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Hedge Funds News, February 2023

Dear members and friends,

We will start with an interesting FSB report.

Implementation of G20 Non-Bank Financial Intermediation Reforms, progress report

This report describes progress in implementing reforms that had been agreed by the G20 following the 2008 global financial crisis to strengthen the oversight and regulation of non-bank financial intermediation (NBFI). The implementation status in various NBFI areas is as follows:

1. Jurisdictions have made progress in implementing Basel III reforms to mitigate spillovers between banks and non-bank financial entities, but implementation is not yet complete.

Four jurisdictions have yet to implement applicable risk-based capital requirements for banks' investments in the equity of funds or the supervisory framework for measuring and controlling banks' large exposures.

2. Adoption of the 2012 IOSCO recommendations to reduce the run risk of money market funds (MMFs) is most advanced in the largest MMF markets.

All FSB members adopted the fair value approach for valuation of MMF portfolios, though one jurisdiction does not have in place requirements for use of the amortised cost method only in limited circumstances.

Progress in liquidity management is less advanced. An IOSCO review found that the policy measures in nine jurisdictions representing about 95% of global net MMF assets are generally in line with the IOSCO recommendations.

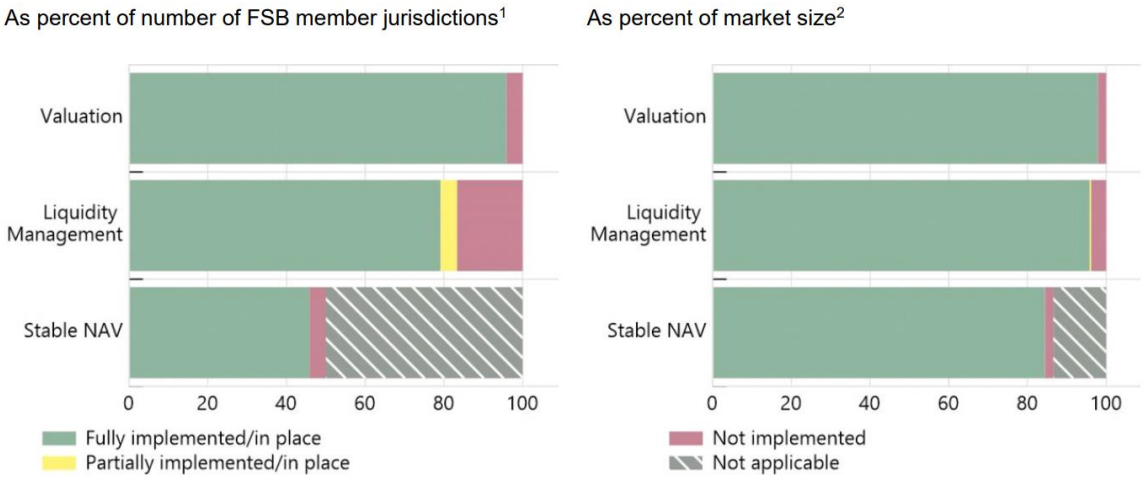
3. Adoption of the IOSCO recommendations on incentive alignment approaches for securitisation and of the BCBS standard on revised securitisation framework is ongoing.

About one-third of FSB jurisdictions (for the IOSCO recommendations) and one-sixth of FSB jurisdictions (for the BCBS standard) have yet to implement them.

4. Implementation of FSB recommendations for dampening procyclicality and other financial stability risks associated with securities financing transactions (SFTs) is incomplete and continues to face significant delays in most jurisdictions.

On global SFT data collection and aggregation, a few FSB jurisdictions are submitting data to the BIS.

Implementation progress is most advanced in the largest MMF markets **Graph 1**



[1] The five EU members of the FSB are presented as separate jurisdictions. [2] Market size based on assets under management (AUM) in FSB jurisdictions at end-2020.

5. Implementation of most FSB recommendations to assess and mitigate systemic risks posed by other non-bank financial entities and activities is ongoing.

The FSB and IOSCO assessed the implementation and effectiveness of their respective recommendations to address liquidity mismatch in open-ended funds (OEFs).

The FSB found that authorities have made meaningful progress in implementing the 2017 FSB Recommendations, but that lessons learnt since then have produced new insights into liquidity management challenges in segments of the OEF sector.

While the assessment suggests that the FSB Recommendations remain broadly appropriate, enhancing clarity and specificity on the policy outcomes the FSB Recommendations seek to achieve would make them more effective from a financial stability perspective.

IOSCO's review of its 2018 Recommendations shows a high degree of implementation of regulatory requirements consistent with the Recommendations' objectives, but some areas may warrant further attention.

In addition to these reforms, the FSB is carrying out further analytical and policy work to enhance the resilience of the NBFI sector, building on the lessons from the March 2020 market turmoil.

To read more: https://www.fsb.org/wp-content/uploads/P180123.pdf

ECB press conference - introductory statement

Introductory statement by Ms. Christine Lagarde, President of the European Central Bank, and Mr. Luis de Guindos, Vice-President of the European Central Bank, Frankfurt am Main

Christine Lagarde
The President of the European Central Bank

Luis de Guindos
Vice-President of the European Central Bank

Good afternoon, the Vice-President and I welcome you to our press conference.

We would like to begin by congratulating Croatia on joining the euro area on 1 January 2023. We also warmly welcome Boris Vujčić, the Governor of Hrvatska narodna banka, to the Governing Council. We will now report on the outcome of today's meeting.

The Governing Council will stay the course in raising interest rates significantly at a steady pace and in keeping them at levels that are sufficiently restrictive to ensure a timely return of inflation to our two per cent medium-term target.

Accordingly, the Governing Council today decided to raise the three key ECB interest rates by 50 basis points and we expect to raise them further.

In view of the underlying inflation pressures, we intend to raise interest rates by another 50 basis points at our next monetary policy meeting in March and we will then evaluate the subsequent path of our monetary policy.

Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations.

In any event, our future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

The Governing Council today also decided on the modalities for reducing the Eurosystem's holdings of securities under the asset purchase programme (APP).

