

International Association of Hedge Funds Professionals (IAHFP)
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Hedge Funds News, June 2023

Dear members and friends,

The European Union and the United States have held the fourth ministerial meeting of the EU-US Trade and Technology Council (TTC) in Luleå, Sweden.



It was co-chaired by European Commission Executive Vice-President **Margrethe Vestager**, European Commission Executive Vice-President **Valdis Dombrovskis**, United States Secretary of State **Antony Blinken**, United States Secretary of Commerce **Gina Raimondo**, and United States Trade Representative **Katherine Tai**, joined by European Commissioner **Thierry Breton**, and hosted by the Swedish Presidency of the Council of the European Union.

The EU and the US remain key geopolitical and trading partners. The EU-US bilateral trade is at historical highs, with over €1.55 trillion in 2022, including over €100 billion of digital trade.

On the occasion of the ministerial meeting, the EU and the US agreed on a list of key outcomes to advance transatlantic cooperation on emerging technologies, sustainable trade, economic security and prosperity, secure connectivity and human rights in the digital environment. Both parties also reaffirmed their unwavering commitment to support Ukraine.

Key outcomes of the 4th TTC ministerial meeting

Transatlantic cooperation on emerging technologies, connectivity and digital infrastructure

The EU and the US share the common understanding that Artificial Intelligence (AI) technologies hold great opportunities but can also present risks for our societies.

They showcased the first results in the implementation of the TTC Joint Roadmap for Trustworthy AI and risk management through dedicated experts' groups, working notably on the identification of standards and tools for trustworthy AI. Going forward, this work will include a focus on generative AI systems.

You may visit: <https://digital-strategy.ec.europa.eu/en/library/ttc-joint-roadmap-trustworthy-ai-and-risk-management>

digital-strategy.ec.europa.eu/en/library/ttc-joint-roadmap-trustworthy-ai-and-risk-management

POLICY AND LEGISLATION | Publication 01 December 2022

TTC Joint Roadmap for Trustworthy AI and Risk Management

The EU-US TTC Joint Roadmap aims to advance shared terminologies and taxonomies, but also to inform our approaches to AI risk management and trustworthy AI on both sides of the Atlantic.

The roadmap will help to build (as a next step) a common repository of metrics for measuring AI trustworthiness and risk management methods. It also holds the potential to inform and advance collaborative approaches in international standards bodies related to Artificial Intelligence.

Downloads



TTC Joint Roadmap on Evaluation and Measurement Tools for Trustworthy AI and Risk Management

[Download](#)



Related topics

[International relations](#)

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The EU and the US have advanced work on semiconductors, implementing agreements on supply chain early warning and subsidies transparency.

They have put in place a mechanism to prevent subsidy races, deepened cooperation on their respective Chips Acts and will join forces in research to replace PFAS in semiconductor supply chains.

The EU and the US are advancing their work in the area of e-mobility.

They agreed on a common international standard on megawatt charging systems for the recharging of electric heavy-duty vehicles.

This will facilitate transatlantic trade and investment by reducing the manufacturing and deployment costs.

They also developed recommendations for the government-funded implementation of e-vehicle charging infrastructure.

The recommendations: [https://joint-research-centre.ec.europa.eu/system/files/2023-05/Transatlantic Technical Recommendations for Government Funded Implementation of Electric Vehicle Charging Infrastructure 0.pdf](https://joint-research-centre.ec.europa.eu/system/files/2023-05/Transatlantic_Technical_Recommendations_for_Government_Funded_Implementation_of_Electric_Vehicle_Charging_Infrastructure_0.pdf)



May 2023

**Transatlantic Technical Recommendations
for Government Funded Implementation of
Electric Vehicle Charging Infrastructure**

EU-U.S. Trade and Technology Council

Working Group 2 - Climate and Clean Tech

Workstream: **Electro-mobility and Interoperability with Smart Grids**

Co-Chairs: Maria Cristina Russo, European Commission, and Julie Cerqueira, U.S. Department of Energy

Authors: **Keith Hardy**, U.S. Department of Energy, Argonne National Laboratory
Harald Scholz, European Commission, Joint Research Centre

Both parties have accelerated their cooperation towards a common vision and industry roadmap on 6G wireless communication systems and issued a 6G outlook, which sets out guiding principles and next steps to develop this critical technology.

The EU and US are continuing their efforts to accelerate the roll-out of secure and resilient connectivity projects in third countries and announced today new initiatives in Costa Rica and the Philippines.

Human rights and values in a changing geopolitical digital environment

The EU and US consider that online platforms should exercise greater responsibility in protecting and empowering minors.

Data access for researchers is key to help understand risks on online platforms and to advance understanding of the online ecosystem.

The EU and the US developed a list of high-level principles on the protection and empowerment of minors and data access for researchers, which are in line with the EU's Digital Services Act.

Both parties are also deeply concerned about Russia's strategic use of disinformation narratives, and foreign information manipulation and interference (FIMI) actions in third countries.

The EU and the US have issued a joint statement setting out actions to combat foreign information manipulation and interference in third countries, including a standard for structured threat intelligence and capacity building, particularly in Africa and Latin-America.

You may visit: <https://www.eeas.europa.eu/eeas/trade-and-technology-council-fourth-ministerial-%E2%80%93-annex-foreign-information-manipulation-and-en>

TTC Ministerial

Foreign information manipulation and interference in third countries

Foreign information manipulation and interference (FIMI) and disinformation is an ever-changing security and foreign policy issue, with a fast-evolving and complex threat situation. Russia's strategic and coordinated use of such activity in the preparation and execution of its war of aggression against Ukraine has increased global attention to the ways in which aggressors manipulate the information environment, amidst global conflict. Intentional manipulation by malign actors of the information environment and public debate threatens the functioning of democracies and the well-being of societies around the world. We are increasingly faced with hostile campaigns manipulating global, regional, and local audiences by spreading chaos and confusion, aiming to undercut trust in well-established/proven facts, global partnerships and alliances, universal values and international human rights, and democratic norms and processes. We also see attempts to corrode the international, rules-based order and fora such as the UN Security Council through manipulative behaviour that undermines democratic institutions and values.

The European Union and the United States are mutually concerned about foreign information manipulation and interference and disinformation; the long-standing cooperation on this issue between us has contributed to a mutual understanding of the threat and close exchanges on effective responses which respect human rights. The Trade and Technology Council proved to be a crucial forum to add another, even more strategic layer to existing and operational cooperation. Against this background, and next to other ongoing work in various different fora, the European Union and the United States have taken a number of actions to increase transatlantic cooperation to proactively address foreign information manipulation and interference and disinformation, while upholding human rights and fundamental freedoms.

Transatlantic cooperation for easier, greener and safer trade

The EU and US are working to grow their €1.5 trillion worth of bilateral trade further by making it easier to trade and they have today taken steps to facilitate trade in key sectors.

They have extended mutual recognition for pharmaceutical goods to include veterinary medicines and updated the existing EU-US marine equipment mutual recognition rules.

