuss in a moment.

While there are disagreements at the margins, there are also many areas of agreement on the appropriate uses of an aggregation approach.

The IAIS's Insurance Capital Standard (ICS) for internationally active insurance groups itself uses an aggregation approach to incorporate non-insurance risks. And at the other extreme, there is also agreement that

it would not be appropriate to calculate the capital position of a large bank holding company that is not engaged in insurance by aggregating the capital positions of certain subsidiary banks and legal entities.

A key issue in the international debate about the ICS is whether products, capital markets, and laws vary so much by country or region that a single, unified methodology cannot measure risk accurately.

Are the differences in international insurance markets more like the significant differences between banking and insurance or like the less fundamental differences in the banking business models internationally?

If the differences are large enough, a one-size-fits-all methodology could produce unintended consequences, send false signals to regulators or capital markets, and ultimately be destabilizing.

The Insurance Policy Advisory Committee, or IPAC, is currently studying this issue by looking at the impact of a hypothetical adoption of the IAIS' Insurance Capital Standard on the U.S. industry, markets, and consumers.

The IPAC is a 21-member advisory committee that was established by Congress in 2018 to advise the Board on international insurance capital standards and other insurance issues.

The group is currently performing research on the potential impact of the Insurance Capital Standard—specifically on U.S. life and retirement products—and hopes to complete a review on this in the coming months. And I'm looking forward to seeing the result. For those that would like to contribute as a member of the IPAC, the IPAC will shortly be accepting applications.

In addition to the Insurance Policy Advisory Committee, we're also working with the states and the National Association of Insurance Commissioners (NAIC), which I want to congratulate on adopting a model law related to their Group Capital Calculation (GCC) at the end of last year.

We coordinated with the states and the NAIC to ensure that there would not be unnecessary duplication and burden between our two capital frameworks.

While the Building Block Approach and Group Capital Calculation cannot be exactly aligned due to reasons that include our different legal mandates and restrictions, this collaboration has been successful.

As one example, no group will be subject to both the BBA and GCC. Instead, the Fed and the states will share information on groups we both supervise. This reduces unnecessary burden on firms while still allowing appropriate supervision.

Our close coordination with the states, the NAIC, and also the Federal Insurance Office extends to international policy development at the IAIS. The members of "Team USA," as we refer to this group, work together to advocate for the United States internationally.

One important international project that I have already mentioned is the ICS. Two years ago, the ICS reached a milestone when the IAIS membership adopted ICS version 2.0 for use in a five-year monitoring period. The purpose of this monitoring period is to evaluate the functionality and performance of the ICS.

Team USA has argued that as currently constructed, the ICS would not be appropriate as a capital rule for U.S. internationally active insurance groups. Its market adjusted valuation approach could introduce significant volatility into the capital measure and capital requirement, which could lead to procyclical economic effects and harm the ability of insurers to provide long-term savings products.

Accordingly, Team USA and other interested jurisdictions continue to build on our work on the Group Capital Calculation and Building Block Approach to develop what the IAIS terms the Aggregation Method, which could be considered an equivalent implementation of a group capital rule for large, internationally active insurers in the United States.

To accomplish that, Team USA is currently working with other IAIS members to develop criteria to assess whether the Aggregation Method and ICS have a sufficient level of comparability. These criteria are planned to be released by the IAIS for public comment at the end of this year or early next year.

As I have mentioned, it is uncertain what the potential impact of the IAIS' ICS on markets might be and whether the ICS, after any changes, will ultimately be suitable for adoption in the U.S. These issues are being studied, but the COVID event has affected this work.

The number of participating firms decreased in response to the COVID event. Data analysis planned by the IAIS has been interrupted. The Fed would like to see the monitoring period extended by a year or longer given the unforeseen and unavoidable delays of the last year.

This would allow for completing the originally intended analysis and incorporating any needed design changes. The Federal Reserve continues to advocate for the IAIS to have a transparent process that allows for meaningful opportunities for public comment in all its work.

Supervisory Framework

I'd also like to mention another project that we have been working on here at home. We are developing a tailored supervisory framework for the insurance savings and loan holding companies (ISLHCs) that we supervise. Our development of this framework recognizes that the risks of ISLHCs are different than other banking organizations.

This supervisory framework, which we plan to publish for public comment later this year, will describe our tailored expectations for these firms, how we will rate them, and how we rely on the work of state insurance supervisors to avoid duplication and undue burden.

Climate Change

Finally, climate change is another emerging risk that we are monitoring. Broad climate policy is the role of Congress and other federal agencies, not the Federal Reserve.

The Board, however, expects all firms that it supervises, including insurance savings and loan holding companies, to manage all material risks, whatever the source—which can include climate risk.

The insurance industry has been at the forefront of work to better understand climate-related financial risks, including through climate change modeling.

While the Federal Reserve relies on fellow prudential regulators to supervise specific ISLHC entities, we also recognize that insurers have much to offer in understanding an emerging area of focus for the broader financial sector.

Conclusion

That is a brief summary of the Fed's work relating to the insurance industry. Our involvement with the industry is longstanding, reflecting insurance's central role in financial markets and its importance in helping households and businesses manage their risks.

That involvement deepened after the global financial crisis, when Congress gave us additional responsibility for supervising certain insurers.

More recently, our involvement has included verifying that these insurers are capable of dealing with the unprecedented challenges posed by the COVID event. Another new challenge is understanding and ensuring that firms account for climate-related financial risks.

And a central part of the Fed's agenda is working with other regulators and the industry to devise an appropriate approach to regulating capital—one that recognizes the unique role of insurance in the financial system and the distinctions between insurance companies and banks.

Our deliberate process has helped build confidence among regulators and the industry and is bringing us to consensus. The public, which depends on a strong and stable insurance sector, has been well-served by that process and will benefit from the outcome.

Thank you for the opportunity to speak with you. I look forward to engaging with you all in the future.

Number 3

2020 Annual Report

Message from the Chairman

The PCAOB's annual report summarizes our operations and financial results from fiscal year 2020.

The PCAOB continues to pursue its five-year strategic plan—first adopted by the Board in 2018 and affirmed annually thereafter.

Our plan emphasizes the need to transform our organization into a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight.

As discussed in more detail in this report, in 2020, we built on the progress of the transformative efforts we started in 2018. Significant steps included

(1) becoming more proactive and innovative in our oversight,

(2) expanding our stakeholder engagement activities and improving our communications,

(3) maturing our internal operations by streamlining our business processes and improving our risk posture,

(4) enhancing our organizational culture, and

(5) cultivating a highperforming workforce.