As communicated in December, the APP portfolio will decline by €15 billion per month on average from the beginning of March until the end of June 2023, and the subsequent pace of portfolio reduction will be determined over time. Partial reinvestments will be conducted broadly in line with current practice.

In particular, the remaining reinvestment amounts will be allocated proportionally to the share of redemptions across each constituent programme of the APP and, under the public sector purchase programme (PSPP), to the share of redemptions of each jurisdiction and across national and supranational issuers.

For our corporate bond purchases, the remaining reinvestments will be tilted more strongly towards issuers with a better climate performance. Without prejudice to our price stability objective, this approach will support the gradual decarbonisation of the Eurosystem's corporate bond holdings, in line with the goals of the Paris Agreement.

The decisions taken today are set out in a press release (https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp230202~08a972ac76.en.html) available on our website. The detailed modalities for reducing the APP holdings are described in a separate press release to be published at 15:45 CET.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

According to Eurostat's preliminary flash estimate, the euro area economy grew by 0.1 per cent in the fourth quarter of 2022.

While above the December Eurosystem staff projections, this outcome means that economic activity has slowed markedly since mid2022 and we expect it to stay weak in the near term.

Subdued global activity and high geopolitical uncertainty, especially owing to Russia's unjustified war against Ukraine and its people, continue to act as headwinds to euro area growth.

Together with high inflation and tighter financing conditions, these headwinds dampen spending and production, especially in the manufacturing sector.

However, supply bottlenecks are gradually easing, the supply of gas has become more secure, firms are still working off large order backlogs and confidence is improving.

Moreover, output in the services sector has been holding up, supported by continuing reopening effects and stronger demand for leisure activities.

Rising wages and the recent decline in energy price inflation are also set to ease the loss of purchasing power that many people have experienced owing to high inflation.

This, in turn, will support consumption. Overall, the economy has proved more resilient than expected and should recover over the coming quarters.

The unemployment rate remained at its historical low of 6.6 per cent in December 2022.

However, the rate at which jobs are being created may slow and unemployment could rise over the coming quarters.

Government support measures to shield the economy from the impact of high energy prices should be temporary, targeted and tailored to preserving incentives to consume less energy.

In particular, as the energy crisis becomes less acute, it is important to now start rolling these measures back promptly in line with the fall in energy prices and in a concerted manner.

Any such measures falling short of these principles are likely to drive up medium-term inflationary pressures, which would call for a stronger monetary policy response.

Moreover, in line with the EU's economic governance framework, fiscal policies should be oriented towards making our economy more productive and gradually bringing down high public debt.

Policies to enhance the euro area's supply capacity, especially in the energy sector, can help reduce price pressures in the medium term.

To that end, governments should swiftly implement their investment and structural reform plans under the Next Generation EU programme.

The reform of the EU's economic governance framework should be concluded rapidly.

Risk assessment

The risks to the outlook for economic growth have become more balanced. Russia's unjustified war against Ukraine and its people continues to be a significant downside risk to the economy and could again push up the costs of energy and food.

There could also be an additional drag on euro area growth if the world economy weakened more sharply than we expect. Moreover, the recovery would face obstacles if the pandemic were to re-intensify and cause renewed supply disruptions.

However, the energy shock could fade away faster than anticipated and euro area companies could adapt more quickly to the challenging international environment. This would support higher growth than currently expected.

The risks to the inflation outlook have also become more balanced, especially in the near term. On the upside, existing pipeline pressures could still send retail prices higher in the near term. Moreover, a stronger than expected economic rebound in China could give a fresh boost to commodity prices and foreign demand.

Domestic factors such as a persistent rise in inflation expectations above our target or higher than anticipated wage rises could drive inflation higher, also over the medium term. On the downside, the recent fall in energy prices, if it persists, may slow inflation more rapidly than expected.

This downward pressure in the energy component could then also translate into weaker dynamics for underlying inflation. A further weakening of demand would also contribute to lower price pressures than currently anticipated, especially over the medium term.

To read more:
https://www.ecb.europa.eu/press/pressconf/2023/html/ecb.is230202~4313651089.en.html

The High Calling of Certified Public Accountants (CPAs)

Christina Ho, Board Member, Florida State University - Auditing Class

I want to first thank Dr. Zimmerman for the invitation and the opportunity to talk to you today. The views that I express here are my own and do not necessarily reflect the views of other PCAOB Board members or staff.

One of the reasons that I always enjoy talking to students is that I get to share temporarily your anticipation of the promise of your future. Some of you might feel more anxious about your future, and that is understandable.

I hope that I can help give you a glimpse of the exciting future you can have and a vision of the impact you can make to the accounting profession, the public, our country, and our world.

Thirty years ago, I graduated with my accounting degree. Two years later, I passed the Certified Public Accountant (CPA) exam and became a CPA. Little did I know how my career would evolve over the next 30 years. I got my first job as an auditor for the Commonwealth of Pennsylvania.

Internet wasn't popular yet, and I prepared workpapers manually at that time. Over the next 30 years, I worked in both the private and public sectors. I have had jobs that were related to accounting/auditing, and jobs that had nothing to do with accounting/auditing. Today, I am a Board Member of PCAOB, which regulates and supervises the public accounting profession.

In some ways, one could say that I ended where I started (although I don't view this as the end yet). I hope that my contribution in my current role can make your future better.

Personally, I am immensely blessed to have been afforded the many opportunities along my career journey. There is no question in my mind that my accounting degree provided me the foundation needed to jumpstart my career and to build my problem-solving skills.

The accounting profession has evolved since then. It has become more complex because our problems are bigger. Our world has become more connected, technological, and digital. We expect accountants and auditors to give us concrete black-and-white answers, yet we live in a world of relativity, a culture that increasingly seems to loathe truth.

So why should you be excited about that? You should be excited because accountants are trained to think analytically and critically. We are trained to seek and discern the truth in the data.

I recently heard Dr. Michael Kimbrough, Accounting Department Chair at University of Maryland, College Park, state that accounting is about "optimizing information for the intended use." That is the best characterization I have heard about the value of accounting.

Only six words that reveal the what and the why. Imagine a world with no accountants – information will not be organized in a standardized and understandable fashion, users won't be able to trust the information, and ultimately this leads to poor decision-making including ineffective use of resources, bad investments, disastrous policy setting.

