Top 10 risk and compliance management 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,

Erich Fromm believed that if a person loves only one other person and is indifferent to all others, his love is not love, but a *symbiotic* attachment, or an enlarged egotism.

*Mutualism* is a *symbiotic* relationship between individuals of different species in which both benefit from the association.

Commissioner (SEC) Kara M. Stein said that the *relationship between a company and its shareholders* is rooted in a similar form of *mutualism*. Shareholders invest their savings or capital in a company. The company then deploys the capital to fund its operations.

Kara gave a *great example of mutualism*: The relationship between *bees and flowers*.

Bees fly from flower to flower gathering nectar to make food. By flying from flower to flower, bees pollinate the plants on which they land. Bees get to eat, and the flowering plants get to reproduce. Bees help plants grow, thus supporting other animals, including us humans. The *bee-flower relationship* is integral to our entire food chain, and our larger ecosystem.
Kara continues on the relationship between a company and its shareholders:

This corporation-shareholder relationship is likewise part of a larger ecosystem. When all goes well, more employees and managers get hired, and the company produces more products or provides more services, all of which benefits the entire economy.

Unfortunately, the relationship between corporations and their shareholders may be moving away from its origins and becoming less mutualistic. This, I believe, may harm companies and their shareholders, as well as those who depend on the health of the corporation-shareholder relationship.

Read more at Number 3 below. Welcome to the Top 10 list.

*Best Regards,*

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The nature of evolving risks to financial stability

Agustín Carstens, General Manager of the BIS, at the 53rd SEACEN Governors' Conference/High-level Seminar and 37th Meeting of the SEACEN Board of Governors, Bangkok.

“It's also a pleasure to be back in Asia, where you all, as policymakers, have managed to put together a framework that fosters steady high growth while maintaining financial stability, allowing you to successfully navigate through episodes of extreme turbulence in the global economy and financial markets.”

Supervisory Convergence Work Programme 2018

The 2018 Supervisory Convergence Work Programme (SCWP) sets priorities with the intention of driving ESMA’s convergence agenda in the year ahead and fostering a coordinated setting of national supervisory priorities.

The elaboration of these priorities builds on an iterative process between ESMA and the NCAs and takes into account the current market and regulatory environment as well as NCAs’ supervisory priorities.
Mutualism: Reimagining the Role of Shareholders in Modern Corporate Governance” Remarks at Stanford University

Commissioner Kara M. Stein

“Tonight, I want to talk to you about something that has been vigorously debated in recent years: What is, and what should be, the role of the corporate shareholder?

In the spirit of being in California, this debate could be summarized as follows: Are shareholders merely extras in the corporate movie? Or are they lead actors that need to be empowered so that they can successfully play their roles?”

Cybersecurity built on trust – ENISA supports Member States in establishing PPPs and ISACs

ENISA publishes two reports: Cooperative models for Public Private Partnerships (PPPs) and Cooperative models for Information Sharing and Analysis Centres (ISACs).

A common objective of every European national cyber security strategy is collaboration to enhance cyber security across all levels, from threat information sharing to awareness raising. Collaboration is often achieved through two formal structures: Information Sharing and Analysis Centres (ISACs) and Public Private Partnerships (PPPs).
Trade as an engine of growth: Prospects and lessons for Europe

Benoît Cœuré, Member of the Executive Board of the ECB, NBRM High Level International Conference on Monetary Policy and Asset Management, Skopje

“For several years now, global trade growth has puzzled many observers. While global trade grew at about twice the rate of GDP before the crisis, it has slowed measurably since then and has often grown at the same rate as, or even below, that of global output. However, in 2017, world import growth once again outpaced world GDP growth. The euro area is benefiting from this recovery, with export growth the highest in many years.”

A stable financial system – more than the sum of its parts

Sabine Lautenschläger, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, Dutch Banking Day, Amsterdam

“Logic can be a tricky thing. Apply it in the right way, and you always arrive at a consistent conclusion. But apply it in the wrong way, and it can lead you astray. And that happens all too easily.”
Remarks at the Ceremonial Swearing-in

Chairman Jerome H. Powell, at the Federal Reserve Board, Washington, D.C.

“The Congress has assigned the Federal Reserve the goals of stable prices and maximum employment. Price stability means that businesses and households can make important decisions without concern for high or volatile inflation.

Maximum employment means that those who want a job either have one or can find one reasonably quickly. We also have important responsibilities for the stability of the financial system and for the regulation and supervision of financial institutions, including our largest banks.”

ESAs warn consumers of risks in buying virtual currencies

The European Supervisory Authorities (ESAs) for securities (ESMA), banking (EBA), and insurance and pensions (EIOPA) have issued a pan-EU warning to consumers regarding the risks of buying Virtual Currencies (VCs).

The ESAs warn consumers that VCs are highly risky and unregulated products and are unsuitable as investment, savings or retirement planning products.
A new version of the Neuron malware

In November 2017, the NCSC released an advisory highlighting the Turla Group’s use of the tools Neuron and Nautilus.

Since then, the NCSC has identified a new version of the Neuron malware. The new version has been modified to evade previous detection methods.

The policy life cycle and capacity-building needs of financial sector authorities

Agustín Carstens, General Manager of the BIS, at the BIS-IMF symposium on "Capacity-building in financial sector regulation and supervision", Basel.

“There is growing demand for capacity-building; but at the same time, resources are limited. It would be useful to find ways to coordinate, to prioritise the different demands and to optimise the resources that we do have.

Since this symposium is in Basel, one could be forgiven for thinking that my remarks might focus on the regulatory reforms, particularly the recently finalised Basel III package.”
The nature of evolving risks to financial stability

Agustín Carstens, General Manager of the BIS, at the 53rd SEACEN Governors’ Conference/High-level Seminar and 37th Meeting of the SEACEN Board of Governors, Bangkok.

Introduction

Good evening. Thank you for that kind introduction. I wish to express my gratitude to our hosts at the Bank of Thailand, especially Governor Veerathai Santiprabhob, for their extraordinary hospitality, and to SEACEN for organising tomorrow’s conference.

It’s also a pleasure to be back in Asia, where you all, as policymakers, have managed to put together a framework that fosters steady high growth while maintaining financial stability, allowing you to successfully navigate through episodes of extreme turbulence in the global economy and financial markets.

