Monday, October 12, 2020

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,

The role of stress testing has rapidly evolved and grown in importance after 2009 in most jurisdictions. Stress testing is now a critical element of risk management in the financial sector, and a core tool for banking, insurance, securities supervisors and macroprudential authorities.

A stress testing exercise alerts management and supervisory authorities to unexpected adverse outcomes arising from a wide range of risks, and provides an indication of the financial resources that might be needed to absorb losses.

In 2020, after the COVID crisis, we have some interesting developments from the European Banking Authority (EBA). After postponing the EU-wide stress test to 2021 (in order to allow banks to focus on and ensure continuity of their core operations), the Board of Supervisors of the ECB agreed on an additional EU-wide *transparency exercise* to be carried out, with the aim of providing updated information on banks' exposures and asset quality to market participants.

Which is the difference between a transparency exercise and a stress test?

Transparency exercises are purely disclosure exercises where only supervisory reporting data on a bank by bank level is published, and no shocks are applied (as it is the case for stress tests).

Transparency exercises are conducted by the EBA on a regular basis at the EU-wide level and cover the largest EU banks *at their highest level of consolidation*.

Both exercises aim at promoting market and supervisory discipline and providing transparency on banks' exposures, so as to address any uncertainties that may still remain.

The transparency exercise is a mean through which the EBA disseminates bank-by-bank information on a wide sample of EU banks in a consistent and comparable way.

In stress testing we follow Ovid's advice: "Perfer et obdura, dolor hic tibi proderit olim" (be patient and tough, someday this pain will be useful to you)". In transparency exercises, which are conducted by the EBA, banks have some more time to focus of the outcomes of the COVID crisis and focus on what must be done today.

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

Best regards,

George Lekatis

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Number 1

Jointly shaping Europe's tomorrow

Introductory remarks by Christine Lagarde, President of the ECB, at the Franco-German Parliamentary Assembly, Frankfurt am Main.

Dear President Schäuble, Dear President Ferrand, Honourable Members of the Franco-German Assembly, I would like to thank you very warmly for inviting me to join you today.

As President of the European Central Bank and a French citizen living and working in Germany, it is an honour to speak at this historic forum.

This parliamentary assembly is an embodiment of the special relationship between our two countries and their commitment to European integration.

I find it essential that the ECB constantly engages in two-way communication, especially with citizens' representatives.

We need to make sure that the ECB's voice is heard by the people and that the people's voice is heard by the ECB. This is why events like today's are so important for me.

Our regular interlocutor is the European Parliament, to whom we are accountable under the Treaty for our monetary policy tasks. Transnational settings like this one give us a further chance to look past nation-specific concerns as we discuss Europe's future.

The coronavirus (COVID-19) pandemic is a crisis of unprecedented magnitude.

Many of you will recognise the famous words of Jean Monnet, one of the founding fathers of the European project, who said: "Europe will be forged in crises and will be the sum of the solutions adopted for those crises".

This pandemic has proven him right once more. Undoubtedly, Europe has been strengthened during this crisis. But Europe now has the opportunity to show that it can be more than the sum of the solutions adopted in this crisis.

Once again, Monnet's words offer inspiration: "Europe itself is only a step towards the forms of organisation of the world of tomorrow".

With these words in mind, we must seize this invaluable opportunity to strengthen our Union. We must shape the recovery from this crisis in such a way that our economies are fit for the world of tomorrow.

The unique strength of the European project

The pandemic and the measures to contain the spread of the virus have caused a contraction in euro area economic activity that is unprecedented in peacetime.

While incoming data suggest that we will see a strong rebound during the third quarter, the strength of the recovery remains very uncertain, as well as uneven and incomplete.

It continues to be highly dependent on the future evolution of the pandemic and the success of containment policies.

One major reason why we can expect a rebound in activity in the second half of the year is because, when faced with the largest economic shock since the Second World War, Europe and its leaders showed the unique strength of the European project: by acting together, we can achieve more.

The ECB has played its part in this collective effort in the face of an unprecedented crisis. The nature of the pandemic shock called for an extraordinary monetary policy response.

We launched the pandemic emergency purchase programme (PEPP) to help stabilise financial markets and ease our monetary policy stance considerably.

The PEPP is temporary, targeted and proportionate. It addresses the specific shock at hand, and aims to repair the economic damage and the resulting downward pressures on inflation wrought by the pandemic.

In addition, it was also vital that we limited the risk of a credit crunch. So we substantially eased the conditions under which banks can obtain liquidity under our targeted longer-term refinancing operations.

Banks can now borrow from the ECB at interest rates which can reach -1%, under the condition that they are lending to the real economy.

Six months after we introduced our measures, our policy package has stabilised markets, protected the supply of credit and supported the recovery.

This, in turn, should support the return of inflation towards our medium-term objective and safeguard price stability.

At the same time, the uncertainty of the current environment requires a very careful assessment of the incoming information, including developments in the exchange rate, with regard to its implications for the medium-term inflation outlook.

The Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

When you look at the past six months, the ECB has not been the only game in town.

Our measures have been complemented by forceful fiscal responses at both national and European levels.

This has been a critically important factor in alleviating the impact of the pandemic on the labour market and on banks' lending.

We judge that the economy still needs that support if the recovery is to continue and strengthen further.

Ambitious fiscal measures by national governments were complemented by a €540 billion European safety net.

And with the Next Generation EU fund, Europe took a decisive step forwards as the crisis evolved.

For the first time, a common budgetary instrument at European level can be used to complement fiscal stabilisers at national level, even if it is currently only temporary.

As a result, we now have an aggregate policy mix in which fiscal and monetary policy reinforce each other in supporting the recovery, and thus underpin medium-term price stability.

To read more: https://www.bis.org/review/r200921f.pdf

Number 2

Report on risks and vulnerabilities in the EU financial system

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

The outbreak of the Coronavirus has brought huge social disruptions and unprecedented economic challenges, with inevitable impact on the EU1 financial sector.

Valuation, liquidity, credit and solvency risks have increased across the board.

While liquidity positions of EU banks remained relatively strong, the EU investment fund industry faced a significant deterioration of asset liquidity in some segments combined with substantial outflows from investors in selected asset classes.

The pandemic has thus led to liquidity challenges in segments of the investment fund sector.

It has also further amplified profitability concerns for all financial sectors, and is expected to result in deteriorating asset quality in the EU banking sector. Moreover, the expected further prolonged low interest rate environment weighs on the profitability and solvency of financial institutions.

EU institutions for occupational retirement provision (IORPs) are also impacted by the pandemic and the prolonged low interest rate environment, which could lead to significant drops in the cover and funding ratios.

Uncertainties about the medium- and long term economic consequences of the COVID-19 pandemic are still very high, and lead to a fragile market environment going forward.

