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Monday, February 22, 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,

Democritus believed that happiness resides not in possessions, and not in *gold,* happiness dwells in the soul.

Plato has said that all the *gold* which is under or upon the earth is not enough to give in exchange for virtue.

Gold, one of the first precious metals known to humanity, due to its beauty, its rarity, and of course its resistance to both tarnishing and corrosion under almost all circumstances, has become the symbol of royalty and glamour in nearly every culture. People love gold, and they also want to invest in gold. But is this investment *risky and speculative?*

According to the German Federal Financial Supervisory Authority (BaFin), four in ten investors have either already invested in gold or other precious metals or could imagine doing so in future. However, investments in

precious metals are *risky and speculative*.

Gold glitters, and its reputation as a secure capital investment is equally dazzling.

There are two reasons for this: in a survey conducted on behalf of BaFin, 83% of those who had purchased or are considering purchasing precious metals believed this to be a secure investment. And in the current low interest rate environment, investments in gold, silver or platinum seem not only safe, but also lucrative. The risks and the costs of such investments are evidently being *underestimated*.

Certain credit institutions and other providers use the positive properties customers associate with gold to advertise investments. The websites BaFin analysed alongside the precious metal study often claim that gold is *timeless, crisis-proof and that its value is stable*.

You can read more at number 4 below. Welcome to the top 10 list.

Best regards,

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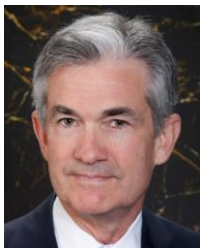
Getting Back to a Strong Labor Market

Chair Jerome H. Powell, Chair of the Board of Governors of the Federal Reserve System, at the Economic Club of New York.



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Lessons from the pandemic: Has the simpler post-2008 financial system held up? And where do we go from here?

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by Fernando Restoy, February 2021

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New prompts to help people consider before they share

By Gina Hernandez, Product Manager, Trust & Safety

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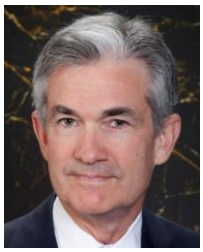
FETT Bug Bounty Helps Strengthen SSITH Hardware Defenses

DARPA's first bug bounty proves SSITH processors can thwart sophisticated attacks

Number 1

Getting Back to a Strong Labor Market

Chair Jerome H. Powell, Chair of the Board of Governors of the Federal Reserve System, at the Economic Club of New York.



Today I will discuss the state of our labor market, from the recent past to the present and then over the longer term. A strong labor market that is sustained for an extended period can deliver substantial economic and social benefits, including higher employment and income levels, improved and expanded job opportunities, narrower economic disparities, and healing of the entrenched damage inflicted by past recessions on individuals' economic and personal well-being.

At present, we are a long way from such a labor market. Fully realizing the benefits of a strong labor market will take continued support from both near-term policy and longer-run investments so that all those seeking jobs have the skills and opportunities that will enable them to contribute to, and share in, the benefits of prosperity.

The Labor Market of a Year Ago

Figure 1. Unemployment Rate

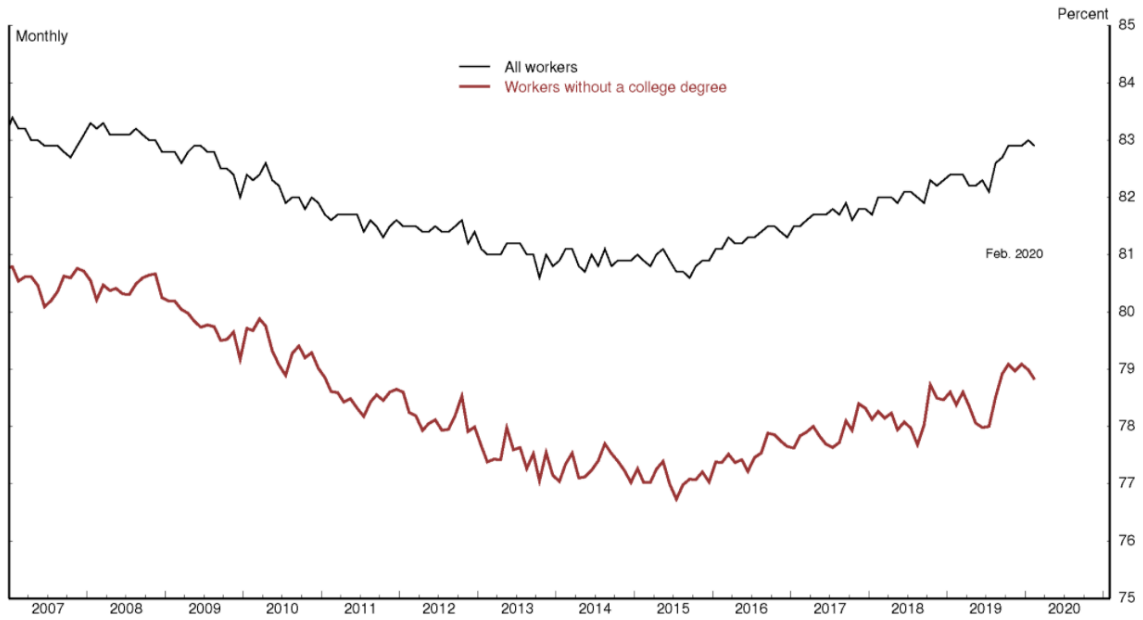
Note: Published data on unemployment rates by race start in 1972.
Source: Bureau of Labor Statistics.

We need only look to February of last year to see how beneficial a strong labor market can be. The overall unemployment rate was 3.5 percent, the lowest level in a half-century. The unemployment rate for African Americans had also reached historical lows (figure 1). Prime-age labor force participation was the highest in over a decade, and a high proportion of households saw jobs as "plentiful."

Overall wage growth was moderate, but wages were rising more rapidly for earners on the lower end of the scale. These encouraging statistics were reaffirmed and given voice by those we met and conferred with, including the community, labor, and business leaders; retirees; students; and others we met with during the 14 Fed Listens events we conducted in 2019.

Many of these gains had emerged only in the later years of the expansion. The labor force participation rate, for example, had been steadily declining from 2008 to 2015 even as the recovery from the Global Financial Crisis unfolded.

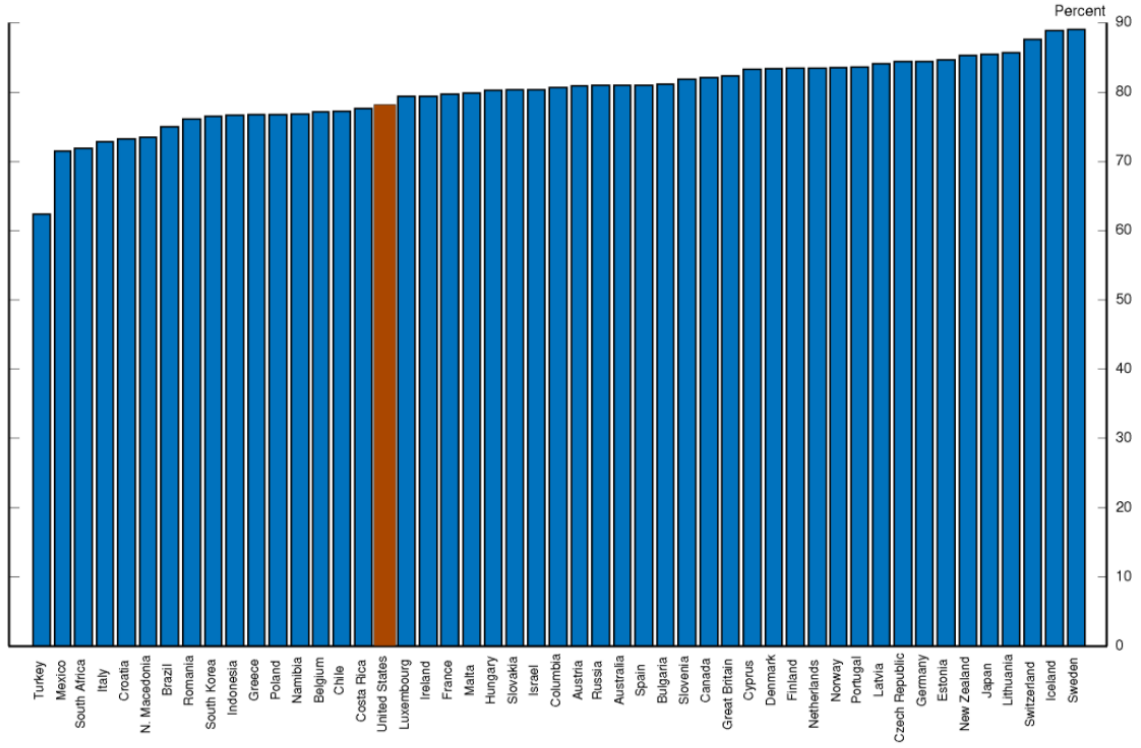
Figure 2. Prime-Age Labor Force Participation



