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Monday, July 3, 2017

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 Member,

The new variant of Petya look like ransomware. But it is not ransomware, it is a wiper, used in a cyber attack.

The facts:

a. Sixty percent of the systems infected by Petya are in Ukraine. This does not make sense for a ransomware. There are, of course, infections in another 64 countries, including Belgium, Brazil, Germany, Russia, and the United States.

b. Ransomware flies under the radar, attacking primarily persons and entities that could give the attackers some money. Petya attacked the critical infrastructure in Ukraine - its central bank, airport, metro, transport, even the Chernobyl power plant.

c. Ransomware is about making money, and Petya does not. It is difficult to pay even if you want to, and even if you pay, your files are not decrypted. The attackers cannot decrypt the victims' disk, even if a payment is made.

The reason is simple. This is not ransomware, it is a wiper - malware that deliberately destroys data within a system.

Ransomware can restore its modifications, if the attackers are paid. Wipers simply destroy, and try to ensure that restoration is not possible.

The malware has some interesting capabilities. For example, it can steal credentials and it can re-use existing active sessions.

The malware has a credential dumping tool (typically as a .tmp file in the %Temp% folder). Users frequently have active sessions open across multiple machines. In this case, stolen credentials can provide with the same level of access the user has on other machines.

Once the malware has valid credentials, it scans the local network to establish valid connections. It also scans the local network for admin$ shares, and it copies itself across the network and executes the newly copied malware binary remotely.

We try to defend our systems and infrastructure. We continue to fail.

Yes, it is time to think more about that - Defensive tactics such as anti-virus programs simply cannot solve problems like Petya.

In cybersecurity, we have a highly asymmetric conflict. We must defend against all possible attacks and we must close all possible gaps, even the ones we do not know they exist. The attackers must exploit just one vulnerability.

This asymmetry highly favors the attacker. So, we should attack too.

We must have offensive cyber operations. Otherwise we will not be able to defend our networks and the critical infrastructure.

General Patton was clear: The only sure defense is offense.

But what happens in Europe?

Dr Hans-Georg Maaßen, President of the Bundesamt für Verfassungsschutz (BfV, the domestic intelligence service of the Federal Republic of Germany) has said: “We think it’s essential that we don’t just act defensively, but that we are also able to attack the enemy so that he stops continuing to attack us in the future.”

He has also said: “We believe it is necessary that we are in a position to be able to wipe out these servers if the providers and the owners of the servers are not ready to ensure that they are not used to carry out attacks”.

German Defense Minister Ursula von der Leyen has also said that the German military has the authority to respond with "offensive measures" if its computer networks are attacked.

We must consider very carefully our ability to conduct offensive cyber operations, in compliance with the UN Charter's prohibitions of the threat or use of force contained in Article 2(4), and Article 51's self-defense provisions.

Welcome to the Top 10 list.

Best Regards,

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Number 1 (Page 8)

Draft guidance for supervisory stress testing of central counterparties released

BANK FOR INTERNATIONAL SETTLEMENTS

Draft guidance for authorities on how to design and run supervisory stress tests for central counterparties (CCPs) was released by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO).

As a result of the Group of 20 (G20) derivatives reforms, and in particular the move towards central clearing of standardised over-the-counter derivative contracts, the role of CCPs in the financial system has gained in importance.

Number 2 (Page 10)

Cyber resilience - a banking supervisor's view

Sabine Lautenschläger, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the Single Supervisory Mechanism, at the High-Level Meeting on Cyber Resilience, Frankfurt am Main

“This week I learnt that the first computer virus dates back to 1971. It spread via the ARPANET, which was a precursor of today's internet.

The ARPANET connected about two dozen universities and government hosts in the United States. The virus had been written for experimental purposes and was not malicious. It just displayed a simple message on infected computers: "I'm the creeper: catch me if you can".”

Number 3 (Page 13)

Looking beyond the here and now

Speech and presentation of the key messages of the BIS Annual Report delivered by Jaime Caruana, General Manager of the BIS, on the occasion of the Bank's Annual General Meeting, Basel.

"Global growth has broadened and strengthened during the past year, and the near-term outlook appears the best in a long while.

The most promising policy strategy is to take advantage of these tailwinds to build greater economic resilience, nationally and globally, so as to be better prepared for future adverse events."

Number 4 (Page 14)

Relationship between regulation and economic growth

Jerome H Powell, Member of the Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, US Senate, Washington DC

"Chairman Crapo, Ranking Member Brown, and members of the committee, I appreciate the opportunity to testify at today's hearing on the relationship between regulation and economic growth. We need a resilient, well-capitalized, well-regulated financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle."

Number 5 (Page 23)

EIOPA calls for further improvement in the ORSA implementation

(Re)insurance companies are making good progress in implementing the Own Risk and Solvency Assessment (ORSA) process but further improvements are needed. The boards of (re)insurance companies have to play a more active role in the ORSA process.

