Hedge Funds News, March 2024

The BIS Innovation Hub Hong Kong centre has launched the second phase of Project Aurum, in collaboration with the Hong Kong Monetary Authority.

After testing the feasibility of a technological stack that integrates a wholesale interbank system and a retail e-wallet in its first phase, Project Aurum 2.0 will now focus on how to enhance privacy for retail central bank digital currencies (CBDC).

Privacy is one of the key considerations of consumers when contemplating the adoption of CBDC, as highlighted by several public consultations on the topic in different countries. Central Banks recognise the importance of privacy and exploring measures to balance privacy and transparency.

Building on the existing Aurum prototype, the next phase aims to leverage expertise from multiple disciplines, by collaborating with universities and privacy experts. The project seeks to advance the practical understanding of central banks around privacy when designing their CBDC systems and demonstrate to public sector how technology can protect personal data in the CBDC space.

The project will focus on privacy by design as a principle and will explore the relevance of several privacy-enhancing technologies, including pseudonymization and zero knowledge proof. It will also test how increasing privacy affects the performance and compliance of a system.

To read more: https://www.bis.org/about/bisih/topics/cbdc/aurum2_0.htm

Project Aurum: a prototype for two-tier central bank digital currency (CBDC)

Project Aurum is a collaboration between the BIS Innovation Hub Hong Kong Centre, the Hong Kong Monetary Authority, and the Hong Kong Applied Science and Technology Research Institute.

In the era of digitisation, central banks stand before a choice: does retail central bank money need to go digital and, if so, how? Jointly embarking on the challenge to design a full-stack central bank digital currency (CBDC) system, the Bank for International Settlements (BIS) Innovation Hub Hong Kong Centre and the Hong Kong Monetary Authority (HKMA) dubbed the project "Aurum", the Latin word for gold, reflecting our starting premise that digital currency issued under the auspices of a central bank must be as robust and trustworthy as gold.

Through the creation of a technology stack comprised of: (1) a wholesale interbank system in which the wholesale CBDC (wCBDC) is issued to banks for onward distribution to retail users, and (2) a retail e-wallet system in which the retail CBDC (rCBDC) circulates among retail users, we set a goal to bring to life two very different types of retail tokens: (a) intermediated CBDC, also referred to herein as CBDC-tokens, and (b) CBDC-backed stablecoins, or in short, stablecoins. Given the complexity of the endeavour, the project was executed in partnership with the Hong Kong Applied Science and Technology Research Institute (ASTRI).

We are glad to report that after a year of development, the prototype system was successfully completed. The present report provides an overview of the Aurum technology architecture. It is presented at a more technical level, supplemented by user interface visualisations, and should best be read in conjunction with the three e-HKD papers[1], as well as with the extensive body of foundational research issued by the BIS.[2]

The Aurum system is accompanied by technical manuals totalling over 250 pages that, together with the source code, are made accessible to all BIS central bank members on BIS Open Tech to serve as a public good that furthers the study of rCBDC architectures. The Aurum prototype also provides a solid basis for furthering the exploration and testing of e-HKD design in Hong Kong.

Against this backdrop, we have no doubt that the Aurum prototype will catalyse and inspire the global quest for the most suitable rCBDC architecture.[3]

The EBA consults on Guidelines on redemption plans under the Markets in Crypto-Assets Regulation

The European Banking Authority (EBA) launched a consultation on the Guidelines for the plans to orderly redeem asset-referenced or e-money tokens in the event that the issuer fails to fulfil its obligations under the Markets in Crypto assets Regulation (MiCAR).

The Guidelines specify the content of the redemption plan, the timeframe for review and the triggers for its implementation. The Guidelines are addressed to issuers of asset-referenced tokens (ART) and of e-money tokens (EMT), and to competent authorities under MiCAR. The consultation run until 10 June 2024.

In particular, the draft Guidelines:

- clarify the main principles governing the redemption plan, such as the equitable treatment of token holders, and describe the main steps for the orderly and timely implementation of the plan, including the communication plan, the content of the redemption claims and the distribution plan;

- cover the case of pooled issuance, where the same token is issued by multiple issuers; and

- outline the triggers for the activation of the plan by the competent authority and the cooperation with the prudential and resolution authorities.

Consultation process

Comments to the consultation paper can be sent by clicking on the "send your comments" button on the EBA's consultation page at: https://www.eba.europa.eu/publications-and-media/events/consultation-guidelines-redemption-plans-under-micar

The deadline for the submission of comments is 10 June 2024.

The EBA will hold a virtual public hearing on the consultation paper on 22 May from 14:00 to 16:00 Paris time. The EBA invites interested stakeholders to register using this link: https://www.eba.europa.eu/micar-gl-redemption-plans by 17 May at 16:00 CEST. The dial-in details will be communicated to those who have registered for the meeting.

All contributions received will be published following the end of the consultation, unless requested otherwise.

Legal basis

The EBA has developed the draft Guidelines on redemption plans based on the mandate set out in Article 47(5) of MiCAR. By virtue of the cross-reference set out in Article 55 MiCAR, the Guidelines also cover issuers of e-money tokens, as applicable.

Background

Regulation (EU) 2023/1114 on Markets in Crypto-assets (MiCAR) establishes a regime for the regulation and supervision of crypto-asset issuance and crypto-asset service provision in the European Union (EU). It came into force on 29 June 2023, and the provisions relating to ARTs and EMTs will be applicable from 30 June 2024. You may visit: https://eur-lex.europa.eu/eli/reg/2023/1114/oj

Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937 (Text with EEA relevance)

PE/54/2022/REV/1

OJ L 150, 9.6.2023, p. 40–205 (BG, ES, CS, DA, DE, ET, EL, EN, FR, GA, HR, IT, LV, LT, HU, MT, NL, PL, PT, RO, SK, SL, FI, SV)

In force: This act has been changed. Current consolidated version: 09/01/2024

ELI: http://data.europa.eu/eli/reg/2023/1114/oj

Expand all Collapse all

Languages, formats and link to OJ

	BG	ES	CS	DA	DE	ET	EL	EN	FR	GA	HR	IT	LV	LT	HU	MT	NL	PL	PT	RO	SK	SL	FI	SV
HTML																								
PDF																								
Official Journal																								

Article 1

Subject matter

1. This Regulation lays down uniform requirements for the offer to the public and admission to trading on a trading platform of crypto-assets other than asset-referenced tokens and e-money tokens, of asset-referenced tokens and of e-money tokens, as well as requirements for crypto-asset service providers.