In retrospect, our strategic efforts had another benefit: preparing us for the major and unexpected challenges that arose in 2020 with the COVID-19 pandemic.

When the pandemic hit, we were prepared not only to transition our entire workforce to a remote environment, but also to adapt our oversight activities to address the financial reporting and auditing risks that arose out of the pandemic.

As we have adapted to the changing circumstances, two fundamental considerations have guided us:

(1) the health and safety of our employees and those with whom we interact and

(2) our statutory mission to promote audit quality.

Despite the challenges of the COVID-19 pandemic, we carried out our mission and advanced our strategic vision.

Thanks to a dedicated and talented staff, we continued to make strides in an unquestionably difficult year.

As the PCAOB's Chairman, I look forward to continuing to work collaboratively with my fellow Board members, the SEC, and the PCAOB staff to drive continuous improvement in audit quality.

Respectfully,

William D. Duhnke III
Chairman
Public Company Accounting Oversight Board
Washington, DC, April 27, 2021

Our strategic plan

Each year, the PCAOB adopts a Strategic Plan with a five-year outlook. You may visit: https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/strategic-plan-2020-2024.pdf?sfvrsn=776073d3_2

The Board is working to achieve the plan's five strategic goals and corresponding objectives through a series of initiatives aimed at transforming how we conduct our programs and operations to effectively fulfill our mandate.

This annual report discusses many of these initiatives, which include programmatic reviews, process redesigns, enhancements to our organizational culture, and innovation in technology.

Our initiatives align with our five core values—integrity, excellence, effectiveness, collaboration, and accountability—which we expect our behaviors, work, and outcomes to demonstrate.

Goal One Objectives

1. Conduct inspection activities to facilitate more timely and relevant feedback to our stakeholders.
2. Better leverage economic and risk analysis to more effectively set standards, rules, and guidance.
3. Enforce accountability and deter improper conduct by addressing violations of PCAOB standards and rules, and related federal securities laws.
4. Determine, develop, and communicate indicators of audit quality.

Goal Two Objectives

1. Assess and address the impact of emerging technologies on the quality of audit services.
2. Understand and consider investors' audit expectations.
3. Assess the changing information security environment and understand the related risks.

Goal Three Objectives

1. Improve the timeliness, usefulness, and clarity of PCAOB information.
2. Cultivate an effective and dynamic dialogue with stakeholders.

Goal Four Objectives

1. Enhance our risk management and operational processes and capabilities.
2. Collect, manage, and use data to improve our internal processes and better inform our decision-making.
3. Increase and optimize our information technology investments to strengthen our capabilities.
4. Strengthen protection of our sensitive and proprietary data.

Goal Five Objectives

1. Cultivate a high performing workforce through effective recruitment, retention, training, performance management, and leadership development.
2. Reward teamwork and eliminate organizational barriers to collaboration, transparency, and engagement.
3. Create a culture of inclusion that leverages the diversity of experience and perspectives of our people.

To read more:
https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/documents/annual_reports/2020-annual-report.pdf?sfvrsn=581231f1_5

Number 4

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

Fewer corporate bonds for retail investors

BaFin Federal Financial Supervisory Authority

Corporate bonds can complement retail investors' portfolios. Yet a study by BaFin has shown that the range of products is shrinking. Recent EU regulation could be part of the cause.

Particularly in times of low interest rates, corporate bonds can contribute to improving risk diversification in a private investment portfolio. However, a study conducted by BaFin has shown that since 2018 retail investors have been investing less and less in corporate bonds.

There is a reason for this: many companies do not produce a key information document under the Regulation on Key Information Documents for Packaged Retail and Insurance-Based Investment Products (PRIIPs).

Yet this is a prerequisite for retail investors to be allowed to purchase corporate bonds.

The basic intention here was positive: to protect retail investors. But the reality is that retail investors are buying fewer corporate bonds – and this limits the range of products available to them.

Background

A possible cause for this decline could be the PRIIPs Regulation, which came into force on 1 January 2018.

In certain circumstances, corporate bonds can be deemed packaged retail investment products (PRIPs) within the meaning of Article 4 no. 1 of the PRIIPs Regulation.

You may visit:
https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R1286&from=EN

REGULATIONS

REGULATION (EU) No 1286/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 26 November 2014

on key information documents for packaged retail and insurance-based investment products (PRIIPs)

(Text with EEA relevance)

Under Article 5(1) of the PRIIPs Regulation, a PRIIP manufacturer, such as a bank, is required to produce and publish a key information document (KID) before it is allowed to offer a packaged investment product to retail investors.

Furthermore, Article 13(1) of the regulation specifies that anyone who advises on or sells such a product must provide retail investors with the KID in good time before the customer signs a contract committing to the purchase.

To put it simply: no key information document means no packaged retail investment product. In Germany, there are sanctions to enforce this.

There are various reasons why companies often do not produce a KID for corporate bonds. For one thing, companies are sometimes unwilling to take on the extra costs or possible liability risks associated with a KID for new issues.

Furthermore, issuers do not produce KIDs for corporate bonds issued before the PRIIPs Regulation came into force on 1 January 2018 because the costs can outweigh the benefits.

Moreover, third country issuers that do not need to target the European retail investment market do not produce a KID either.

Fewer investment options for retail investors

The broad coverage of the PRIIPs regulation consequently reduces the investment options available to retail investors. Whether this is beneficial to retail investors is therefore questionable.

The Federal Ministry of Finance (BMF) has already recognised the issue. In 2019 it published a position paper which explained that simple corporate bonds, also known as “plain vanilla bonds”, should be exempt from the PRIIPs Regulation. BaFin also supports this suggestion.

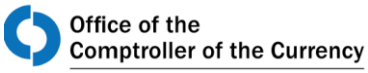
However, the European Commission has not yet acted on it. In order to at least reduce the uncertainties on the bond market, BaFin published a guidance notice regarding the scope of the PRIIPs Regulation.

With the same intention, the Joint Committee of the European Supervisory Authorities published a statement of a similar nature on 24 October 2019.

To read more:
https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2021/fa_bj_2104_Unternehmensanleihen_Kleinanleger_en.html

Number 5

Acting Comptroller of the Currency Michael J. Hsu Testifies on the Condition of the Federal Banking System



Acting Comptroller of the Currency Michael J. Hsu testified before the U.S. House Financial Services Committee on the condition of the federal bankings system, the agency's response to the COVID-19 pandemic, and its efforts to promote diversity and inclusion. Mr. Hsu's testimony also included a description of his priorities as head of the Office of the Comptroller of the Currency.