Financial markets are vulnerable to potential decoupling of financial market performance from underlying economic activity, raising questions about the sustainability of the market recovery.

A swift, coordinated supervisory response of the ESAs to the outbreak of the virus has contributed to address and mitigate implications on the EU financial sector, and is contributing to prevent fragmentation of the Single Market.

Usage of and dependency on information and communication technology (ICT) has further increased with the spread of the Coronavirus. Related risks represent a key challenge for financial institutions and put sound ICT and security risk management high on the agenda.

Against this background, the Joint Committee of the ESAs advises national competent authorities (NCAs), financial institutions and market participants to take the following policy actions:

1. Given the high uncertainty regarding economic and market developments, financial institutions should be prepared for possible further market corrections and deterioration in financial market liquidity.

In this context, financial institutions and supervisors should take into account various scenarios and, for example, perform stress testing or sensitivity analyses in order to map the impact of potential shocks.

For the investment fund sector this should be complemented by continued monitoring of liquidity management tool adequacy and usage.

In addition, financial institutions cannot fully rely on their existing risk management frameworks, as they may not sufficiently take into account the unique characteristics of this crisis for managing their risks.

2. The impact of the crisis on bank asset quality is expected to be a key challenge going forward.

In the past few years, credit institutions in the EU have on average increased their exposures towards potentially riskier portfolios and, given the widespread impact of the crisis, average exposures to sectors most affected by the pandemic are high.

Banks are likely to face deteriorating asset quality with growing volumes of non-performing loans and rising cost of risk amid the prospective macroeconomic deterioration.

Banks and supervisors should properly assess the quality of loan portfolios and also consider in their preparations that widely introduced legislative and non-legislative loan moratoria, as well as further policy measures such as loan guarantee schemes, are of a temporary nature.

3. Given the overall uncertainty of the scale and duration of the crisis, it is important that the financial sector remains well-capitalised.

Financial institutions should ensure that the assessment of their capital positions is forward-looking and that it takes into account current uncertainties, following prudent dividend and other distribution policies, including variable remuneration.

At the same time, supervisors and banks should make use of the flexibility embedded in the existing regulatory framework, including to use capital and liquidity buffers to absorb losses, and thus to ensure continued lending to the economy.

4. Monetary policy responses to the crisis entail an even longer low interest rate environment. Supervisors and financial institutions need to accommodate a further prolonged "low-for-long" interest rate environment and its risks, including addressing overcapacities in the financial sector.

While low interest rates are important to support economic activity, they negatively impact bank profitability and remain the main risk for the life insurance and pension fund sector.

They contribute to the further build-up of valuation risks in securities markets through search-for-yield strategies, which underestimate risks, and have contributed to bank lending growth in riskier segments.

Notwithstanding the importance of continued lending in the crisis, banks should ensure sound lending practices and that risks are not mispriced, which should be monitored by supervisors.

5. It is key for financial institutions and their service providers to carefully manage their ICT and security risks, including when outsourcing ICT activities.

They should ensure that appropriate technologies and adequate resources are in place to address data integrity, business continuity and increasingly sophisticated cyber threats.

Institutions should also pay particular attention to a growing number and new forms of financial crime in this period of large economic turmoil.

Financial institutions should also ensure to be well-prepared for any disruptions they and their clients may face at the end of the UK's transition period agreed in the context of the UK withdrawal from the EU.

The ESAs are monitoring financial institutions' preparedness for the end of transitional period, when UK institutions will lose their passporting rights into the EU as of 1 January 2021.

Market participants should also be aware that a Free Trade Agreement (FTA) between the EU and UK that is currently being discussed would not eliminate most potential disruptions in the financial services sector, as the FTA will not address passporting rights.

Financial institutions must use the remainder of the transition period to finalise their preparations and adapt their business models accordingly.

Where relevant, the preparation should factor in situations in which no relevant equivalence decisions have been made by 31 December 2020.

To this end, financial institutions should ensure that their contingency planning minimises detriment to their customers, and should provide appropriate information to their customers regarding their preparations for the end of the transition period and availability and continuation of services offered to EU-based customers.

Financial institutions relocating from the UK to the EU need to ensure that they adhere to the establishment plans agreed with the relevant competent authorities in the EU as part of their authorisations.

Separately, it should be noted that in the area of central clearing, on 9 July 2020 the European Commission announced that a time-limited equivalence decision providing for the continued access of EU 27 institutions to UK central counterparties (CCPs) will be adopted in order to address possible financial stability risks.

To read more:
https://www.eiopa.europa.eu/sites/default/files/publications/reports/2020-67-report-on-risks-and-vulnerabilities.pdf

Number 3

FOREIGN ACTORS AND CYBERCRIMINALS LIKELY TO SPREAD DISINFORMATION REGARDING 2020 ELECTION RESULTS

The Federal Bureau of Investigation (FBI) and the Cybersecurity and Infrastructure Security Agency (CISA) are issuing this announcement to raise awareness of the potential threat posed by attempts to spread disinformation regarding the results of the 2020 elections.

Foreign actors and cybercriminals could create new websites, change existing websites, and create or share corresponding social media content to spread false information in an attempt to discredit the electoral process and undermine confidence in U.S. democratic institutions.

State and local officials typically require several days to weeks to certify elections' final results in order to ensure every legally cast vote is accurately counted.

The increased use of mail-in ballots due to COVID-19 protocols could leave officials with incomplete results on election night.

Foreign actors and cybercriminals could exploit the time required to certify and announce elections' results by disseminating disinformation that includes reports of voter suppression, cyberattacks targeting election infrastructure, voter or ballot fraud, and other problems intended to convince the public of the elections' illegitimacy.

The FBI and CISA urge the American public to critically evaluate the sources of the information they consume and to seek out reliable and verified information from trusted sources, such as state and local election officials.

The public should also be aware that if foreign actors or cyber criminals were able to successfully change an election-related website, the underlying data and internal systems would remain uncompromised.

RECOMMENDATIONS

- Seek out information from trustworthy sources, such as state and local election officials; verify who produced the content; and consider their intent.

- Verify through multiple reliable sources any reports about problems in voting or election results, and consider searching for other reliable sources before sharing such information via social media or other avenues.

- For information about final election results, rely on state and local government election officials.

- Report potential election crimes—such as disinformation about the manner, time, or place of voting—to the FBI.

- If appropriate, make use of in-platform tools offered by social media companies for reporting suspicious posts that appear to be spreading false or inconsistent information about election-related problems or results.

The FBI is responsible for investigating malign foreign influence operations and malicious cyber activity targeting election infrastructure and other U.S. democratic institutions.

CISA is responsible for protecting the nation's critical infrastructure from physical and cyber threats.

The FBI and CISA provide services and information to uphold the security, integrity, and resiliency of the U.S. electoral processes.