Over the past two decades you have strengthened your financial systems, in part through the pre-emptive use of macroprudential instruments, as well as reforms in corporate governance.

Although US dollar funding shortages hit your major banks, they did not suffer a solvency crisis during the Great Financial Crisis as did banks in Europe and the United States.

The greater exchange rate flexibility that many of your jurisdictions have allowed, combined with the development of local currency bond markets, has also contributed to financial system resilience. On the macroeconomic front, your economies show the great benefits to be gained from openness to direct investment and trade, and increased integration in global supply chains.
Trade recovered more strongly in Asian emerging markets than elsewhere subsequent to the Great Financial Crisis. Regional factors now play a more important role in explaining variation in output than global factors, as the regional economies have become more integrated through stronger supply chains.

The theme of tomorrow’s conference is "Pursuing stability in a world of instability". I commend you on this choice. Indeed, there will never be a world of perfect stability. It is our ongoing job as central bankers to identify and prepare for possible shocks to the system.

Tonight I would like to discuss three risks to financial stability from the current perspective:

(i) the path of policy normalisation;

(ii) protectionism or at least uncertainty in trade policies; and

(iii) rapid technological change in financial services.

**Policy normalization**

To start with policy normalisation, the backdrop is that in advanced economies interest rates have been low for long, and central bank balance sheets have been swollen by years of unconventional policies.

Low interest rates and ample liquidity have had significant spillover effects to many emerging market economies, including in Asia and the Pacific. They have encouraged increases in indebtedness and the elevation of house and other asset prices beyond historical standards in many economies.

As monetary policy in advanced economies has been overburdened for some time, and markets overly dependent on accommodative policies that aggravate the risks to financial and macroeconomic stability over the medium to longer term, normalisation to build policy space ahead of the next downturn would be a very welcome development.

That said, recent indicators point towards a very slow pace of interest rate increases for advanced economies. Market participants also expect central bank balance sheets to shrink only gradually.

One risk is that the pace of interest rate normalisation could be considerably faster than currently priced into yields.
While higher rates could simply reflect higher growth and inflation approaching targets, they could also portend a jump in term premia. Financial markets could be similarly roiled by changes in balance sheet policies.

Examples of "snapbacks" in rates seemingly unrelated to changes in growth or inflation expectations include the taper tantrum of 2013, the bund tantrum of 2015 and, further back, the 1994 bond market sell-off.

Given the global reach of the US dollar, rises in dollar yields are eventually likely to result in higher yields in emerging markets, and a de facto tightening of financial conditions.

In addition to reducing spending and investment, higher interest rates could squeeze the debt servicing capacities of households and corporations in Asia, which have leveraged up in recent years, with much of the debt at floating rates.

And the overstretched asset valuations mentioned earlier could correct as well, with knock-on hits to economic growth.

While local currency depreciation might mitigate some of the real effects, work at the BIS has documented that US dollar appreciation vis-à-vis domestic currencies can often hurt activity through balance sheet deterioration more than it helps through improvement of competitiveness.

More generally, normalisation of interest rates and liquidity conditions may well expose other weaknesses in the global financial system: as Warren Buffet once put it, only when the tide goes out do you discover who's been swimming naked.

Not only can unforeseen linkages of global financial institutions spread financial stress in unforeseen ways, but there may be precious little time to adjust to higher interest rates and exchange rate volatility, as mobile international capital can be highly procyclical.

In sum, while we should not forget that policy normalisation will be a welcome development on the whole, given where we are, we will need to carefully manage it.

Part of this management will be to further stabilise the banking system, including through the timely and consistent implementation of Basel III reforms.
Protectionism

Next, I would like to talk about the growing risk of protectionism and uncertainty in trade and capital market policies.

Events over the past few years have heightened our awareness of the challenges posed by globalisation - in particular the uneven distribution of its benefits and adjustment costs within societies.

And as we now know all too well, this can prompt a backlash.

The solution is not to reverse global integration but to redress its distributional consequences. Let’s preserve and enhance free trade - maintain and refurbish agreements and, when necessary, adjust them.

To be more specific, the way forward with trade agreements is to modify and to improve them to widen their beneficiaries.

For example, there should be common labour, safety and health standards for industries, to mitigate multinational firms’ race to the bottom in global markets. There should be programmes for retraining and re-employing laid-off workers.

Both global and domestic policy institutions need to make a better case for global trade. Many politicians seem unaware of the returns to global value chains in advanced economies, including in terms of overall job creation. Similarly, the cost of protectionism is underappreciated.

At the same time, let us not forget that exchange rate flexibility is one of the antidotes to the worsening of current account imbalances that can exacerbate the job costs of globalisation and open markets.

Persistent intervention so that current account surpluses lead to more reserve accumulation and less exchange rate appreciation runs the risk of exacerbating imbalances.

Global capital market integration with flighty international capital also poses challenges. Just as reversing integration is not the answer on the trade side, so too capital controls are not the right answer on the financial side - not in most cases, anyway. Rather, we should continue to increase the resilience of our economies and financial systems to international capital flows and exchange rate movements.
In this respect, I would like to commend you on some of the regional measures you have undertaken - perhaps an example for other emerging market economies.

More than a decade ago, ASEAN+3 and EMEAP took initiatives that have boosted local currency bond markets (though most jurisdictions have made more progress on the sovereign than on the corporate front).

Local currency debt markets allow both the sovereign and firms to reduce financial vulnerability to exchange rate movements, in particular the hit to national or corporate net worth that local currency depreciation can inflict.

That said, the US dollar remains the dominant global currency in trade and finance, and market participants' impulse to hoard dollars in situations of stress is deeply ingrained.

The maintenance of much higher levels of reserves than before the Asian financial crisis is appropriate.

But given the potential cost of the accumulation of own reserves, it makes economic (if not always political) sense for central banks and treasuries to also enter into reserve sharing arrangements.

The Chiang Mai Initiative Multilateralization and related bilateral swap arrangements in this region deserve credit in this regard. But they remain fair weather cooperation, untested in a storm; their practical usefulness could be strengthened.8

Rapid technological innovation

Lastly, I would like to touch on some of the risks posed by rapid technological innovation. We are entering a new era in which internet access and a new generation of payments and financial intermediation technologies ("fintech") are greatly expanding the ability of both diffuse creditors to provide funds, and small businesses to raise funds. The supply of investment funds will be more inclusive.