Introduction

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, I am pleased to provide an update on the activities underway at the Office of the Comptroller of the Currency (OCC) to ensure that national banks and federal savings associations operate in a safe, sound, and fair manner.

Throughout the pandemic, the OCC has placed a priority on the health and safety of its workforce and taken steps to safeguard employees while maintaining their ability to ensure that the banks we supervise meet the objectives of our mission.

The banks have played an important part in our nation's ongoing response to the COVID pandemic by providing essential banking services and needed capital and by extending credit to hundreds of millions of households and businesses.

Last week I was sworn in as Acting Comptroller of the Currency. It is a tremendous honor to work with the 3,500 dedicated professionals of the OCC.

I appreciate the confidence Secretary Yellen has shown in me by appointing me to this important post. I am looking forward to building on the agency's long history and rich heritage.

I am a career public servant and a bank supervisor at my core. My experiences at the Securities and Exchange Commission, U.S. Department of the Treasury, International Monetary Fund, and the Board of Governors of the Federal Reserve System over the past 19 years have spanned periods of growth, crisis, reform, and recovery.

I have seen firsthand the benefits that financial innovation and healthy competition can bring, as well as the harm that excessive risk taking, ineffective risk management, poor internal controls and lax compliance can inflict on families and businesses, the banking system, and the economy.

I am proud to have worked alongside some of the smartest and most dedicated public servants in the world to repair and restore confidence in the financial system so that consumers, businesses, and communities can save, borrow, and participate in the economy.

Promoting fairness and inclusion in banking is a fundamental part of the OCC's mission.

The events of the past year have compelled me and many others to consider whether we are achieving fairness across many aspects of society, including banking.

I look forward to working with members of the committee, fellow regulators, community groups, banks, academics, and the staff of the OCC to ensure that the banking system works for everybody, especially those who are vulnerable, underserved, and unbanked.

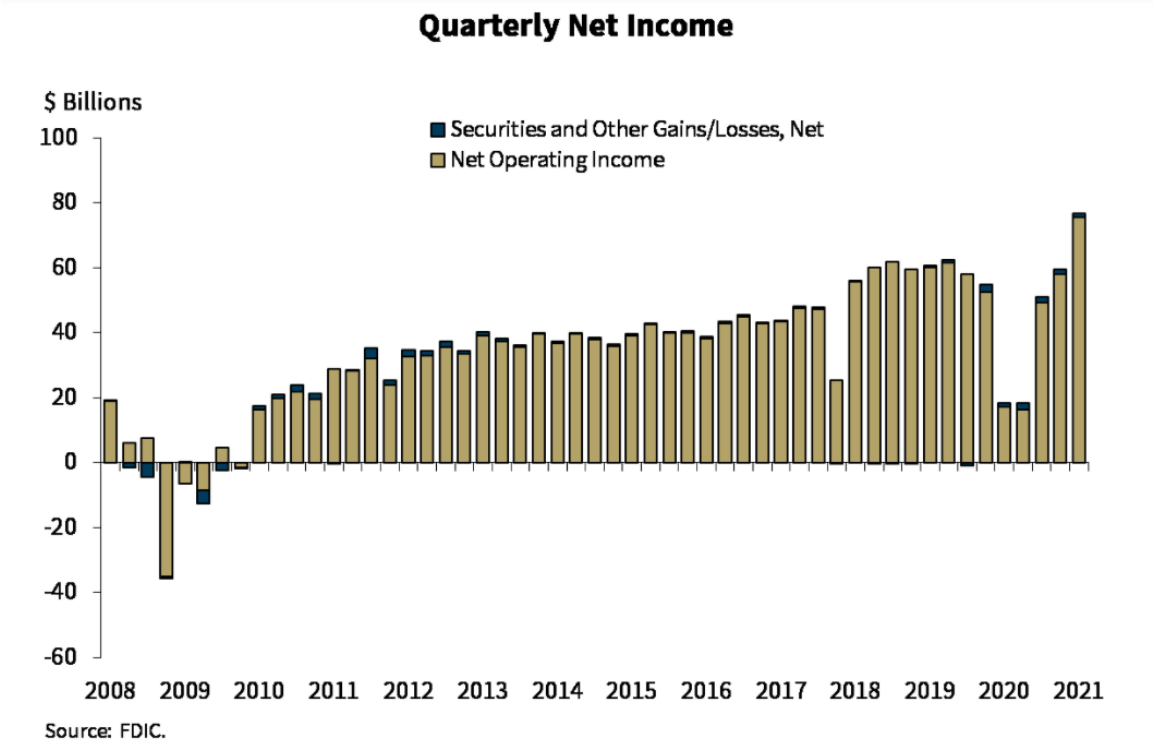
My testimony today is focused on my priorities for the OCC and the review of key regulatory standards and pending actions that I immediately initiated upon taking office.

To read more:
https://www.occ.treas.gov/news-issuances/congressional-testimony/2021/ct-occ-2021-56-written.pdf

Number 6

FDIC-Insured Institutions Reported Net Income of $76.8 Billion In First Quarter 2021

- Quarterly Net Income Rose from a Year Ago Primarily Because of Negative Provisions for Credit Losses
- Net Interest Margin Contracted Further, Setting a Record Low
- Loan Balances Declined From the Previous Quarter and Year, Driven by a Reduction in Credit Card Balances
- Asset Quality Improved
- Community Banks Reported an Increase in Quarterly Net Income from a Year Ago



Reports from the commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reflect aggregate net income of $76.8 billion in first quarter 2021, an increase of $58.3 billion (315.3 percent) from a year ago.

Aggregate negative provision expense, reflecting improvements in the economy and asset quality, drove the increase in quarterly net income. Financial results for first quarter 2021 are included in the FDIC's latest Quarterly Banking Profile released today.

"Despite continued challenges, the banking industry remains resilient. Strong capital and liquidity levels support lending needs and help protect against potential losses," McWilliams said.

Highlights from the First Quarter 2021 Quarterly Banking Profile

Quarterly Net Income Increased 29.1: Percent from Fourth Quarter 2020: Net income totaled $76.8 billion, an increase of $17.3 billion (29.1 percent) from fourth quarter 2020.

Aggregate negative provision expense bolstered both quarterly and annual net income growth.

Three-fourths of all banks (74.8 percent) reported annual improvements in quarterly net income, and the share of unprofitable institutions dropped from 7.4 percent a year ago to 3.9 percent.