Finally, I hope all of you are planning to be a CPA. According to an NPR podcast aired in August 2022, CPAs are accountants with superpower. The most important letter in this prestigious designation is "P."

CPAs are accountants expected to protect the public interest, which broadly speaking is to "Secure the Blessings of Liberty to ourselves and our Posterity," which is the mission in the preamble to the United States Constitution. It is an honorable calling.

Based on the news we read every day, there is no shortage of CPAs not living up to this expectation. Fortunately, that is the minority. I know many CPAs who are solving big problems, protecting the public interest, and making an impact to mankind.

In closing, I hope you will walk away today with a renewed sense of mission, passion, and optimism to be the shining light of this profession as we help "Secure the Blessings of Liberty to ourselves and our Posterity." Thank you.

To read more: https://pcaobus.org/news-events/speeches/speech-detail/the-high-calling-of-certified-public-accountants-cpas

Additional Insights on the Remediation Process

The Public Company Accounting Oversight Board (the "Board" or PCAOB) oversees the audits of public companies, and certain Securities and Exchange Commission (SEC)- registered brokers and dealers, to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

The PCAOB is committed to promoting compliance with its professional standards and rules.

One important means by which the PCAOB does this is through its inspections program, to accurately assess, drive improvement in, and communicate the elements of audit quality.

Section 104(g)(2) of the Sarbanes-Oxley Act (the "Act") provides that, in connection with the inspection of a public accounting firm registered with the PCAOB, no portion of an inspection report that deals with criticisms of or potential defects in the quality control systems of that firm ("quality control criticisms," QCCs, or "criticisms") will be made public if those are addressed by the firm to the Board's satisfaction within 12 months of the date of the inspection report.

Since 2013, when the inspection staff issued guidance to firms on the remediation process ("Staff Guidance"), the Board has made a substantial number of remediation determinations.

This has enabled the inspection staff to develop insights into how firms remedy criticisms in their quality control systems, as well as to identify some emerging trends and challenges related to remediation.

This Spotlight reflects the staff's current remediation program and the previous Board and Staff Guidance, including the Board's 2006 release (PCAOB Release No. 104- 2006-077) addressing the process for Board determinations regarding firms' efforts to address QCCs in inspection reports ("Board Statement") and Staff Guidance, each of which is available on the PCAOB's website.

The staff is currently evaluating the Staff Guidance to determine what changes in the Staff Guidance may be needed. Pending the conclusion of that evaluation, the staff is sharing its current observations in this Spotlight.

Process

PCAOB inspections of firms are designed to review portions of selected audits of public companies and to evaluate elements of a firm's quality control system.

Each inspection results in a report, specific to the quality control system components of each firm inspected, which may summarize identified deficiencies.

QCCs, if any, appear in Part II – Observations Related to Quality Control – of an inspection report.

The Act requires that QCCs in Part II of an inspection report remain nonpublic when the report is first issued.

The following steps then occur:

1. Consistent with PCAOB Rule 4009, a firm has 12 months from issuance of the inspection report to submit evidence or otherwise demonstrate to the inspection staff that it has taken steps to remediate the QCC.

2. The inspection staff then evaluates the firm's remedial efforts and makes a recommendation to the Board regarding the determination as to whether the firm has remediated the QCC.

3. The Board makes a determination as to whether the firm has remediated, to the Board's satisfaction, each QCC in Part II of the inspection report.

4. Firms have a right under the Act to request review by the SEC within 30 days of receiving notice of an adverse determination by the Board.

5. Unless the SEC overturns the Board determination that a firm did not remediate a QCC to the Board's satisfaction, that QCC will be made public.

This Spotlight discusses the inspection staff's insights regarding step 2 of this process, in which the inspection staff evaluates the firm's remedial efforts and makes a recommendation to the Board.

Guidance

The Act sets out a standard for the Board's remediation determinations that affords the Board substantial discretion.

Two documents provide public guidance on how the Board and the inspection staff assess whether a firm has remediated a quality control deficiency to the satisfaction of the Board. These documents are the Board Statement and the Staff Guidance referred to above.

The inspection staff refers firms with QCCs in Part II of their inspection reports to these documents when providing their inspection reports, and the inspection staff is available to discuss these documents with firms during their remediation periods.

The Board Statement provides information about the Board's process for determining whether a firm has addressed QCCs to the satisfaction of the Board for purposes of Section 104(g)(2) of the Act.

A favorable remediation determination reflects the Board's assessment that, among other things, a firm has acted in good faith and, consistent with Section 104(g)(2)'s requirement that a firm address QCCs not later than 12 months after the date of the inspection report, "the firm has identified steps suited to the particular objective and is…making reasonable progress in implementing those steps" (footnote omitted).

As noted in the Board Statement: "The Board's process is based on the proposition that each firm knows best how to manage its operations and to define the specific methods by which it can address a particular quality control criticism. This allows each firm to craft effective remedies based on its specific organizational structure and operations."

To read more: https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/remediation-spotlight.pdf?sfvrsn=2ae461df_3

Big techs in finance: forging a new regulatory path

Agustín Carstens, General Manager, Bank for International Settlements, at the BIS conference "Big techs in finance – implications for public policy", Basel, Switzerland.

It is my great privilege to welcome you today to the BIS conference on big techs in finance – implications for public policy.

This high-level conference brings together prominent officials from international bodies, central banks and supervisory authorities, as well as renowned academics and private sector representatives.

It will provide a unique forum to exchange views on the most pressing policy challenges associated with big techs' involvement in the financial sector.

Current circumstances have allowed us to invite you to join us in person here in Basel, and it gives me great pleasure to see many of you could accept our invitation. Of course, let me also welcome those of you who are joining us remotely today.

Big techs and data

We at the BIS have been closely following large technology firms (big techs) and their advances into finance. Big techs' reach extends across a wide range of industries, with existing core businesses grounded in e-commerce and social media, among others. From this base, they have expanded into
finance.

To understand how big techs can easily make forays into finance, one must grasp the key role of data. Indeed, big techs have fully embraced the centrality of data in the digital economy. This is what distinguishes them from other firms. It also shapes their unique characteristics. Let me mention those that are particularly relevant for policymakers.