Number 6 (Page 26)

PCAOB Publishes Staff Inspection Brief Detailing Scope of 2017 Inspections of Auditors of Broker-Dealers

The Public Company Accounting Oversight Board issued a staff inspection brief detailing the scope, focus, and objectives of its ongoing 2017 inspections of auditors of brokers and dealers.

Number 7 (Page 28)

Call for comments on harmonising OTC derivatives data elements

The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) have published for public comment a consultative report on Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) - third batch.

Number 8 (Page 30)

Basel Committee consults on a simplified alternative to the market risk standardised approach

BANK FOR INTERNATIONAL SETTLEMENTS

The Basel Committee on Banking Supervision published the consultative document Simplified alternative to the standardised approach to market risk capital requirements. In January 2016, the Basel Committee issued revised Minimum capital requirements for market risk.

This global standard includes a standardised approach which is used by banks other than those that are large and internationally active.

Number 9 (Page 32)

Annual Reporting Reminder

PCAOB
Public Company Accounting Oversight Board

This is a reminder that annual reports on Form 2 for the period April 1, 2016, through March 31, 2017, are due to the PCAOB by June 30, 2017.

Number 10 (Page 33)

Transforming How Troops Fight in Coastal Urban Environments

New program aims to develop advanced battle management/command and control tools and a comprehensive interactive virtual environment to test novel concepts for future expeditionary combat operations

DARPA DEFENSE ADVANCED RESEARCH PROJECTS AGENCY

As nation-state and non-state adversaries adapt and apply commercially available state-of-the-art technology in urban conflict, expeditionary U.S. forces face a shrinking operational advantage.

Number 1

Draft guidance for supervisory stress testing of central counterparties released

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As a result of the Group of 20 (G20) derivatives reforms, and in particular the move towards central clearing of standardised over-the-counter derivative contracts, the role of CCPs in the financial system has gained in importance.

The consultative report, Framework for supervisory stress testing of central counterparties (CCPs), provides a framework for authorities to evaluate the collective response of a set of CCPs to one or more financial stresses.

In particular, conducting stress tests of this type could help authorities better understand the impact on the broader economy of a common stress event affecting multiple CCPs, as well as the implications of interdependencies between markets, CCPs, and other entities, such as liquidity providers and custodians.

"Having a common basis for supervisory stress testing will help build confidence that these crucial parts of the financial system have enough resources to withstand shocks," said CPMI Chairman Benoît Cœuré.

"This framework will enable authorities to better understand the magnitude of the interdependencies between CCPs and other entities, and the impact that a stress event affecting various CCPs could have on the wider economy.

The framework is also flexible enough to allow authorities to design a stress test that is best suited to their circumstances," said IOSCO Board Chairman Ashley Alder.

The framework covers six components of a stress-testing exercise:

(i) setting the purpose and exercise specifications;

(ii) establishing governance arrangements;

(iii) developing stress scenarios;

(iv) collecting and protecting data;

(v) aggregating results and developing analytical metrics; and

(vi) determining the use of results and disclosure.

The components are intentionally broad and flexible to allow authorities to develop the most suitable approach for their circumstances. Authorities are encouraged, but not required, to use the framework as they deem appropriate.

Comments on the framework proposed in the report should be submitted by Friday, 22 September 2017.

A cover note to the consultative report is available at
http://www.bis.org/cpmi/publ/d161_covernote.pdf

To read more:
http://www.bis.org/cpmi/publ/d161.pdf

Number 2

Cyber resilience - a banking supervisor's view

Sabine Lautenschläger, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the Single Supervisory Mechanism, at the High-Level Meeting on Cyber Resilience, Frankfurt am Main

This week I learnt that the first computer virus dates back to 1971. It spread via the ARPANET, which was a precursor of today's internet.

The ARPANET connected about two dozen universities and government hosts in the United States.

The virus had been written for experimental purposes and was not malicious. It just displayed a simple message on infected computers: "I'm the creeper: catch me if you can".

Things are a bit more complex today, and the outcome of cyber incidents much worse: they can disrupt business, cost a lot of money and destroy reputations.

And indeed, the potential for damage is great, as so much relies on IT and so much happens online - the financial sector is a case in point. As you all know, banks have always been attractive targets for criminals.

Although the damage has been limited so far, we banking supervisors take cyber risk very seriously. And we insist on banks doing the same.

Cyber risk has been a priority for ECB Banking Supervision from day one. In 2015, we established a working group that had three goals.

First, to get an overview of how supervisors deal with such risks both at national and international level.

Second, to get an overview of how prepared banks are for cyber risk.

And third, to propose to the Supervisory Board a strategic direction and a dedicated work plan on cyber risk.

We have learnt a lot over the past two years. And we have used it to address this risk from several different angles.

For us, one of the first steps was to establish a cyber incident reporting framework. We conducted a successful pilot phase in 2016.

And now we will implement a long-term solution for all those banks that we directly supervise.