The banking industry reported an aggregate return on average assets ratio of 1.38 percent, up 1 percentage point from a year ago and up 28 basis points from fourth quarter 2020.

Net Interest Margin Contracted Further to a New Record Low: The average net interest margin contracted 57 basis points from a year ago to 2.56 percent—the lowest level on record for the Quarterly Banking Profile.

Net interest income fell by $7.6 billion (5.6 percent) from a year ago.

The year-over-year reduction in yields on earning assets outpaced the decline in average funding costs, both of which are at record lows.

Despite the aggregate decline in net interest income, which was driven by the largest institutions, more than three-fifths of all banks (64.4 percent) reported higher net interest income compared with a year ago.

Community Banks Reported a 77.5 Percent Increase in Quarterly Net Income Year-Over-Year: Community banks reported annual net income growth of $3.7 billion, supported by an increase in noninterest income and a decline in provision expense.

Higher revenue from loan sales (up $1.3 billion or 126.4 percent) supported a 45 percent increase in noninterest income.

Provision expenses declined $1.4 billion (78.4 percent) from a year ago, and $826.2 million (67.9 percent) from the previous quarter.

Nearly three quarters (73 percent) of the 4,531 FDIC–insured community banks reported higher quarterly net income.

However, the net interest margin for community banks continued to narrow to the lowest level on record for the Quarterly Banking Profile, with a decline of 27 basis points to 3.26 percent, as the continued reduction in average earning asset yields outpaced the decline in average funding costs.

Loan Volume Continued to Contract, Driven by a Reduction in Credit Card Balances: Total loan and lease balances contracted $38.7 billion (0.4 percent) from the previous quarter.

A reduction in credit card balances (down 7.4 percent) drove the quarterly decline in loan volume.

Compared with the year ago quarter, total loan and lease balances declined $136.3 billion (1.2 percent).

This was the first annual contraction in loan and lease volume reported by the banking industry since third quarter 2011. Reduced commercial and industrial (C&I) loan (down 12.8 percent) and credit card balances (down 3.7 percent) drove the annual decline in loan volume.

Unlike the banking industry as a whole, community banks reported a 1.4 percent increase in loan balances from the previous quarter, led by strong C&I growth through participation in the Paycheck Protection Program (PPP). Annually, total loans and leases increased 10.8 percent—also led by loans originated through the PPP.

Asset Quality Improved: Loans that were 90 days or more past due or in nonaccrual status (noncurrent loans) declined $5.9 billion (4.6 percent) from fourth quarter 2020.

The noncurrent rate for total loans declined 5 basis points from the previous quarter to 1.14 percent. Net charge-offs declined $5.4 billion (36.8 percent) from a year ago.

The total net charge-off rate dropped 20 basis points to 0.34 percent.

The Deposit Insurance Fund's Reserve Ratio Declined from the Previous Quarter to 1.25 Percent: The Deposit Insurance Fund (DIF) balance was $119.4 billion as of March 31, up $1.5 billion from the end of the fourth quarter.

However, the reserve ratio declined four basis points to 1.25 percent, solely because of strong insured deposit growth.

Three New Banks Opened During the Quarter: Three new banks opened, and 25 institutions merged in first quarter 2021. No banks failed during the quarter.

Number 7

Testimony before the Senate Committee on Banking, Housing and Urban Affairs

Kenneth A. Blanco, Director, Financial Crimes Enforcement Network

Chairman Crapo, Ranking Member Brown, Members of the Committee, thank you for having me here today to discuss eliminating anonymous shell corporations by collecting beneficial ownership information in order to preserve our national security and protect our people from harm.

A Russian arms dealer nicknamed the "The Merchant of Death," who sold weapons to a terrorist organization intent on killing Americans. Executives from a supposed investment group that perpetrated a Ponzi scheme that defrauded more than 8,000 investors, most of them elderly, of over $1 billion. A complex nationwide criminal network that distributed oxycodone by flying young girls and other couriers carrying pills all over the United States. A New York company that was used to conceal Iranian assets, including those designated for providing financial services to entities involved in Iran's nuclear and ballistic missile program. A former college athlete who became the head of a gambling enterprise and a violent drug kingpin who sold recreational drugs and steroids to college and professional football players. A corrupt Venezuelan treasurer who received over $1 billion in bribes.

These crimes are very different, as are the dangers they pose and the damage caused to innocent and unsuspecting people. The defendants and bad actors come from every walk of life and every corner of the globe. The victims—both direct and indirect—include Americans exposed to terrorist acts; elderly people losing life savings; a young mother becoming addicted to opioids; a college athlete coerced to pay extraordinary debts by violent threats; and an entire country driven to devastation by corruption. But all these crimes have one thing in common: shell corporations were used to hide, support, prolong, or foster the crimes and bad acts committed against them. These criminal conspiracies thrived at least in part because the perpetrators could hide their identities and illicit assets behind shell companies. Had beneficial ownership information been available, and more quickly accessible to law enforcement and others, it would have been harder and more costly for the criminals to hide what they were doing. Law enforcement could have been more effective and efficient in preventing these crimes from occurring in the first place, or could have intercepted them sooner and prevented the scope of harm these criminals caused from spreading.

Financial sanctions could have been leveraged sooner to disrupt global threats, block assets within U.S. jurisdiction, identify sanctions evaders, and incentivize behavior change. With clearer information on the actors behind front companies, the efficacy of the Office of Foreign Assets Control's (OFAC) sanctions and the Financial Crimes Enforcement Network's (FinCEN) anti-money laundering authorities would improve, enabling us to more effectively secure our nation and achieve our foreign policy goals.

Case Examples

Viktor Bout was engaged in international arms trafficking for many years, arming some of the most violent conflicts around the globe. Known as "The Merchant of Death," Bout was finally apprehended when he agreed to sell millions of dollars' worth of weapons to confidential informants representing they were acting on behalf of the Fuerzas Armadas Revolucionarias de Colombia (the "FARC"), a U.S. designated terrorist organization, with the specific understanding that the weapons were to be used to attack U.S. helicopters in Colombia. Specifically, he agreed to sell 700-800 surface-to-air missiles, over 20,000 AK-47 firearms, 10 million rounds of ammunition, five tons of C-4 plastic explosives, "ultralight" airplanes outfitted with grenade launchers, and unmanned aerial vehicles. To support his vast arms dealing business, Bout incorporated at least twelve shell corporations in Texas, Florida, and Delaware.