Note: Prime age refers to ages 25 to 54.
Source: Bureau of Labor Statistics and Board staff calculations using microdata from the Current Population Survey.

In fact, in 2015, prime-age labor force participation—which I focus on because it is not significantly affected by the aging of the population—reached its lowest level in 30 years even as the unemployment rate declined to a relatively low 5 percent. Also concerning was that much of the decline in participation up to that point had been concentrated in the population without a college degree (figure 2).

Figure 3. Labor Force Participation Rate in OECD Countries: 25-64 Year Olds, 2019



Note: OECD is Organisation for Economic Co-operation and Development.
Source: OECD (2021), "Labour force participation rate" (indicator), https://doi.org/10.1787/8a801325-en (accessed on February 1, 2021).

At the time, many forecasters worried that globalization and technological change might have permanently reduced job opportunities for these individuals, and that, as a result, there might be limited scope for participation to recover.

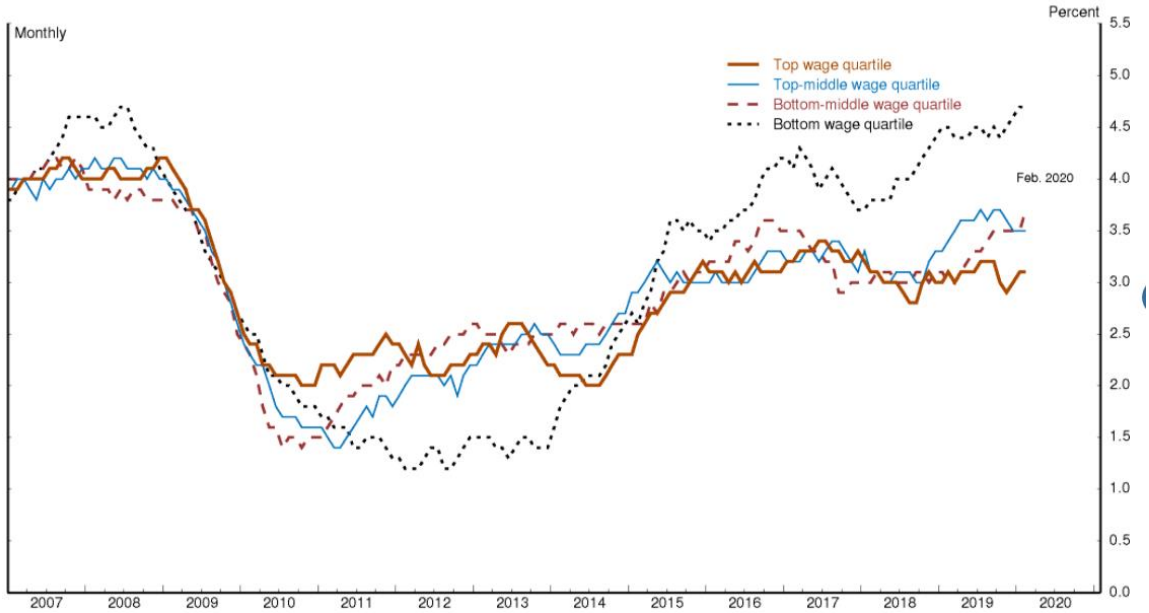
Fortunately, the participation rate after 2015 consistently outperformed expectations, and by the beginning of 2020, the prime-age participation rate had fully reversed its decline from the 2008-to-2015 period.

Moreover, gains in participation were concentrated among people without a college degree. Given that U.S. labor force participation has lagged relative to other advanced economy nations, this progress was especially welcome (figure 3).

As I mentioned, we also saw faster wage growth for low earners once the labor market had strengthened sufficiently. Nearly six years into the recovery, wage growth for the lowest earning quartile had been persistently modest and well below the pace enjoyed by other workers.

At the tipping point of 2015, however, as the labor market continued to strengthen, the trend reversed, with wage growth for the lowest quartile consistently and significantly exceeding that of other workers (figure 4).

Figure 4. Wage Growth for Low Earners Compared with Other Workers



Note: Three-month moving average of the median 12-month change in individual wages.
Source: Federal Reserve Bank of Atlanta, Wage Growth Tracker.

At the end of 2015, the Black unemployment rate was still quite elevated, at 9 percent, despite the relatively low overall unemployment rate. But that disparity too began to shrink; as the expansion continued beyond 2015, Black unemployment reached a historic low of 5.2 percent, and the gap between Black and white unemployment rates was the narrowest since 1972, when data on unemployment by race started to be collected. Black unemployment has tended to rise more than overall unemployment in recessions but also to fall more quickly in expansions.

Over the course of a long expansion, these persistent disparities can decline significantly, but, without policies to address their underlying causes, they may increase again when the economy ultimately turns down.

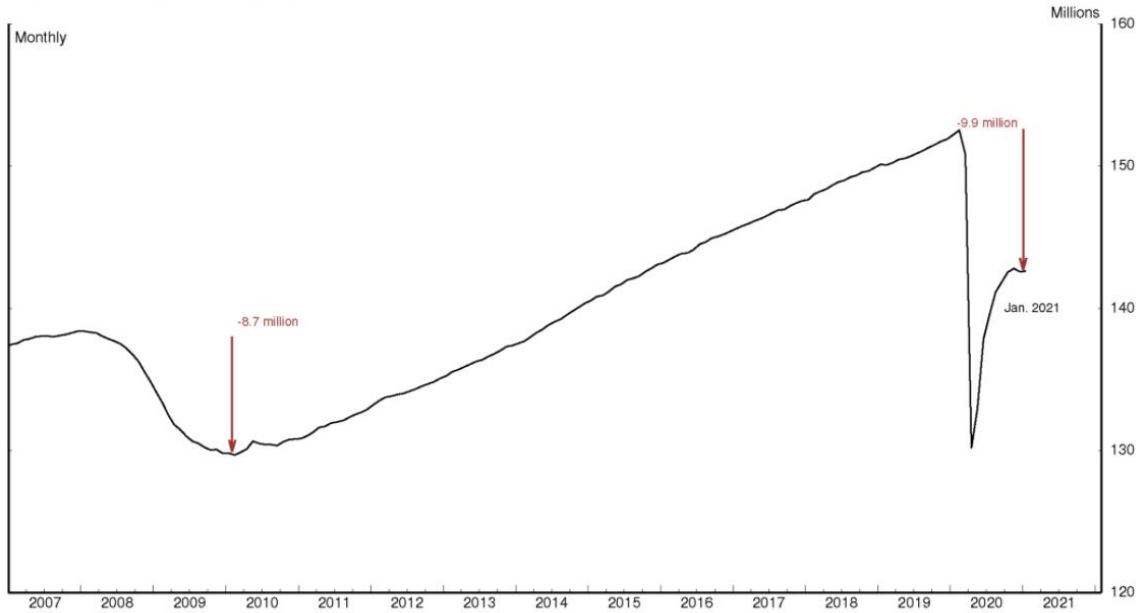
These late-breaking improvements in the labor market did not result in unwanted upward pressures on inflation, as might have been expected; in fact, inflation did not even rise to 2 percent on a sustained basis. There was every reason to expect that the labor market could have strengthened even further without causing a worrisome increase in inflation were it not for the onset of the pandemic.