Work will continue to facilitate conformity assessment in certain key sectors, such as machinery.

As part of their commitment to greener and fairer trade, the EU and US have agreed on a work programme for the Transatlantic Initiative on Sustainable Trade.

This will lead to closer cooperation on jointly advancing the green transition.

The newly-launched Clean Energy Incentives Dialogue will help ensure that EU and US incentive programs for a clean economy are mutually reinforcing.

The second principal-level session of the Trade and Labour Dialogue deepened the discussion on the eradication of forced labour from global supply chains, based on joint recommendations from social partners.

The EU and US continue their work on challenges impacting their security.

This includes aligning their respective regulations related to export restrictions on sensitive items to Russia and Belarus.

They continue to coordinate adjustments to control lists, discuss emerging technologies, and cooperate to ensure the non-proliferation of weapons of mass destruction.

The TTC reiterated the importance of robust foreign investment screening to address specific national security risks, and of coordination to diversify our supply chains, to address non-market policies and practices as well as economic coercion.

The EU and US continue to advocate for digital solutions to make trade easier and to promote the digital trade principles agreed in G7.

Background

The European Union and the United States launched the EU-US Trade and Technology Council (TTC) at their ministerial in Brussels on 15 June 2021.

The TTC serves as a forum for the EU and the US to coordinate approaches to address key trade and technology issues, and to deepen transatlantic cooperation in this realm based on shared democratic values.

The inaugural meeting of the TTC took place in Pittsburgh on 29 September 2021.

Following this meeting, 10 working groups were set up covering issues such as technology standards, artificial intelligence, semiconductors, export controls and global trade challenges.

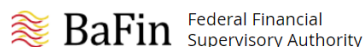
This was followed by a second ministerial in Paris on 16 May 2022 and a third ministerial in College Park, Maryland, in December 2022.

The next meeting of the TTC is planned towards the end of the year hosted by the US.

To read more:

https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2922

Non-fungible tokens: what matters is the content



Non-fungible tokens can be used in many different ways, also in the financial sector. This article explains how the Federal Financial Supervisory Authority (BaFin) currently categorises these tokens from a supervisory perspective.

Non-fungible tokens (NFTs) have been met with considerable interest in the last few years. After a period of tremendous growth, however, the NFT market experienced a sharp drop in demand and prices in mid-2022. Despite this downturn, there can be no doubt that NFTs continue to be highly relevant. Their technical characteristics make them eligible for many different forms of application.



Publications & data



NFTs are supposed to combine the special characteristics for which crypto tokens are known on the market, like good transferability and low risk of falsification, with the means of individually assigning the specific token to an address on the blockchain.

Since NFTs are also used in the financial sector, BaFin is examining the potential of this phenomenon and particularly also the risks associated with it. From the supervisors' perspective, it is important to find out what relevance NFTs have for the financial market and what the consequences will be for offerors, service providers and customers.

NFTs: unique cryptographic tokens?

NFTs are cryptographic tokens that are based on distributed ledger technology (DLT) – especially blockchains, which are a special form of

DLTs. NFTs, as their name implies, are not fungible with each other due to their technical characteristics: they are non-interchangeable.

This design makes it possible to uniquely assign individually identifiable tokens to a particular address on the blockchain. With fungible tokens, on the other hand, it is not an individual token that is assigned to each address but only the respective share of all existing tokens of that kind. The best-known standard for fungible tokens is the ERC-20 standard on the Ethereum blockchain.

Both NFTs and fungible tokens can also be created on the basis of other blockchains – such as Solana, EOS or Tezos – as well as on the basis of other standards.

The criterion of uniqueness for NFTs merely conveys information about their technical characteristics – such as the individual identifier of a token (also called a token ID) – but not necessarily about the contents to which the token pertains or the rights associated with it.

For example, a smart contract can be used to create many NFTs, each of which has its own individual identifier but also all of which are assigned the same rights or contents.

Numerous fields of application

There are many different possible applications for NFTs. Probably the most prominent categories of NFTs are “collectibles” and digital art. Collectibles are collector’s items in digital form; some can also provide bonus functions enabling holders to interact with the tokens.

For artists, NFTs can make it possible, for example, to participate in any future proceeds generated when the collectibles are resold. NFTs are also put to use in the context of gaming and the metaverse, such as in the form of tokenised game objects or real estate in digital worlds.

Supervisory practice as in the case of fungible tokens

When conducting supervisory assessments of NFTs, BaFin takes the same approach that it takes for fungible tokens. Market participants can find more information in the [interpretive letters](#) BaFin has published on this subject.

Advisory letter (WA)

Ref. no.: WA 11-QB 4100-2017/0010

Supervisory classification of tokens or cryptocurrencies underlying “initial coin offerings” (ICOs) as financial instruments in the field of securities supervision

Given the rising number of queries to BaFin’s Securities Supervision/Asset Management Directorate (WA) seeking to ascertain whether the tokens, coins or cryptocurrencies underlying “initial coin offerings” (ICOs)¹ (for the purposes of this advisory letter hereinafter referred to as “**tokens**”) are deemed financial instruments in the field of securities supervision, BaFin states its position on the regulatory classification of tokens in the field of securities supervision as follows in this advisory letter:

BaFin (WA) determines on a case-by-case basis whether a token constitutes a financial instrument within the meaning of the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*) or the Markets in Financial Instruments Directive (MiFID II), a security within the meaning of the German Securities Prospectus Act (*Wertpapierprospektgesetz – WpPG*), or a capital investment within the meaning of the German Capital Investment Act (*Vermögensanlagegesetz – VermAnlG*). BaFin bases its assessment on the criteria set out in the statutory provisions under securities supervision law, i.e. in particular the WpHG, WpPG, Market Abuse Regulation (MAR), VermAnlG as well as other relevant laws and applicable national and EU legal acts in the field of securities supervision.

Background information

NFT is the designation most often used on the market if, for the underlying smart contracts, an industry standard is used that assigns a unique identifier to each token. These standards serve as technical instructions for implementing and creating a token. They are designed to ensure that certain basic criteria are met, for example with regard to verification, traceability, tamper resistance and transferability.

The most prominent standards for the creation of NFTs are currently ERC-721 and ERC-1155, which – like all standards entitled “ERC” (Ethereum Request for Comments) – are based on the Ethereum blockchain.

To read more:

https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2023/fa_bj_2303_NFT_en.html;jsessionid=086D05874E7532A1CAEF883AADF740A3.2_cid503

European Banking Authority (EBA), Consultation Paper on amendments to the Guidelines on money laundering and terrorist financing to include crypto-asset service providers



In July 2021 the European Commission issued a legislative package with four proposals to reform the EU's legal and institutional anti-money laundering and countering the financing of terrorism (AML/CFT) framework.

The legislative package included a proposal for a recast of Regulation (EU) 2015/847.