Robert Shapiro, owner of Woodbridge Group of Companies LLC, and his former Directors of Investments were charged with orchestrating a massive Ponzi scheme from 2012 to 2017. They promoted speculative and fraudulent securities to potential investors, targeting elderly investors who had Individual Retirement Accounts ("IRAs") through high-pressure sales tactics, deception, material misrepresentations, and investor manipulation. Shapiro and his group were responsible for fraudulently stealing $1.2 billion from more than 8,000 retail investors, most of them elderly retirees. At one point, Shapiro and his co-conspirators had approximately 600 employees working for them, and used roughly 100 U.S. shell corporations to hide assets and further their Ponzi scheme.

Kingsley Iyare Osemwengie and 17 other co-conspirators used call girls, couriers, commercial carriers, and the U.S. mail to distribute oxycodone pills all over the United States, thereby contributing to our current opioid addiction epidemic. More than 70 couriers took nearly 800 flights to 40 different U.S. cities that the conspiracy used to move drugs and money. Osemwengie and other co-conspirators netted millions of dollars of drug proceeds that allowed them to live opulent lifestyles. They maintained luxury residences in Las Vegas, Nevada, and Miami, Florida and drove

high-end automobiles, including two Mercedes-Benzes and four Bentleys. Osemwengie's complex oxycodone network hid the source of their income behind several U.S. shell companies.

Bank Melli, a bank owned and run by the Government of Iran that was designated under a counter-proliferation authority and now is subject to counterterrorism sanctions, hid the fact that it owned and operated a skyscraper on Manhattan's Fifth Avenue generating millions upon millions of dollars for the Iranian government and its malign activities, right under the nose of U.S. authorities. Bank Melli violated U.S. sanctions by, among other things, creating two shell companies in New York to generate revenue for the Iranian regime.

Owen Hanson, leader of the violent "ODOG Enterprise," operated an international drug trafficking, gambling, and money laundering enterprise in the United States, Central and South America, and Australia from 2012 to 2016. Hanson trafficked hundreds of kilograms of cocaine, heroin, methamphetamine, MDMA ("ecstasy"), anabolic steroids, and Human Growth Hormone ("HGH"), including to numerous professional athletes, earning millions of dollars in illegal proceeds. He also operated a vast illegal gambling operation focused on high-stakes wagers placed on sporting events, using threats and violence against his gambling and drug customers to force compliance. Hanson set up numerous domestic shell companies to launder the proceeds of his crimes, hide assets, and continue his criminal enterprise.

Alejandro Andrade Cedeno, a former Venezuelan national treasurer, received over $1 billion in bribes from co-conspirators in exchange for using his position as Venezuelan national treasurer to select them to conduct currency exchange transactions at favorable rates for the Venezuelan government. He received cash as well as private jets, yachts, cars, homes, champion horses, and high-end watches from his co-conspirators. As part of his plea agreement, Andrade agreed to a forfeiture money judgment of $1 billion and forfeiture of all assets involved in the corrupt scheme, including real estate, vehicles, horses, watches, aircraft, and bank accounts. This corrupt Venezuelan public official funneled the proceeds of his bribery to U.S. shell companies.

Impact on National Security and Safety of Citizens

Stories of ordinary people and taxpayers victimized by criminals exploiting and hiding behind the secrecy of shell companies are all too common. Opaque corporate structures such as shell corporations facilitate anonymous access to the financial system for every type of criminal and terrorist activity. Narcotraffickers, corrupt leaders, rogue states, terrorists,

and fraudsters of all kinds establish domestic shell companies to mask and further criminal activity, to invest and buy assets with illicit proceeds, and to prevent law enforcement and others from efficiently and effectively investigating tips or leads. We recognize that corporations, limited liability companies, partnerships, and other entity structures play a vital role in domestic and global commerce, but they are also vulnerable to abuse, and currently pose a gap—a dangerous gap—in our national security apparatus that we need to address.

FinCEN's recent Customer Due Diligence Final Rule (CDD rule), which requires the collection of beneficial ownership information when opening an account at a bank or other financial institution, is but one critical step toward closing this national security gap. The second critical step in closing this national security gap is collecting beneficial ownership information at the corporate formation stage.

One of the most effective ways to deter criminals and to stem the harms that flow from their actions—including harm to American citizens and our financial system—is to follow the money, expose illicit activity, and prevent networks from operating undetected or secretly benefiting from the enormous power of our economy and financial system. Identifying and disrupting illicit financial networks not only assists in the prosecution of criminal activity of all kinds, but also allows law enforcement to halt and dismantle criminal organizations and other bad actors before they harm our citizens or our financial system.

It also allows us to use economic statecraft to expose and dissuade nefarious activity that threatens our country and the integrity of the global financial system, including through OFAC's sanctions and FinCEN's authorities, such as identifying primary money laundering concerns under Section 311 of the USA PATRIOT Act.

Money laundering and its associated crimes and bad acts undermines the rule of law and our democracy because it supports and rewards corruption and other crimes, allowing it to grow and fester. As such, our efforts to combat money laundering directly affect the safety and security of the American public, the stability of our nation, and its national security.

As a former State and Federal prosecutor, I know firsthand how difficult it is to trace assets hidden through a variety of legal entities. To determine the true owner of a shell company or front company in the United States today requires law enforcement to undertake a time-consuming and resource-intensive process. It often requires human source information, grand jury subpoenas, surveillance operations, witness interviews, search warrants, and foreign legal assistance requests to get behind the outward

facing structure of these shell companies. This takes an enormous amount of time—time that could be used to further other important and necessary aspects of an investigation—and wastes resources, or prevents investigators from getting to other equally important investigations. The collection of beneficial ownership information at the time of company formation would significantly reduce the amount of time currently required to research who is behind anonymous shell companies, and at the same time, prevent the flight of assets and the destruction of evidence.

Global Impact

As cross-border crime continues to proliferate—and it is most certainly proliferating—our efforts to combat the most sophisticated white-collar and cyber criminals require law enforcement to work with our partners all over the world to seek the evidence and witnesses necessary to build their cases. We need to collaborate with our foreign counterparts, not only to investigate crimes that have been committed and to cooperate on sanctions, but also to intercept ongoing crimes and to prevent crimes from occurring in the first place. We must be nimble in order to coordinate quickly, effectively, and fluently with our counterparts abroad. Criminals and other bad actors do not have borders and do not comport with the rule of law. To combat them, we need to work seamlessly with our foreign counterparts in a way that is efficient and effective.