VICTIM REPORTING AND ADDITIONAL INFORMATION

The FBI encourages victims to report information concerning suspicious or criminal activity to their local field office (www.fbi.gov/contact-us/field). For additional assistance and best practices, and common terms, please visit the following websites:

Protected Voices

Protected Voices:
www.fbi.gov/investigate/counterintelligence/foreign-influence/protected-voices

Election Crimes and Security:
www.fbi.gov/scams-and-safety/common-scams-and-crimes/election-crimes-and-security

#Protect2020: www.cisa.gov/protect2020

Number 4

Declaration of the United States of America and the United Kingdom of Great Britain and Northern Ireland on Cooperation in Artificial Intelligence Research and Development: A Shared Vision for Driving Technological Breakthroughs in Artificial Intelligence

The following declaration was released by the Governments of the United States of America and the United Kingdom of Great Britain and Northern Ireland during the September 25 inaugural meeting of the Special Relationship Economic Working Group.

Begin Text

Recognizing the benefits and opportunities artificial intelligence (AI) brings, and the importance of AI for our future economic growth, health and wellbeing, the protection of democratic values, and national security;

Desiring to harness AI technologies to empower our citizens, improve their quality of life, and promote a technology ecosystem that enables innovation to flourish by integrating AI into the economy;

Recognizing the value of shared best practice on public data sets to unlock AI innovation and exchanges of information on regulatory frameworks to remove barriers to innovation whilst commanding public confidence;

Recognizing the importance of collaboration in basic and early stage research and development (R&D), and the need to establish the research foundations for continued and future AI innovations and use;

Recognizing the importance of promoting trust and understanding in order to enable the adoption of AI and fully realize its potential;

Recognizing the importance of a capable R&D workforce and workforce development for AI-related technical skills, including apprenticeships, reskilling programs, computer science and STEM education — to empower and enable current and future generations of workers, and to improve the quality of life of our people;

Recognizing that public-private-partnerships bring value to and enrich the AI R&D enterprise, enhance technology commercialization, and create value for our citizens;

Building on the US-UK Science and Technology Agreement signed in September 2017, we intend to advance our shared vision and work towards an AI R&D ecosystem that embodies this approach by:

- Taking stock of and utilizing existing bilateral science and technology cooperation (e.g., the Memorandum of Understanding between the U.S. National Science Foundation and UK Research and Innovation on Research Cooperation) and multilateral cooperation frameworks;

- Recommending priorities for future cooperation, particularly in R&D areas where each partner shares strong common interest (e.g., interdisciplinary research and intelligent systems) and brings complementary challenges, regulatory or cultural considerations, or expertise to the partnerships;

- Coordinating as appropriate the planning and programming of relevant activities in these areas, including promoting researcher and student collaboration that could potentially involve national partners, the private sector, academia, and the scientific community to further our efforts by harnessing the value of public-private partnerships; and

- Promoting research and development in AI, focusing on challenging technical issues, and protecting against efforts to adopt and apply these technologies in the service of authoritarianism and repression.

We intend to establish a bilateral government-to-government dialogue on the areas identified in this vision and explore an AI R&D ecosystem that promotes the mutual wellbeing, prosperity, and security of present and future generations.

Signed in London and Washington on September 25, 2020, in two originals, in the English language.

For the United States:

The Honorable Michael J.K. Kratsios
Chief Technology Officer of the United States
The White House
For the United Kingdom of Great Britain and Northern Ireland:

The Right Honorable Alok Sharma, MP

Secretary of State
Department for Business, Energy, and Industrial Strategy
The Right Honorable Oliver Dowden, CBE MP
Secretary of State
Department for Digital, Culture, Media, and Sport

End Text

Number 5

EBA launches EU-wide transparency exercise

The European Banking Authority (EBA) has launched its 7th annual EU-wide transparency exercise, with the objective of providing market participants with updated information on the financial conditions of EU banks as of June 2020, thus assessing the preliminary impact of the COVID-19 crisis on the sector.

The EBA expects to publish the results of this exercise at the beginning of December, along with the Risk Assessment Report.

This exercise will complement the information provided through the Spring EU-wide Transparency exercise of 8 June 2020, by disclosing data with reference date as of March and June 2020, thus shedding light on the preliminary impact of the ongoing crisis.

The EBA will release about one million data points, on average more than 7,000 data points for about 130 participating banks from 27 countries, including the United Kingdom.

The data will cover banks' capital positions, financial assets, financial liabilities, risk exposure amounts, sovereign exposures and asset quality.

The exercise will also include data on loans and advances subject to legislative and non-legislative moratoria, following the EBA Guidelines on Covid-19 measures reporting and disclosure.

Spring 2020 EU-wide transparency exercise: Frequently Asked Questions

1. What is a transparency exercise?

The transparency exercise is a mean through which the EBA disseminates bank-by-bank information on a wide sample of EU banks in a consistent and comparable way.

Since its establishment in 2011, the EBA has promoted additional disclosure and transparency in the EU banking sector as a way to improve market discipline and restore confidence in EU banks.

2. How often does the EBA release this data?

The EBA conducts transparency exercises on an annual basis, usually in late Autumn in conjunction with the publication of the Risk Assessment Report.

3. Why do we have a Spring exercise in 2020?

The Spring 2020 EU-wide transparency exercise comes as an exceptional disclosure in response to the outbreak of COVID-19.

After postponing the EU-wide Stress Test to 2021, in order to allow banks to focus on and ensure continuity of their core operations, the Board of Supervisors agreed on an additional EU-wide transparency exercise to be carried out with the aim of providing updated information on banks' exposures and asset quality to market participants.

The EBA considers that the provision to market participants of continuous information on banks' exposures and asset quality is crucial, particularly in moments of increased uncertainty.

4. How does it differ from a stress test?

Transparency exercises are purely disclosure exercises where only supervisory reporting data on a bank by bank level is published, and no shocks are applied (as it is the case for stress tests).

Transparency exercises, just like stress tests, are conducted by the EBA on a regular basis at the EU-wide level and cover the largest EU banks at their highest level of consolidation.

Both exercises aim at promoting market and supervisory discipline and providing transparency on banks' exposures, so as to address any uncertainties that may still remain.

5. What is the reference date of the Spring transparency exercise data?

The reference dates for the data of the Spring 2020 Transparency exercise are September 2019 and December 2019.

6. Does the data from transparency exercise shed light on the impact from Covid-19?

The data included in the Spring 2020 exercise can serve a benchmark on the condition of the banking sector before the pandemic crisis and as a starting point for the analysis of the crisis impact.

The direct impact from Covid-19 on the banking sector will be more evident with the disclosure of 2020 data in the next Transparency exercises.