First, big techs can overcome limits to scale in financial services provision by using user data from their existing businesses. Their business model

revolves around users' direct interactions and the data generated as a by-product of these interactions. They use that data to offer a range of services that exploit the inherent network effects in digital services, a phenomenon where more users attract ever more users.

In this way, big techs can establish a substantial presence in financial services very quickly through what we call the "data-network-activities" (DNA) loop.

Second, big techs collect different types of data from the various business lines they straddle. They are uniquely positioned to combine that data to uncover patterns and insights that can help them improve their services or offer new ones.

This combination of different types of data across sectors carries efficiency gains and is key to big techs' provision of digital services.

Third, big techs are unrivalled experts in data management and analysis. They devote significant resources to developing or acquiring state-of-the-art technologies. After all, access to large troves of data generates value only if you also have the technological capabilities to analyse it and monetise it.

Big techs have been pioneers in leveraging artificial intelligence techniques for this purpose.

To be sure, these capabilities have high fixed costs, but once that is overcome the marginal cost of handling more data is negligible. Therefore, big techs benefit from significant economies of scale in their use of data.

For other firms, reaping the benefits of such economies of scale is a tall order. Data management is thus at the core of big tech activities, and the financial sector is all about managing information. Coupled with big techs' relentless drive to expand, their growing and already substantial footprint in financial services should come as no surprise.

Moreover, the trend towards greater digitalisation, which the Covid-19 pandemic has accelerated, has allowed big techs to fortify their market positions even further.

Public policy challenges

Given their size and customer reach, big techs' entry into finance could trigger rapid change in the industry, generating both opportunities and challenges.

The potential benefits of big techs' entry into finance include improved customer outcomes, increased financial market efficiency and enhanced financial inclusion.

For example, BIS research has shown that access to innovative (QR code-based) payment methods provided by big techs helps micro firms build up credit history, and the use of big tech credit can ease access to bank credit. And there are many more examples.

To read more: https://www.bis.org/speeches/sp230208.pdf

SEC Publishes Annual Staff Report on Nationally Recognized Statistical Rating Organizations

The Securities and Exchange Commission published a staff report that provides a summary of the staff's examinations of nationally recognized statistical rating organizations (NRSROs) and discusses the state of competition, transparency, and conflicts of interest among NRSROs.

"The Office of Credit Ratings is critical to the Commission's work to protect investors and ensure the integrity of the rating process, including through the office's oversight of Nationally Recognized Statistical Rating Organizations," said SEC Chair Gary Gensler.

"Through the 2022 staff report, the OCR continues its work to ensure credit ratings are accurate, reliable, and fair."

"Our risk-based approach to NRSRO examinations protects investors by focusing on specific NRSRO activities and assessing compliance with applicable laws and rules," said Lori Price, Director of the Office of Credit Ratings. "The comprehensive staff report summarizes the findings from our annual examinations and also provides information about NRSROs, their credit ratings businesses, and the industry more broadly."

As described in the report, the staff's NRSRO examinations during 2022 considered a number of factors, including:

- Rating surveillance practices;

- The impact of COVID-19 on commercial real estate credit ratings;

- Whether business communications are conducted through unauthorized means;

- Securities ownership by NRSRO employees;

- The effect on credit ratings from the marketing and development of stand-alone ESG products; and

- Ratings of firms based in China.

- Prior years' reports from the Office of Credit Ratings are available here.

To read more: https://www.sec.gov/files/2023-ocr-staff-report.pdf

Chart 1. Table of NRSROs

NRSRO	Categories of Credit Ratings	Principal Office
A.M. Best Rating Services, Inc. (AMB)	(ii), (iii), and (iv)	U.S.
DBRS, Inc. (DBRS)	(i) through (v)	U.S.
Demotech, Inc. (Demotech)	(ii)	U.S.
Egan-Jones Ratings Company (EJR)	(i) through (iii)	U.S.
Fitch Ratings, Inc. (Fitch)	(i) through (v)	U.S.
HR Ratings de México, S.A. de C.V. (HR)	(i), (iii), and (v)	Mexico
Japan Credit Rating Agency, Ltd. (JCR)	(i), (ii), (iii), and (v)	Japan
Kroll Bond Rating Agency, LLC (KBRA)	(i) through (v)	U.S.
Moody's Investors Service, Inc. (Moody's)	(i) through (v)	U.S.
S&P Global Ratings (S&P)	(i) through (v)	U.S.

As Required by Section 6 of the Credit Rating Agency Reform Act of 2006
and Section 15E(p)(3)(C) of the Securities Exchange Act of 1934

Insurance Stress Test 2022 feedback

Bank of England

This letter contains the results of the PRA Insurance Stress Test 2022 (IST 2022) launched in May 2022. In total, 54 insurers took part (16 life insurers, 17 general insurers, and 21 Lloyd's syndicates).

Life insurers were asked to assess their solvency position following an adverse economic scenario and an increase in longevity; and general insurers and Lloyd's syndicates were asked to assess their solvency position against a set of insured natural catastrophe (NatCat) and cyber losses.

We would like to thank all participants for their cooperation in enabling us to meet the three objectives of this exercise; namely:

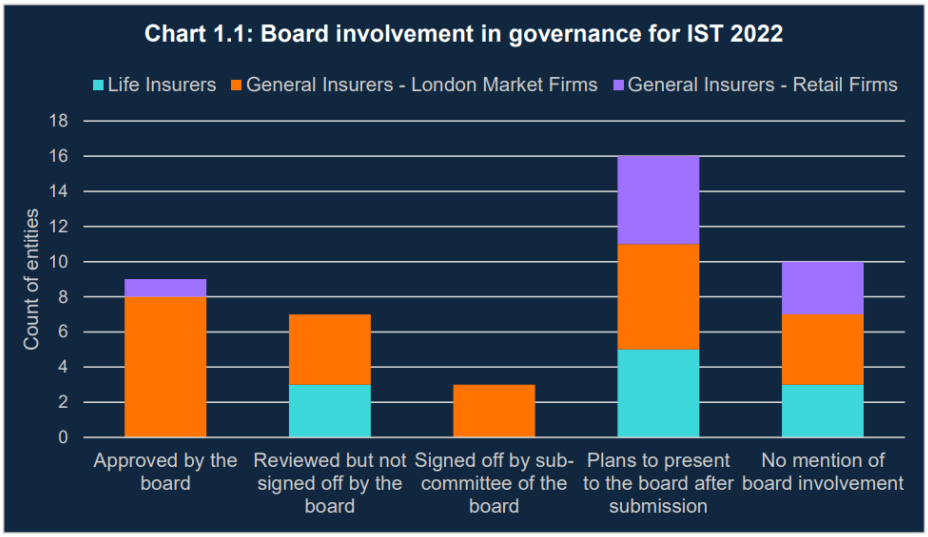
1) assessing sector resilience;

2) supporting capacity building in risk management; and

3) guiding supervisory activity.