This recast extends the scope of Regulation (EU) 2015/847 to transfers of crypto assets. It also extends the definition of 'financial institution' in Directive (EU) 2015/849 to CASPs that are regulated in accordance with the 'MiCA Regulation'.

CASPs as defined in the MiCA Regulation *will be subject to the same AML/CFT systems and controls requirements* as credit and financial institutions.

Article 38 of the recast Regulation (EU) 2015/847 amends Article 18 of the Directive (EU) 2015/849 and mandates the EBA to issue guidelines on the risk variables and risk factors CASPs should take into account when entering into a business relationship or carrying out transactions in crypto assets.

In particular, it requires the EBA to clarify the enhanced due diligence requirements CASPs should apply in high-risk situations, and the mitigating measures CASPs should apply when entering into similar correspondent relationships, particularly with entities that are not covered by Directive (EU) 2015/849.

To fulfill this mandate, the EBA is proposing to amend the EBA's Guidelines (EBA/2021/02) on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions under Articles 17 and 18(4) of Directive (EU) 2015/849 (the 'ML/TF Risk Factors Guidelines').

To read more:

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Consultations/2023/Consultation%20on%20revised%20

[Guidelines%20on%20money%20laundering%20and%20terrorist%20financing%20%28ML-TF%29%20risk%20factors/1055913/Consultation%20paper%20on%20amending%20Guidelines%20on%20ML%20FT%20risk%20factors.pdf](#)

<https://www.eba.europa.eu/eba-consults-amendments-guidelines-money-laundering-and-terrorist-financing-risk-factors-include>

Financial Stability and the U.S. Economy

Governor Philip N. Jefferson, Federal Reserve Board of Governors, at the 22nd Annual International Conference on Policy Challenges for the Financial Sector, Washington, D.C.



The Federal Reserve's Approach Toward Financial Stability

A stable financial system is resilient even in the face of sharp downturns or stress events. It provides households and businesses with the financing they need to participate and thrive in a well-functioning economy.

It is difficult to anticipate or prevent shocks, but sound policies can mitigate their impact. At the Federal Reserve, we work hard to make sure that an initial shock in one area of the financial system does not spill over to other markets or institutions and cause severe or widespread strains.

Such spillovers could disrupt the flow of credit and cause outsized declines in employment and economic activity. It is not our role, nor should it be our objective, to influence the allocation of credit within or across sectors of the U.S. economy.

Financial and nonfinancial institutions and households are linked through a web of relationships. The economic activities of households and businesses depend on the strength of financial institutions' balance sheets, as households and businesses obtain funding through the financial sector.

Similarly, the health of the financial sector hinges on the strength of the balance sheets of households, businesses, and financial institutions, as financial institutions' assets are the liabilities of these sectors.

The Federal Reserve monitors and assesses potential vulnerabilities that may develop because of interactions among key participants.

We do that by focusing on the safety and soundness of individual supervised institutions and by looking across the entire financial and nonfinancial system for potential risks and vulnerabilities. These risks and vulnerabilities can include elevated valuation pressures, excessive borrowing by households and businesses, excessive leverage in the financial system, and elevated funding risks.

In other words, at the Federal Reserve, we use both microprudential and macroprudential approaches to monitor the health of financial institutions and the financial sector.

The recent banking stress events remind us that risks and vulnerabilities in financial markets are continuously changing.

That is why the staff at the Federal Reserve is constantly monitoring domestic and foreign financial markets and institutions, as well as the financial condition of households and businesses, with the goal of identifying current and future vulnerabilities.

Such forward-looking financial stability monitoring helps inform policymakers about ongoing vulnerabilities in the financial system that may amplify a range of potential adverse events or shocks.

To read more:

<https://www.federalreserve.gov/newsevents/speech/jefferson20230531a.htm#:~:text=I%20expect%20spending%20and%20economic,the%20onset%20of%20the%20pandemic.>

Investing in banking supervision

Agustín Carstens, General Manager of the BIS, at the European Banking Federation's International Banking Summit, Brussels.



Introduction

I would like to thank the European Banking Federation for inviting me to speak today.

Recent months have seen several episodes of banking stress, in both Europe and the United States.

Once again, central banks have stepped in to provide liquidity, restore confidence and prevent contagion. At the same time, they have been raising interest rates to bring inflation back to target.

In principle, central banks can separate their monetary policy actions from their financial stability function. But perceptions matter. And raising interest rates on the one hand, while easing financing conditions for banks on the other might create the impression that policy arms are pulling in different directions.

This wasn't meant to happen. The Basel III reforms aimed to ensure that banks kept ample liquidity on hand and remained well capitalised at all times. And, if systemically important institutions did fail, well planned resolution procedures were meant to prevent spillovers to other institutions.

What went wrong? Many have pointed fingers at rapid interest rate hikes, falling bond prices and flighty depositors. In some cases, these provided the trigger. But in my view, the main cause of recent bank crises was the failure of directors and senior managers to fulfil their responsibilities. Business models were poor, risk management procedures woefully inadequate and governance lacking.

These issues existed well before depositors ran and investors lost confidence. Many of the shortcomings could, and in my view should, have been identified and remedied ahead of time. This speaks to the crucial role of banking supervision. This will be the focus of my talk.

Banking supervision needs to up its game. It needs to identify weaknesses at an early stage and act forcefully to ensure that banks address them. To do this, supervisors will need to have operational independence, strengthen their forward-looking culture and adopt a more intrusive stance. They will also need to continuously seek to improve their capabilities. First, by accessing greater resources. And second, by enhancing their productivity with the aid of technology.

The crucial role of banking supervision

Rising interest rates have challenged some banks, central banks and banking supervisors. Some banks' business models have been exposed, particularly after a decade of exceptionally low interest rates led them to take on greater risks in search of yield.

The banks that have come under strain were similar in several respects. One was that they had poor governance and inadequate risk management. As the Chair of the Basel Committee recently noted,² bank boards and senior managers are the first line of defence in managing and overseeing the risks posed by rising rates.

But there were also some important differences. Some of the banks that failed had a long track-record of financial underperformance. The weaknesses of their business models had been clear for some time. For others, financial difficulties emerged suddenly. I am referring here to banks who had significant exposures to long-term, fixed rate assets funded with less stable short-term funding. Of course, such liquidity transformation is inherent in the banking system – but the liquidity risks need to be managed.

To read more: <https://www.bis.org/speeches/sp230601.htm>

Beige Book - May 31, 2023



Overall Economic Activity

Economic activity was little changed overall in April and early May. Four Districts reported small increases in activity, six no change, and two slight to moderate declines. Expectations for future growth deteriorated a little, though contacts still largely expected a further expansion in activity.

Consumer expenditures were steady or higher in most Districts, with many noting growth in spending on leisure and hospitality.

Education and healthcare organizations saw steady activity on balance.

Manufacturing activity was flat to up in most Districts, and supply chain issues continued to improve.

Demand for transportation services was down, especially in trucking, where contacts reported there was a "freight recession."