7. How many banks are involved?

The Spring 2020 EU-wide transparency exercise provides detailed bank-by-bank data for 127 banks from 27 countries of the European Union (EU) and the European Economic Area (EEA).

8. Who will use this information?

The information disclosed is expected to be extensively used by banks, market analysts, academics and international organizations in their assessments of EU banks, which will result in better understanding of and confidence in the EU banking sector.

9. How is the transparency exercise related to the Risk Assessment Report (RAR)?

The year-end EU-wide transparency exercise is usually published together with the Risk Assessment Report (RAR).

Instead, the Spring exercise is complemented with a booklet with key statistics on EU banks, which are based on a wider sample of banks.

10.What kind of data is disclosed and which are the main changes in comparison with previous exercises?

The disclosure templates are mostly in line with the ones used in the 2019 exercise. The most significant changes for this year's exercise derive from the disclosure of two additional templates, disclosing information related to Liabilities and exposures towards industry sectors (by NACE activities).

The templates for the Spring 2020 Sexercise cover the following areas: capital, leverage ratio, risk exposure amounts, profit and losses, assets, liabilities, market risk, credit risk, exposures to sovereign, non-performing exposures, forborne exposures and Breakdown of loans and advances to non-financial corporation.

All the templates are entirely populated with supervisory reporting data.

11.How are capital increases, merges and acquisitions or any restructuring action on banks' balance sheets treated in the Spring 2020 EU-wide transparency exercise?

The Spring 2020 EU-wide transparency exercise includes supervisory reporting data as of September 2019 and December 2019. Therefore, any banks' actions having an impact on their balance sheets happened after these reference dates are not considered in the exercise.

In case of major events, a footnote to the templates explains the impact of such events.

12.In which format is the data being released?

The EBA has developed a set of practical tools to help users navigate through the Spring 2020 EUwide transparency data.

These include interactive maps and aggregation tools, as well as a complete dataset in CSV format, which can be imported into any analytical software for analysis purposes.

The transparency dataset itself is stored in four different CSV files and shows all the bank-by-bank data contained in the transparency templates.

Each CSV file is related to a particular data category, reflecting the content of one or more transparency templates. The maps tool allows users visualizing and analysis data by country and by bank through maps.

To read more:
https://eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise

Number 6

Deputy Attorney General Jeffrey A. Rosen Delivers Remarks at Announcement of Results of Operation Disruptor

Washington, DC

Good morning. I am pleased to be joined today by FBI Director Christopher Wray, DEA Acting Administrator Timothy Shea, ICE Acting Deputy Director Derek Benner, and Chief Postal Inspector Gary Barksdale.

This morning, the Department is joining its partners in the United States and Europe to announce the results of Operation DisrupTor. Operation DisrupTor is the United States Government's largest operation to date targeting criminal activity on the Darknet, particularly opioid trafficking. Over the past months, the United States and its partners across the globe have worked together to deal a powerful blow to this criminal underworld.

The trafficking of opioids is a national crisis of daunting proportions, which poses a major danger to the American people. It is devastating our communities and our families.

According to the CDC, over 67,000 people in the United States died of a drug overdose in 2018. That's over 1,000 people dead each week – 1,000 lost parents, children, friends, and family members.

That is more deaths than occur from car accidents. For Americans under the age of 50, drug overdoses are now among the leading causes of death.

For an increasing number of young addicts, opioids are purchased not from local dealers, but from pushers operating online. Hiding behind anonymizing software known as Tor, a new sort of drug kingpin now is able to reach more buyers than ever before, through online marketplaces peddling every sort of illicit good and service imaginable.

These "Darknet marketplaces" have grown in popularity at an alarming rate and allow drug traffickers to openly advertise and take orders from anywhere in the world. The Darknet invites criminals into our homes, and provides unlimited access to illegal commerce.

Operation DisrupTor is the Department's latest effort to combat the scourge of opioid trafficking on the Darknet. Activities here resulted in almost 120 arrests and the seizure of over 270 kilograms of drugs, including 17 kilograms of lethal fentanyl and 96 kilograms of methamphetamine.

Additionally, U.S. law enforcement worked in conjunction with counterparts in Europe and Canada on this investigation, which resulted in more than 50 additional arrests.

Operation DisrupTor was coordinated by the Joint Criminal Opioid and Darknet Enforcement team, also known as JCODE. Cases were worked in more than 20 different U.S. Attorneys' Offices across the country.

The operation was supported by numerous components at Main Justice, including the Computer Crime and Intellectual Property Section, Narcotic and Dangerous Drug Section, and the Department's Office of International Affairs.

Among the cases:

- Law enforcement in the Southern District of Ohio shut down one of the most prolific online drug trafficking organizations in the United States, which operated using the moniker "Pill Cosby." Members of the group were charged with manufacturing and distributing over one million fentanyl-laced counterfeit pills.

- Here in the District of Columbia, a grand jury charged a Costa Rican pharmacist who knowingly supplied large amounts of drugs to a dark web trafficker, sending a strong message that unscrupulous doctors and pharmacists who fuel the opioid epidemic will be held accountable – even if they operate overseas.

- The Eastern District of Virginia prosecuted the narcotics vendor "NeverPressedRX," who was so intent on securing his online criminal enterprise that he conspired to use explosives to firebomb and destroy a competitor pharmacy.

- Law enforcement in the Central District of California, successfully dismantled a drug trafficking organization that used online monikers such as "Stealthgod" to sell methamphetamine and MDMA on multiple Darknet marketplaces. Investigators have linked the crew to more than 18,000 illicit sales to customers in at least 35 states and in numerous countries around the world.

- In the Northern District of Georgia, an investigation into the murder of an elderly couple found brutally murdered in their home led investigators to a man who used the Darknet to purchase sensitive information stolen from numerous elderly victims, including the murdered couple.

A number of additional investigations are still ongoing.

There will be no safe haven for drug dealing in cyberspace.

Today's announcement is very much a success story in international law enforcement cooperation, as crime on the Darknet is truly a global problem that requires global partnership. However, the global nature of the threat also means that foreign countries who fail to act can easily become safe harbors for criminals who seek to pump lethal, addictive drugs into the United States from abroad. The Department cannot and will not allow criminals to operate with impunity.

This Operation marks a significant milestone in the fight against crime on the Darknet. But there is more to do, and more to come. Keeping the American people safe is the Department's highest priority.

The Department will not relent in our efforts to combat this evil plaguing our society, and we will bring to justice those who seek to profit from the destruction of human lives.