"Big data" analytics and the use of algorithms also have the potential to enhance the identification, analysis and management of risks and to reduce the cost of adherence to compliance and regulatory reporting requirements. This latter objective is sometimes known as "regtech".
In theory, by increasing the breadth, depth and diversity in the provision of funds, and by decreasing the costs of payments, risk assessment and regulatory compliance, these technological innovations could make the financial system more stable.

At the same time, we must be aware of the risks posed by such rapid technological change. In the provision of credit, new underwriting procedures and mechanisms of certification, many being managed by entities that are not regulated as credit institutions, could lead to declining credit standards and even a credit bubble without proper discipline.

Current banking business models could face competitive challenges from rapid disintermediation of customers.

Similarly, on the asset management side, with the large-scale entrance of new classes of investors whose behavioural tendencies are unfamiliar, risk management models may prove inadequate.

In addition, algorithmic trading - which has the characteristics of a black box and which we have seen could increase the vulnerability of trading systems to flash crashes - is another, potentially interrelated, risk.

In cyber-security, data leaks and infiltration of systems could result in financial and reputational losses for key institutions in the global financial system.

It is not unthinkable for cyber-attacks to potentially hinder the operation of traditionally reliable financial transactions such as retail electronic transfers.

Authorities in all jurisdictions should treat those threats very seriously and actively invest in raising the reliability of their defences and crisis response capabilities.

Vigilance is required on the part of supervisors and regulators so that the protection of depositors and investors is maintained in the face of rapid technological change.

Just as firms will need to adopt their ways of managing risks and meeting regulatory requirements, regulators and supervisors will need to revise their practices.
They will need to develop the capacity - now often called "suptech" - to assess and to use the data yielded by fintech.

**Suptech** can refer to the use of machine learning and natural language processing to link communications and behavioural data to financial stability risks that could derive from trading activity. In fraud detection as well, the use of machine learning to identify high-risk patterns is under way, and shows real promise.

While there is likely to be consolidation as banks unable to deal with the competitive challenges exit, we must ensure that the banking system as a whole retains sufficient financial strength in the face of disruptive technologies.

We must also ensure that, despite the convenience and speed afforded by the adoption of the new technologies, investors do not skip due diligence in making financing decisions and clearly understand the risks that they are taking.

And with the new data analytics offered by artificial intelligence and machine learning, we must relentlessly stress-test the resilience of financial institutions to cyber-security threats.

I would like to add a word on the possibility of central bank digital currencies, which is receiving much attention and stimulating discussion.

In some jurisdictions, particularly those where the use of cash is declining rapidly, policymakers are considering providing a digital alternative to cash to serve as a store of value and medium of exchange.

Under one design of such an alternative, anyone could electronically open an account and deposit money at the central bank.

To be sure, various forms of digital central bank currencies, depending on degrees of access, remuneration and other features, can be envisaged as improving welfare, among others, given potential efficiencies to be gained in payment, clearing and settlement.

Considerations of financial inclusion objectives may also come into play in some jurisdictions.

But each jurisdiction will need to consider the risks to financial stability as well. Over time central banks have evolved to limit access to their balance
sheet only to commercial banks (and some selected non-bank financial institutions).

This defines the centuries-old two-tier banking system - the central bank being a bank for banks and banks providing services to the public and the broader economy.

Digital central bank currencies, under certain designs, could do away with this long-standing practice, with major implications. Granting access to central bank balance sheets to many parties would present competition to bank deposits.

One could expect a shift of deposits to the central bank under certain conditions that could in principle exacerbate financial stability risks. The shift would be particularly marked in times of stress, when depositors would fly to safety at any price, leaving banks vulnerable to losing deposits to the central bank.

Many tough questions would arise. Could commercial banks still undertake efficiently their current forms of intermediation? Which type of financial intermediary, besides the central bank, could take their place?

Most importantly, central banks would end up intermediating more. With a larger balance sheet, they have to choose how to allocate funds. Would the central bank be more efficient than the private sector in resource allocation, and if not, would the benefits be worth the welfare costs?

So while it is a good thing that some jurisdictions have been thinking seriously about digital currencies, and are fairly advanced in their planning, it is highly likely that other jurisdictions, considering their own financial system structure, underlying preferences for privacy and other constraints, will approach the introduction of central bank digital currencies more cautiously.

One area in which policymakers across jurisdictions might share a common view is with regard to the recent emergence of so-called cryptocurrencies (more like cryptoassets) such as bitcoin.

While these can offer decentralised peer-to-peer exchange and cash-like anonymity, the general judgment is that their volatile valuations, as well as inadequate investor and consumer protection, make them unsafe to rely on as a common means of payment and store of value.
We should not hesitate to warn the public about the differences between central bank money and privately created virtual currencies. The growth and development of the latter may end up quite badly if we in the central banking community do not warn enough of the importance of this distinction.

**Concluding remarks**

While the risks I have outlined above are significant, they are by no means unmanageable. We can learn from previous tightening episodes and prepare ourselves for the risk of sharp snapbacks in the level of interest rates. We can do a better job in both spreading and selling to the body politic the benefits of economic and financial integration.

**Globalisation is not off the rails; it is just in need of maintenance.**

We should continue to enhance our capacity to respond to the challenges posed by some disruptive innovations in financial services. At the same time, we should not allow for the revolution in IT and innovation to blur the distinction between money and virtual currencies.

And let's also continue to buttress domestic policies with international cooperation that monitors and addresses global linkages - through both global bodies such as the BIS, the IMF and the FSB, and regional ones such as ASEAN and SEACEN.

Not least, let's fully implement the internationally agreed financial reforms - such as Basel III - in a timely and consistent manner to ensure the resilience of our financial systems.
1. The 2018 Supervisory Convergence Work Programme (SCWP) sets priorities with the intention of driving ESMA’s convergence agenda in the year ahead and fostering a coordinated setting of national supervisory priorities.

The elaboration of these priorities builds on an iterative process between ESMA and the NCAs and takes into account the current market and regulatory environment as well as NCAs’ supervisory priorities.