2. In particular, this Regulation lays down the following:

(a) transparency and disclosure requirements for the issuance, offer to the public and admission of crypto-assets to trading on a trading platform for crypto-assets ('admission to trading');

(b) requirements for the authorisation and supervision of crypto-asset service providers, issuers of asset-referenced tokens and issuers of e-money tokens, as well as for their operation, organisation and governance;

(c) requirements for the protection of holders of crypto-assets in the issuance, offer to the public and admission to trading of crypto-assets;

(d) requirements for the protection of clients of crypto-asset service providers;

(e) measures to prevent insider dealing, unlawful disclosure of inside information and market manipulation related to crypto-assets, in order to ensure the integrity of markets in crypto-assets.

Among the activities within the scope of MiCAR are the activities of offering to the public or seeking admission to trading of ARTs and EMTs and issuing such tokens.

Supervision tasks are conferred on the EBA for ARTs and EMTs that are determined by the EBA to be significant.

Additionally, the EBA is mandated to develop 17 technical standards and guidelines under MiCAR to further specify the requirements for ARTs and EMTs, and an additional 3 mandates jointly with ESMA (and, in one case, also with the European Insurance and Occupational Pensions Authority - EIOPA).

To read more: https://www.eba.europa.eu/publications-and-media/press-releases/eba-consults-guidelines-redemption-plans-under-markets-crypto

Tailoring, Fidelity to the Rule of Law, and Unintended Consequences

Governor Michelle W. Bowman, at the Harvard Law School Faculty Club, Cambridge, Massachusetts

Thank you for the invitation to join you this evening at Harvard Law School.1 It is an honor and a pleasure to speak to this distinguished group. To kick off our conversation, I would like to frame the discussion by offering my views on a key element underpinning the U.S. bank regulatory framework: the role of tailoring.

While the principle itself is simple—setting regulatory priorities and allocating supervisory resources in a risk-based way—the consequences of tailoring (or not) can reverberate throughout the banking system, the broader U.S. financial system, and the economy.

I see a clear nexus between tailoring and fidelity to the law, including a targeted focus within our statutorily mandated prudential responsibilities.

Tailoring as a Grounding Principle

I have long been a proponent of tailoring and continue to consider it a strong foundational principle upon which to apply bank regulation and supervision.

This approach ensures a focus on the most critical risks over time, avoiding the over-allocation of resources or imposition of unnecessary costs on the banking system.

When we approach rulemaking with a commitment to tailoring, and to our broader prudential mandates, the public can judge our actions by how well they serve these ends, and they should rightly be concerned when regulatory actions seem to serve other goals.

In this sense, tailoring keeps policymakers grounded and facilitates appropriate prioritization. Tailoring also allows us to allocate limited supervisory resources to most effectively support safety and soundness of the banking system and U.S. financial stability.

In accordance with the law, the Federal Reserve, both in its monetary policy function and in the execution of its bank regulatory and supervisory responsibilities, is meant to operate independently and apolitically. But banking regulators have a responsibility to act in a way that proves this independence is warranted. We earn the right to operate with this independence when we consistently follow the law and achieve our prudential objectives.

One of the most effective ways we accomplish this goal is through the appropriate prioritization of risks in the financial system. Regardless of the approach to bank regulation and supervision, bank regulators should be subject to oversight and accountability, to both Congress and the public.

The principles that guide the execution of prudential responsibilities matter, especially when they further efficiency and effectiveness. Congress has embedded the concept of tailoring within the Federal Reserve's regulatory mandates, including the Economic Growth, Regulatory Relief, and Consumer Protection Act, commonly referred to as S. 2155.

This law revised provisions of the Dodd-Frank Act, amending the threshold for tailored application of enhanced prudential standards on certain regulated institutions.

Notably, S. 2155 did not introduce tailoring to these standards; it merely modified tailoring thresholds and mandated the Board implement this approach. To be clear, tailoring is not a pretext for deregulation but rather a principle that allows regulators to pursue required statutory objectives in the most efficient and effective way.

Does Tailoring Need a Defender?

I suppose one could view my support for tailoring as merely setting up a straw man; surely everyone agrees with tailoring in principle?

On a superficial level, it is hard to argue with the principle that regulatory tailoring—matching regulation and supervision to risk—is a prudent approach for bank regulators. And yet the rhetoric supporting tailoring and risk-based supervision often does not match regulatory reform efforts or supervisory approaches.

The criticisms rarely manifest as skepticism of the principle itself. Rather, they are implicit in the approach to regulation and supervisory guidance or are disguised as a criticism of the execution of tailoring.

Both the pending capital reform proposals and the final climate guidance illustrate how regulatory actions can deviate from the principle of tailoring without any express recognition of this effect.

The federal banking agencies have proposed several reforms to the capital framework, among them the Basel III "endgame" and new long-term debt requirements that would apply to all banks with over $100 billion in assets.

I have expressed concern with both of these proposals on the merits, in terms of striking the right balance between safety and soundness and efficiency and fairness, and out of concern for potential unintended consequences.

Another concern is whether these proposals show fidelity to the law, which requires regulatory tailoring above the $100 billion asset threshold.

In 2019, the Board published its regulatory tailoring rule and included a compelling visual (PDF) that depicts in table form how a series of requirements—capital, single counterparty credit limits, liquidity, and the requirement to form a U.S. Intermediate Holding Company for foreign banking organizations—worked collectively to establish a tiered framework.

If you superimpose the pending capital reform proposals on the table, there is a "flattening" of requirements in the capital bucket.

Of course, this simple exercise does not reflect the unknown end state of the bank regulatory framework, and the current desire among some policymakers to modify liquidity requirements.

These individual efforts highlight the hazard of piecemeal reforms, especially those that are closely related in their end-state operation, like capital and long-term debt requirements.

When regulators pursue reforms by creating separate rulemaking silos, we limit our capacity to not only ensure fidelity to tailoring but also fidelity to our prudential mandates. Even when proposals have concurrent comment periods, the danger is that the final regulations will be miscalibrated and not appropriately tailored.

Tailoring underpins not only effective regulation, but also effective bank supervision. The effectiveness of the interagency principles used by the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency for the management of climate-related financial risks could be evaluated as a supervisory tool through the lens of tailoring, which requires us to consider both the regulatory threshold for applicability and the content of the guidance.

One approach to evaluate the merit and effectiveness of these principles as a supervisory tool is through the lens of tailoring, which requires us to consider both the regulatory threshold for applicability and the content of the guidance.

On its face, it applies to banks with $100 billion or more in consolidated assets. What does this threshold mean in practice? Guidance serves the role of illuminating supervisory priorities and expectations. These informal communications help bridge the divide between regulators and regulated entities.

When guidance notes that "all financial institutions, regardless of size, may have material exposures to climate-related financial risks…," my intuition is that banks will take little comfort from the nominal carveout in light of this language. Apart from the general concern with the "cliff effect" threshold at $100 billion, I question whether any size threshold will apply in practice.

The content of the guidance—and its expectations for larger banks—suggests that the motivation behind the principles is neither prudential considerations nor to further regulatory tailoring, as it has a somewhat tenuous connection to core safety and soundness considerations and seems destined to trickle down to smaller firms over time.