As from this summer, they will be required to report all significant cyber incidents.

This will help us to assess more objectively how many incidents there are and how cyber threats evolve. It will also help us to identify vulnerabilities and common pitfalls.

In addition to our ongoing supervision we also perform thematic reviews on cyber security and IT outsourcing.

These reviews help us to assess the risks facing each bank as well as the risks that might affect the entire sector. And they also help to raise awareness of cyber risk at Board level.

The insights that we obtained in 2015 and 2016 were applied in three ways.

First, they informed a dedicated section in our methodology for on-site inspections.

Second, they were used to create new analytical tools for our off-site supervisors.

And third, they were used to produce a cyber risk profile of each bank.

So we are working to obtain a comprehensive picture of what is happening out there.

But how to deal with cyber risk?

Well, the World Health Organization says that the best way of stopping diseases from spreading is basic hygiene: washing your hands. And the same is true for IT.

Basic IT "hygiene" can take banks a long way. Have the latest updates been installed? Are passwords strong enough? Have backups been made and their restoration tested? Such simple things are so important, but often neglected.

So we are taking a close look at our banks to see whether they are following the relevant standards and best practices. And there are plenty of these; I cannot stress this enough.

We also work with the European Banking Authority, the EBA, on how to supervise cyber risk in an effective and harmonised manner across Europe.

As for the euro area, we plan to issue our supervisory expectations on how banks approach IT risks in general. And what we expect clearly goes beyond basic IT hygiene. This will be an important step for two reasons.

First, it will help to forge a common understanding of IT risks between supervisors and banks.

And second, it will help to ensure a harmonised treatment.

To increase awareness and to communicate our expectations, we will organise seminars and discussions with banks.

And we also look beyond the euro area, of course. We cooperate with supervisors worldwide to align priorities and exchange best practices.

To sum up, we take cyber risk very seriously, and we approach it from various angles. My advice to banks is to do the same. It is vital to be alert and ready to react. Thank you for your attention.

Number 3

Looking beyond the here and now

Speech and presentation of the key messages of the BIS Annual Report delivered by Jaime Caruana, General Manager of the BIS, on the occasion of the Bank's Annual General Meeting, Basel.

Global growth has broadened and strengthened during the past year, and the near-term outlook appears the best in a long while.

The most promising policy strategy is to take advantage of these tailwinds to build greater economic resilience, nationally and globally, so as to be better prepared for future adverse events.

One aspect is to preserve the benefits of trade and financial openness.

The other is to adopt a longer-term perspective in policymaking.

This entails enhancing policy space and strengthening the capacity of the economy to adapt to long-term trends.

Building resilience is first and foremost a domestic task.

But certain challenges call for a global response and require international cooperation.

Completing Basel III is a priority in this regard.

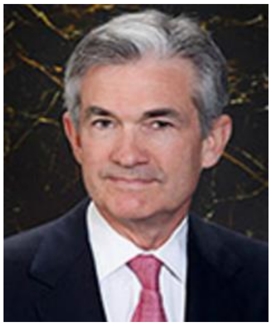
To learn more:
https://youtu.be/5QembyLNHDk

http://www.bis.org/speeches/sp170625.pdf

Number 4

Relationship between regulation and economic growth

Jerome H Powell, Member of the Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, US Senate, Washington DC



Chairman Crapo, Ranking Member Brown, and members of the committee, I appreciate the opportunity to testify at today's hearing on the relationship between regulation and economic growth.

We need a resilient, well-capitalized, well-regulated financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle.

The Federal Reserve has approached the post-crisis regulatory and supervisory reforms with that outcome in mind.

As a result of an improving economy and actions taken by both the federal regulators and the industry, the U.S. financial system is substantially stronger and more stable than it was before the financial crisis erupted nearly a decade ago.

In this testimony, I will highlight the considerable gains made since the crisis and reflect on the principles that should guide us in the next phase.

I will also discuss some specific actions that align with these principles that we have recently taken or expect to take that are designed to reduce regulatory burden without compromising safety and soundness and financial stability.

Post-crisis regulatory and supervisory reform

There is little doubt that the U.S. financial system is stronger today than it was a decade ago.

As I will discuss, loss-absorbing capacity among banks is substantially higher.

The banking industry, and the largest banking firms in particular, face far less liquidity risk than before the crisis. And progress in resolution planning by the largest firms has reduced the threat that their failure would pose.

These efforts have made U.S. banking firms both more robust and more resolvable. And history shows that when U.S. banking firms are financially strong, they are able to better serve their customers.

Today I will highlight developments in the four key regulatory areas designed to improve and maintain the resiliency of the banking industry: capital, stress testing, liquidity, and resolution planning.

Regulatory capital reforms

The U.S. banking agencies have substantially strengthened regulatory capital requirements for large banking firms, improving the quality and increasing the amount of capital in the banking system.

High-quality common equity tier 1 capital (CET1) is important because it is available under all circumstances to absorb losses.