The Labor Market Today

The state of our labor market today could hardly be more different. Despite the surprising speed of recovery early on, we are still very far from a strong labor market whose benefits are broadly shared. Employment in January of

this year was nearly 10 million below its February 2020 level, a greater shortfall than the worst of the Great Recession's aftermath (figure 5).

Figure 5. Payroll Employment



Note: Red arrows indicate the peak-to-trough change in employment during the Great Recession and the decline in employment from February 2020 to January 2021.
Source: Bureau of Labor Statistics.

After rising to 14.8 percent in April of last year, the published unemployment rate has fallen relatively swiftly, reaching 6.3 percent in January. But published unemployment rates during COVID have dramatically understated the deterioration in the labor market.

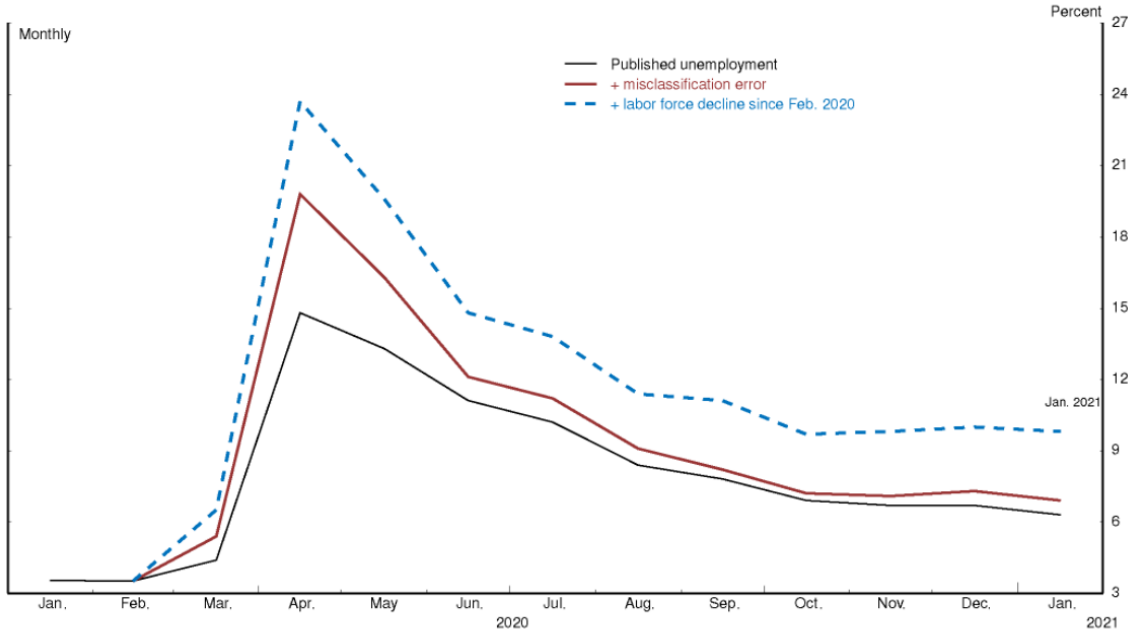
Most importantly, the pandemic has led to the largest 12-month decline in labor force participation since at least 1948. Fear of the virus and the disappearance of employment opportunities in the sectors most affected by it, such as restaurants, hotels, and entertainment venues, have led many to withdraw from the workforce. At the same time, virtual schooling has forced many parents to leave the work force to provide all-day care for their children.

All told, nearly 5 million people say the pandemic prevented them from looking for work in January. In addition, the Bureau of Labor Statistics reports that many unemployed individuals have been misclassified as employed. Correcting this misclassification and counting those who have left the labor force since last February as unemployed would boost the unemployment rate to close to 10 percent in January (figure 6).

Unfortunately, even those grim statistics understate the decline in labor market conditions for the most economically vulnerable Americans. Aggregate employment has declined 6.5 percent since last February, but the

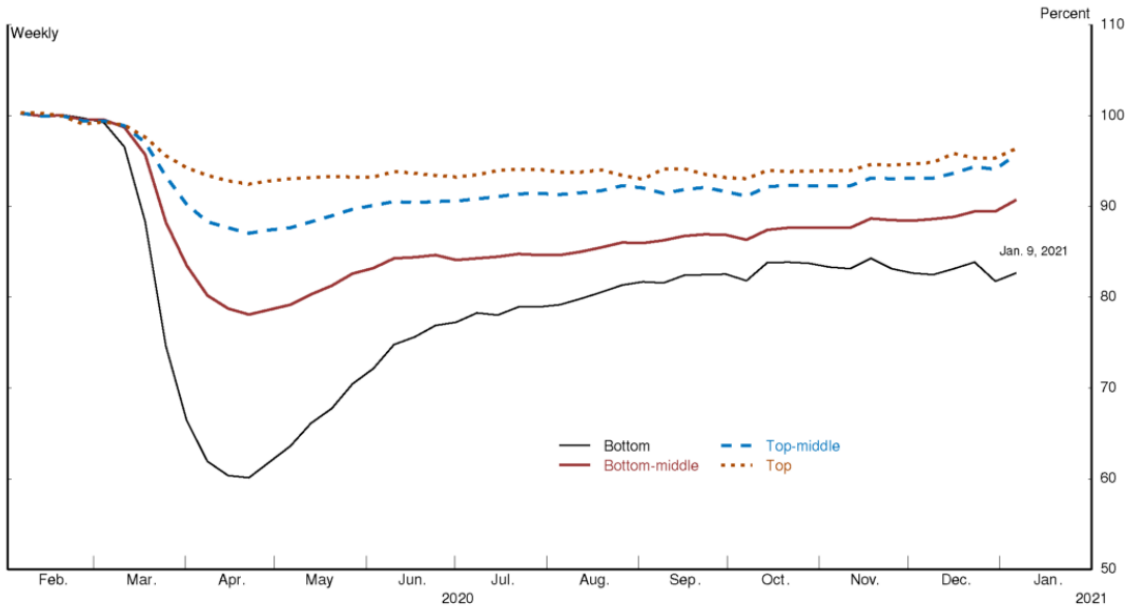
decline in employment for workers in the top quartile of the wage distribution has been only 4 percent, while the decline for the bottom quartile has been a staggering 17 percent (figure 7).

Figure 6. Official and Alternative Unemployment Rates



Source: Bureau of Labor Statistics; Board staff calculations.