Banks have long been exposed to climate- and weather-related financial risks and have long been required to manage all of their material risks, including these. But the principles seem oriented toward contributing to a policy matter that extends well beyond prudential bank regulation—namely how the U.S. and other governments around the world should address climate change. And the principles seem focused on highly uncertain risks well outside the normal temporal horizon of a bank supervisor.

One could reasonably ask, do the principles result in appropriate, risk-based prioritization of supervisory concerns? It is possible that they prioritize risks that may not be the most relevant for safety and soundness and may effectively influence credit allocation decisions through regulations that are not driven primarily by prudential considerations.

Bank regulators can acknowledge the importance of questions around climate change while also hewing to their statutory responsibilities. Promoting safety and soundness and U.S. financial stability is a weighty enough task without taking on other causes.

The current regulatory agenda includes many other examples where similar arguments can be made that regulatory reform proposals lack sufficient attention to regulatory tailoring and thereby fail to further statutory directives to tailor certain requirements and, more importantly, to address the condition of the banking system.

Apart from substantive deviations from regulatory tailoring, there are also indirect attacks on the value of tailoring as a principle to guide bank regulatory reforms.

For example, one prominent argument raised shortly after the failure of Silicon Valley Bank, and which has become a driving force in regulatory reform efforts, is that the Board's approach to tailoring was to blame for the bank failures and broader banking stress.

The argument is that a major factor contributing to the bank failures was the implementation of S. 2155, the statutory mandate to tailor regulation and an accompanying shift in supervisory policy.

As I have noted many times in the past, I find little evidence to support this claim. While couched as a critique of the execution of tailoring, this argument also seems to challenge the value of tailoring, asserting that a simple solution would be to unwind regulatory tailoring and eliminate risk-based tailoring in supervision.

Taking ownership and accountability of the supervisory issues that significantly contributed to the banking system stress last spring enables us to look critically at the approach to regulation and supervision in the lead-up to these failures, and appropriately address the shortcomings.

To read more:
https://www.federalreserve.gov/newsevents/speech/bowman20240305a.htm

Revisiting the deal after Christmas

Corporate sustainability due diligence: Council and Parliament strike deal to protect environment and human rights

European Council
Council of the European Union

The Council and the European Parliament reached a provisional deal on the corporate sustainability due diligence directive (CSDDD), which aims to enhance the protection of the environment and human rights in the EU and globally.

The due diligence directive will set obligations for large companies regarding actual and potential adverse impacts on human rights and the environment, with respect to their own operations, those of their subsidiaries, and those carried out by their business partners.

Obligations for companies

The due diligence directive lays down rules on obligations for large companies regarding actual and potential adverse impacts on the environment and human rights for their business chain of activities which covers the upstream business partners of the company and partially the downstream activities, such as distribution or recycling.

The directive also lays down rules on penalties and civil liability for infringing those obligations; it requires companies to adopt a plan ensuring that their business model and strategy are compatible with the Paris agreement on climate change.

Main elements of the agreement

The provisional agreement reached today between the two co-legislators frames the scope of the directive, clarifies the liabilities for non-compliant companies, better defines the different penalties, and completes the list of rights and prohibitions that companies should respect.

Scope of the directive

The agreement fixes the scope of the directive on large companies that have more than 500 employees and a net worldwide turnover over €150 million. For non-EU companies it will apply if they have over €150 million net turnover generated in the EU, three years from the entry into force of the directive. The Commission will have to publish a list of non-EU companies that fall under the scope of the directive.

Financial Sector

According to the deal reached today, financial services will be temporarily excluded from the scope of the directive, but there will be a review clause for a possible future inclusion of the financial downstream sector based on a sufficient impact assessment.

Climate change and civil liability

The compromise struck today strengthens the provisions related to the obligation of means for large companies to adopt and put into effect, through best efforts, a transition plan for climate change mitigation.

On civil liability, the agreement reinforces the access to justice of persons affected. It establishes a period of five years to bring claims by those concerned by adverse impacts (including trade unions or civil society organisations). It also limits the disclosure of evidence, injunctive measures, and cost of the proceedings for claimants.

As a last resort, companies that identify adverse impacts on environment or human rights by some of their business partners will have to end those business relationships when these impacts cannot be prevented or ended.

Penalties

For companies that fail to pay fines imposed on them in the event of violation of the directive, the provisional agreement includes several injunction measures, and takes into consideration the turnover of the company to impose pecuniary penalties (i.e. a minimum maximum of 5% of the company's net turnover). The deal includes the obligation for companies to carry out meaningful engagement including a dialogue and consultation with affected stakeholders, as one of the measures of the due diligence process.

Public procurement

The deal establishes that compliance with the CSDDD could be qualified as a criterion for the award of public contracts and concessions.

Definitions

The provisional agreement clarifies the obligations for companies described in Annex I, a list of specific rights and prohibitions which constitutes an adverse human rights impact when they are abused or violated. The list makes references to international instruments that have been ratified by all member states and that set sufficiently clear standards that can be observed by companies.

The compromise adds new elements to the obligations and instruments listed in the Annex as regards human rights, particularly for vulnerable groups. Core International Labour Organisation (ILO) Conventions can also be added to the list, by delegated acts, once they have been ratified by all member states.

The provisional agreement also introduces in the annex references to other UN conventions, such as the International covenant on civil and political rights or the

International covenant on economic, social and cultural rights, or the Convention on the rights of the child.

Likewise, the compromise clarifies the nature of environmental impacts covered by this directive as any measurable environmental degradation, such as harmful soil change, water or air pollution, harmful emissions or excessive water consumption or other impacts on natural resources.

Next steps

The provisional agreement reached with the European Parliament now needs to be endorsed and formally adopted by both institutions.

To read more: https://www.consilium.europa.eu/en/press/press-releases/2023/12/14/corporate-sustainability-due-diligence-council-and-parliament-strike-deal-to-protect-environment-and-human-rights/#:~:text=The%20due%20diligence%20directive%20lays,the%20downstream%20activities%2C%20such%20as

Digital Services Act starts applying to all online platforms in the EU

On 17 February, the Digital Services Act (DSA), the EU's landmark rulebook that aims to make the online environment safer, fairer and more transparent, starts applying to all online intermediaries in the EU.

Under the DSA, EU users are better protected against illegal goods and content and have their rights upheld on online platforms where they connect with other users, share information, or buy products.