Residential real estate activity picked up in most Districts despite continued low inventories of homes for sale.

Commercial construction and real estate activity decreased overall, with the office segment continuing to be a weak spot.

Outlooks for farm income fell in most districts, and energy activity was flat to down amidst lower natural gas prices.

Financial conditions were stable or somewhat tighter in most Districts. Contacts in several Districts noted a rise in consumer loan delinquencies, which were returning closer to pre-pandemic levels.

High inflation and the end of Covid-19 benefits continued to stress the budgets of low- and moderate-income households, driving increased demand for social services, including food and housing.

Labor Markets

Employment increased in most Districts, though at a slower pace than in previous reports.

Overall, the labor market continued to be strong, with contacts reporting difficulty finding workers across a wide range of skill levels and industries.

That said, contacts across Districts also noted that the labor market had cooled some, highlighting easier hiring in construction, transportation, and finance.

Many contacts said they were fully staffed, and some reported they were pausing hiring or reducing headcounts due to weaker actual or prospective demand or to greater uncertainty about the economic outlook.

Staffing firms reported slower growth in demand. As in the last report, wages grew modestly.

Prices

Prices rose moderately over the reporting period, though the rate of increase slowed in many Districts. Contacts in most Districts expected a similar pace of price increases in the coming months.

Consumer prices continued to move up due to solid demand and rising costs, though several Districts noted greater price sensitivity by consumers than in the prior report.

Overall, nonlabor input costs rose, but many contacts said cost pressures had eased and noted price declines for some inputs, such as shipping and certain raw materials.

Home prices and rents rose slightly on balance in most Districts, after little growth in the prior period.

Highlights by Federal Reserve District

Boston

Business activity was flat on average. Modest revenue increases were reported among retail, restaurant, and manufacturing contacts. Labor demand weakened for a wide range of positions but headcounts declined only slightly.

Wage and price pressures eased further on average but some sizable price increases were reported. The outlook was cautiously optimistic.

New York

Regional economic activity declined at a moderate pace, with ongoing weakness in the manufacturing sector.

Still, the labor market has remained solid, though there have been scattered signs of cooling due to heightened uncertainty. Inflationary pressures remained persistent. Conditions in the broad finance sector continued to worsen.

Philadelphia

Business activity continued to decline slightly during the current Beige Book period. Contacts reported positive consumer sales, but that relatively high profit margins mean that volumes may be down.

Labor availability improved, and employment grew slightly. Wage growth and inflation continued to subside.

Contacts worried about the debt ceiling and bank failures but maintained positive expectations for growth over the next six months.

Cleveland

Economic activity and employment were generally stable in the Fourth District, while cost and price pressures were little changed.

Most firms indicated they were somewhat concerned about the standstill in Congress over raising the debt ceiling; however, these concerns did not appear to impact firms' outlooks for activity in the coming months.

Richmond

The regional economy was little changed in recent weeks. Consumer spending on retail goods declined slightly but spending on travel and tourism picked up moderately.

A lack of inventory ordering by retailers was felt in the manufacturing and transportation sectors. Commercial real estate activity and lending softened. Employment increased modestly and price growth eased slightly but remained robust, overall.

Atlanta

Economic activity grew gradually. Labor markets became less tight, and wage pressures eased. Nonlabor costs moderated, on balance. Retail sales softened. Sales of new autos were solid.

Leisure travel softened to pre-pandemic levels, and business travel increased. Housing demand was strong. Transportation activity declined. Energy demand was robust. Agriculture conditions slowed.

Chicago

Economic activity was little changed. Employment increased moderately; nonbusiness contacts saw a small increase in activity; consumer and business spending were flat; and activity decreased modestly both for manufacturing and for construction and real estate.

Prices and wages rose moderately, while financial conditions tightened modestly. Expectations for farm incomes in 2023 decreased some.

St. Louis

Economic conditions have remained unchanged since our previous report. Labor markets remained tight, but reports of easing increased. Firms reported margin compression due to an inability to pass on input price increases.

Residential real estate was largely unchanged, but demand for commercial properties weakened. The outlook worsened slightly due to concerns about weakening demand and macro uncertainty.

Minneapolis

The region's economy grew slightly since early April. Labor demand was healthy, and wage pressures were high, but there were also significant layoffs.

Price increases were generally modest, but levels remained high. Some manufacturers said input costs decreased, but most reported no change. Consumer spending rose modestly, and travel was strong.

Minority- and women-owned firms saw a slight decrease in activity.

Kansas City

Total economic activity across the Tenth District changed little during May. Job growth continued to slow, despite the number of job openings remaining elevated, as businesses were reportedly more selective in their hiring.

Most businesses indicated price growth for finished products will likely moderate over the coming year. Growth in housing rental rates was also expected to moderate, even though it remains elevated in many parts of the District.

Dallas

Modest growth continued, with revenue gains in the service and retail sectors. Housing contacts noted a decent spring selling season and stable prices. Credit conditions tightened further, and loan demand continued to decline.

Payrolls rose moderately, and wage growth remained stubbornly elevated. Outlooks continued to worsen, and contacts voiced concern over waning demand, rising interest rates, and the overall health of the economy.

San Francisco

Economic activity expanded somewhat. Employment levels were stable amid tight labor market conditions, while wage and price growth moderated further.

Retail sales grew modestly, and activity in the services picked up somewhat. Manufacturing activity was robust, while conditions in the agriculture sector weakened slightly. Residential and commercial real estate activity fell, and conditions in the financial sector worsened modestly.

You may visit:

<https://www.federalreserve.gov/monetarypolicy/beigebook20230531.htm>

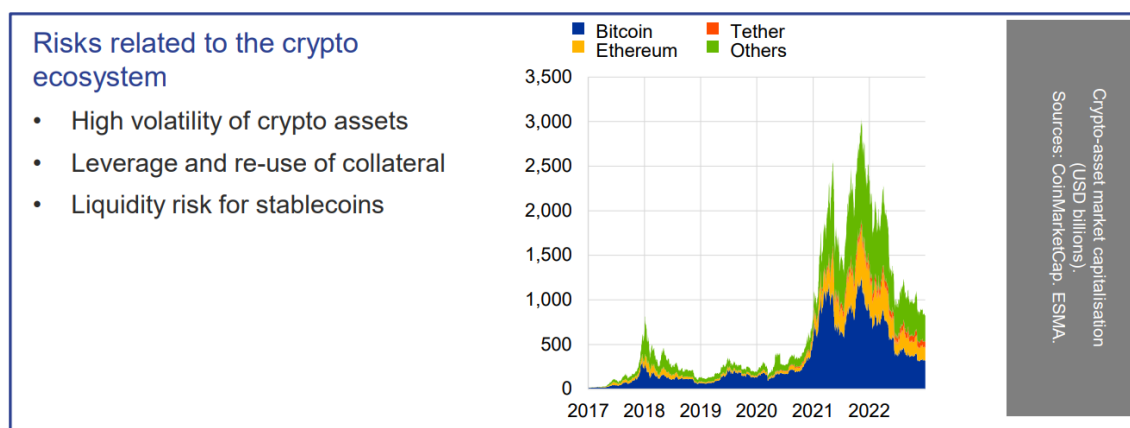
ESRB publishes EU Non-bank Financial Intermediation Risk Monitor 2023



The European Systemic Risk Board (ESRB) has today published the EU Non-bank Financial Intermediation Risk Monitor 2023 (NBFi Monitor).