Number 7

The Phish Scale: NIST-Developed Method Helps IT Staff See Why Users Click on Fraudulent Emails

NIST
National Institute of Standards and Technology
U.S. Department of Commerce

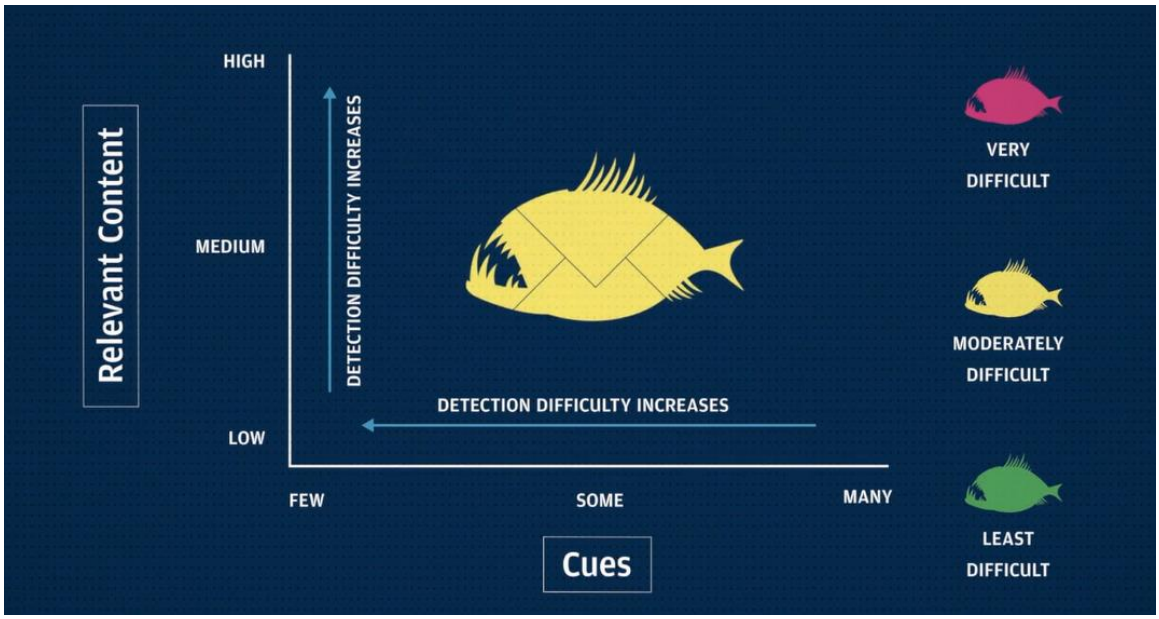
Researchers at the National Institute of Standards and Technology (NIST) have developed a new method called the Phish Scale that could help organizations better train their employees to avoid a particularly dangerous form of cyberattack known as phishing.

By 2021, global cybercrime damages will cost $6 trillion annually, up from $3 trillion in 2015, according to estimates from the 2020 Official Annual Cybercrime Report by Cybersecurity Ventures.

One of the more prevalent types of cybercrime is phishing, a practice where hackers send emails that appear to be from an acquaintance or trustworthy institution.

A phishing email (or phish) can tempt users with a variety of scenarios, from the promise of free gift cards to urgent alerts from upper management.

If users click on links in a phishing email, the links can take them to websites that could deposit dangerous malware into the organization's computers.



Many organizations have phishing training programs in which employees receive fake phishing emails generated by the employees' own organization to teach them to be vigilant and to recognize the characteristics of actual phishing emails.

Chief information security officers (CISOs), who often oversee these phishing awareness programs, then look at the click rates, or how often users click on the emails, to determine if their phishing training is working.

Higher click rates are generally seen as bad because it means users failed to notice the email was a phish, while low click rates are often seen as good.

However, numbers alone don't tell the whole story. "The Phish Scale is intended to help provide a deeper understanding of whether a particular phishing email is harder or easier for a particular target audience to detect," said NIST researcher Michelle Steves. The tool can help explain why click rates are high or low.

The Phish Scale uses a rating system that is based on the message content in a phishing email. This can consist of cues that should tip users off about the legitimacy of the email and the premise of the scenario for the target audience, meaning whichever tactics the email uses would be effective for that audience. These groups can vary widely, including universities, business institutions, hospitals and government agencies.

The new method uses five elements that are rated on a 5-point scale that relate to the scenario's premise. The overall score is then used by the phishing trainer to help analyze their data and rank the phishing exercise as low, medium or high difficulty.

The significance of the Phish Scale is to give CISOs a better understanding of their click-rate data instead of relying on the numbers alone.

A low click rate for a particular phishing email can have several causes: The phishing training emails are too easy or do not provide relevant context to the user, or the phishing email is similar to a previous exercise. Data like this can create a false sense of security if click rates are analyzed on their own without understanding the phishing email's difficulty.

By using the Phish Scale to analyze click rates and collecting feedback from users on why they clicked on certain phishing emails, CISOs can better understand their phishing training programs, especially if they are optimized for the intended target audience.

The Phish Scale is the culmination of years of research, and the data used for it comes from an "operational" setting, very much the opposite of a laboratory experiment with controlled variables. "As soon as you put people into a laboratory setting, they know," said Steves. "They're outside of their regular context, their regular work setting, and their regular work responsibilities. That is artificial already. Our data did not come from there."

This type of operational data is both beneficial and in short supply in the research field. "We were very fortunate that we were able to publish that data and contribute to the literature in that way," said NIST researcher Kristen Greene.

As for next steps, Greene and Steves say they need even more data. All of the data used for the Phish Scale came from NIST. The next step is to expand the pool and acquire data from other organizations, including nongovernmental ones, and to make sure the Phish Scale performs as it should over time and in different operational settings. "We know that the phishing threat landscape continues to change," said Greene. "Does the Phish Scale hold up against all the new phishing attacks? How can we improve it with new data?" NIST researcher Shaneé Dawkins and her colleagues are now working to make those improvements and revisions.

Detailed steps for the DIY tool are listed in the methods section of the paper.

In the meantime, the Phish Scale provides a new way for computer security professionals to better understand their organization's phishing click rates, and ultimately improve training so their users are better prepared against real phishing scenarios.

Information on the Phish Scale is published in a research article appearing in the current issue of the Journal of Cybersecurity. You may visit: https://academic.oup.com/cybersecurity/article/6/1/tyaa009/5905453

For additional background information about the development of the Phish Scale, you may visit: https://csrc.nist.gov/projects/usable-cybersecurity/research-areas/phishing

Number 8

Regulating with our Eyes on the Future

Investment Company Institute 2020 Virtual Securities Law Developments Conference - Dalia Blass, SEC Director, Division of Investment Management, Washington D.C.

Introduction

Good morning and thank you Dorothy Donohue for inviting me to speak with you today. I appreciate the opportunity to talk about how the Division is working to modernize the fund industry's regulatory framework in a way that seeks to anticipate, or at least accommodate, future trends and developments.

Before I start, let me remind you that I am speaking today only for myself and not for the Commission, the Commissioners or the staff.