Since the financial crisis, U.S. banks have been required to meet new minimum requirements for CET1 to ensure a base of protection against losses.

U.S. banks also have been required to meet capital conservation buffers that incentivize banking firms to keep their capital levels well above the minimums in order to maintain full flexibility to allocate profits to shareholders and employees.

For the U.S. global systemically important banks (G-SIBs), we have also imposed an additional capital surcharge designed to reduce the threat that a failure of any of these firms would pose to financial stability.

Stress testing

The Federal Reserve also conducts the Comprehensive Capital Analysis and Review (CCAR), a stress test that assesses whether large banking firms have enough capital to withstand severely adverse macroeconomic and financial market stress. We also use this process to assess the quality of the capital planning processes of large banking firms.

The U.S. bank holding companies (BHCs) subject to CCAR have more than doubled the dollar amount of their CET1 from around $500 billion in 2009 to $1.2 trillion in the first quarter of 2017, and have more than doubled their CET1 risk-based capital ratios from 5.5 percent to 12.4 percent over that period.

Liquidity regulation reforms

The banking agencies have also required large banking firms to substantially reduce their liquidity risk.

Our key reforms in this area include a liquidity coverage ratio (LCR) that requires large banking firms to keep enough high-quality liquid assets (HQLA) to meet net stressed cash outflows over a 30-day period.

The Federal Reserve has also adopted the Comprehensive Liquidity Analysis and Review (CLAR) supervisory program for evaluating the liquidity of the most systemic banking firms.

In addition, the banking agencies have proposed a net stable funding ratio (NSFR) regulation that would help ensure that large banking firms maintain a stable funding profile over a one-year horizon.

Liquidity positions within the U.S. banking system have improved substantially since the financial crisis.

The U.S. G-SIBs increased their holdings of HQLA from about $1.5 trillion to about $2.3 trillion between 2011 and the first quarter of 2017.

The same institutions have also reduced their reliance on short-term wholesale funding from approximately 35 percent of assets in 2006 to about 15 percent of assets today.

Large bank resolvability reforms

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Federal Reserve has been working with the Federal Deposit Insurance Corporation (FDIC) to improve resolution planning by banks.

Through thoughtful resolution planning, firms can reduce the risk that their failure would have disruptive effects on the financial system and the economy.

The resolution planning process has caused the largest U.S. banking firms to substantially improve their internal structures, governance, information collection systems, and allocation of capital and liquidity in ways that both promote resolvability.

The Federal Reserve also has helped improve the resolvability of the largest banking firms by requiring U.S. G-SIBs and the U.S. intermediate holding companies of foreign G-SIBs to meet long-term debt and total loss absorbing capacity (TLAC) requirements.

Effect of regulation on U.S. banks

Evidence overwhelmingly shows that financial crises can cause severe and lasting damage to the economy's productive capacity and growth potential.

Post-crisis reforms to financial sector regulation and supervision have been designed to significantly reduce the likelihood and severity of future financial crises.

We have sought to accomplish this goal in significant part by reducing both the probability of failure of a large banking firm and the consequences of such a failure were it to occur.

We have substantially increased the capital, liquidity, and other prudential requirements for large banking firms, and these increases are not free.

Stronger capital requirements increase bank costs, and at least some of those costs are passed along to bank customers.

But in the longer term, stronger prudential requirements for large banking firms will produce more sustainable credit availability and economic growth.

Our objective should be to set capital and other prudential requirements for large banking firms at a level that protects financial stability and maximizes long-term, through-the-cycle credit availability and economic growth.

Guiding principles to simplify and reduce regulatory burden

As we near completion of the major post-crisis regulatory reforms, this is a good time to assess the effectiveness and efficiency of these reforms. Several principles are guiding us in this effort.

First, we should protect the core elements of the reforms for our largest banking firms in capital regulation, stress testing, liquidity regulation, and resolvability.

Second, we should continue to tailor our requirements to the size, risk, and complexity of the firms subject to those requirements.

In particular, we should always be aware that community banks face higher costs to meet complex requirements.

Third, we should assess whether we can adjust regulation in common-sense ways that will simplify rules and reduce unnecessary regulatory burden without compromising safety and soundness.

And finally, we should strive to provide appropriate transparency to supervised firms and the public regarding our expectations.

Areas of focus for recalibration and simplification

Small and medium bank regulatory simplification

Over the course of the last year, the Federal Reserve and the other U.S. banking agencies finalized significant burden-reducing measures for smaller banks.

The banking agencies significantly streamlined Call Report requirements for banks with less than $1 billion in total assets.

This streamlined Call Report resulted in 24 fewer pages than the previous total of 85, and reduced data items required to be reported by small banks by 40 percent.

The banking agencies also increased the number of institutions eligible for 18-month, rather than 12-month, cycles for safety and soundness and Bank Secrecy Act exams.