This is the eighth edition in an annual series monitoring systemic risks and vulnerabilities associated with investment funds and other financial institutions.

For the first time, this edition extends the monitoring universe to crypto-assets and associated intermediaries (namely stablecoins, centralised finance platforms and decentralised finance protocols) as they provide financial intermediation and can be exposed to the same vulnerabilities and financial risks as the traditional financial sector.



Source: ESRB.

Financial stability risks increased overall in 2022, owing to rising geopolitical tensions, higher-than-expected inflation and tightening financial conditions. Against this backdrop, the NBFi Monitor highlights three main risks and vulnerabilities.

An economic slowdown and tightening financial conditions could increase credit risk. This is particularly relevant for investment funds exposed to low-rated bonds and loans, financial vehicle corporations engaged in securitisation and financial corporations engaged in lending.

If credit risk were to materialise it could lead to losses, which in the case of investment funds could result in large outflows and liquidity strains.

Market liquidity risk could put further pressure on non-bank financial intermediaries engaged in liquidity transformation. Several indicators show that liquidity conditions in EU bond markets deteriorated in 2022.

Alongside cyclical liquidity risk, the monitor also identifies persistent challenges related to structural changes in liquidity provision and demand. These structural changes are linked, for instance, to open-ended funds offering daily redemptions.

Excessive use of leverage could amplify liquidity and market risks, lead to contagion and magnify shocks to financial stability. This vulnerability affects the traditional non-bank entities discussed in the report as well as crypto intermediaries, since both use leverage and rely on collateral. To help identify risk, the NBFMI Monitor 2023 includes two special features.

The special feature on stress related to liability-driven investment (LDI) strategies provides insights into how risks associated with liquidity and leverage materialise. It investigates the extent to which EU-domiciled LDI funds were prepared for margin and collateral calls related to the rise in interest rates.

The second special feature focuses on vulnerabilities affecting crypto-assets and associated intermediaries that are similar to those among traditional non-bank financial intermediaries. It considers how the crypto ecosystem uses leverage and engages in credit intermediation, and liquidity and maturity transformation. It also examines its interconnectedness.

Crypto trading platforms offer a very high level of leverage to clients although actual use has been trending downward. Leverage amount offered by selected crypto trading platforms

Trading platform	Maximum leverage offered	Products used in leverage
BitMEX	100x	Perpetual swaps
Kraken	5x	Crypto-assets
FTX	20x	Futures, leveraged tokens
eToro	2x	Contracts for differences
Bitlevex	100x	Options
Bybit	100x	Perpetual swaps and futures
Binance	125x	Leveraged tokens

Sources: *Decrypting financial stability risks in crypto-asset markets*, L. Hermans et al., *ECB Financial Stability Review*, May 2022.

NBFI Monitor

No 8 / June 2023

EU Non-bank Financial
Intermediation Risk Monitor 2023

To read more:

https://www.esrb.europa.eu/pub/pdf/reports/nbfi_monitor/esrb.nbfi202306~58b19c8627.en.pdf

I-Familia: Identifying missing persons globally through family DNA matching



The first of its kind, I-Familia is a global database for identifying missing persons based on international DNA kinship matching.

The result of cutting-edge scientific research, the database seeks to identify missing persons or unidentified human remains when direct comparison is not possible, by using DNA samples from family members instead.

This is a complex process – even more so when carried out internationally – which is where INTERPOL can play a unique role through its global network.

I-Familia helps to reunite loved ones or to bring closure to cases and allow families to rebuild their lives.

There is growing international concern about the number of missing persons and unidentified victims around the world due to increased international travel, the prevalence of organized crime and human trafficking, the rise in global migration, conflicts and natural disasters.

Families of a missing person face continued distress from not knowing where their loved one is, often waiting years for news. Depending on the legislation in their countries, families might not be issued with a death certificate, which can have administrative and economic implications.

In cases where a missing person has died because of a criminal act, families are also denied an opportunity to seek justice.

DNA identification through direct matching

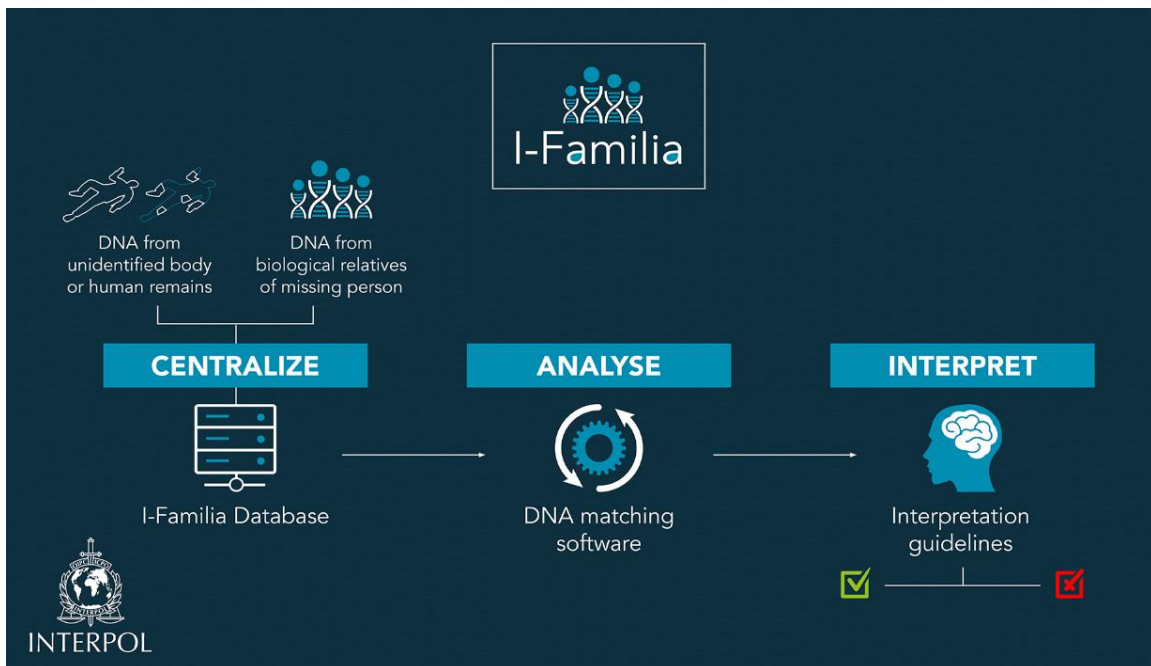
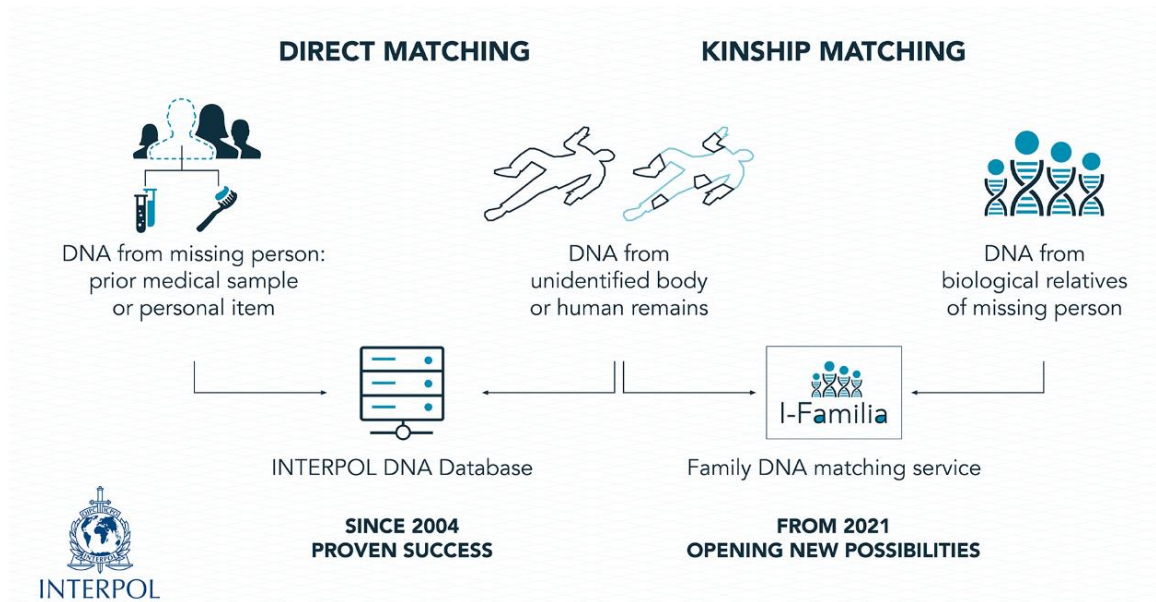
A direct DNA sample from the missing person, for example a prior medical sample or a personal item such as a toothbrush, can be compared to the DNA from an unidentified body or human remains to see if a match can be found.