This letter sets out our findings on sector resilience and provides thematic observations that support improvements in risk management.

PRA Supervision teams will use individual firm responses to inform their supervisory strategy, which may result in follow-up discussions and actions.



Sources: Firm submissions and PRA calculations. Results were aggregated across Group entities.

Please note: This letter has been prepared for the website. Square brackets show where this letter may differ slightly, along with formatting from those versions sent directly to firms.

Bank of England

Prudential Regulation Authority

Charlotte Gerken
Executive Director,
Insurance Supervision
Prudential Regulation Authority

23 January 2023

Dear [Chief Executive Officer]

Insurance Stress Test 2022 feedback

To read more: https://www.bankofengland.co.uk/prudential-regulation/letter/2023/ist-2022-report

Countercyclical capital buffer

ESRB
European Systemic Risk Board
European System of Financial Supervision

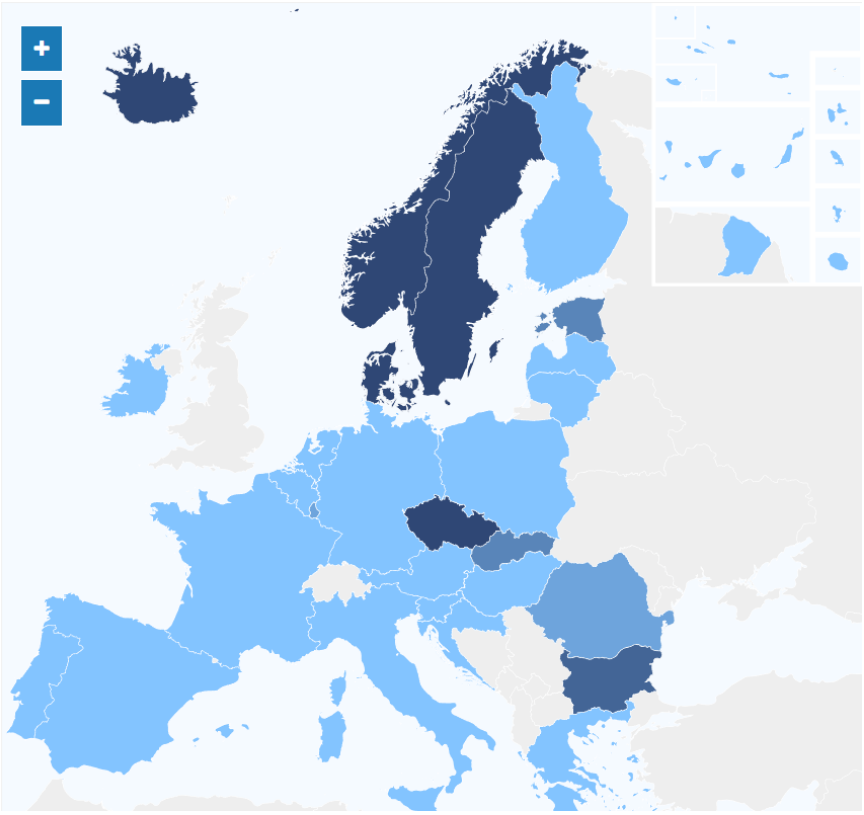
The countercyclical capital buffer (CCyB) is designed to counter procyclicality in the financial system.

When cyclical systemic risk is judged to be increasing, institutions should accumulate capital to create buffers that strengthen the resilience of the banking sector during periods of stress when losses materialise.

This will help maintain the supply of credit to the economy and dampen the downswing of the financial cycle. The CCyB can also help dampen excessive credit growth during the upswing of the financial cycle.

Please consult the respective national authorities' websites for the most up-to-date information. The tables below will be updated after the ESRB has received official notifications of the measures (last updated: 10 January 2023).

The following map shows current CCyB rates set (i.e. after the 12-month phase-in period) in Europe:



Country	Implementation date	Current CCyB
Austria	1 Jan 2016	0%
Belgium	1 Apr 2020	0%
Bulgaria	1 Jan 2023	1.5%
	1 Oct 2023	2%
Croatia	1 Jan 2016	0%
	31 Mar 2023	0.5%
	31 Dec 2023	1%
Cyprus	1 Jan 2016	0%
	30 Nov 2023	0.5%
Czech Republic	1 Jan 2023	2%
	1 Apr 2023	2.5%
Denmark	31 Dec 2022	2%
	31 Mar 2023	2.5%
Estonia	7 Dec 2022	1%
	1 Dec 2023	1.5%
Finland	16 Mar 2015	0%
France	1 Apr 2020	0%
	7 Apr 2023	0.5%
	2 Jan 2024	1%
Germany	1 Apr 2020	0%
	1 Feb 2023	0.75%
Greece	1 Jan 2016	0%
Hungary	1 Jan 2016	0%
	1 Jul 2023	0.5%
Iceland	29 Sep 2022	2%
Ireland	1 Apr 2020	0%
	15 Jun 2023	0.5%
Italy	1 Jan 2016	0%
Latvia	1 Feb 2016	0%
Liechtenstein	1 Jul 2019	0%
Lithuania	1 Apr 2020	0%
	1 Oct 2023	1%
Luxembourg	1 Jan 2021	0.5%
Malta	1 Jan 2016	0%
Netherlands	1 Jan 2016	0%
	25 May 2023	1%
Norway	31 Dec 2022	2%
	31 Mar 2023	2.5%
Poland	1 Jan 2016	0%
Portugal	1 Jan 2016	0%
Romania	17 Oct 2022	0.5%

To read more:
https://www.esrb.europa.eu/national_policy/ccb/html/index.en.html

The NIS 2 Directive of the EU

Network and information systems have developed into a central feature of everyday life with the speedy digital transformation and interconnectedness of society, including in cross-border exchanges.