Just as we receive significant assistance from our foreign partners in our investigations and prosecutions, we too must provide significant assistance to them in researching the beneficial owners of U.S. shell companies. This coordination is especially important when crimes are being planned by overseas actors targeting victims in the United States, or when bad actors use our financial system or opaque corporate structures to victimize people globally, including in the United States. The bottom line is that we need our foreign partners to have important information in a timely way, in order to stop and arrest criminals overseas to prevent harm caused to us here at home. This balanced model of reciprocity in information sharing is a vital tool in modern prosecution—whether the prosecutor is sitting in the United States, Europe, South America or elsewhere.

However, identifying beneficial ownership information in the United States can only be achieved today through a long, drawn-out process with many hoops, twists, and turns. This often dissuades some of our partners overseas from working with us. Indeed, the Financial Action Task Force (FATF)—a global inter-governmental body responsible for developing and promoting policies to protect the global financial system against money laundering and other threats, composed of thirty eight members, including all the G-7 countries and our most reliable partners—recognized and

highlighted in the 2016 Mutual Evaluation this issue as one of the most critical gaps in the United States' compliance with its standards. FATF noted that the lack of beneficial ownership information significantly slows investigations because determining the true ownership of bank accounts and other assets often requires that law enforcement undertake a time-consuming and resource-intensive process. While we have since implemented customer due diligence requirements, more must be done. Collecting beneficial ownership information at company formation would assist us and our foreign partners as we collaborate to stop criminals, seize and forfeit illicit assets, and protect the public.

As more and more of our allies begin to collect beneficial ownership information at the incorporation stage in their countries and make it accessible to law enforcement, the U.S. risks becoming a safe haven for bad actors looking to hide their assets. As Americans, we have always led in the areas of rule of law, security, and law enforcement. Our failure to lead here is perplexing to the global community that has come to rely on and expect our leadership.

Conclusion

In conclusion, the time to address this important issue is now. As Treasury Secretary Mnuchin has stated several times in Congressional testimony, beneficial ownership information at corporate formation is an important issue to the Department of the Treasury. It is critical for the security of our nation and its citizens that Congress act to eliminate one of the most useful tools used by criminals to perpetrate their crimes, hide their proceeds, and subvert law enforcement. That is why we appreciate this Committee's work on this issue, and we hope to work with Congress on developing a bipartisan solution to collecting this important information to protect our national security and the people of our nation. I am happy to take any questions you may have.

Number 8

Quantum machine learning hits a limit

A black hole permanently scrambles information that can't be recovered with any quantum machine learning algorithm, shedding new light on the classic Hayden-Preskill thought experiment

Los Alamos National Laboratory
Delivering science and technology to protect our nation and promote world stability

A new theorem from the field of quantum machine learning has poked a major hole in the accepted understanding about information scrambling.

"Our theorem implies that we are not going to be able to use quantum machine learning to learn typical random or chaotic processes, such as black holes. In this sense, it places a fundamental limit on the learnability of unknown processes," said Zoe Holmes, a post-doc at Los Alamos National Laboratory and coauthor of the paper describing the work published today in Physical Review Letters.

"Thankfully, because most physically interesting processes are sufficiently simple or structured so that they do not resemble a random process, the results don't condemn quantum machine learning, but rather highlight the importance of understanding its limits," Holmes said.

In the classic Hayden-Preskill thought experiment, a fictitious Alice tosses information such as a book into a black hole that scrambles the text. Her companion, Bob, can still retrieve it using entanglement, a unique feature of quantum physics.

However, the new work proves that fundamental constraints on Bob's ability to learn the particulars of a given black hole's physics means that reconstructing the information in the book is going to be very difficult or even impossible.

"Any information run through an information scrambler such as a black hole will reach a point where the machine learning algorithm stalls out on a barren plateau and thus becomes untrainable. That means the algorithm can't learn scrambling processes," said Andrew Sornborger a computer scientist at Los Alamos and coauthor of the paper.

Sornborger is Director of Quantum Science Center at Los Alamos and leader of the Center's algorithms and simulation thrust. The Center is a multi-institutional collaboration led by Oak Ridge National Laboratory.

Barren plateaus are regions in the mathematical space of optimization algorithms where the ability to solve the problem becomes exponentially harder as the size of the system being studied increases. This phenomenon, which severely limits the trainability of large scale quantum neural networks, was described in a recent paper by a related Los Alamos team.

“Recent work has identified the potential for quantum machine learning to be a formidable tool in our attempts to understand complex systems,” said Andreas Albrecht, a co-author of the research.

Albrecht is Director of the Center for Quantum Mathematics and Physics (QMAP) and Distinguished Professor, Department of Physics and Astronomy, at UC Davis. “Our work points out fundamental considerations that limit the capabilities of this tool.”

In the Hayden-Preskill thought experiment, Alice attempts to destroy a secret, encoded in a quantum state, by throwing it into nature’s fastest scrambler, a black hole. Bob and Alice are the fictitious quantum dynamic duo typically used by physicists to represent agents in a thought experiment.

“You might think that this would make Alice’s secret pretty safe,” Holmes said, “but Hayden and Preskill argued that if Bob knows the unitary dynamics implemented by the black hole, and share a maximally entangled state with the black hole, it is possible to decode Alice’s secret by collecting a few additional photons emitted from the black hole.

But this prompts the question, how could Bob learn the dynamics implemented by the black hole? Well, not by using quantum machine learning, according to our findings.”

A key piece of the new theorem developed by Holmes and her coauthors assumes no prior knowledge of the quantum scrambler, a situation unlikely to occur in real-world science.

“Our work draws attention to the tremendous leverage even small amounts of prior information may play in our ability to extract information from complex systems and potentially reduce the power of our theorem,” Albrecht said.

“Our ability to do this can vary greatly among different situations (as we scan from theoretical consideration of black holes to concrete situations controlled by humans here on earth). Future research is likely to turn up interesting examples, both of situations where our theorem remains fully in force, and others where it can be evaded.

Paper: "Barren plateaus preclude learning scramblers." Zoe Holmes, Andrew Arrasmith, Bin Yan, Patrick J. Coles, Andreas Albrecht, and Andrew T. Sornborger.

You may visit:
https://journals.aps.org/prl/abstract/10.1103/PhysRevLett.126.190501

Number 9

Crown Prosecution Service (CPS)

COVID-19 fraudster jailed for mass cyber scam

The Crown Prosecution Service (CPS) prosecutes criminal cases that have been investigated by the police and other investigative organisations in England and Wales. The CPS is independent, and we make our decisions independently of the police and government.