This type of identification has been carried out via the INTERPOL DNA Database since 2004.

DNA identification through kinship matching

Biological relatives **share a percentage** of their DNA, depending on their relationship. In the event that a DNA sample from the missing person cannot be obtained for direct matching, DNA from close family members (parents, children, siblings) can also be compared.

This is where I-Familia is set to make a difference.



To read more: <https://www.interpol.int/How-we-work/Forensics/I-Familia>

Central bank digital currencies: ongoing policy perspectives

Bank of Canada	Swiss National Bank
European Central Bank	Bank of England
Bank of Japan	Board of Governors Federal Reserve System
Sveriges Riskbank	Bank for International Settlements

A group of central banks, together with the Bank for International Settlements, are working together to explore central bank digital currencies (CBDCs) for the public (“general purpose” or “retail” CBDC).

Since publishing:

- (i) a report in October 2020 setting out the common foundational principles and core features of a CBDC; and
- (ii) an executive summary and three detailed reports on system design and interoperability, user needs and adoption and financial stability implications in September 2021, the group has continued to share ideas and perspectives on similar themes, which are summarised in this note.



► Central bank digital currencies: ongoing policy perspectives

May 2023

Bank of Canada	Swiss National Bank
European Central Bank	Bank of England
Bank of Japan	Board of Governors Federal Reserve System
Sveriges Riskbank	Bank for International Settlements

Background/motivation

Most central banks are now exploring CBDCs, and more than a quarter of them are developing or running concrete pilots (Kosse and Mattei (2022)).

Many of our jurisdictions are examining whether there is a need to ensure ongoing retail access to central bank money at a time of profound, ongoing changes across finance, technology and society.

The motivation for introducing a retail CBDC may rest primarily on the role of central bank money as a public good.

At the same time, the introduction of a CBDC could be an innovative opportunity for the monetary system.

It is in this context that the central banks contributing to this group have continued their collaboration to deepen the practical policy and technical analysis of CBDC.

Annex 1 draws out some elements of the discussion in 2022. Some of the members of this group are approaching a point where they may decide on whether or not to move to the next stage of their CBDC work.

This may include deeper investment in design decisions relating to technology, end user preferences and business models, while leaving open the decision on whether to issue CBDC.

To date, none of our jurisdictions have yet decided to proceed with the issuance of a retail CBDC. CBDC issuance and design are sovereign decisions for relevant authorities based on their assessments and a jurisdiction's circumstances. However, there has been value in working collectively on common issues.

To read more: <https://www.bis.org/publ/othp65.pdf>

After the crypto-winter, the spring of crypto-assets regulation and supervision

Denis Beau, First Deputy Governor of the Bank of France, at the World Bank Global Payments Week 2023 "The Future of Payments", Marrakesh.



Dear colleagues from the World Bank, Ladies and Gentlemen,

According to some commentators, in a context of cascading bankruptcies (i.e. Terra /Luna, Celsius, Three Arrows, Genesis, BlockFi, FTX), the crypto ecosystem may have entered a so-called "**crypto-winter**".

I don't know if this winter is going to last but I believe that it should be seen as "**spring time**" by regulators and supervisors, whose initiatives should be burgeoning.

Recently, many countries have indeed sped up their regulatory work within their jurisdiction.

However, we have also seen variances in combining three regulatory approaches:

- banning crypto-asset activities;
- containing and isolating them from traditional finance and the real economy, which implies banning certain specific aspects and practices (e.g. advertising);
- regulating the crypto-asset market, either by assimilating crypto-assets to traditional financial assets and applying the corresponding existing regulatory regime, or by adopting a dedicated regulation (e.g. on stablecoins).

With the exception of China, the world's major economies and currency zones have developed or are in the process of adopting a combination of the last two approaches, based on the principle of "same activities, same risks, same rules". As a blunt banning of crypto-asset activities is not seen as an option for most, for a number of reasons, starting for instance with the belief in France that it would most likely lead to regulatory arbitrages

between jurisdictions, most of the attention at national and international level has been put on "what?" (what activities and what risks) and "how?" (by which means) to regulate.

In my short introductory remarks today, I would like to share with you my perspective, as the organisers of this Global Payments Week Conference have kindly suggested, speaking from the standpoint of a central bank in charge of ensuring financial stability, on the types of risks associated with crypto-activities that particularly need to be considered for regulation and supervision, and the importance of a convergent and coordinated regulatory approach on crypto-assets at the international level.