And the Federal Reserve implemented a desirable statutory change to raise the threshold of its Small Bank Holding Company Policy Statement from $500 million to $1 billion in assets.

In addition, earlier this year, the U.S. banking agencies issued a report under the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) that outlined additional measures that the agencies committed to completing to reduce regulatory burden.

Perhaps most notably, the agencies committed to developing a proposal to simplify the generally applicable capital framework that applies to community banking organizations.

Among other things, this proposal is being designed to simplify the current regulatory capital treatment of commercial real estate exposures, mortgage-servicing assets, and deferred tax assets.

The agencies would seek industry comment on the proposal through the normal notice and comment process. The agencies also expect to further reduce burden on small banks by additional streamlining of Call Reports.

The Federal Reserve has also supported increases in various statutory thresholds in the Dodd-Frank Act to more narrowly focus financial stability reforms on larger banking firms.

For example, we believe that small banking organizations could be exempted from the Volcker rule and from the incentive compensation requirements of the Dodd-Frank Act.

We also would support an increase in the $10 billion Dodd-Frank Act asset threshold for company-run stress tests and risk committee requirements, and in the $50 billion threshold for enhanced prudential standards under section 165 of the Dodd-Frank Act.

Resolution plans

The U.S. G-SIBs have made substantial progress in improving their resolvability and have taken concrete steps to implement important organizational, governance, and operational measures developed in the course of their resolution planning exercises. These firms will be filing new plans on July 1 that should incorporate agency feedback and guidance. The Federal Reserve and FDIC will engage in a full review of these plans.

We are exploring with the FDIC ways to improve the resolution planning process. We believe it is worthwhile to consider extending the cycle for living will submissions from annual to once every two years, and focusing every other of these filings on key topics of interest and material changes from the prior full plan submission.

In addition, there may be opportunities to greatly reduce the submission requirements for a large number of firms due to their relatively small, simple, and domestically focused activities.

Such an approach could limit full plan filing requirements to firms that are large, complex, or have systemically critical operations.

Volcker rule

The Federal Reserve is reassessing whether the Volcker rule implementing regulation most efficiently achieves its policy objectives, and we look forward to working with the other four Volcker rule agencies to find ways to improve the regulation.

In our view, there is room for eliminating or relaxing aspects of the implementing regulation that do not directly bear on the Volcker rule's main policy goals.

We also believe it would be constructive for Congress to consider focusing the Volcker rule on entities with significant trading books and eliminating the requirement that smaller firms be subject to the rule.

In the meantime, we believe that it is worthwhile for the agencies to consider further tailoring of the implementing rule as it applies to smaller firms and firms with small trading books, and to consider ways to streamline or reduce the paperwork and reporting burden associated with the rule.

Enhancements to stress testing and CCAR

The Federal Reserve is committed to increasing the transparency of the stress testing and CCAR processes. We will soon seek public feedback concerning possible forms of enhanced disclosure.

One such disclosure would be a range of indicative loss rates predicted by the Federal Reserve's models for various loan and securities portfolios. We would also disclose more information about risk characteristics that contribute to the loss-estimate ranges.

When we release CCAR results next week, we will disclose more detailed information on CCAR's qualitative assessment.

We will also publish a document later this year summarizing the performance of the industry on qualitative matters.

Many of our largest banking firms have made substantial progress toward meeting supervisory expectations for capital planning.

If that progress continues, I believe it will be appropriate to consider removing the qualitative objection from CCAR for those firms that achieve and sustain high-quality capital planning capabilities.

We would continue to assess the capital planning practices of these firms as part of our ongoing supervisory processes.

I would also see it as appropriate to adjust CCAR's assumptions regarding the balance sheet and capital distributions.

These adjustments would take place in conjunction with the integration of the stress test into a firm's regulatory capital requirements.

Leverage ratio

In light of the substantial progress in the build-out of our overall regulatory capital and stress testing frameworks over the past few years, the Federal Reserve is taking a fresh look at the enhanced supplementary leverage ratio.

We believe that the leverage ratio is an important backstop to the risk-based capital framework, but that it is important to get the relative calibrations of the leverage ratio and the risk-based capital requirements right.

Doing so is critical to mitigating any perverse incentives and preventing distortions in money markets and other safe asset markets.

Changes along these lines also could address concerns of custody banks that their business model is disproportionately affected by the leverage ratio.

Conclusion

U.S. banks today are as strong as any in the world, as shown by their solid profitability and healthy lending over recent years.

As we consider the progress that has been achieved in improving the resiliency and resolvability of our banking industry, it is important for us to look for ways to reduce unnecessary burden.

We must also be vigilant against new risks that may develop.

In all of our efforts, our goal is to establish a regulatory framework that helps ensure the resiliency of our financial system, the availability of credit, economic growth, and financial market efficiency.

We look forward to working with our fellow regulatory agencies and with Congress to achieve these important goals.