2. ESMA will continue to foster the effective and consistent application of the EU regulatory framework, facilitating the exchange of experience between NCAs, the development and coordination of effective national supervisory approaches, the identification of best practices as well as barriers to convergent supervision, the assessment of NCAs’ actions through peer reviews and, if needed, taking remedial action.

3. ESMA expands on the 2017 SCWP by assessing the progress achieved.

Although most priorities identified for 2017 remain relevant for 2018, new priorities have also been identified in order to proactively address the high impact of financial innovation as well as the need to foster supervisory convergence in the context of the UK’s decision to withdraw from the EU.

4. For 2018, ESMA identified the following priorities for supervisory convergence:

- Ensuring that MiFID II/MiFIR are applied in a sound, efficient and consistent manner across the EU

- Improving data quality to ensure efficient reporting under various requirements set by EU legislation
- **Ensuring supervisory convergence** in the context of the UK’s decision to withdraw from the EU

- Safeguarding the **free movement of services** in the EU through adequate investor protection in the context of cross-border provision of services

- Monitoring developments in **financial innovation**, in particular through the analysis of emerging and existing instruments, platforms and technology.

Number 3

Mutualism: Reimagining the Role of Shareholders in Modern Corporate Governance” Remarks at Stanford University

Commissioner Kara M. Stein

Thank you, Professor [Joe] Grundfest, for that kind introduction. It is a pleasure to be with you this evening, and I would like to thank the Corporations and Society Program and the Rock Center for Corporate Governance for inviting me to visit with you.

In particular, I would like to thank Professors [Anat] Admati and [Joe] Grundfest for extending to me such a warm welcome.

Before I go further, I must state that the views I express today are my own, and do not necessarily reflect those of my fellow Commissioners or the SEC staff.

Tonight, I want to talk to you about something that has been vigorously debated in recent years: What is, and what should be, the role of the corporate shareholder?

In the spirit of being in California, this debate could be summarized as follows: Are shareholders merely extras in the corporate movie? Or are they lead actors that need to be empowered so that they can successfully play their roles?

However, as most people in this room know, it is actually much more complicated than that. It is not, and should not be conceptualized as, a binary choice.

Rather, I would posit that the entire corporate ecosystem’s success actually rests on effective communication and collaboration between corporations and their shareholders.
When a company, its management, its shareholders, and its employees work together, companies tend to be more resilient and prosperous. In turn, this benefits companies, their corporate stakeholders, and the economy as a whole.

**Today’s corporations influence and impact our society in a multitude of ways.** Corporations help grow our economy, provide well-paying jobs, and provide earnings to investors saving for retirement, college, or a new home. Many companies, whether small or large, are helping to drive our society forward, developing new technologies that are raising our living standards, improving our environment, and lengthening our life span.

Corporations hold some of our most precious assets, such as medical histories, consumer bank account information, addresses, and other sensitive information. They also are central players in some of our most immediate problems, such as global warming.

Corporations have shaped, and will continue to shape, our society, our identities, and our relationships with one other. This week’s series seeks to promote a discussion of the interrelationship and interdependency between corporations and our society.

Pretty heady stuff, to be sure, but extremely important. Not only from an academic point of view, but from a practical and policy point of view, as well.

So, I thought I would start off our discussion tonight by talking a bit about the science of “mutualism.”

For those of you not familiar with the concept, mutualism is a symbiotic relationship between individuals of different species in which both benefit from the association.

**One example of mutualism is the relationship between bees and flowers.** Bees fly from flower to flower gathering nectar to make food. By flying from flower to flower, bees pollinate the plants on which they land. Bees get to eat, and the flowering plants get to reproduce. Bees help plants grow, thus supporting other animals, including us humans. The bee-flower relationship is integral to our entire food chain, and our larger ecosystem.

The relationship between a company and its shareholders is rooted in a similar form of mutualism. Shareholders invest their savings or capital in a company. The company then deploys the capital to fund its operations.
This allows the corporation and its shareholders’ investments to grow. This corporation-shareholder relationship is likewise part of a larger ecosystem. When all goes well, more employees and managers get hired, and the company produces more products or provides more services, all of which benefits the entire economy.

Unfortunately, the relationship between corporations and their shareholders may be moving away from its origins and becoming less mutualistic. This, I believe, may harm companies and their shareholders, as well as those who depend on the health of the corporation-shareholder relationship.

So, how do we restore mutualism in the relationship upon which our corporate ecosystem is based?

MUTUALISM AND THE CORPORATION-SHAREHOLDER RELATIONSHIP

Brief History

I recently remarked upon the history of the American corporate form, and I would like to start my talk tonight there, as well.

Don’t worry, I won’t go as far back as the Dutch East India Company and its participanten, or the tulip bulb market.

Rather, I will quickly touch upon the history of the corporation-shareholder relationship in the United States to inform the rest of our discussion.

From the late-1700s to the mid-1800s, corporations started to flourish in the United States.

American companies typically operated within a single state or community.

The shareholders of a corporation were often members of the same community in which the corporation was located. As a result, they were able to engage and monitor the company’s business affairs in a more direct manner than we currently see today. A corporation also met with its shareholders more frequently, whether in the form of shareholders’ meeting or otherwise.

Beginning in the mid-1800s, however, companies started growing larger and the corporate form changed.
Companies began hiring managers—who often had no ownership interest in the companies—to run their affairs. While this transition created certain efficiencies, it also in many cases separated the ownership of the company from the management of the company. This had the effect of reducing shareholders’ ability to directly influence the company’s business.

**Mutualism and the Corporation-Shareholder Relationship in Recent Years**

A lot has happened since the mid-1800s, and we are now at a tipping point. Instead of being in the midst of an industrial revolution, we are in the midst of a digital revolution.

This new revolution comes with many benefits—speed, efficiency, and innovation, to name only a few. Coupled with these benefits, however, are also some risks.

I think if we focus on the strengths of the American corporate form, we can successfully reimagine the corporation-shareholder relationship for the Digital Age.

I would like to discuss a few examples of how, in modern corporate governance, the concept of mutualism can help us think through the path forward for corporations, their shareholders, and the larger corporate ecosystem.