Now, let's turn to the theme of my remarks today, Regulating with our Eyes on the Future. Last month, the Investment Company Act turned 80 years old. At the time of the Act's adoption, the registered fund industry consisted of only 105 funds with $1 billion in assets.

Now over 14,000 SEC-registered funds hold nearly $25 trillion in assets, including through two important fund structures that did not exist in 1940 - money market funds and exchange-traded funds (ETFs). In terms of assets, that is an annualized growth rate of 13%.

As the industry grew, it faced many changes and challenges, including the latest market disruption in March and April due to the COVID-19 global pandemic.

That market disruption tested our capital markets and the asset management industry in new ways. Moreover, it was among the first true tests of the post-2008 reforms.

Each significant event impacting the industry – the 2020 pandemic, the events of 2008, and others – has resulted in fundamental changes to the industry and the regulatory landscape.

It is understandable that domestic and foreign regulators inevitably turn to the task of parsing through the events to better understand what happened, and to consider potential regulatory changes in response.

This is an appropriate exercise, for sure, but I also believe that it is critically important to avoid regulating the past.

Regulatory updates that respond solely to the last event risk creating a regime that does not take into account new changes, risks and innovations that are occurring around us or have not yet occurred.

For these reasons, the Division's philosophy in recommending changes to the asset management regulatory framework has been to seek forward-looking solutions.

We do not recommend that the Commission consider reforms just to address issues that have already happened. Instead we focus on regulations that will balance flexibility to accommodate future changes with promoting resiliency to future crises. You can see that in our many initiatives in areas such as exchange-traded funds, derivatives and valuation.

To illustrate the need for forward-looking regulation, I would like to walk you through two case studies: money market funds and exchange-traded funds. Then, I would like to touch on two other related areas—pathways to aid effective regulation for a resilient industry and the role of staff statements in our regulatory regime.

Money Market Funds

Let's start with money market funds. The Commission granted orders that permitted the first money market funds starting in 1978.

As additional funds requested and received similar relief, the Commission codified the money market fund structure in 1983 by adopting rule 2a-7.

Over the next 30 years, the Commission amended the rule many times. The latest amendments in 2010 and 2014 sought to primarily address issues that arose during the 2008 financial crisis.

A perennial area of concern has been whether the structure of money market funds is able to withstand periods of market stress without some form of external support and without runs.

The 2010 and 2014 amendments were designed to address this issue by reducing the risks of money market fund portfolios, addressing their

susceptibility to heavy redemptions in times of stress, improving their ability to manage potential contagion from redemptions, and increasing the transparency of their risks.

For example, the rule now permits non-government funds to impose a liquidity fee or gate to address certain liquidity conditions.

The rule also now requires institutional prime and tax-exempt funds, whose investors historically have made the heaviest redemptions in times of stress, to transact at a "floating" NAV rather than a "stable" NAV, which all money market funds were permitted to use prior to 2016.

The COVID-19 market disruption tested these reforms. As the markets reacted to the impact of the pandemic, prime and tax-exempt money market funds experienced significantly heightened redemptions. In fact, the percentage of redemptions from certain funds during the height of the market turmoil was higher than what we saw in a similar time period in September 2008.

Despite the significant reforms to rule 2a-7, once again, financial regulators stepped in with emergency measures to assist these funds.

I believe that it is critical for us to analyze the events in March and how the framework of rule 2a-7 may have either alleviated or contributed to any of the events that unfolded.

For example, did the possibility of gates when a fund's liquidity approached or passed certain limits drive market behavior?

On the other hand, did the risk limitations imposed by the rule provide funds with the necessary liquidity to meet the heightened redemptions?

However, analyzing past dislocations should not be the only drivers of regulatory review and changes.

Instead we also need to be forward-looking with a fresh eye, focusing on how to create a flexible framework that will interact smoothly with future market innovations, different market conditions, and investor reactions that we may not have already experienced.

Most importantly, we should seek to construct a framework that provides structural resiliency and appropriate incentives during market stress while preserving the important role of money market funds in the short-term funding markets.

ETFs

Let me move on to the second case study: ETFs. The Commission approved the first ETF in 1992 and granted over 300 exemptive orders over the last quarter century.

Today, ETFs are nearly $5 trillion in assets and account for roughly 20% of registered fund assets.

Last year the Commission adopted rule 6c-11 to codify existing relief for ETFs. The rule also streamlined the regulatory framework by eliminating certain conditions and distinctions that were no longer necessary, such as between actively managed and index-based ETFs.

The Commission then took further measures to innovate in this space by issuing orders that permit certain actively managed ETFs to operate without being subject to daily portfolio transparency.

I believe that these orders allow for healthy innovation in ETF structures.

During March, ETF secondary market trading spiked to historic levels. At the same time, a number of ETFs, particularly in the fixed income space, experienced significant dislocations between their net asset value and their market price. We are already hearing theories on why this happened.

Many noted that ETFs served as price discovery vehicles in markets where price transparency is not always available, including in certain fixed income markets.

Some pointed to timing and pricing differences between ETFs' shares and their underlying portfolio investments.

Some asserted that the differential represented a liquidity premium—the price of getting out of the exposure – and others noted that widened spreads reflected market participants' uncertainty as to pricing and liquidity. Still others suggested that structural flaws in the underlying fixed income markets played a meaningful role in exacerbating the dislocations.

While I won't address the merits of any of these points as I believe doing so would be premature, I will note a few things that I hope are not lost as we work through what happened.

First, the ETF structure was put through a significant test. ETFs played a critical role as market participants sought liquidity. And ETFs were able to

meet redemptions, even with the high market volatility, unprecedented trading volumes and deterioration in overall liquidity.

Second, we should approach our analysis of events and any next steps in a multifaceted way. There continues to be intense innovation in the ETF industry and we want to support healthy innovation. Further, there are significant differences between the operation and the structure of ETFs and other types of funds.

So when we look at all fixed-income funds and how they fared in March and April, I believe that we should keep these differences in mind to avoid a one-size-fits-all approach. Finally as I noted in our first case study, we should guard against conclusions and policy outcomes that focus solely on past events.

I hope you can see from these two case studies that while it's critical to analyze and address historical events, it's equally important to be forward looking and multifaceted in our approach to regulation.

Pathways to Aid the Effective Regulation for a Resilient Industry

So how do we do that? I believe regulations are most effective and support a resilient industry when there is enough flexibility to permit healthy innovations while also providing appropriate protections and oversight.

There are many pathways to structure regulations in this manner, but I would like to touch on three: first, data-driven regulatory tools; second, risk management; and third, international engagement.

Let's begin with data-driven regulatory tools. Structural resiliency will depend on whether appropriate risk guidelines, standardized limits, and reporting are in place. These regulatory tools are distinct from disclosure requirements, and are useful for both fund managers and regulators. Two recent regulatory initiatives – the liquidity rule and the proposed derivatives rulemaking – include these.