New responsibilities for platforms and empowered users

All online platforms with users in the EU, with the exception of small and micro enterprises employing fewer than 50 persons and with an annual turnover below €10 million, must implement measures to:

- Counter illegal content, goods, and services: online platforms must provide users with means to flag illegal content, including goods and services. More so, online platforms will have to cooperate with 'trusted flaggers', specialised entities whose notices will have to be given priority by platforms.
- Protect minors: including a complete ban of targeting minors with ads based on profiling or on their personal data.
- Empower users with information about advertisements they see, such as why the ads are being shown to them and on who paid for the advertisement.
- Ban advertisements that target users based on sensitive data, such as political or religious beliefs, sexual preferences, etc.
- Provide statements of reasons to a user affected by any content moderation decision, e.g., content removal, account suspension, etc. and upload the statement of reasons to the DSA Transparency database.
- Provide users with access to a complaint mechanism to challenge content moderation decisions.
- Publish a report of their content moderation procedures at least once per year.
- Provide the user with clear terms and conditions, and include the main parameters based on which their content recommender systems work.
- Designate a point of contact for authorities, as well as users.

In addition to online platforms, the Digital Services Act also applies to hosting services (e.g. cloud services or domain name systems, background services which connect users to requested website addresses), as well as to online intermediaries (e.g. internet service providers, or domain). Hosting services and online intermediaries are subject to a subset of obligations under the DSA.

Since end of August 2023, the DSA has already applied to the 19 Very Large Online Platforms (VLOPs) and Search Engines (VLOSEs) designated in April 2023 (with more than 45 million monthly users on average). Three other platforms designated as VLOPs in December 2023 have until end of April to comply with the most stringent obligations under the DSA. However, they will have to comply with the general DSA obligations from tomorrow.

Digital Services Coordinators in Member States

Platforms not designated as VLOPs or VLOSEs will be supervised at Member State level by an independent regulator acting as the national Digital Services Coordinator (DSC). It will be the responsibility of the DSCs to ensure that these platforms play by the rules. DSCs will supervise and enforce the DSA for the platforms established on their territory.

In practice, the Digital Services Coordinators will:

- Be the first port of call for complaints by users on infringements against the DSA by any platform, including VLOPs and VLOSEs. The Digital Services Co-ordinator will, when appropriate, transmit the complaint to the Digital Services Co-ordinator of the platform's Member State of establishment, where appropriate, accompanied by an opinion.

- Certify existing out-of-court appeal mechanisms for users to address complaints and challenge content moderation decisions.

- Assess and award the status of trusted flaggers to suitable applicants, or independent entities that have demonstrated expertise in detecting, identifying, and notifying illegal content online.

- Process researchers' requests for access to VLOPs and VLOSEs data for specific research. The DSCs will vet the researchers and request access to data on their behalf.

- Be equipped with strong investigation and enforcement powers, to ensure compliance with the DSA by the providers established in their territory.

  They will be able to order inspections following a suspected infringement of the DSA, impose fines on online platforms failing to comply with the DSA, and impose interim measures in case of serious harm to the public sphere.

The European Board for Digital Services

The Digital Services Coordinators and the Commission will form an independent advisory group, the European Board for Digital Services, to ensure that the DSA is applied consistently, and that users across the EU enjoy the same rights, regardless of where the online platforms are established.

The Board will be consulted on the enforcement of the DSA and advise on arising issues related to the DSA and can contribute to guidelines and analysis. It will also assist in the supervision of Very Large Online Platforms and Very Large Online Search Engines and will issue yearly reports on the prominent systemic risks and best practices in mitigating them.

Next Steps

In March 2024, the Commission intends to adopt Guidelines on risk mitigation measures for electoral processes. A public consultation on the data access delegated act is expected in April with adoption by July and entry into force in October 2024.

In May, the Commission plans to adopt an Implementing Act on transparency report templates.

To read more:
https://ec.europa.eu/commission/presscorner/detail/en/ip_24_881

Disrupting malicious uses of AI by state-affiliated threat actors

OpenAI

We terminated accounts associated with state-affiliated threat actors. Our findings show our models offer only limited, incremental capabilities for malicious cybersecurity tasks.

We build AI tools that improve lives and help solve complex challenges, but we know that malicious actors will sometimes try to abuse our tools to harm others, including in furtherance of cyber operations. Among those malicious actors, state-affiliated groups—which may have access to advanced technology, large financial resources, and skilled personnel—can pose unique risks to the digital ecosystem and human welfare.

In partnership with Microsoft Threat Intelligence, we have disrupted five state-affiliated actors that sought to use AI services in support of malicious cyber activities. We also outline our approach to detect and disrupt such actors in order to promote information sharing and transparency regarding their activities.

Disruption of threat actors

Based on collaboration and information sharing with Microsoft, we disrupted five state-affiliated malicious actors: two China-affiliated threat actors known as Charcoal Typhoon and Salmon Typhoon; the Iran-affiliated threat actor known as Crimson Sandstorm; the North Korea-affiliated actor known as Emerald Sleet; and the Russia-affiliated actor known as Forest Blizzard. The identified OpenAI accounts associated with these actors were terminated.

These actors generally sought to use OpenAI services for querying open-source information, translating, finding coding errors, and running basic coding tasks.

Specifically:

- Charcoal Typhoon used our services to research various companies and cybersecurity tools, debug code and generate scripts, and create content likely for use in phishing campaigns.

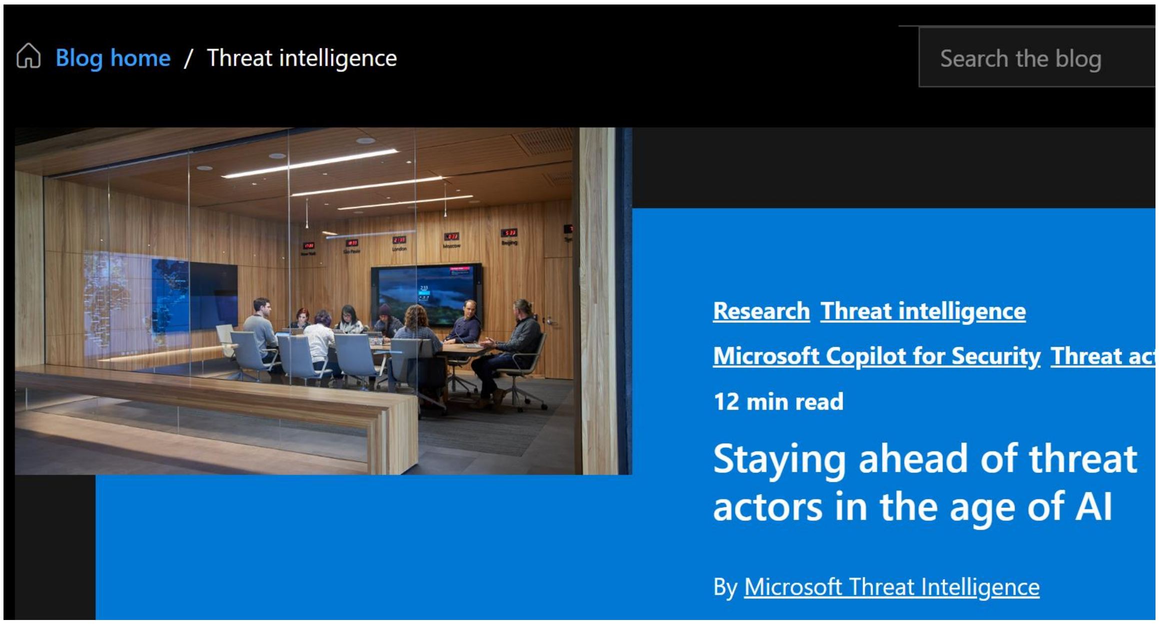
- Salmon Typhoon used our services to translate technical papers, retrieve publicly available information on multiple intelligence agencies and regional threat actors, assist with coding, and research common ways processes could be hidden on a system.