**Cyberthreats**

As we all know, the digital transformation is providing both companies and shareholders with tremendous opportunities. However, one of the biggest challenges facing corporations and their shareholders, their employees and consumers, and our economy as a whole, is cybersecurity.

As we have learned, cyberattacks can affect millions of people at once and potentially compromise our most sensitive personal information.

Shareholders have been out front advocating for more information on company practices relating to cybersecurity.

The number of shareholder proposals regarding cybersecurity has increased in recent years.
But good information remains scarce. Unfortunately, corporate disclosures are far from robust and largely consist of boilerplate language that fails to provide meaningful information for investors.

While companies and shareholders agree that cybersecurity is one of the most prominent corporate issues of our time, it is unclear why companies are not doing more to implement robust cybersecurity frameworks and to provide meaningful disclosures regarding the risks of data loss.

Companies and their intermediaries tend to view cyberthreats as a technology problem instead of, more appropriately, a business risk. As we have seen time and time again, cybersecurity, and the related threats of unintentional loss of data, is a governance challenge for all of us, and it requires a change in culture and approach.

Many shareholders seem to understand this and have been urging, and continue to urge, companies to engage.

Regulators are certainly not immune from facing these challenges. In August 2017, I learned for the first time that the Commission’s official record system was breached in 2016, and that this breach may have provided the basis for illicit gains through trading.

Clearly, the Commission’s enterprise risk management processes failed to adequately address appropriate escalation protocols. Once he was informed, Chairman Clayton immediately launched an investigation into the breach and has focused the Commission and the staff on improving our risk management framework.

Companies, their managers, their boards, as well as their regulators, all need to do a better job in recognizing and addressing the significant risks that can result from the loss of data.

Breaches of security measures can result in theft, reputational harm, or the loss of intellectual property. Simply put, the unintentional loss of data may have material effects on companies. Slowly, regulators around the globe are stepping up to the challenge of issuing data protection laws and regulations.

The approach to these issues continues to evolve with the changing landscape. For example, the European Union’s General Data Protection Regulation is set to go into effect in May 2018. China has begun enforcing regulations concerning “critical information infrastructure.”
Last March, the New York Department of Financial Services required that regulated firms name a chief information security officer (or CISO). These CISOs must provide an annual report on cybersecurity to the firm’s board.

Last year, a bipartisan bill was introduced in the Senate to require publicly traded companies to disclose whether any members of their board have cybersecurity expertise.

We at the Commission have not yet adequately pressed forward. While the Commission’s staff has released disclosure guidance for public companies to consider when dealing with cyberrisks and breaches, the Commission can and should do more.

I believe the Commission should consider rules to require disclosure of a firm’s enterprise-wide consideration of cyberrisks.

I also believe that we should develop rules to ensure that market intermediaries, including broker-dealers and investment advisers, develop and implement policies and procedures to protect investors’ personal information.

The security and integrity of a corporation’s assets, like the SEC’s, is a great responsibility. As I said earlier, cybersecurity has been viewed by many as simply an “IT” problem, hoisted on the shoulders of a company’s chief information officer.

Too often, this has led to a failure to integrate cybersecurity into a firm’s enterprise risk management framework. To be sure, some companies are focused on cyberthreats and recognize their potential economic threat. But companies need to do more than simply recognize the problem.

They need to heed the calls of their shareholders and treat cyberthreats as a business risk. Corporations and shareholders will both benefit from greater transparency and focus on the risks related to unintended data loss and the collateral consequences.

To read more: https://www.sec.gov/news/speech/speech-stein-021318
Cybersecurity built on trust – ENISA supports Member States in establishing PPPs and ISACs

ENISA publishes two reports: Cooperative models for Public Private Partnerships (PPPs) and Cooperative models for Information Sharing and Analysis Centres (ISACs).

A common objective of every European national cyber security strategy is collaboration to enhance cyber security across all levels, from threat information sharing to awareness raising.

Collaboration is often achieved through two formal structures: Information Sharing and Analysis Centres (ISACs) and Public Private Partnerships (PPPs).

Since many critical infrastructures are under private jurisdiction, cooperation between public and private sectors is essential to achieve an adequate level of cybersecurity.

Moreover, European legislations like the NIS Directive and the newly announced Cybersecurity Act encourage the creation of sectoral ISACs and PPPs within the EU.

ENISA collected information on best practices and common approaches that resulted in two studies, namely Cooperative Models for Public Private Partnership and Information Sharing and Analysis Centres.

Both reports are addressed at policy and lawmakers, national cybersecurity authorities, the CSIRT community, the general public and private organizations with an interest in network and information security.

Prof. Udo Helmbrecht, Executive Director of ENISA, said: “Cybersecurity is a shared responsibility and ENISA, together with the community, is continually working towards making collaboration as well as information and knowledge sharing stronger.”
The multi-faceted efforts of ENISA across the cybersecurity spectrum continues to support and promote a safer Europe with better cybersecurity.”

**PPPs are long-term agreements** and collaborations between representatives of public and private sectors.

The study on PPPs identifies four PPP models existing within the EU Member States: Institutional PPPs, goal-oriented PPPs, service outsourcing PPPs and hybrid PPPs.

**ISACs are trusted entities**, whose purpose is to foster sharing of information and good practices about physical and cyber threats, as well as mitigation.

In the study on ISACs, the most common approaches are categorized into three different models: country focused, sector specific and international structures.

The **main finding** of both studies is that trust is the most essential factor in establishing and maintaining cooperation between private and public sectors.

Both reports provide some specific recommendations:

**For PPPs:**

- Legal basis is essential when creating a PPP
- Investment on private-private and public-public collaboration is also critical for PPPs
- Open communication and a pragmatic approach are vital for setting up a PPP
- Small and medium Enterprises (SMEs) should also participate in PPPs

**For ISACs:**

- Creating a structure which motivates the private sector is essential for an ISAC
- Establishing a facilitator to involve all participants is also crucial for ISACs
- The production of valuable results is key to the success of an ISAC
- Cross sector collaboration is also very important for the effectiveness of ISACs
- Public and private sector stakeholders validated the two studies during the fifth ENISA-NCSS workshop, which was co-organised in October 2017 with NCSC in The Hague, the Netherlands.