That development has led to an expansion of the cyber threat landscape, bringing about new challenges, which require adapted, coordinated and innovative responses in all Member States.

The number, magnitude, sophistication, frequency and impact of incidents are increasing, and present a major threat to the functioning of network and information systems.

As a result, incidents can impede the pursuit of economic activities in the internal market, generate financial loss, undermine user confidence and cause major damage to the Union's economy and society.

Cybersecurity preparedness and effectiveness are therefore now more essential than ever to the proper functioning of the internal market.

Moreover, cybersecurity is a key enabler for many critical sectors to successfully embrace the digital transformation and to fully grasp the economic, social and sustainable benefits of digitalisation.

The cybersecurity requirements imposed on entities providing services or carrying out activities which are economically significant vary considerably among Member States in terms of type of requirement, their level of detail and the method of supervision.

Those disparities entail additional costs and create difficulties for entities that offer goods or services across borders.

Requirements imposed by one Member State that are different from, or even in conflict with, those imposed by another Member State, may substantially affect such cross-border activities.

Furthermore, the possibility of the inadequate design or implementation of cybersecurity requirements in one Member State is likely to have repercussions at the level of cybersecurity of other Member States, in particular given the intensity of cross-border exchanges.

The review of Directive (EU) 2016/1148 has shown a wide divergence in its implementation by Member States, including in relation to its scope, the

delimitation of which was very largely left to the discretion of the Member States.

Directive (EU) 2016/1148 also provided the Member States with very wide discretion as regards the implementation of the security and incident reporting obligations laid down therein.

Those obligations were therefore implemented in significantly different ways at national level.

There are similar divergences in the implementation of the provisions of Directive (EU) 2016/1148 on supervision and enforcement.

All those divergences entail a fragmentation of the internal market and can have a prejudicial effect on its functioning, affecting in particular the cross-border provision of services and the level of cyber resilience due to the application of a variety of measures.

Ultimately, those divergences could lead to the higher vulnerability of some Member States to cyber threats, with potential spill-over effects across the Union.

This Directive aims to remove such wide divergences among Member States, in particular by setting out minimum rules regarding the functioning of a coordinated regulatory framework, by laying down mechanisms for effective cooperation among the responsible authorities in each Member State, by updating the list of sectors and activities subject to cybersecurity obligations and by providing effective remedies and enforcement measures which are key to the effective enforcement of those obligations.

Therefore, Directive (EU) 2016/1148 should be repealed and replaced by this Directive.

With the repeal of Directive (EU) 2016/1148, the scope of application by sectors should be extended to a larger part of the economy to provide a comprehensive coverage of sectors and services of vital importance to key societal and economic activities in the internal market.

In particular, this Directive aims to overcome the shortcomings of the differentiation between operators of essential services and digital service providers, which has been proven to be obsolete, since it does not reflect the importance of the sectors or services for the societal and economic activities in the internal market.

To read more: https://eur-lex.europa.eu/eli/dir/2022/2555/oj

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DIRECTIVE (EU) 2022/2555 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 14 December 2022

on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) No 910/2014 and Directive (EU) 2018/1972, and repealing Directive (EU) 2016/1148 (NIS 2 Directive)

(Text with EEA relevance)

EIOPA issues its opinion on draft standards governing corporate sustainability disclosures

The European Insurance and Occupational Pensions Authority (EIOPA) has published its Opinion on the European Financial Reporting Advisory Group's technical advice concerning European Sustainability Reporting Standards (ESRS) following the request of the European Commission.

In this first Opinion, EIOPA assesses whether the draft ESRS promote the disclosure of high-quality material sustainability information, whether the standards facilitate interoperability with other EU legislation and global standards, and, finally, whether they are conducive to a consistent and proportionate application by undertakings.

Overall, EIOPA considers that the draft ESRS meet the above objectives even though some aspects can be enhanced upon.

In particular, EIOPA welcomes the general approach on the materiality assessment and the mandatory disclosure requirements that are crucial for financial market participants to calculate and report their principle adverse impact indicators under the Sustainable Finance Disclosure Regulation (SFDR).

Nonetheless, EIOPA is of the opinion that more clarity is needed on the boundaries of the value chain for insurers and pension funds so that relevant material sustainability impacts may be reported in a proportionate and risk-based manner.

Regarding consistency with EU sectoral standards, EIOPA notes that further guidance may be necessary to foster comparability with certain SFDR-related indicators and that a continued dialogue among all relevant stakeholders would be beneficial to ensure consistent and coherent implementation. It is also crucial that any upcoming amendments to the SFDR Delegated Regulation be reflected in ESRS.

Concerning international standards, EIOPA underlines the importance of avoiding the fragmentation of sustainability reporting requirements across jurisdictions.

To this end, compatibility between ESRS standards and IFRS standards should be ensured so that European companies reporting according to ESRS are automatically considered to be compliant with the IFRS sustainability reporting framework.

Whether the standards are interoperable with international standards

3.14. It is of importance that standards limit the risk of inconsistent reporting or administrative burden due to double reporting requirements for undertakings that operate globally. In the future, European undertakings listed in foreign jurisdictions may be subject to the reporting requirements set out by the International Sustainability Standards Board (ISSB), building on disclosure standards from the Task Force on Climate-Related Financial Disclosures (TFCD). In order to avoid the international fragmentation of sustainability reporting requirements across jurisdictions, EIOPA considers that ESRS standards should ensure that European companies that report under ESRS are automatically considered as complying with the IFRS sustainability reporting framework.

