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Hedge Funds News, September 2022

Dear members and friends,

We have the new Annual Financial Report from the Financial Stability Board (FSB). It coordinates, at the international level, the work of national financial authorities and international standard - setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.

In collaboration with the international financial institutions, the FSB also addresses vulnerabilities affecting financial systems in the interest of global financial stability.

This report contains the financial statements of the FSB, for the 12-month period from 1 April 2021 to 31 March 2022. It also provides details on the FSB governance arrangements and the transparency and accountability mechanisms. A detailed explanation of the activities undertaken to implement the mandate and tasks of the FSB is provided in the FSB's Annual Report, which describes the FSB's work to promote global financial

stability. More information about the FSB's activities is available on its website.

Financial Stability Board in numbers

68 member institutions, comprising ministries of finance, central banks, and supervisory and regulatory authorities from 25 jurisdictions, 10 of which are emerging market and developing economies, as well as 10 international organisations and standard-setting bodies; 6 Regional Consultative Groups reaching out to 70 other jurisdictions around the world; and 35 Secretariat staff.

The FSB was established in April 2009 as the successor to the Financial Stability Forum (FSF).

In January 2013, the FSB established itself as an association ("Verein") under Swiss law with its office at the Bank for International Settlements (BIS), Centralbahnplatz 2, Basel – 4002, Switzerland.

The FSB's membership comprises authorities from jurisdictions that are responsible for maintaining financial stability, such as ministries of finance, central banks, supervisory and regulatory authorities; international financial institutions; and international standard-setting, regulatory, supervisory and central bank bodies.
As part of its mandate, the FSB:

(a) assesses vulnerabilities affecting the global financial system and identifies and reviews on a timely and ongoing basis within a macroprudential perspective, the regulatory, supervisory and related actions needed to address them, and their outcomes;

(b) promotes coordination and information exchange among authorities responsible for financial stability;

(c) monitors and advises on market developments and their implications for regulatory policy;

(d) advises on and monitors best practice in meeting regulatory standards;

(e) undertakes joint strategic reviews of and coordinates the policy development work of the international standard-setting bodies (SSBs) to ensure their work is timely, coordinated, focused on priorities and addressing gaps;

(f) sets guidelines for and supports the establishment of supervisory colleges;

(g) supports contingency planning for cross-border crisis management, particularly with respect to systemically important firms;

(h) collaborates with the IMF to conduct Early Warning Exercises;

(i) promotes member jurisdictions' implementation of agreed commitments, standards and policy recommendations through monitoring of implementation, peer review and disclosure; and

(j) undertakes any other tasks agreed by its Members in the course of its activities and within the framework of its Charter.

To read more: https://www.fsb.org/wp-content/uploads/P170822.pdf

Statement on PCAOB Amendments to Strengthen Auditing Standards for Audits Involving Multiple Firms

SEC Chair Gary Gensler

The Commission approved the Public Company Accounting Oversight Board's (PCAOB) updated standards for audits that involve multiple auditing firms.

I was pleased to support the amended standards because they will strengthen the requirements for lead auditors who supervise other auditors in an audit, helping to enhance audit quality and protect investors.

Over the years, the growing complexity and international operations of public companies has led auditors increasingly to rely on other auditors — working across different firms, countries, and even languages — in completing an audit.

Last year, for example, 26 percent of all issuer audit engagements used multiple auditors, and more than half of large accelerated filer audits used multiple auditors.

Given the challenges that such multi-firm audits present, it is important that there be robust standards for how lead auditors supervise, communicate with, and coordinate with other auditors on the audit engagement.

The PCAOB's updated standards make enhancements across two broad areas.

First, the amended standards specify certain procedures for lead auditors to perform when supervising other auditors.

Second, they require lead auditors to prioritize their supervisory activities around higher-risk areas in the audit.

I thank the PCAOB for their work to update this auditing standard, the first adopted since the Board was newly constituted. I look forward to the additional standard-setting work the PCAOB will undertake to live up to its founding vision under the Sarbanes-Oxley Act.

If Sarbanes-Oxley, signed into law 20 years ago, meets its full potential, trust in our markets can grow — and that benefits investors and issuers alike.