The full reports:


Trade as an engine of growth: Prospects and lessons for Europe

Benoît Cœuré, Member of the Executive Board of the ECB, NBRM High Level International Conference on Monetary Policy and Asset Management, Skopje

I thank you for inviting me to speak here in Skopje today. I would like to take this opportunity to discuss an issue which I believe is key for the economic future of Europe and particularly relevant here, in the Western Balkans: the prospects for trade as an engine of growth.

For several years now, global trade growth has puzzled many observers. While global trade grew at about twice the rate of GDP before the crisis, it has slowed measurably since then and has often grown at the same rate as, or even below, that of global output.

However, in 2017, world import growth once again outpaced world GDP growth. The euro area is benefiting from this recovery, with export growth the highest in many years.

In my remarks this morning, I will argue that the rebound in trade mainly reflects cyclical factors. Accommodative monetary policies worldwide have succeeded in boosting growth and investment and, with them, global imports.

Structural headwinds remain, however. Maturing global value chains, geographical shifts in trade and an accelerating push towards more automation make it less likely that trade can again expand at the pace observed during the pre-crisis boom.

To the extent that trade helps lift growth, policymakers have a role to play in providing an environment that is conducive to trade.
At the same time, they need to ensure that appropriate systems are in place to support workers affected by secular shifts in both trade flows and labour demand.


The rebound in world trade has been broad-based

Both intra- and extra-euro area exports are gaining momentum
Trade is benefitting also formerly stressed economies

Export share in GDP: difference between 2017 and average 2000-2007
(in percentage points)

Current account balances: selected euro area countries
(in percent of euro area GDP)

Investment is one driver of trade growth

Investment share in GDP
(in percent)

Extra-euro area exports by type of goods
(year-on-year percent changes)
The expansion of global value chains has levelled off

Global value chain participation and import-output ratio
(in percent)

Sources: WIOD and ECB calculations.
Notes: Annual data. Last observation for GVC participation is 2014. For the import-output ratio, it is 2017.
Logic can be a tricky thing. Apply it in the right way, and you always arrive at a consistent conclusion. But apply it in the wrong way, and it can lead you astray. And that happens all too easily.

There are indeed many wrong ways in which we can apply logic.

One of them is known as the fallacy of composition. It refers to the idea that the whole always equals the sum of its parts. Well, that idea is wrong. As we all know, the whole can be more than the sum of its parts – or less.

Consider this statement: if each bank is safe and sound, the banking system must be safe and sound as well. By now, we have learnt the hard way that this might indeed be a fallacy of composition.

Let me give you just one example. Imagine that a certain asset suddenly becomes more risky. Each bank that holds this asset might react prudently by selling it. However, if many banks react that way, they will drive down the price of the asset.

This will amplify the initial shock, might affect other assets, and a full-blown crisis might result. Each bank has behaved prudently, but their collective behaviour has led to a crisis.

The business of banking is ripe with externalities, with potential herding and with contagion. These factors may not be visible when looking at individual banks, but they can threaten the stability of the entire system.
This is one of the core insights from the financial crisis.

**Countering the cycle and boosting resilience**

Indeed, the financial crisis showed us that we had to do more than just look at each part of the system, at each bank. The system as a whole had to be taken into account as well. The microprudential approach must be complemented by a macroprudential approach.

And thus, a new policy area was born out of the crisis. Age-wise, macroprudential policy could be the grandchild of policy areas such as banking supervision and monetary policy.

It still has to grow up. Theories need to be elaborated, empirical evidence gathered, and practical experience gained. A long childhood lies ahead.

But at the same time, much has already been achieved. Over the past few years, we have set up a macroprudential framework for Europe.

We have defined objectives, developed tools and set out how different policy areas interact. Let us have a closer look at how macroprudential policy works in Europe.

A core concept of macroprudential policy is the financial cycle, that steady succession of ups and downs, of booms and busts. And each time the cycle turns, each time boom goes bust, everyone runs for the exit. Market participants sell the assets concerned, and prices tumble; investors incur losses, as do the banks which financed their investments.

This shock might even hit banks which were prudent enough not to participate in the boom. The financial system is so interconnected that even they cannot escape contagion. And as goes the financial system, so goes the real economy. Credit dries up, growth drops off and everyone suffers.

This story is a bit simple, of course. Still, it allows us to define two goals of macroprudential policy:

**First,** make the financial system as a whole more resilient. Second, dampen the cycle of booms and busts. In very general terms, this is what macroprudential policy aims to do in Europe.

The tools of macroprudential policy reflect these objectives. Some of them focus on increasing the resilience of market participants.
Take, for example, the countercyclical buffer. It requires banks to set aside more capital in upturns to make them more resilient. Once the downturn sets in, banks can draw on the buffer, which helps them absorb losses.

Furthermore, having to set aside more capital in an upturn makes it more costly for banks to grant loans. This might, as a positive side effect, dampen excessive credit growth and hence the cycle. Likewise, reducing capital requirements in a downturn may help to spur lending.

Other tools focus on the general resilience of the financial system, going beyond the financial cycle. Various capital buffers have been designed for that purpose.

There is, for instance, the systemic risk buffer, which can be applied to all banks or to specific groups of banks. It aims to make banks more resilient to structural risks that affect the entire system.

And then there are buffers for globally systemic banks, the G-SII buffers, and for locally systemic banks, the O-SII buffers. By making systemic banks more resilient, these buffers address potential sources of contagion.

At the same time, the buffers put a price on the impact systemic banks would have on the financial system and the economy should they fail. This helps to internalise this impact.

To read more:
Remarks at the Ceremonial Swearing-in

Chairman Jerome H. Powell, at the Federal Reserve Board, Washington, D.C.

It is both humbling and a great privilege to be standing here today. I am particularly honored by the trust and faith that the President has placed in me and by the Senate's quick action in confirming me. There is no greater honor than public service, as Randy, Lael and all of our colleagues here at the Fed would agree.

The Congress has assigned the Federal Reserve the goals of stable prices and maximum employment. Price stability means that businesses and households can make important decisions without concern for high or volatile inflation.

Maximum employment means that those who want a job either have one or can find one reasonably quickly. We also have important responsibilities for the stability of the financial system and for the regulation and supervision of financial institutions, including our largest banks.