- Crimson Sandstorm used our services for scripting support related to app and web development, generating content likely for spear-phishing campaigns, and researching common ways malware could evade detection.

- Emerald Sleet used our services to identify experts and organizations focused on defense issues in the Asia-Pacific region, understand publicly available vulnerabilities, help with basic scripting tasks, and draft content that could be used in phishing campaigns.

- Forest Blizzard used our services primarily for open-source research into satellite communication protocols and radar imaging technology, as well as for support with scripting tasks.

Additional technical details on the nature of the threat actors and their activities can be found in the Microsoft blog post: https://www.microsoft.com/en-us/security/blog/2024/02/14/staying-ahead-of-threat-actors-in-the-age-of-ai/



The activities of these actors are consistent with previous red team assessments we conducted in partnership with external cybersecurity experts, which found that GPT-4 offers only limited, incremental capabilities for malicious cybersecurity tasks beyond what is already achievable with publicly available, non-AI powered tools.

A multi-pronged approach to AI safety

Although the capabilities of our current models for malicious cybersecurity tasks are limited, we believe it's important to stay ahead of significant and evolving threats. To respond to the threat, we are taking a multi-pronged approach to combating malicious state-affiliate actors' use of our platform:

- *Monitoring and disrupting malicious state affiliated actors*. We invest in technology and teams to identify and disrupt sophisticated threat actors' activities. Our Intelligence and Investigations team—working in concert with our Safety, Security, and Integrity teams—investigates malicious actors in a variety of ways, including using our models to pursue leads, analyze how adversaries are interacting with our platform, and assess their broader intentions. Upon detection, OpenAI takes appropriate action to disrupt their activities, such as disabling their accounts, terminating services, or limiting access to resources.

- *Working together with the AI ecosystem*. OpenAI collaborates with industry partners and other stakeholders to regularly exchange information about malicious state-affiliated actors' detected use of AI. This collaboration reflects our voluntary commitment to promote the safe, secure and transparent development and use of AI technology, and aims to promote collective responses to ecosystem-wide risks via information sharing.

- *Iterating on safety mitigations*. Learning from real-world use (and misuse) is a key component of creating and releasing increasingly safe AI systems over time. We take lessons learned from these actors' abuse and use them to inform our iterative approach to safety. Understanding how the most sophisticated malicious actors seek to use our systems for harm gives us a signal into practices that may become more widespread in the future, and allows us to continuously evolve our safeguards.

- *Public transparency*. We have long sought to highlight potential misuses of AI and share what we have learned about safety [link 1, link 2] with the industry and the public. As part of our ongoing efforts to advance responsible use of AI, OpenAI will continue to inform the public and stakeholders about the nature and extent of malicious state-affiliated actors' use of AI detected within our systems and the measures taken against them, when warranted. We believe that sharing and transparency foster greater awareness and preparedness among all stakeholders, leading to stronger collective defense against ever-evolving adversaries. You may visit:
  https://openai.com/research/language-model-safety-and-misuse

  https://openai.com/blog/best-practices-for-deploying-language-models

The vast majority of people use our systems to help improve their daily lives, from virtual tutors for students to apps that can transcribe the world for people who are seeing impaired. As is the case with many other ecosystems, there are a handful of malicious actors that require sustained attention so that everyone else can continue to enjoy the benefits.

Although we work to minimize potential misuse by such actors, we will not be able to stop every instance. But by continuing to innovate, investigate, collaborate, and share, we make it harder for malicious actors to remain undetected across the digital ecosystem and improve the experience for everyone else.

To read more: https://openai.com/blog/disrupting-malicious-uses-of-ai-by-state-affiliated-threat-actors

CISA and MS-ISAC Release Advisory on Compromised Account Used to Access State Government Organization

CISA and the Multi-State Information Sharing & Analysis Center (MS-ISAC) released a joint Cybersecurity Advisory (CSA), Threat Actor Leverages Compromised Account of Former Employee to Access State Government Organization to provide network defenders with the tactics, techniques, and procedures (TTPs) utilized by a threat actor and methods to protect against similar exploitation.

Following an incident response assessment of a state government organization's network environment, analysis confirmed compromise through network administrator credentials of a former employee. This allowed the threat actor to successfully authenticate to an internal virtual private network (VPN) access point.

CISA and MS-ISAC encourage network defenders and organizations review the TTPs and implement the mitigations provided in the joint CSA. For more information, visit CISA's Cross-Sector Cybersecurity Performance Goals.

To read more: https://www.cisa.gov/news-events/alerts/2024/02/15/cisa-and-ms-isac-release-advisory-compromised-account-used-access-state-government-organization

Two truths and a myth in banking regulation

Pablo Hernández de Cos, Chair of the Basel Committee on Banking Supervision and Governor of the Bank of Spain, at the Eurofi High Level Seminar, Ghent.

Introduction

Good morning, and thank you for inviting me to speak at this Eurofi High Level Seminar. It's a pleasure to be in Ghent with you today.

Throughout the years, there has been no shortage of discussions at these Eurofi events about the work of the Basel Committee, and prudential regulation and supervision more generally.

Take a cursory look back at previous conferences, and you will stumble upon sessions with titles such as:

• "Impacts of Basel III on EU financial activities";

• "Implementing Basel III in the EU: remaining challenges and timing";

• "Basel III implementation in the EU: key political stakes"; and, as part of this week's event,

• "Basel III implementation: global consistency challenges"

You would be forgiven for wondering whether we are in some sort of Basel III implementation Groundhog Day! In fact, Basel Committee member jurisdictions are making good progress with implementing the outstanding Basel III standards.

Around a third of members have implemented all, or the majority of, the standards already, while two thirds plan to implement them by the end of this year. Most of the remaining jurisdictions expect to implement the outstanding standards by next year.

But it is also true that discussions around Basel III – including at these events – are often dominated by somewhat flimsy assertions. Many have been warning about the detrimental impact of Basel III for almost 15 years now. Yet the empirical evidence to date is overwhelmingly clear: the global banking system has become more resilient since the implementation of Basel III, and bank lending has expanded in most jurisdictions during this time period.

So we could all benefit from a reminder about why the Basel III standards are critical to safeguarding the resilience of the global banking system and supporting economic growth and the prosperity of households and businesses.