Number 5

EIOPA calls for further improvement in the ORSA implementation

- (Re)insurance companies are making good progress in implementing the Own Risk and Solvency Assessment (ORSA) process but further improvements are needed

- The boards of (re)insurance companies have to play a more active role in the ORSA process

- Deviations from the standard formula should be properly assessed and, if significant, reflected in the overall solvency needs

- The quality of stress test scenarios used in the ORSA process needs to be further improved and the risk assessment needs to cover the impact of all potential risks

The European Insurance and Occupational Pensions Authority (EIOPA) has published a supervisory statement outlining the first supervisory experiences on how European (re)insurance companies have implemented the ORSA process.

This statement is based on the supervisory assessments of the ORSA under the Solvency II framework conducted by the national supervisory authorities.

The analysis shows that the majority of (re)insurance companies made good progress in implementing the ORSA process.

Despite this positive progress, EIOPA sees the need for further improvements.

In particular, the involvement of the administrative, management or supervisory bodies in the ORSA to a greater degree is needed.

Board members have to play a more active role in the ORSA process and to take into account more evidently this important risk assessment in their strategic decision making processes.

Furthermore, EIOPA's analysis indicates the over-reliance of insurers on the standard formula with regard to risk management.

EIOPA therefore stresses the importance of assessing thoroughly significant deviations of the companies' risk profiles from the standard formula to properly determine their overall solvency needs.

Particular attention should also be paid to the quality of stress test scenarios used in the ORSA process, including the use of reverse stress testing, and to the scope of the risk assessment, which requires further improvement to cover the impact of all potential risks.

Gabriel Bernardino, Chairman of EIOPA, said: "EIOPA welcomes the progress of (re)insurance companies in the implementation of the ORSA process.

At the same time EIOPA calls for further improvements, which are needed for a better integration of this essential risk management tool into the companies' business strategy.

This forward-looking own risk and solvency assessment is crucial to protect European consumers and ensure financial stability in Europe."

To read more:
https://eiopa.europa.eu/Publications/Supervisory%20Statements/EIOPA-BoS-17-097_ORSA_Supervisory___Statement.pdf

Note

Own Risk Solvency Assessment (ORSA) – ORSA is a risk management tool setting out the principles of forward-looking self-assessment of risk management and solvency for insurers.

As part of its risk-management system every insurance undertaking and reinsurance undertaking shall conduct its own risk and solvency assessment (Article 45 of the Solvency II Directive).

EIOPA's Supervisory Statement of ORSA is based on the examination conducted and information collected by the national supervisory authorities in the European Economic Area (EEA) after Solvency II implementation in 2016.

The European Insurance and Occupational Pensions Authority (EIOPA) was established on 1 January 2011 as a result of the reforms to the structure of supervision of the financial sector in the European Union.

EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

Number 6

PCAOB Publishes Staff Inspection Brief Detailing Scope of 2017 Inspections of Auditors of Broker-Dealers

PCAOB
Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board issued a staff inspection brief detailing the scope, focus, and objectives of its ongoing 2017 inspections of auditors of brokers and dealers.

To read it:
https://pcaobus.org/Inspections/Documents/inspection-brief-2017-2-broker-dealer-scope.pdf

In 2017, PCAOB inspectors are focusing on audit areas and attestation procedures where inspectors previously found deficiencies, including auditor independence, engagement quality reviews, and certain areas of the financial statement audit.

"The intent of these staff inspection briefs is to help audit firms, investors, and others better understand how the PCAOB approaches audit firm inspections," said Helen A. Munter, Director of Registration and Inspections.

Inspections staff is focusing on the following broker-dealer audit areas and attestation procedures in 2017:

- Auditor independence;

- Financial statement audit areas where deficiencies were identified in past inspections, including revenue, the assessment and response to risks of material misstatement due to fraud, financial statement presentation and disclosure, fair value measurements, and related party transactions;

- Audit procedures on the supporting schedules to the financial statements;

- Procedures for the attestation engagements: the examination of compliance reports and the review of exemption reports; and,

- Engagement quality reviews.

During the 2017 inspection cycle, the PCAOB plans to inspect 75 firms that audit broker-dealers, covering portions of 115 audits and the related attestation engagements for these broker-dealers.

That number includes four firms that audit more than 100 broker-dealers, 16 firms that audit 21 to 100 broker-dealers, and 55 firms that audit one to 20 broker-dealers.

Firms are selected for inspection based on various characteristics of the firms, including, among other things, the number of broker-dealer audits performed, the observations from prior inspections, and the experience of the firm and its personnel in auditing broker-dealers. In addition, some of the firms and audits are selected randomly.

The PCAOB inspects firms that perform audits of broker-dealers registered with the Securities and Exchange Commission. These inspections are intended to assess the firm's audit and attestation engagements for compliance with professional standards, rules of the SEC and the PCAOB, and the Sarbanes-Oxley Act of 2002.

Number 7

Call for comments on harmonising OTC derivatives data elements

BANK FOR INTERNATIONAL SETTLEMENTS

The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) have published for public comment a consultative report on Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) - third batch.