Figure 7. Employment by Wage Quartile

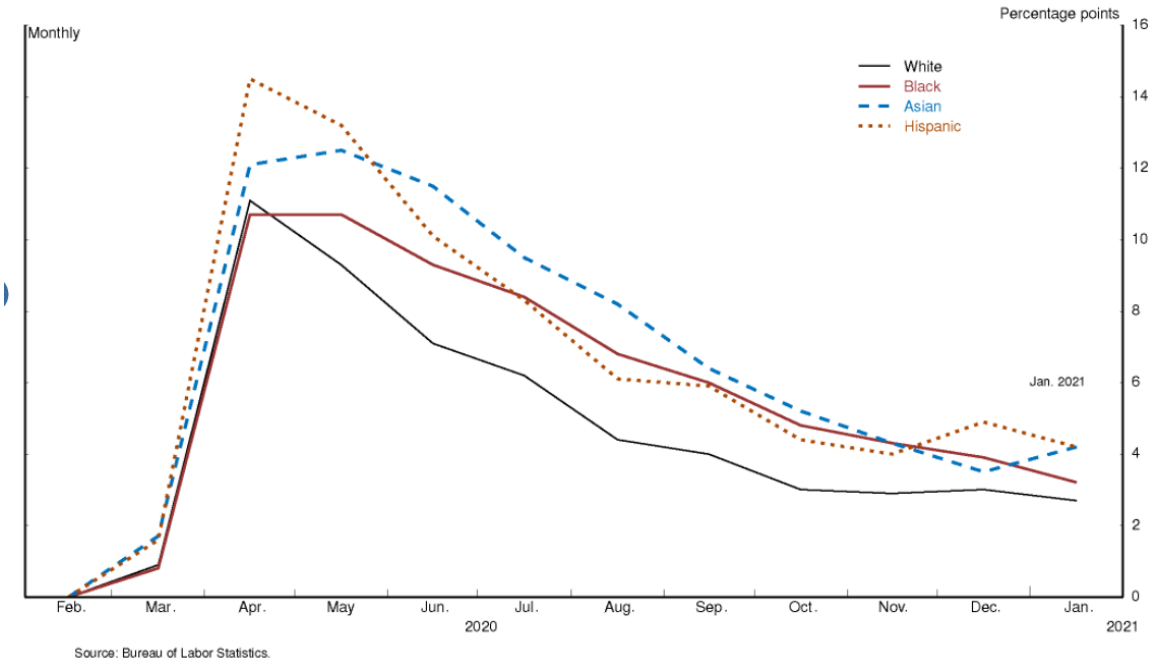


Note: Employment indexed to 100 as of Feb. 15, 2020. Wage quartiles are defined using the February 2020 wage distribution.
Source: Board staff calculations based on employment data from ADP, Inc.

Moreover, employment for these workers has changed little in recent months, while employment for the higher-wage groups has continued to

improve. Similarly, the unemployment rates for Blacks and Hispanics have risen significantly more than for whites since February 2020 (figure 8). As a result, economic disparities that were already too wide have widened further.

Figure 8. Change in Unemployment Rate by Race/Ethnicity since February 2020



In the past few months, improvement in labor market conditions stalled as the rate of infections sharply increased. In particular, jobs in the leisure and hospitality sector dropped over 1/2 million in December and a further 61,000 in January. The recovery continues to depend on controlling the spread of the virus, which will require mass vaccinations in addition to continued vigilance in social distancing and mask wearing in the meantime.

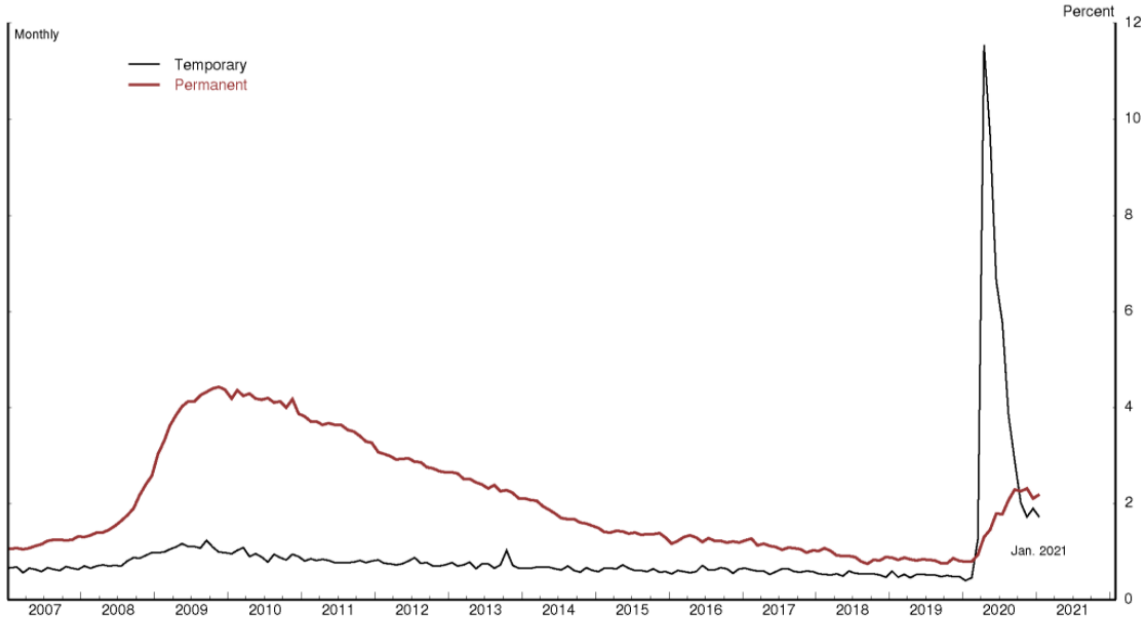
Since the onset of the pandemic, we have been concerned about its longer-term effects on the labor market. Extended periods of unemployment can inflict persistent damage on lives and livelihoods while also eroding the productive capacity of the economy.
And we know from the previous expansion that it can take many years to reverse the damage.

At the start of the pandemic, the increase in unemployment was almost entirely due to temporary job losses.

Temporarily laid-off workers tend to return to work much more quickly, on average, than those whose ties to their former employers are permanently

severed. But as some sectors of the economy have continued to struggle, permanent job loss has increased (figure 9).

Figure 9. Permanent and Temporary Layoffs



Note: Number of individuals on permanent and temporary layoff as a percent of the labor force.
Source: Bureau of Labor Statistics.

So too has long-term unemployment. Still, as of January, the level of permanent job loss, as a fraction of the labor force, was considerably smaller than during the Great Recession. Research shows that the Paycheck Protection Program has played an important role in limiting permanent layoffs and preserving small businesses. The renewal of the program this year in the face of another surge in COVID-related job cuts is an encouraging development.

Of course, in a healthy market-based economy, perpetual churn will always render some jobs obsolete as they are replaced by new employment opportunities. Over time, workers and capital move from firm to firm and from sector to sector. It is likely that the pandemic has both increased the need for such movements and brought forward some movement that would have occurred eventually.

Getting Back to a Strong Labor Market

So how do we get from where we are today back to a strong labor market that benefits all Americans and that starts to heal the damage already done? And what can we do to sustain those benefits over time? Experience tells us that getting to and staying at full employment will not be easy.

In the near term, policies that bring the pandemic to an end as soon as possible are paramount. In addition, workers and households who struggle to find their place in the post-pandemic economy are likely to need continued support. The same is true for many small businesses that are likely to prosper again once the pandemic is behind us.

Also important is a patiently accommodative monetary policy stance that embraces the lessons of the past—about the labor market in particular and the economy more generally. I described several of those important lessons, as well as our new policy framework, at the Jackson Hole conference last year.

I have already mentioned the broad-based benefits that a strong labor market can deliver and noted that many of these benefits only arose toward the end of the previous expansion. I also noted that these benefits were achieved with low inflation. Indeed, inflation has been much lower and more stable over the past three decades than in earlier times.

In addition, we have seen that the longer-run potential growth rate of the economy appears to be lower than it once was, in part because of population aging, and that the neutral rate of interest—or the rate consistent with the economy being at full employment with 2 percent inflation—is also much lower than before.

A low neutral rate means that our policy rate will be constrained more often by the effective lower bound. That circumstance can lead to worse economic outcomes—particularly for the most economically vulnerable Americans.

To take these economic developments into account, we made substantial revisions to our monetary policy framework, as described in the FOMC's Statement on Longer-Run Goals and Monetary Policy Strategy.