Through regulation that is both effective and efficient, we seek to ensure that credit, which is vital for a healthy economy, will be available to families and businesses throughout the business cycle, so they can invest in a brighter future.

These are awesome responsibilities, and the Congress has wisely entrusted us with an important degree of independence so that we can pursue our monetary policy goals without concern for short-term political pressures.

As a public institution, we must be transparent about our actions so that the public, through its elected representatives, can hold us accountable.
Over the past 25 years, the Fed has been a leader among central banks in improving transparency.

Today, we are open and accountable. We strive to explain our actions in a way that enhances the public's understanding of our goals and methods.

We will continue to pursue ways to improve transparency both in monetary policy and in regulation.

When I joined the Board of Governors in 2012, unemployment was 8.2 percent. Many millions of Americans were still suffering from the ravages of the crisis.

Since then, monetary policy has continued to support a full recovery in labor markets and a return to our inflation target; we have made great progress in moving much closer to those statutory objectives.

In addition, the financial system is incomparably stronger and safer, with much higher capital and liquidity, better risk management, and other improvements.

Much credit for these results should go to Chairman Bernanke and Chair Yellen. I am grateful for their leadership and for their example and advice as colleagues. But there is more to the story than successful leadership.

The success of our institution is really the result of the way all of us carry out our responsibilities. We approach every issue through a rigorous evaluation of the facts, theory, empirical analysis and relevant research.

We consider a range of external and internal views; our unique institutional structure, with a Board of Governors in Washington and 12 Reserve Banks around the country, ensures that we will have a diversity of perspectives at all times. We explain our actions to the public.

We listen to feedback and give serious consideration to the possibility that we might be getting something wrong. There is great value in having thoughtful, well-informed critics.

While the challenges we face are always evolving, the Fed's approach will remain the same. Today, the global economy is recovering strongly for the first time in a decade.
We are in the process of gradually normalizing both interest rate policy and our balance sheet with a view to extending the recovery and sustaining the pursuit of our objectives.

We will also preserve the essential gains in financial regulation while seeking to ensure that our policies are as efficient as possible. We will remain alert to any developing risks to financial stability.

I am deeply grateful for the opportunity to lead the Fed as we face these evolving challenges. I believe that the way we approach our work, the strong values we hold, and the dedication to public service I see throughout the Federal Reserve have been the keys to our success.

As Chairman, I will uphold these values and do my very best to further our pursuit of something we all seek--an economy that works for all Americans.
ESAs warn consumers of risks in buying virtual currencies

The European Supervisory Authorities (ESAs) for securities (ESMA), banking (EBA), and insurance and pensions (EIOPA) have issued a pan-EU warning to consumers regarding the risks of buying Virtual Currencies (VCs).

The ESAs warn consumers that VCs are highly risky and unregulated products and are unsuitable as investment, savings or retirement planning products.

The ESAs are concerned that an increasing number of consumers are buying VCs unaware of the risks involved.

VCs such as Bitcoin, are subject to extreme price volatility and have shown clear signs of a pricing bubble and consumers buying VCs should be aware that there is a high risk that they will lose a large amount, or even all, of the money invested.

Non-regulated products and exchanges

Additionally, VCs and exchanges where consumers can trade are not regulated under EU law, which means that consumers buying VCs do not benefit from any protection associated with regulated financial services.

For example, if a VC exchange goes out of business or consumers have their money stolen because their VC account is subject to a cyber-attack; there is no EU law that would cover their losses.

Operational problems

Some VC exchanges have been subject to severe operational problems in the past. During these disruptions, consumers have been unable to buy and sell VCs when they wanted to and have suffered losses due to price fluctuations during the period of disruption.
**Background information**

This Warning is based on Article 9(3) of the three ESAs’ founding Regulations and follows the publication of two statements by ESMA on Initial Coin Offerings in November 2017 and an earlier Warning to consumers and two Opinions on VCs published by EBA in December 2013, July 2014 and August 2016, respectively.

VCs come in many forms. The first VC was Bitcoin, launched in 2009 and since then many other VCs have emerged. Most of them leverage on the distributed ledger technology, commonly referred to as *Blockchain*. 
A new version of the Neuron malware

In November 2017, the NCSC released an advisory highlighting the Turla Group’s use of the tools Neuron and Nautilus.

Since then, the NCSC has identified a new version of the Neuron malware. The new version has been modified to evade previous detection methods.

Neuron operates on Microsoft Windows platforms, primarily targeting mail servers and web servers. The NCSC has observed this tool being used by the Turla group to maintain persistent network access and to conduct network operations.

The compile times contained within these new binaries show that the actor implemented the required modifications to Neuron approximately five days after public releases by the NCSC and other vendors.

This NCSC report provides new intelligence on the Neuron malware, a tool used by the Turla group to target the UK. It contains IOCs and signatures for to be used for network monitoring and detection. You can download the update report from the 'downloads' tab at the top of the web page below:

https://www.ncsc.gov.uk/alerts/turla-group-malware
The policy life cycle and capacity-building needs of financial sector authorities

Agustín Carstens, General Manager of the BIS, at the BIS-IMF symposium on "Capacity-building in financial sector regulation and supervision", Basel.

Introduction

Madame Lagarde, distinguished guests, ladies and gentlemen, good morning. Let me join in welcoming all of you to the BIS and to this joint BIS-IMF symposium on capacity-building in financial sector regulation and supervision.

It is my pleasure to speak in front of a group of senior officials from institutions representing training and technical assistance recipients, donors and providers. I think it is not so often that a diverse group such as this comes together.

There is growing demand for capacity-building; but at the same time, resources are limited. It would be useful to find ways to coordinate, to prioritise the different demands and to optimise the resources that we do have.

Since this symposium is in Basel, one could be forgiven for thinking that my remarks might focus on the regulatory reforms, particularly the recently finalised Basel III package.

While indeed I will use the reform process as a background, I will not go into the details of the various elements of the reforms. Instead, I would like to focus on how the policy life cycle influences the capacity-building needs of financial sector authorities.
I would also like to share with you what the BIS is doing in the area of capacity-building for financial sector regulators and supervisors.

**Different stages, different needs**

As I already alluded to, we have just been through a huge regulatory reform effort that was triggered by the Great Financial Crisis. This effort involved a number of standard-setting bodies, financial sector authorities and other international organisations.