The report is a further step towards fulfilling the Group of 20's 2009 commitment to report all OTC derivatives contracts to trade repositories (TRs), with the aim of improving transparency, mitigating systemic risk and preventing market abuse.

Aggregation of the data reported across TRs will help ensure that authorities can obtain a comprehensive view of the OTC derivatives market and its activity.

The CPMI, IOSCO and the Financial Stability Board (FSB) have in recent years published reports to lay the foundation for the harmonisation work on key OTC derivatives data elements for meaningful aggregation on a global basis, including the 2012 CPSS-IOSCO report on OTC derivatives data reporting and aggregation requirements, the 2013 CPSS-IOSCO report on Authorities' access to trade repository data and the 2014 FSB Feasibility study on approaches to aggregate OTC derivatives data.

Following the 2014 feasibility study, the FSB asked the CPMI and IOSCO to develop global guidance on the harmonisation of data elements reported to TRs and important for the aggregation of data by authorities, including the Unique Transaction Identifier (UTI) and the Unique Product Identifier (UPI).

This consultative report is part of the Harmonisation Group's response to that mandate.

It complements the consultative report on Harmonisation of key OTC derivatives data elements (other than UTI and UPI) - first batch, on Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) - second batch, and on Harmonisation of the Unique Transaction Identifier, and two consultative reports on Harmonisation of the Unique Product Identifier.

CPMI-IOSCO issued the final technical guidance on UTI in February 2017, plan to issue the one on UPI around mid-2017 and on critical data elements early 2018.

The report seeks general and specific comments and suggestions from respondents by 30 August 2017 using the dedicated response form. The completed form should be sent to both the CPMI secretariat and the IOSCO secretariat.

To read more:
http://www.bis.org/cpmi/publ/d160.pdf

http://www.bis.org/cpmi/publ/d160_response_form.pdf

Number 8

Basel Committee consults on a simplified alternative to the market risk standardised approach

BANK FOR INTERNATIONAL SETTLEMENTS

The Basel Committee on Banking Supervision published the consultative document Simplified alternative to the standardised approach to market risk capital requirements.

In January 2016, the Basel Committee issued revised Minimum capital requirements for market risk.

This global standard includes a standardised approach which is used by banks other than those that are large and internationally active.

The consultative document published sets out a simplified alternative to the sensitivities-based method (SbM), which is the primary component of the standardised approach, and proposes a reduced sensitivities-based method that would:

- remove capital requirements for vega and curvature risks;
- simplify the basis risk calculation; and
- reduce risk factor granularity and the correlation scenarios to be applied in the associated calculations.

Use of the proposed reduced SbM would be subject to supervisory approval and oversight, and would be available only to banks that meet certain qualitative and quantitative criteria.

The Committee is also seeking feedback on whether retaining a recalibrated version of the Basel II standardised approach to market risk would better serve the purpose of including a simplified method for market risk capital requirements in the Basel framework.

The Committee welcomes comments on all aspects of this consultative document and the proposed standards text.

Comments on the proposals should be uploaded here by Wednesday 27 September 2017. All comments will be published on the website of the Bank for International Settlements unless a respondent specifically requests confidential treatment.

To read more:
http://www.bis.org/bcbs/publ/d408.pdf

Number 9

Annual Reporting Reminder

PCAOB
Public Company Accounting Oversight Board

This is a reminder that annual reports on Form 2 for the period April 1, 2016, through March 31, 2017, are due to the PCAOB by June 30, 2017.

Important Information

- Guidance on how to submit the annual report on Form 2, as well as information on how to withdraw from registration and file other reports with the PCAOB can be found on the PCAOB Registration and Reporting web page - https://pcaobus.org/Registration/Pages/default.aspx

- The annual report on Form 2 must be filed electronically through the Board's Registration, Annual and Special Reporting system. See Q&A 39 through Q&A 41 of the Staff Questions and Answers: Annual Reporting on Form 2 PDF(February 4, 2015) ("Staff Q&As on Annual Reporting"). You may visit: https://pcaobus.org/Registration/rasr/Documents/Staff_QA-Annual_Reporting.pdf

- ALL firms registered with the Board as of March 31, 2017, must file an annual report on Form 2 by June 30, 2017. See Q&A 2 of the Staff Q&As on Annual Reporting. However, if your firm has submitted a complete request to withdraw from registration on Form 1-WD by June 30, your firm does not have to file a 2017 annual report. See Q&A 5 of the Staff Q&As on Annual Reporting.