This revised statement shares many features with its predecessor, including our view that longer-run inflation of 2 percent is most consistent with our mandate to promote maximum employment and price stability. But it also has some innovations.

The revised statement emphasizes that maximum employment is a broad and inclusive goal. This change reflects our appreciation for the benefits of a strong labor market, particularly for many in low- and moderate-income communities.

Recognizing the economy's ability to sustain a robust job market without causing an unwanted increase in inflation, the statement says that our policy decisions will be informed by our "assessments of the shortfalls of

employment from its maximum level" rather than by "deviations from its maximum level."

This means that we will not tighten monetary policy solely in response to a strong labor market. Finally, to counter the adverse economic dynamics that could ensue from declines in inflation expectations in an environment where our main policy tool is more frequently constrained, we now explicitly seek to achieve inflation that averages 2 percent over time.

This means that following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time in the service of keeping inflation expectations well anchored at our 2 percent longer-run goal.

Our January postmeeting statement on monetary policy implements this new framework. In particular, we expect that it will be appropriate to maintain the current accommodative target range of the federal funds rate until labor market conditions have reached levels consistent with maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.

In addition, we will continue to increase our holdings of Treasury securities and agency mortgage-backed securities by $80 billion and $40 billion per month, respectively, until substantial further progress has been made toward our maximum-employment and price-stability goals.

The Broad Responsibility for Achieving Maximum Employment
Seventy-five years ago, in the wake of WWII, the United States faced the challenge of reemploying millions amid a major restructuring of the economy toward peacetime ends.

Part of Congress's response was the Employment Act of 1946, which states that "it is the continuing policy and responsibility of the federal government to use all practicable means . . . to promote maximum employment."

As later amended in the Humphrey-Hawkins Act, this provision formed the basis of the employment side of the Fed's dual mandate. My colleagues and I are strongly committed to doing all we can to promote this employment goal.

Given the number of people who have lost their jobs and the likelihood that some will struggle to find work in the post-pandemic economy, achieving and sustaining maximum employment will require more than supportive

monetary policy. It will require a society-wide commitment, with contributions from across government and the private sector.

The potential benefits of investing in our nation's workforce are immense. Steady employment provides more than a regular paycheck. It also bestows a sense of purpose, improves mental health, increases lifespans, and benefits workers and their families.

I am confident that with our collective efforts across the government and the private sector, our nation will make sustained progress toward our national goal of maximum employment.

Number 2

Lessons from the pandemic: Has the simpler post-2008 financial system held up? And where do we go from here?

Christina Segal-Knowles, Executive Director, Financial Market Infrastructure Directorate at the Bank of England, Official Monetary and Financial Institutions Forum

The topic of my talk today is lessons we can draw from the market turbulence we saw in March and April 2020.

But before we get there I want to talk about an earlier crisis.

Let's rewind to 2008. On September 15th, Lehman brothers collapsed taking with it one side of $35 trillion in derivatives contracts.

Most of these derivatives were bilateral contracts – a spaghetti bowl of interconnectedness.

As Lehman collapsed and others teetered near the edge, no one knew who was holding the bag.

The result was panic, which, as explained by Ben Bernanke, may have been a key driver of the severity of the Great Recession.

Its early stages would have been significantly less severe without the confidence collapse on Wall Street.

1. Simpler

Now let's fast forward to 2020.

Pandemic. Economic crisis. Market turbulence. But no panic in the banking system.

There were a number of reasons. Banks were stronger. In the UK they were three times better capitalized than at end 2008. And to be clear –very significant government support and central bank interventions were required. I'll come back to this later.

But there is one other reason for the missing panic that I want to focus in on.

After the 2008 global financial crisis, the G20 put in place reforms designed to make the global financial system simpler - to untangle the spaghetti bowl of bilateral derivatives trades that had fed the 2008 panic.

They incentivised - and for many products mandated - central clearing of derivative trades.

Global clearing has as a result, grown significantly in the past decade.

Today, about 60% of credit default swaps are cleared, as well as 80% of interest rate contracts, up from about 10% and 40% respectively in 2008.

This brought greater stability to derivative markets by ensuring that if a major financial institution were to collapse, you needn't worry about a domino effect – with the failing firm's derivatives contracts potentially threatening the viability of any number of other firms.

One of the key ways central clearing counterparties – CCPs – help prevent panic is to be sure that as markets move, firms quickly pay for changes to their derivatives contracts, and insure against likely further changes.

First, when derivatives contracts change value, the holders of those contracts exchange money right away.

Losses and gains are promptly allocated to the firms on either side of the trade. This limits the chance that, if one side of the trade defaults, the other firm is left holding the bag for the defaulter's bad trades. This is called variation margin.

CCP margin protects against a Lehman-like scenario

Exchange of Gains and Losses (variation margin)	Prevents build up of exposures
	Determined by market moves (ie: mark-to-market)
	Nets to zero across the CCP – passed between participants
	Cash
Pre-Paid Self-Insurance (initial margin)	Protects against *most* market scenarios in a default event
	Determined by a model based on historical observations
	Held at the CCP
	Cash or collateral

Second, CCPs require firms to place pre-paid self-insurance with the CCP to cover the predicted liquidation costs in the event of their default.

Because derivatives markets can be fast moving, a key factor in how large this self-insurance needs to be is how volatile the markets are. This is known as initial margin.

To read more: https://www.bis.org/review/r210201a.pdf

Number 3

Financial Stability Institute, Occasional Paper No 17

Fintech regulation: how to achieve a level playing field

by Fernando Restoy, February 2021

The disruption created by technological progress in the market for financial services arises from

(i) an expanded set of services offered to consumers;

(ii) the processes and distributional channels followed by firms in offering those services; and

(iii) the arrival of new (technological) suppliers of those services.

These developments are bound to generate profound changes in the market structure, as non-bank fintech2 players are now becoming very active in offering services that in the past were predominantly offered by banks.

Their presence in the payment service area is already quite significant. However, they are also gaining weight in the provision of wealth management services, the sale of insurance products and loan underwriting.

Those services are increasingly being provided within established technology platforms run by large companies (big techs), where a variety of financial and nonfinancial products are offered by a plurality of suppliers that may or may not be linked to the platform owner (Frost et al (2019)).

A growing number of products and players increases supply, lowers the cost of financial services and encourages financial inclusion.

However, it may also generate risks for the stability and adequate functioning of the financial system.

So far, despite remarkable growth in the recent past, the scale of fintechs' operations is generally limited relative to the overall size of the financial services market.

Yet, in some jurisdictions, specific firms (Ant Group in China or Quicken Loans in the United States) have already gained leading market positions. Given significant economies of scale, data superiority and the large scope

for network externalities, big techs could very well eventually achieve market dominance (De la Mano and Padilla (2018)).

There is an ongoing worldwide discussion on what the policy approach should be with respect to those market dynamics.

Within that discussion, a relevant question is whether the growth potential of fintech and big tech companies could be, in part, the consequence of lighter regulatory requirements compared with those for incumbent players such as commercial banks.

This argument could be based on the observation that financial institutions have specific (entity-based) obligations, such as those related to prudential requirements, which do not apply to other competitors in specific markets such as payment services, wealth management or credit underwriting.

Regulation specific to banks entail higher compliance costs and can therefore put them at a competitive disadvantage.

The existence of regulatory distortions could violate the principle of good regulation, which calls for any public intervention to limit market impact to the minimum required to achieve relevant objectives (OECD (2005)).

Unwarranted discrepancies between regulatory requirements for different types of market player could also disrupt banks' activities as intermediaries, thus posing risks to systemic stability (FSB (2019)).

Moreover, distorted market developments leading to big tech dominance could threaten competition in the financial services market (BIS (2019)), possibly affecting consumer protection and market integrity.

The banking industry has frequently stressed (eg IIF (2017)) that regulation could promote a level playing field through the adoption of an activity-based approach, as opposed to an entity-based one.