I will therefore take a step back today to underline two recurring truths and to debunk a recurring myth when it comes to bank regulation and supervision.

Truth number 1: banking crises have a profound impact

The history of banking crises is rich and deep. Since 1920, the average share of countries around the world experiencing a systemic banking crisis in any given year is about 7%.

There have been over 150 systemic banking crises around the globe since 1970. The Committee itself, which celebrates its 50th anniversary this year, was established in the aftermath of a series of banking crises in 1974.

Systemic banking crises have a profound impact on our economies and social welfare. Banking crises have historically led to a persistent loss in output to the tune of 10% of GDP.

Banking crisis-induced recessions permanently depress the level of output, with typically no return to pre-crisis trends.

If this sounds like ancient history, then recall that it was less than a year ago when we witnessed the most significant system-wide banking stress since the Great Financial Crisis in terms of scale and scope.

Over the span of a few days and weeks, five banks with total assets exceeding $1.1 trillion were shut down, put into receivership or rescued.

The distress of these banks triggered a broader assessment of the resilience of the broader banking system. In response, large-scale public support measures were deployed by some jurisdictions to mitigate the impact of the stress.

A back-of-the-envelope estimate suggests that roughly $500 billion of direct public support was provided in response to the turmoil. That's a large number!

To read more: https://www.bde.es/wbe/en/noticias-eventos/actualidad-banco-espana/gob-eurofi2024.html

EU list of non-cooperative jurisdictions for tax purposes

European Council
Council of the European Union

The EU list of non-cooperative jurisdictions for tax purposes is part of the EU's work to fight tax evasion and avoidance. It is composed of countries which have failed to fulfil their commitments to comply with tax good governance criteria within a specific timeframe, and countries which have refused to do so.

Which countries are listed?

On 20 February 2024, the Council adopted the EU list of non-cooperative jurisdictions for tax purposes. It is composed of 12 countries.

The list becomes official upon publication in the Official Journal.

Listed: these countries do not cooperate with the EU or have not fully met their commitments

American Samoa	Anguilla	Antigua and Barbuda
Fiji	Guam	Palau
Panama	Russia	Samoa
Trinidad and Tobago	US Virgin Islands	Vanuatu

The countries listed are within the scope of the EU screening process

To read more: https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/

Sources of Uncertainty in the Short Run and the Long Run

Governor Lisa D. Cook, at "Macrofinance in the Long Run: New Insights on the Global Economy" 2024 Annual Conference of the Julis-Rabinowitz Center for Public Policy & Finance at Princeton's School of Public and International Affairs, Princeton, New Jersey

Thank you, Gianluca, and thank you for the opportunity to speak to you today.

Let me begin by recognizing the Department of Economics at Princeton for its history of nurturing and supporting scholars in reaching their full potential.

Some of the most important, transformative conversations I have had in my career have happened on this campus and with economists making significant contributions to the field. Let me start with the last time I was here.

When I was a post doc at Stanford, I emailed Alan Krueger out of the blue and attached an early version of a new paper, asking him if he would meet with me for an hour to discuss it.

Because of his experience with large data sets, and his curiosity, thoughtfulness, and generosity, one hour turned into three hours. And he brought along a new assistant professor, Dean Karlan.

Not only did I learn a tremendous amount from Alan during that encounter, almost ten years later, I learned even more from him working as a senior economist at the Council of Economic Advisers when Alan was Chair.

It is a great legacy of your department that you provided the conditions and support for Alan to make his seminal contributions to economics.

I think similar conditions were in place at Princeton to allow Sir Arthur Lewis, the only person of African descent to receive the Nobel Prize in economics, to be productive and thrive.

While I never met him, Sir Arthur has been an inspiration throughout my career, and I am grateful for his contribution that was aided by Princeton.

The good work done here continues with the subject at hand today. The focus of this conference on macrofinance in the long run provides a good opportunity to reflect on what has changed and what has not changed since the onset of the pandemic four years ago.

A feature of the past few years has been heightened uncertainty about how the economy would emerge from the turmoil of the pandemic and the subsequent recovery.

I will talk about some types of uncertainty I see as having diminished recently and others that remain elevated. Then I will conclude with a discussion of my views on current monetary policy.

When the global pandemic hit in the spring of 2020, economies around the world shut down or sharply limited activity, especially for in-person services. Policymakers took action to support incomes and limit the scarring from those temporary shutdowns.

During the post-pandemic recovery in 2021 and 2022, as strong aggregate demand met still-constrained supply, inflation in many economies rose to levels not seen in decades.

Uncertainty about the future course of inflation and the supply side of the economy was high, both in the short run and in the longer run.

Would supply remain persistently depressed because of scarring from the pandemic? Would inflation become stuck well above the Fed's 2 percent target or even continue to rise?

To read more:
https://www.federalreserve.gov/newsevents/speech/cook20240222a.htm

FCC Makes AI-Generated Voices in Robocalls Illegal

The Federal Communications Commission regulates U.S. interstate and international communications by radio, television, wire, satellite, and cable in all 50 states, the District of Columbia and U.S. territories. An independent U.S. government agency overseen by Congress, the Commission is the federal agency responsible for implementing and enforcing America's communications law and regulations.

The Federal Communications Commission announced the unanimous adoption of a Declaratory Ruling that recognizes calls made with AI-generated voices are "artificial" under the Telephone Consumer Protection Act (TCPA).

The ruling, which takes effect immediately, makes voice cloning technology used in common robocall scams targeting consumers illegal. This would give State Attorneys General across the country new tools to go after bad actors behind these nefarious robocalls.

"Bad actors are using AI-generated voices in unsolicited robocalls to extort vulnerable family members, imitate celebrities, and misinform voters. We're putting the fraudsters behind these robocalls on notice," said FCC Chairwoman Jessica Rosenworcel. "State Attorneys General will now have new tools to crack down on these scams and ensure the public is protected from fraud and misinformation."

The rise of these types of calls has escalated during the last few years as this technology now has the potential to confuse consumers with misinformation by imitating the voices of celebrities, political candidates, and close family members.

While currently State Attorneys Generals can target the outcome of an unwanted AI-voice generated robocall—such as the scam or fraud they are seeking to perpetrate—this action now makes the act of using AI to generate the voice in these robocalls itself illegal, expanding the legal avenues through which state law enforcement agencies can hold these perpetrators accountable under the law.

In November of 2023, the FCC launched a Notice of Inquiry to build a record on how the agency can combat illegal robocalls and how AI might be involved.

The agency asked questions on how AI might be used for scams that arise out of junk calls, by mimicking the voices of those we know, and whether this technology should be subject to oversight under the TCPA.

Similarly, the FCC also asked about how AI can help us with pattern recognition so that we turn this technology into a force for good that can recognize illegal robocalls before they ever reach consumers on the phone.
The Telephone Consumer Protection Act is the primary law the FCC uses to help limit junk calls.