3.23. As referred to above, considering the potential broad implications of the implementation of the ESRS throughout the value chain of insurance companies and pension funds, a timely adoption of sector-specific European sustainability standards for the insurance industry should clarify the boundaries of the value chain and affected stakeholders for financial institutions. EIOPA is of the opinion that further clarity on the boundaries of the value chain is needed to enable financial market participants to report on relevant material sustainability impacts across the value chain in a proportionate and risk-based manner manner. Such guidance should ideally be available the latest as part of the second set of ESRS.

The CSRD requires all large companies and all companies with securities listed on EU regulated markets (except micro-companies), including insurers and pension funds, to regularly disclose information on societal, governance and environmental risks, opportunities and impacts.

This includes, for example, the disclosure of transition plans for climate change mitigation, policies on climate change mitigation and adaptation, or potential financial effects from material physical and transition risk.

Large companies are defined in the CSRD as EU companies exceeding at least two of the following three criteria: more than 250 employees on average during the financial year; a balance sheet total in excess of 20 million euros; a net turnover of more than 40 million euros.

Subject to the derogations for captive undertakings, it is expected that almost all insurance companies under Solvency II and an important number of pension funds will qualify for reporting, including pension funds with a limited number of employees.

The CSRD requires that the Commission takes into consideration technical advice from EFRAG when adopting delegated acts.

EFRAG issued exposure drafts of 13 standards for public consultation on 29 April 2022. EIOPA commented on exposure drafts ESRS 1 and ESRS 2.

In its comment letter to the exposure drafts, EIOPA encouraged EFRAG to seek a closer cooperation with the ISSB during the finalization of their standards, to review the rebuttable presumption accompanying the financial materiality definition, and review the definition of the value chain and use of approximations.

To read more: https://www.eiopa.europa.eu/document-library/opinion/eiopas-opinion-european-commission-efrags-technical-advice-esrs_en

Statement by National Security Advisor Jake Sullivan on the New U.S.-EU Artificial Intelligence Collaboration

THE WHITE HOUSE

The United States and the European Union signed an administrative arrangement to bring together experts from across the U.S. and Europe to further research on artificial intelligence (AI), computing, and related privacy protecting technologies, as underscored in the U.S.-EU Trade and Technology Council (TTC) commitment.

This collaborative effort will drive responsible advancements in AI to address major global challenges with a joint development model and integrated research to deliver benefits to our societies through five key areas of focus: Extreme Weather and Climate Forecasting, Emergency Response Management, Health and Medicine Improvements, Electric Grid Optimization, and Agriculture Optimization.

Together, we are confident the results of our research will extend beyond our partnership to benefit additional international partners and the global science community.

Today's announcement also builds on the vision set forth in the Declaration for the Future of the Internet (DFI) for an open, free, reliable, and secure Internet and digital technologies around the world.

THE WHITE HOUSE

FACT SHEET: United States and 60 Global Partners Launch Declaration for the Future of the Internet

We look forward to deepening our cooperation with the EU through this initiative.

To read more:
https://www.whitehouse.gov/briefing-room/statements-releases/2022/12/05/u-s-eu-joint-statement-of-the-trade-and-technology-council/

https://www.whitehouse.gov/wp-content/uploads/2022/04/Declaration-for-the-Future-for-the-Internet_Launch-Event-Signing-Version_FINAL.pdf

https://www.whitehouse.gov/briefing-room/statements-releases/2023/01/27/statement-by-national-security-advisor-jake-sullivan-on-the-new-u-s-eu-artificial-intelligence-

collaboration/#:~:text=Today%2C%20the%20United%20States%20and,Trade%20and%20Technology%20Council%20(TTC)

A DECLARATION for the FUTURE of the INTERNET

We are united by a belief in the potential of digital technologies to promote connectivity, democracy, peace, the rule of law, sustainable development, and the enjoyment of human rights and fundamental freedoms. As we increasingly work, communicate, connect, engage, learn, and enjoy leisure time using digital technologies, our reliance on an open, free, global, interoperable, reliable, and secure Internet will continue to grow. Yet we are also aware of the risks inherent in that reliance and the challenges we face.

We call for a new Declaration for the Future of the Internet that includes all partners who actively support a future for the Internet that is an open, free, global, interoperable, reliable, and secure. We further affirm our commitment to protecting and respecting human rights online and across the digital ecosystem. Partners in this Declaration intend to work toward an environment that reinforces our democratic systems and promotes active participation of every citizen in democratic processes, secures and protects individuals' privacy, maintains secure and reliable connectivity, resists efforts to splinter the global Internet, and promotes a free and competitive global economy. Partners in this Declaration invite other partners who share this vision to join us in working together, with civil society and other stakeholders, to affirm guiding principles for our role in the future of the global Internet.

Federal Reserve Board announces denial of application by Custodia Bank, Inc. to become a member of the Federal Reserve System

The Federal Reserve Board announced its denial of the application by Custodia Bank, Inc., Cheyenne, Wyoming, to become a member of the Federal Reserve System.

The Board has concluded that the firm's application as submitted is inconsistent with the required factors under the law.

Custodia is a special purpose depository institution, chartered by the state of Wyoming, which does not have federal deposit insurance.

The firm proposed to engage in novel and untested crypto activities that include issuing a crypto asset on open, public and/or decentralized networks.

The firm's novel business model and proposed focus on crypto-assets presented significant safety and soundness risks.

The Board has previously made clear that such crypto activities are highly likely to be inconsistent with safe and sound banking practices.

The Board also found that Custodia's risk management framework was insufficient to address concerns regarding the heightened risks associated with its proposed crypto activities, including its ability to mitigate money laundering and terrorism financing risks.

In light of these and other concerns, the firm's application as submitted was inconsistent with the factors the Board is required to evaluate by law.

The Board's order will be released following a review for confidential information.

To read more:
https://www.federalreserve.gov/newsevents/pressreleases/orders20230127a.htm

Engineering Personal Data Sharing

This report attempts to look closer at specific use cases relating to personal data sharing, primarily in the health sector, and discusses how specific technologies and considerations of implementation can support the meeting of specific data protection.