To read more:

https://acpr.banque-france.fr/sites/default/files/medias/documents/20230518_gp2023_key_note_speech_dbeau_en.pdf

IOSCO Sets the Standard for Global Crypto Regulation



The International Organization of Securities Commissions (IOSCO) has published this Consultation Report with the aim of finalizing IOSCO's policy recommendations to address market integrity and investor protection issues in crypto-asset markets in early-Q4 2023.

In line with IOSCO's established approach for securities regulation, the Crypto and Digital Asset Recommendations (CDA Recommendations) are addressed to relevant authorities and look to support jurisdictions seeking to establish compliant markets for the trading of crypto or 'digital' or 'virtual' assets (hereafter "crypto-assets" and read to include all relevant tokens) in the most effective way possible.

This consultation report proposes 18 policy recommendations that IOSCO plans to finalize in early Q4 this year to support greater consistency with respect to regulatory frameworks and oversight in its member jurisdictions, to address concerns related to market integrity and investor protection arising from crypto-asset activities.

The recommendations have been developed under the stewardship of the IOSCO Board's Fintech Task Force (FTF) in accordance with IOSCO's CryptoAsset Roadmap published in June 2022.

The proposed recommendations are principles-based and outcomes-focused and are aimed at the activities performed by crypto-asset service providers (CASPs).

They apply IOSCO's widely accepted global standards for securities markets regulation to address key issues and risks identified in cryptoasset markets.

The proposed recommendations are activities-based and follow a 'lifecycle' approach in addressing the key risks identified in this report.

They cover the range of activities in crypto-asset markets that involve CASPs from offering, admission to trading, ongoing trading, settlement, market surveillance and custody as well as marketing and distribution (covering advised and non-advised sales) to retail investors.

The proposed recommendations do not cover activities, products or services provided in the so-called "decentralized finance" or "DeFi" area.

Policy Recommendations for Crypto and Digital Asset Markets

Consultation Report



The FTF DeFi workstream is considering issues in relation to DeFi and will publish a consultation report with proposed recommendations later this summer.

One of IOSCO's goals is to promote greater consistency with respect to how IOSCO members approach the regulation and oversight of crypto-asset activities, given the cross-border nature of the markets, the risks of regulatory arbitrage and the significant risk of harm to which retail investors continue to be exposed.

IOSCO is also seeking to encourage optimal consistency in the way cryptoasset markets and securities markets are regulated within individual IOSCO jurisdictions, in accordance with the principle of 'same activities, same risks, same regulatory outcomes'.

The proposed recommendations also cover the need for enhanced cooperation among regulators.

They aim to provide a critical benchmark for IOSCO members to cooperate, coordinate and respond to cross-border challenges in enforcement and supervision, including regulatory arbitrage concerns, that arise from global crypto-asset activities conducted by CASPs that offer their services, often remotely, into multiple jurisdictions.

While the proposed recommendations are not directly addressed to markets participants, CASPs and all participants in crypto-asset markets are strongly encouraged to carefully consider the expectations and

outcomes articulated through the proposed recommendations and the respective supporting guidance in the conduct of registered/licensed, and cross-border activities.

Money Laundering / Fraud / Scams

As with other crypto-assets, stablecoins may appeal to money launderers and criminals who do not wish to subject the proceeds of crime to traditional financial system oversight. Stablecoins are also likely to be perceived as more stable than other crypto-assets, so are more attractive to money launderers and criminals who do not wish to be as exposed to crypto-asset market volatility.

In light of the price instability of crypto-assets, because of their relatively more stable nature scammers have turned to stablecoins, and are soliciting stablecoins from their victims.

To read more:

<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD734.pdf>

ESAs launch discussion on criteria for critical ICT third-party service providers and oversight fees



The European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) published a joint Discussion Paper seeking stakeholders' input on aspects of the **Digital Operational Resilience Act (DORA)**.

This Discussion Paper follows the European Commission's request for technical advice on the criteria for critical ICT third-party providers (CTPPs) and the oversight fees to be levied on them.

Interested stakeholders are invited to provide their input by 23 June 2023.

The Discussion Paper is separated into two parts:

- Proposals covering the criteria to be considered by the ESAs when assessing the critical nature of ICT third-party service providers, in particular, a number of relevant quantitative and qualitative indicators for each of the criticality criteria, along with the necessary information to construct such indicators.
- Proposals in relation to the amount of the fees levied on CTPPs and the way in which they are to be paid, in particular the types of expenditure that shall be covered by fees as well as the appropriate method, basis and information for determining the applicable turnover of the CTPPs, which will form the basis of fee calculation. The ESAs are also seeking input on the fee calculation method and other practical issues regarding the payment of fees.

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In light of the two delegated acts envisaged in the Regulation on Digital Operational Resilience for the Financial Sector ("DORA"), the European Commission has requested ('CfA') the ESAs' technical advice to further

specify the criteria for critical ICT third-party service providers (CTPPs) and determine the fees levied on such providers.

The ESAs shall deliver their technical advice by **30 September 2023**.

The purpose of this discussion paper is to consult market participants, in an open and transparent manner, on the ESAs' proposals towards the specific issues listed in the CfA.

The provided answers during this consultation will be taken into account in the ESAs' advice.

The first part of this discussion paper presents proposals in relation to the elements needed to specify further the criteria referred to in Article 31(2) of the DORA to be considered by the ESAs when assessing the critical nature of ICT third-party service providers.

In particular, a number of relevant quantitative and qualitative indicators are proposed for each of the criticality criteria, along with the necessary information to build up and interpret such indicators.

Moreover, a number of minimum relevance thresholds are proposed for the quantitative indicators, where possible and applicable.

These are thresholds below which the degree to which the factor is in play would not be considered sufficiently relevant to trigger the indicator for inclusion in any criticality assessment methodology.

It is important to note that these proposals relate to the identification of indicators relevant to assessing criticality and not to the methodology for that assessment, including the materiality and interaction of the different criteria.

The expected type and total number of CTPPs, the details of the designation procedure as well as the related methodology, are explicitly excluded from this discussion paper and shall be defined at a later stage in the context of the implementation of the oversight framework.

The second part of this discussion paper presents proposals in relation to the amount of the fees levied on CTPPs and the way in which they are to be paid. In particular, proposals are made on the necessary types of expenditure that shall be covered by fees, the appropriate method, basis and available information for determining the applicable turnover of the CTPPs (which will form the basis of fee calculation) as well as the method of fee calculation and other practical issues regarding the payment of fees.

In addition, a proposed financial contribution for voluntary opt-in requests is included in the paper.

Market participants are invited to provide their feedback on the proposals in this discussion paper, which will be considered by the ESAs in finalising the joint technical advice to the European Commission. Responses should be provided through a form available on the ESAs' websites by 23 June 2023 at the latest.

To read more: https://www.eiopa.europa.eu/esas-launch-discussion-criteria-critical-ict-third-party-service-providers-and-oversight-fees-2023-05-26_en

Volt Typhoon targets US critical infrastructure with living-off-the-land techniques



Microsoft has uncovered stealthy and targeted malicious activity focused on post-compromise credential access and network system discovery aimed at critical infrastructure organizations in the United States.