- Failure to file an annual report on Form 2 is a violation of PCAOB rules and may result in disciplinary action against your firm. See Q&A 6 of the Staff Q&As on Annual Reporting. To read more: https://pcaobus.org//Enforcement/Adjudicated/Pages/default.aspx

If you have questions or need assistance in filing an annual report on Form 2 with the PCAOB, you may contact registration staff at 202-207-9329 or by email at registration-help@pcaobus.org

Number 10

Transforming How Troops Fight in Coastal Urban Environments

New program aims to develop advanced battle management/command and control tools and a comprehensive interactive virtual environment to test novel concepts for future expeditionary combat operations

DARPA DEFENSE ADVANCED RESEARCH PROJECTS AGENCY

As nation-state and non-state adversaries adapt and apply commercially available state-of-the-art technology in urban conflict, expeditionary U.S. forces face a shrinking operational advantage.

To address this challenge, a new DARPA program is aiming to create powerful, digital tools for exploring novel expeditionary urban operations concepts—with a special emphasis on coastal cities, where future such battles are deemed most likely to occur.

The program will test the new tools and concepts in an integrated virtual environment, with the ultimate goal of developing fluidly composable force packages able to maximize tactical advantage in these complex, urban environments.

The program, dubbed Prototype Resilient Operations Testbed for Expeditionary Urban Scenarios (PROTEUS), seeks to deliver a software platform for use on a tablet or other personal device that would enable dynamic and adaptive composition of battlefield elements—including dismounted forces, vehicles, unmanned aerial vehicles (UAVs), manned aircraft, and other available assets—simultaneously across multiple command levels as the fight is evolving.

The second focus area of the program is to develop an entirely new interactive virtual testbed, using novel mechanics built around multiscale decision making, to evaluate operational concepts spanning multiple domains, such as ground, sea, air, and electromagnetic spectrum.

DARPA posted a Broad Agency Announcement describing the program in detail.
"The urban fight is about delivering precise effects and adapting faster than the adversary in an uncertain, increasingly complex environment," said

John Paschkewitz, DARPA program manager. “For U.S. forces to maintain a distinct advantage in urban coastal combat scenarios, we need agile, flexible task organizations able to create surprise and exploit advantages by combining effects across operational domains.

Through PROTEUS, we aim to amplify the initiative and decision-making capabilities of NCOs and junior officers at the platoon and squad level as well as field-grade officers commanding expeditionary landing teams, for example, by giving them new tools to compose tailored force packages not just before the mission, but during the mission as it unfolds.”

The vision for the battle management/command and control (BMC2) software is to enable agile precision warfighting, so tactical operators can quickly design, compose, and recompose force packages on the fly to surprise the enemy.

“We aim to develop a tool to enable Marines to adapt their systems and tactics faster than the adversary,” Paschkewitz said. “The tool would show all available air, ground, sea, and spectrum assets in an area and determine how they could best be combined—whether that means, for example, delivering combined arms fire support for a Marine in need or providing transportation for that Marine to escape.”

In another example, a squad leader could use the tablet tool to coordinate combined reconnaissance support from several small UAVs organic to the unit, electronic warfare support from a long-endurance UAV like a Reaper in the vicinity, and combined arms fire support from a nearby attack helicopter and tank.

As envisioned, the BMC2 tool would give the tactical operator real-time awareness of locally available assets and would share that view with higher command echelons, enabling the entire team to think “one step ahead.”

A second goal of PROTEUS is to create an interactive virtual testbed where new BMC2 tools and concepts can be integrated and tested at various levels of command, to demonstrate the agile composition of force packages.

“The idea for the interactive virtual testbed is to allow tactical and higher-echelon operators to explore and evaluate new tactics based on dynamic composition and then build ‘muscle memory’ by applying the most effective ones in an engaging virtual environment,” Paschkewitz said.

“We’re not trying to develop a massively multi-player online game like many popular commercial games that already exist, nor is PROTEUS looking to mimic or advance existing DoD Live-Virtual-Constructive (LVC) software.

Instead, we want developers to come up with innovative, decision-focused, virtual worlds that correctly capture the complex and non-linear consequences of choices made at both the command and tactical levels by both friendly and opposing forces.

The urban fight has enormous uncertainty and the dimensionality of the battlespace is huge, which requires human judgment and decision-making that you can’t automate away. We’re looking for concepts with ease of use and demonstrable utility simulations similar to existing interactive tactical decision games used by U.S. forces, yet with greatly increased battlespace scale, complexity and detail.”

The PROTEUS program seeks expertise in multiscale game design using scalable software architectures; battle management and command and control, particularly as applied to composable systems; and Marine Corps systems and operations.

The Broad Agency Announcement (BAA) solicitation is available on FedBizOpps here: https://go.usa.gov/xNpyT

Details about a Proposers Day on June 30, 2017, in Arlington, Virginia, are available here: https://go.usa.gov/xNyUu

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To learn more you may visit:
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This will give the opportunity to risk and compliance managers, officers and consultants to have access to instructor-led CRCMP and CISRCP training at convenient locations that meet international standards.

ATCCs use IARCP approved course materials and have access to IARCP Authorized Certified Trainers (IARCP-ACTs).
To learn more:
www.risk-compliance-association.com/Approved_Centers.html