It restricts the making of telemarketing calls and the use of automatic telephone dialing systems and artificial or prerecorded voice messages. Under FCC rules, it also requires telemarketers to obtain prior express written consent from consumers before robocalling them.

This Declaratory Ruling ensures AI-generated voices in calls are also held to those same standards. The TCPA gives the FCC civil enforcement authority to fine robocallers.

The Commission can also take steps to block calls from telephone carriers facilitating illegal robocalls. In addition, the TCPA allows individual consumers or an organization to bring a lawsuit against robocallers in court.

Lastly, State Attorneys General have their own enforcement tools which may be tied to robocall definitions under the TCPA. A coalition of 26 State Attorneys General—more than half of the nation's AGs—recently wrote to the FCC supporting this approach.

By taking this step, the FCC is building on its work to establish partnerships with law enforcement agencies in states across the country to identify and eliminate illegal robocalls.

These partnerships can provide critical resources for building cases and coordinating efforts to protect consumers and businesses nationwide. The FCC offers partner states not only the expertise of its enforcement staff but also important resources and remedies to support state investigations.

To read more: https://www.fcc.gov/document/fcc-makes-ai-generated-voices-robocalls-illegal

Basel Committee agrees to revisions to Basel Core Principles

- Basel Committee approves revisions to Core principles for effective banking supervision.
- Decides to consult on potential measures to address window-dressing behaviour by some banks in the context of the framework for global systemically important banks.
- Reaffirms expectation that all aspects of Basel III will be implemented in full, consistently and as soon as possible.

The Basel Committee on Banking Supervision met on 28–29 February 2024 in Madrid to take stock of recent market developments and risks to the global banking system, and to discuss a range of policy and supervisory initiatives.

Risks and vulnerabilities to the global banking system

The Committee discussed the outlook for the global banking system in the light of recent economic and financial market developments. It discussed risks to banks from sectors facing headwinds, including segments of commercial real estate.

Members also discussed banks' interconnections with non-bank financial intermediaries, including the growing role of private credit. Banks and supervisors need to remain vigilant to emerging risks in these areas.

Basel Core Principles

The Committee discussed the comments received to its consultation on revisions to the Core principles for effective banking supervision (Basel Core Principles). Drawing on the inputs received from a wide range of stakeholders, the Committee approved the final revisions to the Core Principles, which draw on supervisory insights and structural changes to the banking system since the previous update in 2012.

The final standard will be published following the International Conference of Banking Supervisors on 24–25 April 2024.

Global systemically important banks and window-dressing

Building on the discussion at its previous meeting, the Committee looked at a range of empirical analyses that highlight window-dressing behaviour by some banks in the context of the framework for global systemically important banks (G-SIBs).
Such regulatory arbitrage behaviour seeks to temporarily reduce banks' perceived systemic footprint around the reference dates used for the reporting and public disclosure of the G-SIB scores.

As noted previously by the Committee, window-dressing by banks undermines the intended policy objectives of the Committee's standards and risks disrupting the operations of financial markets. To that end, the Committee agreed to consult on potential measures aimed at reducing window-dressing behaviour.

The consultation paper, and an accompanying working paper summarising the empirical analyses, will be published next month. The Committee also agreed to publish a working paper on an assessment of the G-SIB score dynamics over the past decade.

Climate-related financial risks

As part of its holistic approach to addressing climate-related financial risks, the Committee discussed the role of scenario analysis in assessing the resilience of banks' business models, strategies and overall risk profile to a range of plausible climate-related pathways. Members noted that the field of scenario analysis is dynamic, with practices expected to evolve rapidly as climate science advances.

Building on its existing supervisory principles, the Committee agreed to publish a discussion paper on the use of climate scenario analysis by banks and supervisors to help inform potential future work in this area. The discussion paper will be published in the coming months.

Implementation of Basel III reforms

The Committee took stock of the implementation status of the outstanding Basel III standards, which were finalised in 2017. Committee members have continued to make good progress with implementation, though it remains uneven.

Members unanimously reaffirmed their expectation of implementing all aspects of the Basel III framework in full, consistently and as soon as possible. Members also approved a workplan for the jurisdictional assessments of the implementation of these standards as part of the Committee's Regulatory Consistency Assessment Programme.

To read more: https://www.bis.org/press/p240229.htm

Presentation of the Deutsche Bundesbank's Annual Report 2023

Introductory statement by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the press conference presenting the Annual Report 2023

1 Welcome

Ladies and gentlemen, I would like to welcome you most warmly to this press conference.

Sabine Mauderer will explain our annual accounts to you in more detail in just a few moments. Before that, I would like to say a few words about economic and price developments as well as monetary policy in the euro area.

It won't come as a surprise that I'm about to present you with a whole host of figures – a "bird's-eye" view of the economy, so to speak. However, I believe it is important to bear in mind the specific impact of these developments on people.

That's why I would like to begin with the results of the household survey carried out as part of our Bundesbank Online Panel – Households. Looking back on 2023, respondents were asked to estimate to what extent inflation represented a financial burden for their household.

Almost half of households responded that inflation presented them with a financial burden (47% in the survey categories 5-7). This figure was only slightly lower than in 2022 (when it stood at 50%). 11% reported very high financial burdens – exactly the same figure as in the previous year.

For low-income households, this figure was as high as 17%.

This shows once again how important our mandate is. Inflation has economic and social costs. By achieving price stability, we make life easier for many people. It relieves them of one major worry, especially those forced to live on little money. Price stability therefore also promotes social cohesion.

2023 began with inflation rates of over 8% in the euro area. From the outset, the key monetary policy task of the year was therefore clear: to curb the high inflation.

Looking back, it is safe to say that we have embarked on the right path and have already made good progress. For instance, we have come much closer to our 2% target. But we have not yet reached it.

I would now like to outline which paths we took in 2023, where we are today and where we are headed.

2 Economic and price developments

2.1 Economic developments

2023 was a challenging year for the German economy. The period of weakness that followed the start of Russia's war of aggression against Ukraine has continued.

Headwinds initially came from the aftermath of the sharp rise in energy costs. Three other main factors slowed the economic recovery: weak external demand weighed on the industrial sector; high inflation held back private consumption; tight monetary policy led to rising financing costs, which dampened investment.

However, there were also developments that supported economic activity. Many supply bottlenecks eased over the course of the year.

Moreover, the labour market proved remarkably robust. Despite the persistently weak economic environment, the number of persons in employment rose to 45.9 million, an all-time high.

On balance, economic output fell slightly on the year in 2023; it was down by 0.1% in price and calendar-adjusted terms.

The outlook for 2024 promises a little more light than shadow again. Our experts expect the German economy to gradually regain its footing during the course of the year and embark onto a growth path.