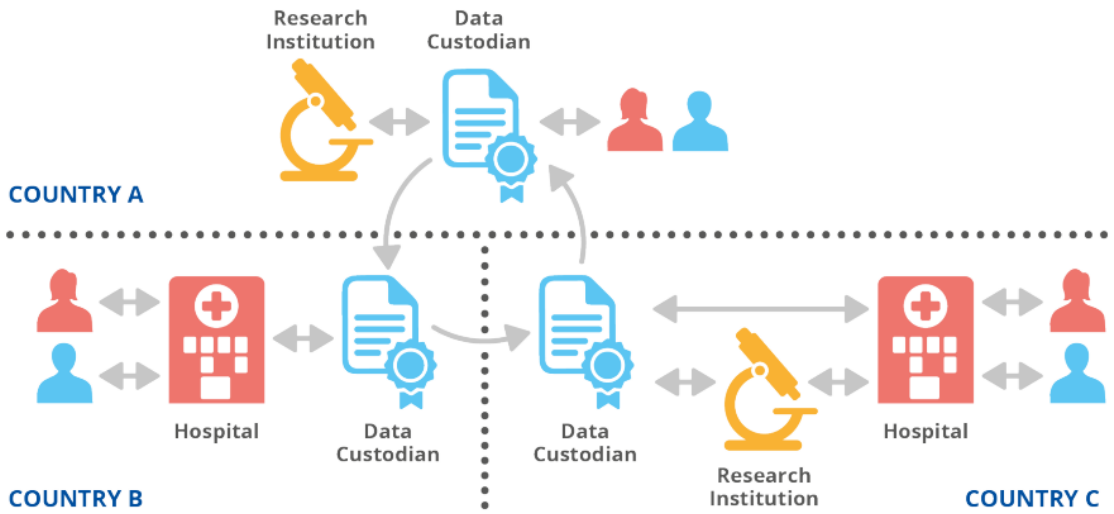
After discussing some challenges in (personal) data sharing, this report demonstrates how to engineer specific technologies and techniques in order to enable privacy preserving data sharing.

More specifically it discusses specific use cases for sharing data in the health sector, with the aim of demonstrating how data protection principles can be met through the proper use of technological solutions relying on advanced cryptographic techniques.

Next it discusses data sharing that takes place as part of another process or service, where the data is processed through some secondary channel or entity before reaching its primary recipient.

Lastly, it identifies challenges, considerations and possible architectural solutions on intervenability aspects (such as the right to erasure and the right to rectification when sharing data).

Figure 17: Cross border data exchange with data custodians



When two or more parties decide to share their data, they become part of a larger data ecosystem where they can take advantage of the combined data set that enables the discovery, by way of computation, of new information

or trends relating to individuals, groups of individuals, or to society as a whole.

The easiest and most straightforward way to achieve this goal would be to exchange the raw data that each actor holds across technical interfaces putting them on a common table (i.e. a single database) but this hypothetical option is not really feasible.

In reality we are pursuing trusted sharing environments that will make full use of the potential offered by a safe and secure exchange and use of personal data while respecting data protection principles.

This report attempted to look closer at specific use cases relating to personal data sharing, primarily in the health sector, and to discuss how specific technologies and considerations of implementation can support the engineering of personal data sharing in practice.

The analysis ranged from user-controlled data sharing to large scale personal data gathering and data sharing using third party service.

Despite the potential of the data sharing concept and the relevant Union policy and law in the area, there are still considerations on which are the appropriate technical and organizational measures and how to engineer them into practice.

The European legislative initiatives on data sharing described in Section 1.1 entail the processing of large quantities of data which will also include personal data.

Therefore, in addition to the consistency of their provisions with the GDPR, it is important to remove any legal uncertainty on the roles and obligations, not only for individuals as highlighted by the EDPB and the EDPS but also for the entities involved in the data sharing.

In order to leverage the potential of data sharing across the EU, practitioners could be provided with directions on which technologies and techniques can be considered, under which circumstances and which data protection principles can be met.

There are several commonly used (cryptographic) techniques (i.e. asymmetric encryption, pseudonyms, access control etc) that are already acknowledged as able to alleviate data protection risks.

Some of them were discussed in Section 2, Section 3 and Section 4. In emerging concepts such as data spaces and data intermediaries, however,

the risks introduced cannot always be adequately addressed only by such techniques.

This is due to the fact that data subjects want to preserve confidentiality of the data they are sharing, they might not know beforehand with whom they might be sharing data with or might want to share accumulated datasets.

Although there are advanced techniques that are still evolving, they should not be considered as of purely academic interest since there exist practical implementations in real use case scenarios.

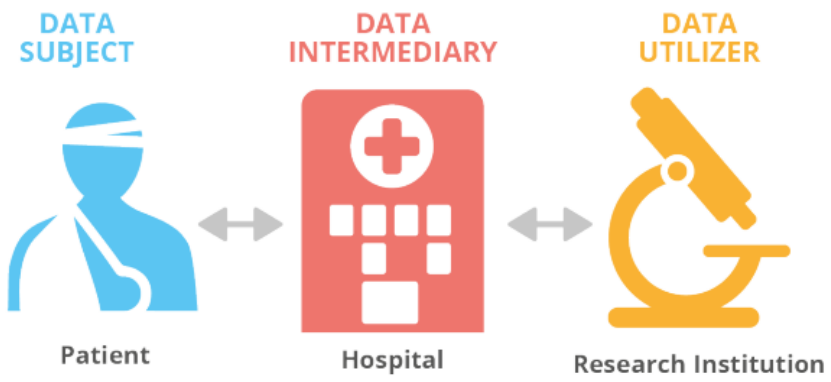
Lastly, since the majority of the technologies described earlier and in previous ENISA reports rely on asymmetric cryptography, the advent of quantum computing and the impact on the security of currently used asymmetric ciphers should be anticipated.

Following the deployment of data sharing infrastructures and services, we cannot expect that they will cease to operate due to possible inadequacy of the asymmetric ciphers.

This is where crypto agility becomes relevant as it allows for a switch between algorithms, cryptographic primitives, and other encryption mechanisms without significant changes in the overall IT system or process.

To read more: https://www.enisa.europa.eu/publications/engineering-personal-data-sharing

Figure 14: Data sharing scenario with data intermediaries



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