A COVID-19 fraudster has been jailed for using fake digital messages to trick people into providing bank details to receive a vaccine.

Teige Gallagher, 21, was sentenced at the Old Bailey to four years and three months' imprisonment.

Gallagher had been sending out bulk text messages to members of the public claiming to be from various commercial organisations such as banks and from the NHS. The victims were asked for personal financial information, including questions relating to their bank accounts and bank cards.

In the case of the NHS, Gallagher set up web pages based on the GOV.UK website, which claimed it needed this information to verify who victims were and their entitlement to receive the vaccine.

The police found iPhones at Gallagher's home containing messages purporting to be from the NHS, various banks, and Netflix. On one of the phones more than 2,000 telephone numbers were found, believed to be a list of victims who were sent scam SMS messages.

Gallagher used specialist tools to be able to send out bulk SMS text messages to a list of mobile phone numbers which came from a data breach. He would then tailor a fake SMS message from an organisation relevant to the victim.

Within the fake message there would be a link to a fraudulent website and once taken in by the scam the intent was to 'socially manipulate' the victim to disclose personal details. In this way he intended to obtain the victims' full names, credit and debit card numbers, bank account numbers and passwords.

Gallagher was engaging in smishing and phishing frauds. Smishing is when fraudsters obtain personal details of a victim by SMS text messages, while phishing is a method used by fraudsters to access valuable personal details, such as usernames and passwords.

John Werhun, from the CPS, said: "At a time when the country is looking to the COVID-19 vaccination rollout to help our society return to normal, Gallagher was seeking to exploit this by prising vital personal financial information from vulnerable victims eagerly wanting their vaccine.

"Criminals are increasingly using sophisticated on-line methods to try and extract information and money from unsuspecting members of the public. We need to be agile in our response to these phishing and smishing threats and our new Economic Crime Strategy will allow us to adapt and enhance our capability.

"Working closely with City of London Police, we have brought a rapid close to Gallagher's fraudulent operation. Hopefully, this sends a message out to other fraudsters and reassures the public that work is underway to prevent it happening. Please remember to report any incidents like this to Action Fraud."

Detective Chief Inspector Gary Robinson, head of unit at the Dedicated Card and Payment Crime Unit (DCPCU), said: "Gallagher wrongfully thought he could get away with impersonating organisations and sending out scam text messages, including ones related to the COVID-19 vaccine to commit fraud.

"The DCPCU will continue to crack down on those seeking to exploit this pandemic to defraud the public, through close collaboration with the CPS, mobile phone companies and the banking industry.

"Criminals are experts at impersonating trusted organisations like the NHS, banks or the government and will try to play on people's concerns about their finances at this difficult time. It's therefore vital that the public follow the advice of the Take Five to Stop Fraud campaign and stop and think before parting with any money or information in case it's a scam."

In the last year the CPS has seen cyber criminals look to exploit the COVID-19 pandemic. In response to this, the CPS has issued an ambitious Economic Crime Strategy to combat these offences.

Notes

- John Werhun is a specialist prosecutor for the CPS Specialist Fraud Division

- The CPS Economic Crime Strategy is available at: https://www.cps.gov.uk/publication/economic-crime-strategy-2025

Introduction

Our Economic Crime Strategy provides a high-level vision of where we want to be by 2025, helping to focus our work where it really matters. The strategy is supported by a commitment to ensure the right person is prosecuted for the right offence in a timely manner, that victims and witnesses are at the heart of our casework and that any proceeds of crime are recovered. It represents a clear articulation of the role that the Crown Prosecution Service (CPS) will play in contributing to improving criminal justice outcomes in economic crime.

Economic crime refers to a broad category of activity involving money, finance or assets, the purpose of which is to unlawfully obtain a profit or advantage for the perpetrator or cause loss to others. This poses a threat to the UK's economy and its institutions and causes serious harm to society and individuals. It includes criminal activity which:

- allows criminals to benefit from the proceeds of their crimes or fund further criminality;
- damages our financial system and harms the interests of legitimate business;
- undermines the integrity of the UK's position as an international financial centre; and
- poses a risk to the UK's prosperity, national security and reputation.

- The *Specialist Fraud Division* is a dedicated CPS team playing a leading role in the fight against serious and complex economic crime and the financial exploitation of the public, using specialist legal expertise to deliver justice. You may visit: https://www.cps.gov.uk/specialist-fraud-division

Specialist Fraud Division

The Specialist Fraud Division is a dedicated prosecuting team within the CPS which deals with the most serious, complex and difficult economic crime cases, including bribery and corruption. It has a national remit and the specialist expertise to prosecute cases investigated by police and a range of other investigative agencies throughout England and Wales.

The Division primarily takes economic crime from specialist units in the City of London Police and the Metropolitan Police Service, but has a number of cases investigated by other forces and has arrangements in place to work with the National Crime Agency (NCA) and regional police fraud units.

SFD also prosecutes serious and complex criminal tax, excise and strategic export cases, which are subject to criminal investigations by Her Majesty's Revenue and Customs (HMRC), in England and Wales.

In addition, SFD prosecutes all criminal cases relating to NHS fraud investigated by NHS Protect and criminal matters investigated by the Medicines and Healthcare Products Regulatory Agency (MHRA).

- The *Dedicated Card and Payment Crime Unit (DCPCU)* is a unique pro-active police unit, with a national remit, formed as a partnership between UK Finance, the City of London Police and the Metropolitan Police together with the Home Office.

  It is fully sponsored by the cards and banking industries, with an on-going brief to investigate, target and, where appropriate, arrest and seek successful prosecution of offenders responsible for card, cheque and payment fraud crimes.

It is headed up by a Detective Chief Inspector and comprises officers from the Metropolitan and City of London police forces who work alongside banking industry fraud investigators and support staff.

In 2020, the unit prevented almost £20 million of fraud, disrupted 26 organised crime groups (OCGs), arrested 122 suspected criminals, and secured 54 convictions

- Teige Gallagher (DOB: 23/01/2000) was sentenced to four years and three months' imprisonment.

Number 10

Enabling Human Control of Autonomous Partners

DARPA program to help humans maintain situational awareness when AI behaves in unexpected ways

A major benefit of increasingly advanced automation and artificial intelligence technology is decreased workload and greater safety for humans – whether it's driving a vehicle, piloting an airplane, or patrolling a dangerous street in a deployed location with the aid of autonomous ground and airborne squad mates.