By way of example, let's look at the proposed derivatives framework.

The proposed rule would require a derivatives risk management program that includes guidelines tailored to the fund's particular derivatives risk.

The flexibility to develop a particular fund's program would promote innovation and diversity among different funds and strategies, and would permit a fund to modify its risk guidelines as the market and its portfolio

evolve. Most funds relying on the rule also would have to comply with an outer limit on fund leverage based on value at risk, or "VaR".

These standards are designed to constrain a fund's leverage risk consistent with investor protection and, I believe, would promote resilience through effective risk management. The proposal also has key reporting elements such as breaches of the fund's leverage limit and information about its derivatives exposure.

Reporting would facilitate board oversight, enhance the Commission's ability to oversee compliance, and provide the Commission and the public with greater insight into how funds' use of derivatives impact fund portfolios.

In a nutshell, rules such as the derivatives proposal would provide data-driven regulatory frameworks that seek to balance flexible requirements that can be tailored to a particular fund's risks with minimum standards and tools to promote resilience, strong oversight and informed market monitoring.

To be clear, developing data-driven regulatory tools does not take place in a vacuum but rather within a broader conversation about risk management. That is, once risks are identified, I believe that we should move to the inquiry of what risks are appropriate or can be tolerated versus what risks should be addressed and how.

This is important for accomplishing the Commission's three-part mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. We should not place capital formation over investor protection – nor vice versa.

Instead we should seek balance. Investors in our capital markets should be able to take on risks – risk transfer is, after all, a centerpiece of the capital markets. At the same time, we must ensure that when investors take on risk, they do so having received appropriate disclosure.

Finally, let me touch on international dialog and engagement, which is increasingly an important consideration in forward-looking regulatory policy. The asset management industry is fundamentally interconnected with the broader U.S. economy and operates on a global basis.

Regulation of the industry needs to take this into account. Market events, practices and regulatory decisions have effects beyond a particular industry and the borders of a home jurisdiction.

For example, the European Union's unbundling of payment for research, and its approach to requiring disclosure of how environmental, social and governance considerations factor into investment decisions, also impact U.S asset managers given their global presence.

I believe engagement is necessary among international regulators in order to learn about the consequences of different regulatory approaches to an issue. This exercise can help us to address potential operational complexities and obstacles to financial innovation, and avoid higher compliance costs.

For example, European UCITS use swing pricing as a liquidity risk management tool, which has not been operationalized in the U.S. I believe that information about the European experience, particularly during the recent market events, can help us understand how to make this an effective tool in the U.S. as well.

This is why we engage extensively with foreign counterparts on both a bilateral level as well as through our membership on the FSB and IOSCO. And I would encourage asset managers and other stakeholders to engage in that dialogue when opportunities arise by offering their insights and experiences.

Staff Statements

Before closing, I would like to switch gears to staff statements—another area where it is important to be forward looking to account for evolution in the industry. Division staff make their views known in many ways, including written statements, letters, and responses to frequently asked questions.

Division staff have been reviewing prior staff statements, and thinking about necessary changes in light of market or other developments.

Staff statements are issued to address particular facts and circumstances, and are symbiotically tied to the market ecosystem at the time of issuance. As the markets and the industry evolve, it is important to examine whether prior staff statements continue to be relevant and consistent with the Commission's overall regulatory approach.

That is what we are doing. Through this initiative, the staff withdrew letters that addressed investment advisers' responsibilities in voting client proxies and retaining proxy advisory firms, and that addressed the intersection between state control share acquisition statutes and the Act's voting requirements for closed-end funds.

We also address staff statements as the Commission adopts or amends rules. For example, the staff withdrew a number of letters after the Commission adopted securities offering reform for closed-end investment companies and the new variable annuity summary prospectuses.

A new webpage lists and hyperlinks to staff statements that have been modified or withdrawn over time.

But the webpage is not an exhaustive list. As you look at staff statements, I encourage you to think about whether the Commission has spoken recently in that space and whether the markets have significantly changed.

If Commission statements look like they move in a different direction or provide pertinent information on the same subject matter, or if the markets have evolved since issuance, you should examine the impact of those developments on the staff statement.

If you are unsure, call Division staff. Reconsideration of prior staff statements certainly will be a continued priority of the Division.

Conclusion

Let me close by thanking the staff of the Division for their extraordinary work and efforts in addressing the market disruptions while also continuing their great work on our priorities.

As I had noted earlier this summer, we plan to make recommendations for next steps to the Commission on all of the outstanding proposals in our area, including fund of funds arrangements, funds' use of derivatives, fund valuation practices, and investment adviser advertising and solicitation.

We are also exploring ideas for updating the Commission's guidance on e-delivery and to permit virtual board meetings under circumstances beyond those in the recent temporary relief related to COVID-19.

As we do so, we will of course look in the rear view mirror and understand what happened and why. But we will also keep our focus on regulatory solutions that are flexible, evergreen and take a holistic approach to build a more resilient framework going forward. Thank you for your time today and I hope you enjoy the rest of the conference.

Number 9

G7 Finance Ministers' Statement on the Debt Service Suspension Initiative and Debt Relief for Vulnerable Countries

We remain committed to working together to support the poorest and most vulnerable countries as they address health and economic challenges associated with COVID-19.

The pandemic has significantly disrupted global growth and necessitated extraordinary fiscal policy efforts, exacerbating existing debt vulnerabilities in many low-income countries.

We commend the efforts of the international financial institutions (IFIs) to rapidly scale up financial and technical assistance to these countries.

We ask the IMF and World Bank to update regularly assessments of the financing needs of low-income countries in response to evolving circumstances with the impact of the pandemic and propose ways for countries to cover expected financing gaps, including through instruments to leverage access to private finance.

To support our efforts to help the most vulnerable countries, we are implementing the G20-Paris Club Debt Service Suspension Initiative (DSSI) to suspend official bilateral debt payments for the poorest countries through end-2020.

The DSSI has been fundamental in supporting the 43 countries that have requested the benefits of the initiative by freeing up $5 billion in fiscal space to fund social, health, and economic measures to respond to the pandemic.

G20 and Paris Club official bilateral creditors are continuing to coordinate closely to provide full and transparent relief under the DSSI.

Nonetheless, DSSI implementation has faced shortcomings that have prevented the initiative from delivering its full potential.

In particular, we strongly regret the decision by some countries to classify large state-owned, government-controlled financial institutions as

commercial lenders and not as official bilateral creditors, without providing comparable treatment nor transparency, thus significantly reducing the magnitude of the initiative and the benefits of the DSSI for developing countries.

Claims considered as commercial for the purpose of the DSSI will be treated as commercial claims as well in future debt treatments, and for the implementation of IMF policies.