That would mean imposing similar requirements upon all active players in a particular market segment, regardless of the legal nature or other characteristics of those entities and, in particular, whether or not they hold a banking licence.

However, entity-based prudential rules for banks are based on specific policy objectives – such as financial stability – that are not subordinated to the achievement of a perfectly competitive landscape.

Therefore, level playing field considerations cannot be enough to support a radical overhaul of the current regulatory framework.

At the same time, it could be argued that fintechs – or, more likely, big techs – can also generate concrete threats to relevant policy objectives such as market integrity and stability or fair competition.

If that were the case, the introduction of specific rules for those entities, as they exist for banks, would not only contribute to primary policy goals but would also help promote a level playing field.

This paper discusses how level playing field considerations should affect the definition of the regulatory framework following the emergence of fintechs and big techs. It also analyses the extent to which activity-based and entity-based regulations could help achieve socially desirable objectives.

The structure of the rest of the paper is as follows. Section 2 outlines the current regulatory framework for banks and fintech players. Section 3 sets out some considerations that may help in assessing the current framework and the scope for a move towards more activity-based regulation. Section 4 assesses possible adjustments to specific regulations that could help achieve a better balance across different policy objectives. Section 5 concludes.

To read more: https://www.bis.org/fsi/fsipapers17.pdf

Number 4

Precious metal investments: all that glitters is not gold

BaFin Federal Financial Supervisory Authority

Four in ten investors have either already invested in gold or other precious metals or could imagine doing so in future. However, investments in precious metals are risky and speculative.

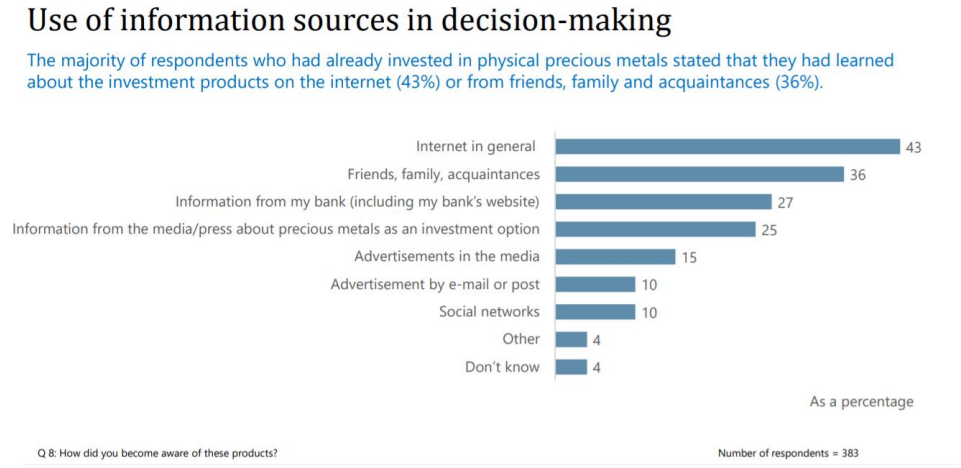
Gold glitters, and its reputation as a secure capital investment is equally dazzling.

There are two reasons for this: in a survey conducted on behalf of BaFin, 83% of those who had purchased or are considering purchasing precious metals believed this to be a secure investment. And in the current low interest rate environment, investments in gold, silver or platinum seem not only safe, but also lucrative. The risks and the costs of such investments are evidently being underestimated.

At a glance - Precious metals survey

In August 2020, on behalf of BaFin, the company OmniQuest Gesellschaft für Beratungsprojekte GmbH surveyed 1,000 consumers over the age of 18 that are resident in Germany about their attitudes towards physical precious metals as a capital investment.

The answers to the 18 questions included in the representative survey provided BaFin with insights into the form of investment favoured by investors, the sources of information they use most, their motivations for investing, and their views regarding the costs of purchasing precious metals.



To read more:
https://www.bafin.de/SharedDocs/Downloads/EN/dl_Edelmetallumfrage_2020_en.html;jsessionid=2F0DC3A4934AD2CE5981CE83AD429CE5.2_cid392?nn=8813520

Certain credit institutions and other providers use the positive properties customers associate with gold to advertise investments. The websites BaFin analysed alongside the precious metal study often claim that gold is timeless, crisis-proof and that its value is stable.

Where investors purchase precious metals

Of the 1,000 respondents, 259 had already purchased precious metals and 124 could imagine doing so in future.

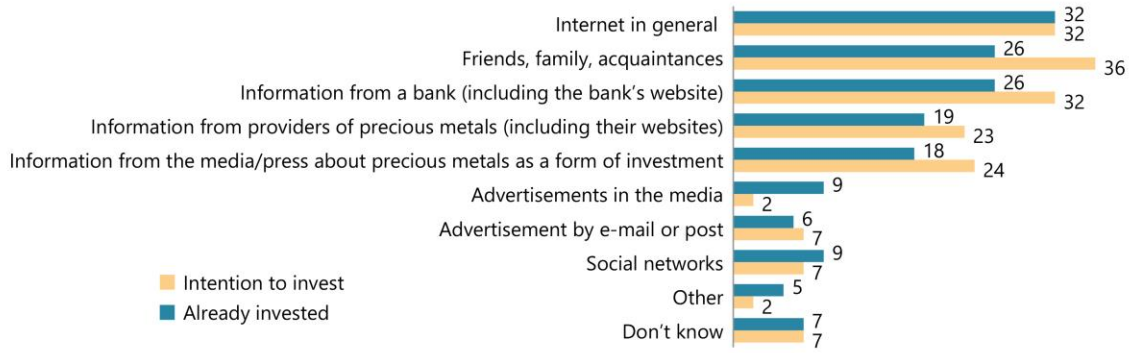
47% of investors purchased their precious metals from banks, whilst 53% used other providers.

63% of respondents who had purchased precious metals from a bank reported that their bank advisor had recommended the investment.

For 26%, information obtained from the bank was the most important factor in their decision to purchase precious metals. 32% of respondents who had not yet invested in precious metals but were interested in doing so in future believed information they received from their bank would influence their investment decision the most.

For investors, only other websites (32%) were reported as a more important source of information than banks.

Those interested in investing in future stated that information from friends, family and acquaintances would be most important (36%) (see Figure 1).



To read more:
https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2020/fa_bj_2012_Edelmetallumfrage_en.html

Number 5

Interactive map of national financial education websites

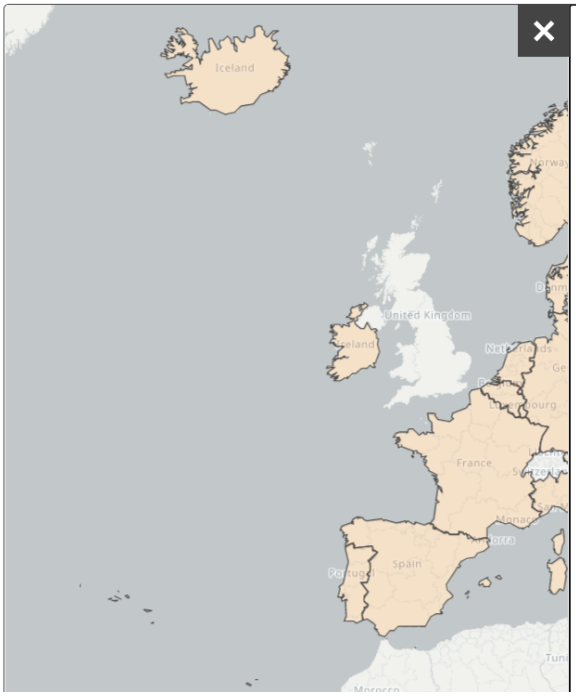
The European Insurance and Occupational Pensions Authority (EIOPA) launched today an interactive European map of national financial education websites.