But when there's a technology glitch and machines don't function as designed, human partners in human-machine teams may quickly become overwhelmed trying to understand their environment at a critical moment – especially when they've become accustomed to and reliant on the machine's capabilities.

Without situational awareness of the system and environment, the human team member may be unable to adapt, reducing safety and threatening mission success.

This reality played out in crashes of modern jetliners in recent years killing hundreds, because advanced automated systems failed in flight and pilots weren't able to assess the situation and respond appropriately in time.

Such examples underscore the need to design human-machine interfaces (HMIs) that allow humans to maintain situational awareness of highly automated and autonomous systems so that they can adapt in the face of unforeseen circumstances.

DARPA today announced its Enhancing Design for Graceful Extensibility (EDGE) program, which aims to create a suite of HMI design tools to be integrated into systems design processes.

By prioritizing and orienting these tools towards quantifying, supporting, and testing situational awareness – rather than on cognitive load at the expense of situational awareness – EDGE will help create HMI systems that allow operators to not just monitor autonomous systems but also adapt their use to meet the needs of unanticipated situations.

"As highly-automated machines and AI-enabled systems have become more and more complicated, the trend in HMI development has been to reduce cognitive workload on humans as much as possible.

Unfortunately, the easiest way to do this is by limiting information transfer," said Bart Russell, EDGE program manager in DARPA's Defense Sciences Office.

"Reducing workload is important, because an overloaded person cannot make good decisions. But limiting information erodes situational awareness, making it difficult for human operators to know how to adapt when the AI doesn't function as designed. Current AI systems tend to be brittle – they don't handle unexpected situations well – and warfare is defined by the unexpected."

The EDGE design tools will focus on supporting the ability of operators of autonomous systems, who are not necessarily data scientists or AI experts, to understand enough about the abstract functioning of a system that they can adapt with it when they encounter off-nominal situations.

Designers will be able to leverage EDGE design tools to create HMIs that help operators understand an AI system's processes, or how it works; the system's status against its performance envelope (i.e., if it's in its "comfort zone," or near the edges of its speed, range, etc.); and the environmental context, which is often where the most unanticipated elements come in.

"We need HMIs that do a better job of exchanging information between the system and the human," Russell said.

"There's a lot of work right now focused on designing machines to understand human intentions, called AI Theory of Mind. I'm interested in helping humans better understand the complex systems they're teamed with. EDGE is specifically focused on the Observe, Orient, Decide and less on the Act in the OODA loop.

It's not about how fast you press a button, or the ergonomics of your cockpit, it's about how well you perceive the information that's coming to you and does that help you develop sufficient understanding of systems processes, status against the machine's performance envelope, and the context in which it's operating to still complete a mission despite off-nominal conditions."

The suite of EDGE HMI design tools will include models that quantify situational awareness demands to enable detailed co-design between software engineers and HMI designers; composable design methods to speed and mature design implementation; and an HMI breadboard for realistic test and verification early in the design process.

A webinar Proposers Day for interested proposers is scheduled for June 1, 2021. More information and details about registration are available here: https://go.usa.gov/xHSKg

A Broad Agency Announcement (BAA) solicitation is expected be available on beta.SAM.gov in the coming weeks.

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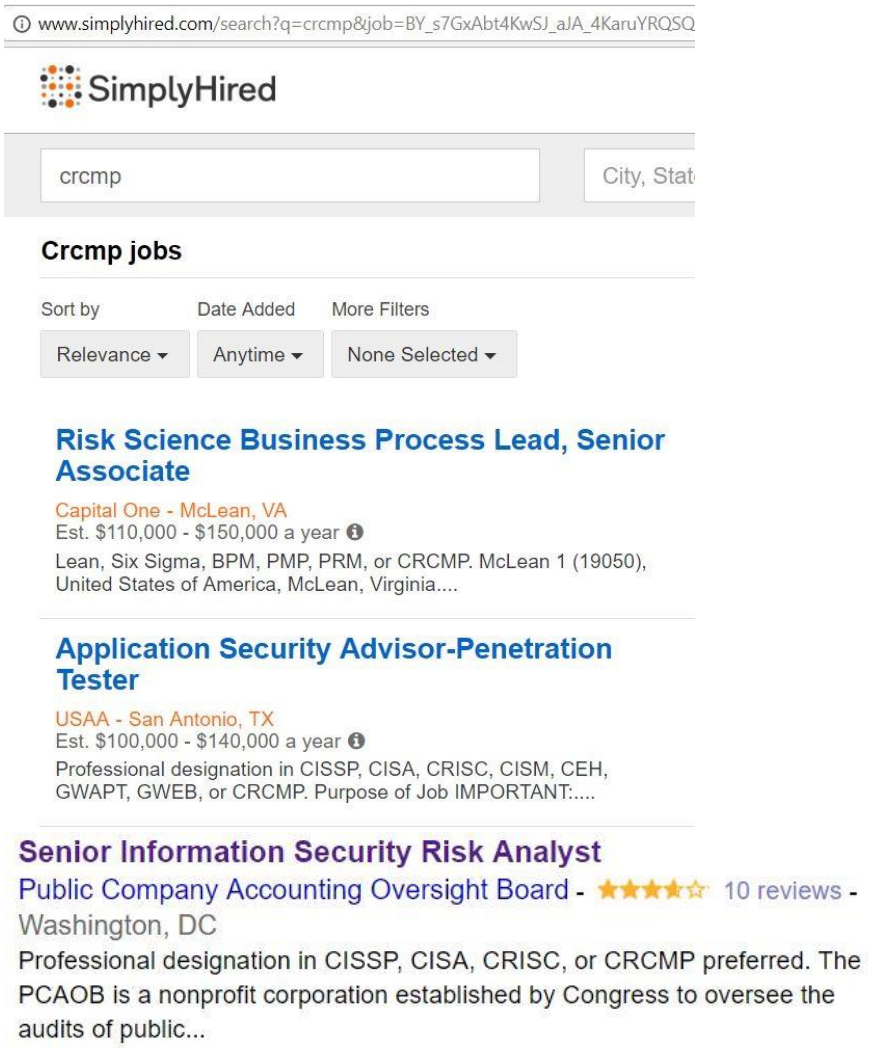

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Qualifications

- A minimum of a Bachelor's degree or equivalent is required.
- Compliance Certification (CRCMP) designation is preferred.
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- Experience leading & executing SOX 404 compliance programs is required.
- Prior experience with vendor risk management preferred.
- Experience working with 3rd party vendors is preferred.

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