We call on non-Paris Club lenders to commit to full and transparent implementation of the DSSI through all government entities going forward.

Additionally, voluntary private sector participation has been absent, which has limited the potential benefits for several countries.

We reiterate our call for private creditors to implement the DSSI on a voluntary basis when requested by eligible borrowers.

Recognizing the ongoing financial needs of low-income countries, we support extending the DSSI in the context of a request for IMF financing.

The modalities of the extension should reflect the G20's commitment to transparency and creditor coordination, including an understanding on key features for debt treatment beyond the DSSI, as well as reflecting the need for fair burden sharing among all creditors.

To this end, we strongly urge full and transparent participation by official bilateral creditors, including all state-owned lending institutions, based on an enhanced term sheet and, ideally, a common Memorandum of Understanding that clarifies DSSI implementation.

Going forward, we recognize that some countries will need further debt treatment in addition to the DSSI's liquidity relief to restore debt sustainability.

In this context, we support the development of a Common Framework for future debt treatments beyond the DSSI, to be agreed by the G20 and Paris Club by the time of the October G20 Finance Ministers and Central Bank Governors' meeting.

The Framework should set out provisions for the scope of creditor participation and transparency, and call for coordinated debt relief on a case-by-case basis in the context of a full-fledged IMF program.

The Framework should ensure fair burden sharing among all official bilateral creditors, and debt relief by private creditors at least as favorable as that provided by official bilateral creditors.

It should also lay the foundation for sound and robust financing practices in the future, including on transparency and governance.

We strongly urge all official bilateral creditors to support and adhere to such a G20-Paris Club Framework to set clear expectations for all. Additionally, G20 and Paris Club creditors should jointly agree on specific terms for country-by-country debt restructurings.

Addressing debt vulnerabilities also requires full transparency by both creditor and borrower countries.

We commend the World Bank Group's efforts to compile and publicly disclose creditor-by-creditor information.

All creditors should provide complete information to maximize the benefits of the DSSI.

We call on the G20 to endorse the full and timely publication of the World Bank and IMF updates on the implementation of the DSSI.

We also call on G20 members to endorse the World Bank and IMF's debt data reconciliation and the publication of the results.

This exercise is crucial to inform any future debt treatments.

More broadly, we strongly support efforts of the IFIs to help their member countries strengthen debt sustainability and transparency practices, including through technical assistance, lending policies, and enhanced public reporting of debt data.

We welcome ongoing work by the Institute of International Finance to finalize rapidly a data host for their Voluntary Principles on Debt Transparency.

Number 10

Quarterly Bulletin - 2020 Q3

The impact of Covid-19 on businesses' expectations: evidence from the Decision Maker Panel

By Nicholas Bloom (Stanford University), Philip Bunn (Bank of England), Paul Mizen (University of Nottingham), Pawel Smietanka (Bank of England) and Gregory Thwaites (University of Nottingham).

- In partnership with academics from Nottingham and Stanford Universities, the Bank of England set up the online Decision Maker Panel (DMP) Survey in 2016 to poll senior executives in British businesses about their expectations for business conditions and uncertainty. The survey receives around 3,000 responses a month.

- Businesses reported that the spread of Covid-19 and the measures to contain it led to a fall in sales of around 30% in 2020 Q2. Sales are expected to recover gradually, but further reductions in employment are expected in the second half of 2020.

- There has been a large increase in uncertainty among businesses about their prospects for the next year.

- Businesses' expectations of future sales and employment growth became skewed to the downside. This means that businesses thought that there was an increased risk of bad outcomes occurring.

Overview

The prospects for the economy depend crucially on the spending decisions that households and businesses make. Because the future is uncertain, households and businesses have to make these spending decisions based on their expectations of the future.

Those decisions may depend, not just on their views on the most likely future outcome, but also on the degree of uncertainty around their expectations and on the likelihood of things going badly wrong. Measuring and understanding those expectations is therefore very important for economic policymakers.

This article uses data from the DMP to show how the spread of Covid-19 and the measures to contain it have affected the expectations of businesses.

It builds on a previous article that assessed how expectations were being affected by the UK's decision to leave the European Union (EU).

The DMP is a large and representative survey of UK businesses. It collects quantitative information on what businesses expect to happen to sales and employment. It also asks about the distribution of those expectations, which reveals the probabilities that businesses attach to negative or positive outcomes.

This information is not available from most other business surveys, which tend to report mean values or estimates of whether things are expected to get better or worse rather than distributions of outcomes.

Using this information allows us to measure the degree of uncertainty around those expectations, and whether expectations are skewed towards good or bad outcomes.

To read more:
https://www.bankofengland.co.uk/quarterly-bulletin/2020/2020-q3

https://www.bankofengland.co.uk/quarterly-bulletin/2020/2020-q3/the-impact-of-covid-19-on-businesses-expectations-evidence-from-the-decision-maker-panel

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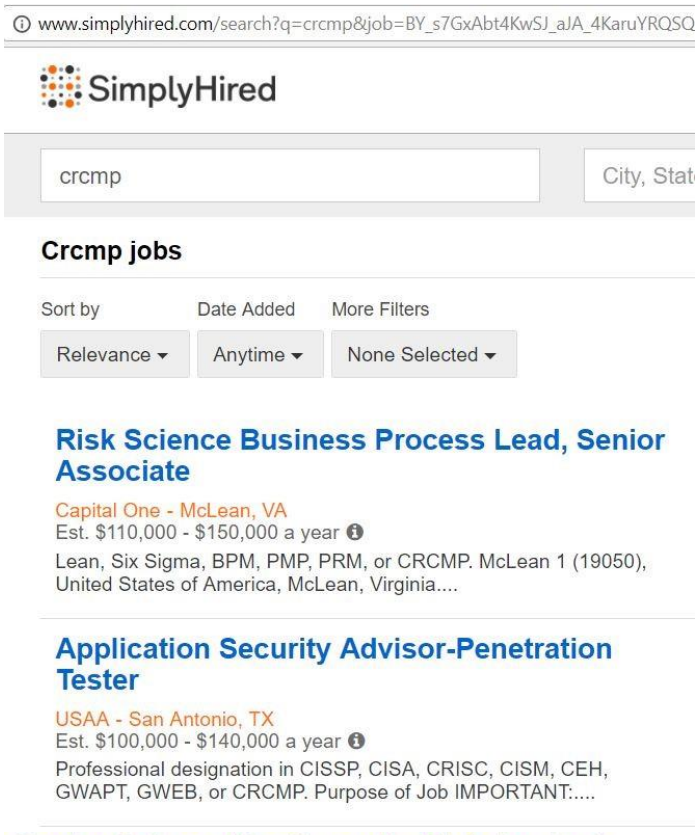

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