First, foreign sales markets are expected to provide tailwinds. We expect an economic recovery here. This will probably push up global demand for German goods and cause German exports to grow.

Second, private consumption should benefit from an improvement in households' purchasing power. Thanks to a stable labour market, strong wage growth and falling inflation, people will effectively have more money in their pockets.

However, as things stand today, the anticipated recovery is likely to start somewhat later than we had projected in December. German economic output could once again decline slightly in the first quarter of 2024.

For instance, foreign industrial demand recently trended significantly downward, too. Besides this, consumers are likely to remain cautious about spending. Because of the delay in the economic recovery, as things stand, the German economy is more likely to tread water on average in 2024.

There are clear risks to the economic outlook, if, for example, geopolitical conflicts intensify. This could lead to rising energy and commodity prices and disrupt supply chains again. This would weigh on the German economy and, at the same time, fuel inflation.

2.2 Inflation

How we see price developments last year also depends on which perspective we take.

Looking at the annual average, inflation was still exceptionally high in 2023. Germany recorded its second-highest inflation rate since reunification. The Harmonised Index of Consumer Prices (HICP) rose by 6%, compared with 8.7% the previous year. In the euro area, it went up by 5.4%. After 8.4% the previous year, this is the highest figure recorded since the launch of monetary union 25 years ago.

However, these annual averages mask the marked decline in inflation over the course of the year. In Germany, it fell from more than 9% at the start of the year to less than 4% at the end of the year, and in the euro area, from over 8% to under 3%. This was mainly due to lower energy prices.

Government relief measures and lower market prices for fuels were dampening factors here. Food prices grew by double digits on average during the year. But here, too, we can see that price pressures eased significantly over the course of the year.

Core inflation excluding energy and food continued to rise in 2023, at 5.1% in Germany and 4.9% in the euro area. Services prices, in particular, rose more sharply than in the previous year. At first, pent-up demand for services that were unavailable during the pandemic still played a role here.

Think, for example, of travelling or eating out. This allowed some sectors to expand their profit margins. In addition, wages rose sharply in response to inflation, which also put pressure on prices.

Comparing today's situation with the situation a year ago, the nature of inflation has changed significantly. Back then, inflation was mainly being fuelled by high energy and food prices. On an annual average for 2022, headline inflation was more than twice as high as core inflation. In the meantime, the picture has changed. Of late, the core rate was significantly higher than the headline rate.

What does this mean? Energy and food prices play a key role in headline inflation. These prices typically fluctuate more strongly. By contrast, core inflation is much more stubborn and persistent. It is shaped largely by developments in wages, productivity and firms' profit margins.

In January, euro area headline inflation was only around 1 percentage point higher than its pre-pandemic average. Meanwhile, at 3.3%, core inflation was still 2 percentage points higher than its average rate between 1999 and 2019.

When analysing the headline rate, we take a detailed look at core inflation. This is because, as a measure of underlying price pressures, core inflation helps us to assess future inflation developments.

It does not look as though a series of large decreases in the inflation rate, as seen in the last quarter of 2023, is to be expected any more. We will have to get used to small steps. Setbacks like those we experienced in December cannot be ruled out in this area. This was mainly due to a statistical base effect in Germany for energy. Further base effects are foreseeable.

For example, Easter falls in March instead of April this year. Travel in March, for example, will therefore be particularly expensive. However, the one-off effects do not alter the trend: inflation is falling.

The latest Eurosystem staff macroeconomic projections will be published in just under two weeks. I won't jump the gun on this topic.

In Germany, our experts still expect the annual average increase in the HICP to more than halve in 2024. The high level of inflation is likely to come down in the euro area, too. Nonetheless, inflation rates – especially the "hard core" – will still remain markedly higher than 2% in the coming months.

To read more: https://www.bundesbank.de/en/press/speeches/introductory-statement-925324

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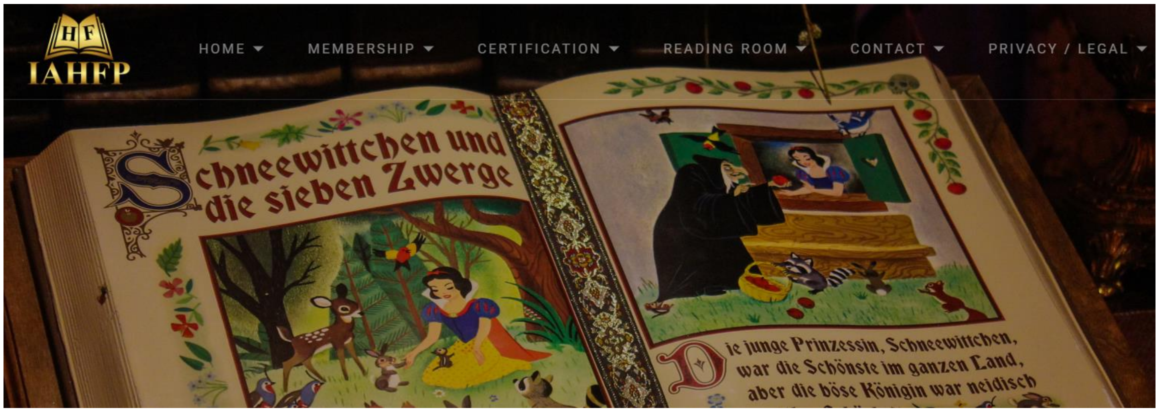
Our reading room:
https://www.hedge-funds-association.com/Reading_Room.htm



“Mirror, mirror on the wall, who in this land is fairest of all?”

Children’s fiction can open up new perspectives for adults. Black swan events, exercising (or failing to exercise) the zero trust principle, risks and opportunities are all there.

Investigating the facts is the next pleasure. In 1994, Eckhard Sander claimed that the character of Snow White was based on the life of Margaretha von Waldeck, a German countess born in 1533. At the age of 16, Margaretha was forced by her stepmother, Katharina of Hatzfeld, to move away to Brussels. There, Margaretha fell in love with a prince who would later become Philip II of Spain.

Graham Anderson compares the story of Snow White to the Roman legend of Chione, recorded in Ovid's Metamorphoses. The name Chione means "snow" in Greek and, in the story, she is described as the most beautiful woman in the land, so beautiful that the gods Apollo and Hermes both fell in love with her.

For Snow White, the death of her real mother and the arrival of a stepmother is a disaster. Snow White is forced to leave home, but she discovers who she is, and moves along the path to self-discovery and resilience. This is a story about development set in motion by the arrival of evil. Does it look familiar?

Contact Us

Lyn Spooner
Email: lyn@hedge-funds-association.com

George Lekatis
President of the IAHFP

1200 G Street NW Suite 800,
Washington DC 20005, USA
Email: lekatis@hedge-funds-association.com
Web: www.hedge-funds-association.com
HQ: 1220 N. Market Street Suite 804,
Wilmington DE 19801, USA