The map is targeted to consumers who will have the opportunity to explore information about financial education in an interactive way.

The websites typically include practical information about insurance and pensions products, warnings about public scams and unauthorised practices, provide answers to frequently asked questions or contacts where consumers can turn to in case of complaints.

The interactive map will help consumers to learn about key concepts about insurance and pensions in different EU Member States. At the same time, it is an important step in promoting EIOPA's mandate in the area of financial education and literacy.

The map: https://www.eiopa.europa.eu/interactive-map_en



Germany

Financial education websites: BaFin information for consumers & Voice of Consumer

The Federal Financial Supervisory Authority (BaFin) which brings together under one roof the supervision of banks and financial services providers, insurance undertakings and securities trading has a dedicated comprehensible consumer portal on its website (https://www.bafin.de/EN/Verbraucher/verbraucher_node_e The specific area for consumers puts together a range of information specifically relevant for consumers. The information provided covers information regarding and supervisory activities relevant for consumers as well as information for financial education for example regarding products, investment advice. The area also holds a list of Q&As and links to more in-depth information for example through expert articles. Almost all information is available in German and English.

Number 6

Final Report on draft Regulatory Technical Standards

The European Supervisory Authorities (ESAs) have developed through the Joint Committee (JC) draft Regulatory Technical Standards (RTS) with regard to the content, methodologies and presentation of sustainability-related disclosures under empowerments Articles 2a, 4(6) and (7), 8(3), 9(5), 10(2) and 11(4) of Regulation (EU) 2019/2088 (hereinafter Sustainable Finance Disclosure Regulation "SFDR").

The draft RTS text and accompanying Annexes set out proposal in these areas.

They reflect the responses to a Consultation Paper (JC 2020 16) published on 23 April 2020.

The draft RTS also contain templates for pre-contractual and periodic product disclosures that were subject to an online public survey and to two consumer testing exercises conducted in the Netherlands and Poland.

In line with the empowerment in Article 4(6) SFDR, the ESAs also sought input from the Joint Research Centre of the European Commission and the European Environment Agency as referred to in Article 4(6) SFDR.

The draft RTS relate to several disclosure obligations under the SFDR regarding the publication of:

- The details of the presentation and content of the information in relation to the principle of 'do not significantly harm' as set out in Article 2(17) of the SFDR consistent with the content, methodologies, and presentation of indicators in relation to adverse impacts referred to in Article 4(6) and (7) SFDR (Article 2a SFDR).

- A statement on an entity's website of describing its due diligence policy in respect of the adverse impact of investment decisions on sustainability factors in relation to climate and other environment-related impacts(Article 4(6) SFDR) and adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters (Article 4(7) SFDR).

- Pre-contractual information on how a product with environmental or social characteristics meet those characteristics and if an index has been

designated as a reference benchmark, whether and how that index is consistent with those characteristics (Article 8 SFDR).

- Pre-contractual information to show, where a product has sustainable investment objectives and

  a) has a designated index as a reference benchmark, how that index is aligned with the sustainable investment objective and an explanation as to why and how that designated index aligned with the objective differs from a broad market index (Article 9(1) SFDR); or

  b) if no index has been designated as a reference benchmark, an explanation on how those objectives are to be attained (Article 9(2) SFDR).

- Information on an entity's website to describe the environmental or social characteristics of financial products or the sustainable investment and the methodologies used (Article 10 SFDR).

- Information in periodic reports according to sectoral legislation specifying

  (a) the extent to which products with environmental and/or social characteristics meet those characteristics, and

  (b) for products with sustainable investment objectives and products which objective is a reduction in carbon emissions:

  (i) the overall sustainability-related impact of the product by means of relevant sustainability indicators and

  (ii) where an index has been designated as a reference benchmark, a comparison between the overall impact of the financial product with the designated index and a broad market index through sustainability indicators (Article 11 SFDR).

The draft RTS text and accompanying Annexes form the core of this Consultation Paper (Section 3).

An impact assessment and feedback statement on the consultation paper are also included in (Section 4) to highlight possible costs and benefits of the proposals and to summarise the responses received and reaction from ESAs.

Responses by the stakeholder group of ESMA and EIOPA are attached as annexes.

To read more:
https://www.eiopa.europa.eu/sites/default/files/publications/reports/jc-2021-03-joint-esas-final-report-on-rts-under-sfdr.pdf

Number 7

Firm Inspection Reports

The Sarbanes-Oxley Act authorizes the PCAOB to inspect registered firms for the purpose of assessing compliance with certain laws, rules, and professional standards in connection with a firm's audit work for public companies, other issuers, and broker-dealer clients.

Registered firms that issue 100 or fewer audit reports for issuers are, in general, inspected at least once every three years. Registered firms that issue audit reports for more than 100 issuers are inspected annually. The Board also inspects registered firms that play a substantial role in audits of issuers. Many firms registered with the Board perform no audit work for issuers, and the Board does not inspect those firms.

While the information contained here focuses on our inspections of issuer audits, more information on broker-dealer inspections can be found on our dedicated page.

To read more:
https://pcaobus.org/oversight/inspections/firm-inspection-reports

Number 8

2020 Conversations with Audit Committee Chairs

The Public Company Accounting Oversight Board (PCAOB) views engaged and informed audit committees as effective force multipliers in promoting audit quality and believes that the PCAOB and audit committees jointly benefit from our ongoing dialogue.

COVID-19

An overarching theme of our calls in 2020 was how the COVID-19 pandemic created unprecedented challenges for auditors, audit committees, and public companies. We previously reported on that topic in ***Conversations with Audit Committee Chairs: COVID-19 and the Audit***.

We also published two other documents—***COVID-19: Reminders for Audits Nearing Completion*** and ***Staff Observations and Reminders during the COVID-19 Pandemic***—that include reminders about certain auditor responsibilities, notwithstanding the challenges that may exist related to COVID-19.

Continuing with the expanded engagement we launched in 2019, we again reached out to the audit committee chairs of most of the U.S. public companies whose audits we inspected during 2020 and offered them the opportunity to speak with our inspection teams.

In total, we spoke to nearly 300 audit committee chairs. In addition to the effects of the COVID-19 pandemic on the audit, we discussed three core topics during our conversations:

- The auditor and communications with the audit committee;
- New auditing and accounting standards; and
- Emerging technologies.

To read more:
https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/2020-conversations-with-audit-committee-chairs.pdf?sfvrsn=abd15ca4_6

Number 9

New prompts to help people consider before they share

By Gina Hernandez, Product Manager, Trust & Safety

TikTok

People come to TikTok to be creative, find community, and have fun. Being authentic is valued by our community, and we take the responsibility of helping counter inauthentic, misleading, or false content to heart.

We remove misinformation as we identify it, and in the UK we now partner with Logically, a technology company with one of the world's largest dedicated fact-checking teams, who are supporting our efforts to determine whether content shared on the platform is false, misleading or misinformation.

If fact checks confirm content to be false, we'll remove the video from our platform.

Sometimes fact checks are inconclusive or content is not able to be confirmed, especially during unfolding events.

In these cases, a video may become ineligible for recommendation into anyone's For You feed to limit the spread of potentially misleading information.

Today, we're taking that a step further to inform viewers when we identify a video with unsubstantiated content in an effort to reduce sharing.

Here's how it works: First, a viewer will see a banner on a video if the content has been reviewed but cannot be conclusively validated.

The video's creator will also be notified that their video was flagged as unsubstantiated content.

If a viewer attempts to share the flagged video, they'll see a prompt reminding them that the video has been flagged as unverified content.

This additional step requires a pause for people to consider their next move before they choose to "cancel" or "share anyway."

We love that our community's creativity encourages people to share TikTok videos with others who might enjoy them – both within our platform and beyond – but we've designed this feature to help our users be mindful about what they share.