The attack is carried out by Volt Typhoon, a state-sponsored actor based in China that typically focuses on espionage and information gathering.

Microsoft assesses with moderate confidence that this Volt Typhoon campaign is pursuing development of capabilities that could disrupt critical communications infrastructure between the United States and Asia region during future crises.

Volt Typhoon has been active since mid-2021 and has targeted critical infrastructure organizations in Guam and elsewhere in the United States. In this campaign, the affected organizations span the communications, manufacturing, utility, transportation, construction, maritime, government, information technology, and education sectors.

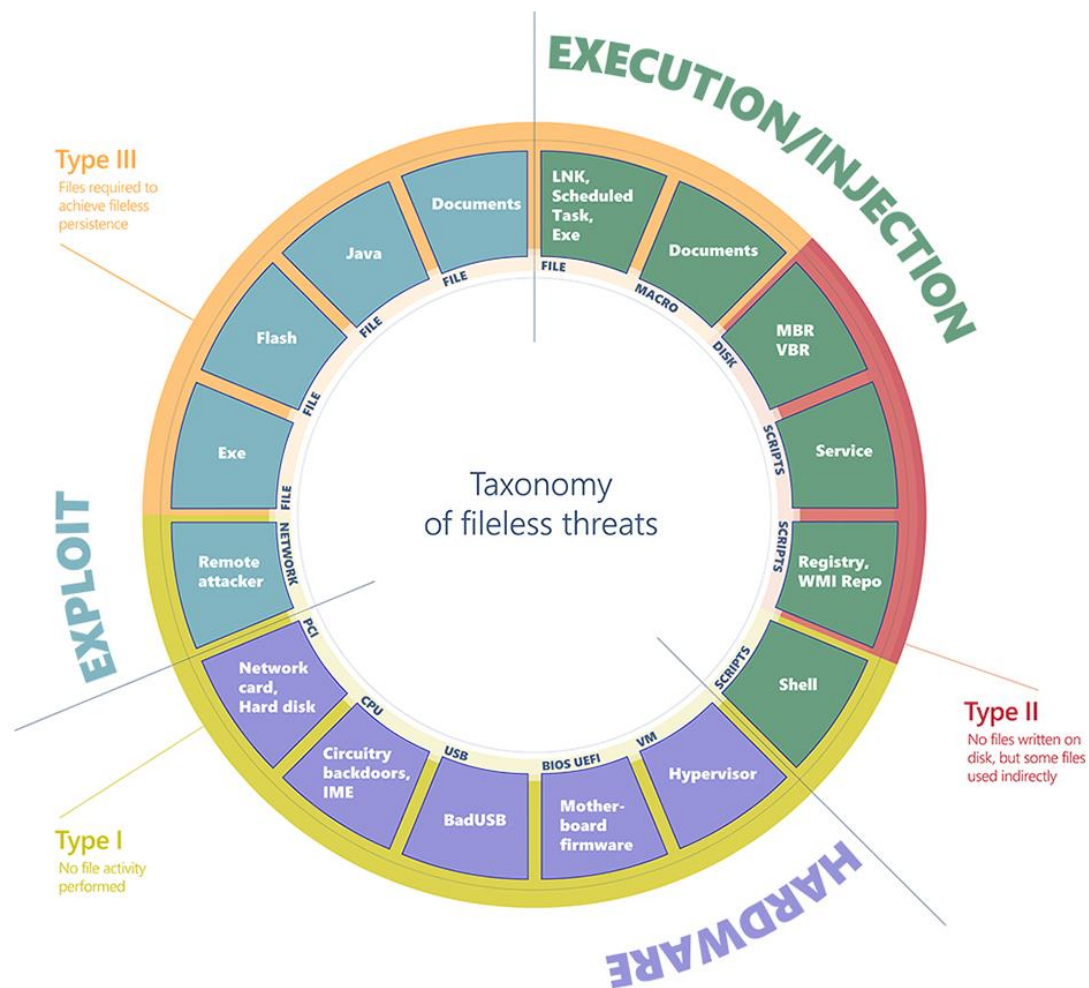
Observed behavior suggests that the threat actor intends to perform espionage and maintain access without being detected for as long as possible.

Microsoft is choosing to highlight this Volt Typhoon activity at this time because of our significant concern around the potential for further impact to our customers.

Although our visibility into these threats has given us the ability to deploy detections to our customers, the lack of visibility into other parts of the actor's activity compelled us to drive broader community awareness and further investigations and protections across the security ecosystem.

To achieve their objective, the threat actor puts strong emphasis on stealth in this campaign, relying almost exclusively on living-off-the-land techniques and hands-on-keyboard activity.

They issue commands via the command line to (1) collect data, including credentials from local and network systems, (2) put the data into an archive file to stage it for exfiltration, and then (3) use the stolen valid credentials to maintain persistence.



In addition, Volt Typhoon tries to blend into normal network activity by routing traffic through compromised small office and home office (SOHO) network equipment, including routers, firewalls, and VPN hardware.

They have also been observed using custom versions of open-source tools to establish a command and control (C2) channel over proxy to further stay under the radar.

In this blog post, we share information on Volt Typhoon, their campaign targeting critical infrastructure providers, and their tactics for achieving and maintaining unauthorized access to target networks. Because this activity relies on valid accounts and living-off-the-land binaries (LOLBins), detecting and mitigating this attack could be challenging.

Compromised accounts must be closed or changed. At the end of this blog post, we share more mitigation steps and best practices, as well as provide details on how Microsoft 365 Defender detects malicious and suspicious activity to protect organizations from such stealthy attacks.

The National Security Agency (NSA) has also published a Cybersecurity Advisory which contains a hunting guide for the tactics, techniques, and procedures (TTPs) discussed in this blog. You may visit:

https://media.defense.gov/2023/May/24/2003229517/-1/-1/0/CSA_Living_off_the_Land.PDF

Joint Cybersecurity Advisory



Australian Government
Australian Signals Directorate

TLP:CLEAR

ACSC Australian
Cyber Security
Centre



Communications
Security Establishment
Canadian Centre
for Cyber Security

Centre de la sécurité
des télécommunications
Centre canadien
pour la cybersécurité



National Cyber
Security Centre
PART OF THE GCSB



National Cyber
Security Centre
a part of GCHQ

People's Republic of China State-Sponsored Cyber Actor Living off the Land to Evade Detection

As with any observed nation-state actor activity, Microsoft has directly notified targeted or compromised customers, providing them with important information needed to secure their environments. To learn about Microsoft's approach to threat actor tracking, read Microsoft shifts to a new threat actor naming taxonomy.

To read more: <https://www.microsoft.com/en-us/security/blog/2023/05/24/volt-typhoon-targets-us-critical-infrastructure-with-living-off-the-land-techniques/>

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