The result is a comprehensive set of reforms that touch on almost all aspects of the financial system.

Reaching agreement on the reforms, however, does not mean that the job is now complete. **Policy follows a life cycle, or a sequence of stages.**

Allow me to outline these in the context of international regulatory standard setting. The first stage is to reach consensus at the international level over the design of the new standards.

This is followed by formal adoption at the national level through the legislative process or directly through incorporation into national rules.

This is then followed by actual implementation of the new rules. Next comes evaluation and, finally, if deemed necessary, adjustment.

With the designing of new international standards completed, national authorities now have their hands full formalising the rules in their jurisdictions and implementing them in the timelines agreed.

Indeed, having the relevant regulatory and supervisory capacity at this stage is essential for achieving a full, timely and consistent implementation of the internationally agreed rules.

But financial sector authorities should not stop at implementation if they wish to achieve the reforms' stated long-term objective, namely global financial stability.

Just as critical are the stages that follow: evaluation and, if necessary, adjustment. To this end, the Financial Stability Board (FSB) has come up with a framework to guide the post-implementation evaluation work.
Among the key questions to answer here are whether the reforms are achieving the intended outcomes and whether there are material unintended consequences.

This evaluation work is meant to provide a sound basis on which to judge whether any adjustments to the design of the reforms would be needed.

The evaluation of the post-crisis reforms is quite challenging for two reasons. One is that the length of the policy cycle differs across reform areas. Another reason, perhaps a more critical one, is that the implementation of reforms does not happen in a vacuum.

The financial system continues to evolve because of factors other than the reforms themselves. The changing macroeconomic environment, for example, elicits changes in financial institutions' strategies.

In addition, technological developments and their application to finance are making way for new players and new business models, which in turn could dramatically alter the financial system landscape.

So over time, new priorities, new concerns and new constraints emerge. All these must be taken into account in the evaluation work in order to assess the effects of the reforms. And I believe we can all agree that the kind of capacity authorities need for the evaluation stage is quite different from what is needed for the implementation stage.

While waiting for the impact of the reforms to manifest and lend itself to evaluation, "maintenance" of the reformed rules is essential.

While it is pretty clear what the international standards are designed to do, the outcomes of the adoption process at the national level cannot always guarantee the same.

Some maintenance or fine-tuning at the implementation stage may therefore be required - so as to uphold not just the letter but the spirit of the reforms.

The maintenance of the existing regulations falls squarely on the shoulders of supervisors, as well as regulators.

Supervisors work within the parameters set by the existing rules, but at the same time they need to be able to respond to the changes in the financial
system while making sure that they are able to prioritise the many tasks at hand.

Supervisors need to develop flexible, forward-looking and proactive approaches and tools in order to cope with rapid financial developments.

They should be ready to identify unusual behaviour and patterns and communicate them to regulators. Here again, a different set of skills is necessary.

This leads me to my main point: since different stages in the policy life cycle require different capacity and skill sets, capacity-building and learning by financial sector authorities should be a continuous effort and should evolve over time.

It is easier said than done, however, given that all institutions have resource constraints. This highlights the importance of developing smart capacity-building frameworks. One of the sessions today will discuss how to leverage technology for capacity-building. That is certainly one way to go about it.

Another key ingredient to fostering capacity-building is international cooperation and exchange of practices. This is especially helpful in cases where expertise just may not be available locally.

Here too the work of international organisations - whether as a forum for information-sharing, as a provider of funding or as a supplier of capacity-building initiatives - is quite important.

Let me just note in passing one additional challenge we face with the foreseeable evolution of financial markets into more digitalisation and complex instruments.

Supervisory authorities do not have sufficient expertise in this field. It would be desirable to start thinking about how we should go about tackling this gap that threatens to widen as time passes.

**BIS contribution to capacity-building in financial sector regulation and supervision**

At the BIS, we contribute directly to capacity-building in financial sector regulation and supervision through our own Financial Stability Institute (FSI).
The FSI is mandated to assist central banks and supervisory authorities worldwide in strengthening their financial systems through the implementation of international regulatory standards and the adoption of sound supervisory practices.

The FSI carries out this mandate through its three main activities.

**First**, it conducts outreach events that involve both member and non-member jurisdictions of the standard-setting bodies.

This ensures that international standards and sound practices are widely disseminated around the world.

**Second**, the FSI publishes FSI Insights papers on policy implementation that explore the regulatory and supervisory practices in different jurisdictions, and holds complementary discussions of the different practices at its policy implementation meetings.

This way the FSI promotes the identification of sound practices that are appropriate to the circumstances of each jurisdiction.

**Finally**, the FSI leverages technology in its capacity-building initiatives. Since 2003 it has been offering online tutorials on financial regulation and supervision through its e-learning tool called FSI Connect.

In addition, for four years now the FSI has conducted a fundamental online course for insurance supervisors. This year, the FSI is working together with the IMF to offer a similar online course for banking supervisors.

The BIS also indirectly contributes to capacity-building by promoting international cooperation among monetary authorities and financial supervisory officials. We often refer to this interaction as the Basel Process.

The BIS, as you may be aware, is home to a set of international groups engaged in prudential standard setting and the pursuit of financial stability.

**Individually**, each group is a forum for its members to work on issues in their area of expertise and to share experiences and information.

**Collectively**, the co-location of these different groups at the BIS facilitates communication, coordination and collaboration.
The BIS itself also contributes to the work of these groups with its own expertise in economic research and statistics and its practical experience in banking.

The other organisations represented today are also doing their share in capacity-building for financial sector regulators and supervisors around the world.

Madame Lagarde provided us a glimpse of what the IMF is doing in this area, and I am sure we will get to know more about other organisations' activities in the course of this meeting.

**Conclusion**

In conclusion, I would like to emphasise the importance for all stakeholders to continuously identify the changing capacity-building needs of financial sector authorities worldwide, and for the various organisations providing capacity-building initiatives to enhance coordination in order to more effectively and efficiently meet these needs.

This symposium that is jointly organised by the BIS and the IMF has this objective in mind. I hope you will have productive discussions in the various sessions ahead, and I wish this meeting success.

Thank you very much.
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