In fact, when we tested this approach we saw viewers decrease the rate at which they shared videos by 24%, while likes on such unsubstantiated content also decreased by 7%.

This feature will be rolling out globally over the coming weeks, starting today in the US and Canada and reaching UK users from 22 February.

It was designed and tested with Irrational Labs, a behavioral science lab.

This is just the latest step we've taken to counter misinformation.

Last summer, we signed up to the EU Code of Practice on Disinformation, and throughout the Covid-19 global pandemic, we've ensured that our community has access to trustworthy and authoritative public health information.

We'll continue to invest in product features, partnerships and other strategies that help promote an authentic and welcoming community.

Number 10

FETT Bug Bounty Helps Strengthen SSITH Hardware Defenses

DARPA's first bug bounty proves SSITH processors can thwart sophisticated attacks

After three months of reviewing more than 13,000 hours of hacking exploits conducted by more than 580 cybersecurity researchers, DARPA today announced that its Finding Exploits to Thwart Tampering (FETT) Bug Bounty successfully proved the value of the secure hardware architectures developed under its System Security Integration Through Hardware and Firmware (SSITH) program while pinpointing critical areas to further harden defenses.

From July-October 2020, DARPA held its first ever bug bounty program – a crowdsourced, red team exercise used to evaluate and analyze a technology's defenses.

DARPA partnered with the Department of Defense's Defense Digital Service (DDS), a self-described SWAT team within the Department of Defense, and Synack, a crowdsourced security platform on this effort.

More than 980 SSITH processors were tested by Synack's existing community of researchers and 10 valid vulnerabilities were discovered across all of the secure architecture implementations.

FETT leveraged Synack's penetration testing process to conduct the bug bounty and facilitate communications about the discovered weaknesses.

FETT is part of the "Hack the Pentagon" crowdsourced digital defense program operated by DDS.

The SSITH program aims to develop security architectures and tools that protect electronic systems against common classes of hardware vulnerabilities exploited through software.

To help test and evaluate their research efforts, the teams working on SSITH integrated their novel hardware security protections into FPGA-based emulated systems with RISC-V processor cores.

Full software stacks were built on top of each system, which were populated with vulnerable applications that could be exploited on unprotected processors.

These emulated systems were then provided to the Synack Red Team (SRT) – the organization's cohort of security researchers – via Amazon Web Services (AWS) EC2 F1 cloud.

Once live, the SRT had several months to virtually access the secure processor technology and devise exploit mechanisms to challenge their defenses.

"Knowing that virtually no system is unhackable, we expected to discover bugs within the processors but FETT really showed us that the SSITH technologies are quite effective at protecting against classes of common software-based hardware exploits," said Keith Rebello, the DARPA program manager leading SSITH and FETT.

"The majority of the bug reports did not come from exploitation of the vulnerable software applications that we provided to the researchers, but rather from our challenge to the researchers to develop any application with a vulnerability that could be exploited in contradiction with the SSITH processors' security claims. We're clearly developing hardware defenses that are raising the bar for attackers."

FETT ran for three months and during that time only 10 vulnerabilities were disclosed by the SRT – seven were considered "critical" and three were considered "high" by Common Vulnerability Scoring System 3.0 standards.

A majority of the critical vulnerabilities identified during FETT resulted in weaknesses introduced by interactions between the SSITH hardware, SSITH firmware, and the operating system software.

This signals that there is an opportunity to investigate approaches for hardware/software co-design and verification approaches that span the hardware-firmware-software boundary to better secure the system.

During the course of the FETT bug bounty, four of the discovered vulnerabilities were patched and validated by the SRT. The SSITH research teams are expected to mitigate the remaining vulnerabilities during the third phase of the program, or outside of the funded effort.

"FETT challenged performers and greatly matured the architectures in development," noted Rebello. "Several of the research teams were driven to document the use and benefits of their security frameworks in a rigorous and understandable way, which will ultimately help third parties understand and adopt these secure processors for operational use. Further, the FETT bug reports provided actionable information that is helping to drive Phase 3 development on SSITH."

In addition to enhancing the effectiveness of the SSITH secure hardware architectures, a critical outcome of FETT was the development of a scalable, virtualized platform for remotely testing and evaluating secure processor prototypes.

The platform was developed by Galois and provides a means of virtually crowdsourcing the analysis of future processor technologies beyond SSITH and FETT. “To date, similar platforms have just focused on software code analysis and verification. What FETT has developed is first of its kind,” said Rebello.

The SSITH program is now in its third and final phase. Research teams are focused on further improving the performance of their technologies as they push for even greater security protections.

In the final phase of the program, researchers are expected to fabricate a silicon system-on-chip (SoC) and are working to apply SSITH security approaches to other instruction set architectures, such as ARM and x86.

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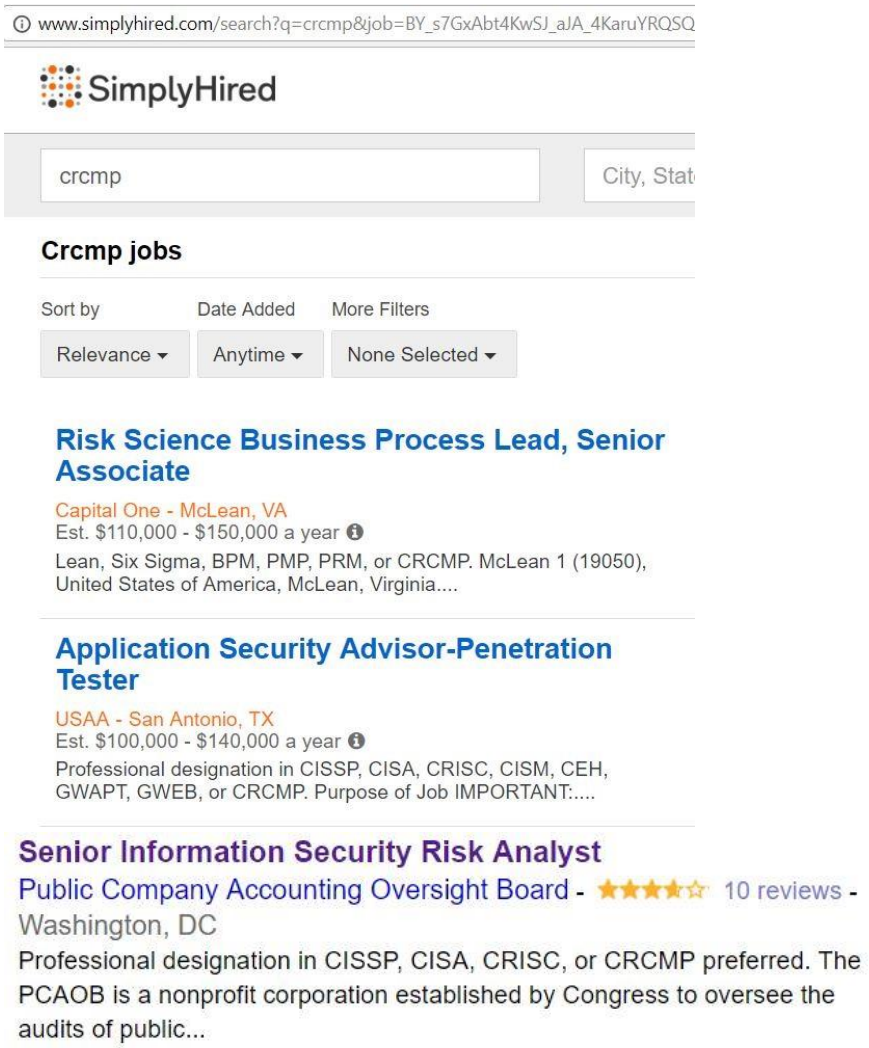

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https://www.risk-compliance-association.com/Distance_Learning_and_Certification.htm

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