To read more: https://www.sec.gov/news/statement/gensler-statement-pcaob-amendments-081222?fbclid=IwAR05zcpyfn2UhHK61nOoP6zsVr-zVReiWquSLUV4jr9iu6bfahwkQfSypSg

Regulatory Consistency Assessment Programme (RCAP): Assessment of Basel Committee's Net Stable Funding Ratio standard - European Union

Through its Regulatory Consistency Assessment Programme (RCAP), the Basel Committee monitors the timely adoption of regulations by its members, assesses the regulations' consistency with the Basel framework and examines the consistency of banks' calculation of the prudential ratios across jurisdictions. The RCAP also helps member jurisdictions to identify and assess the materiality of any deviations from the Basel framework.

This report describes the Committee's assessment of the implementation of the Basel Committee's Net Stable Funding Ratio (NSFR) standard in the European Union (EU). The EU's NSFR regulations have been assessed as **largely compliant.**

The EU NSFR framework was issued in June 2019 by means of Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

The NSFR disclosure and supervisory reporting requirements were laid down through Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 and Commission Implementing Regulation (EU) 2021/451 of 17 December 2020.

The abovementioned NSFR regulations came into force on 28 June 2021 and apply to all credit institutions and systemic investment firms in the EU.

Overall, as of end-March 2022, the NSFR regulations in the EU are assessed as largely compliant with the Basel NSFR standard.

This is one notch below the highest overall grade.

Three of the four components of the Basel NSFR standard (scope, minimum requirements, and application issues; available stable funding (ASF); and disclosure requirements) are assessed as compliant.

The remaining component, required stable funding (RSF), is assessed as largely compliant. This component grade is driven by the cumulative impact of nine not material findings.

In addition, this report identified an item for follow-up assessment. It was noted that the RSF factors for certain types of transaction would be adjusted in aligning the EU regulations with the Basel NSFR standard by June 2025, which should be subject to review in a future RCAP assessment.

Taking effect on 1 January 2014, the CRR and the CRD IV are the main regulatory texts on prudential banking regulation in the EU.

By means of an amendment to the CRR, Regulation (EU) 2019/876 (CRR II) continued the EU's implementation of the Basel standards including the NSFR.

The amendments were adopted on 20 May 2019 and published on 7 June 2019. The NSFR requirements became applicable as of 28 June 2021, while the RSF factors for certain types of transaction will be phased in by June 2025.

The CRD IV contains general provisions on liquidity risk management and supervision. Certain provisions related to supervision of liquidity were amended by Directive (EU) 2019/878, which was adopted on 20 May 2019 and published on 7 June 2019.

Member States had until 28 December 2020 to implement the amendments in national law.

Further, the CRR II provided a mandate for the EBA to develop ITS to specify uniform templates for disclosure and for supervisory reporting with regard to the NSFR.

As such, Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 and Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 were published, which outlined the detailed disclosure and supervisory reporting requirements, respectively.

The standards became applicable on 28 June 2021 and the first reporting reference date was 30 June 2021.

In the EU, the NSFR framework applies to all credit institutions,7 on both an individual and consolidated basis, unless competent authorities do not apply supervision on an individual basis where they deem this appropriate.

Authorities may permit small and non-complex institutions to use a simplified methodology for the calculation and supervisory reporting of the NSFR.

The Assessment Team considered the NSFR requirements applicable to a sample of EU internationally active banks as of end-March 2022.

The assessment had two dimensions:

- a comparison of EU regulations with the Basel NSFR standard to ascertain that all the required provisions have been adopted (completeness of the regulations); and

- whether there are any differences in substance between the EU regulations and the Basel NSFR standard and, if so, their significance (consistency of the regulations).

In its assessment, the Assessment Team considered all binding documents that effectively implement the Basel NSFR standard in the EU. Annex 2 lists the Basel standards used as the basis for the assessment.

The assessment did not evaluate the adequacy of liquidity or the resilience of the banking system in the EU or the supervisory effectiveness of EU authorities.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel NSFR standard and the EU regulations.

The evaluation was made using a sample of 13 EU internationally active banks.

Together, these banks comprise about 61% of the assets of internationally active banks in the EU. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the EU regulations meet the Basel NSFR standard in letter and in spirit.

The materiality assessment is summarised in Annex 4, which also lists the sample of banks. The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the four key components of the Basel NSFR framework and of the overall assessment of compliance.

The four grades are compliant (C), largely compliant (LC), materially non-compliant (MNC) and noncompliant (NC).

To read more: https://www.bis.org/bcbs/publ/d535.pdf

Assessment grades

Table 1

Component of the Basel NSFR framework	Grade
Overall grade	LC
Scope, minimum requirement and application issues	C
Available stable funding (numerator)	C
Required stable funding (denominator)	LC
NSFR disclosure requirements	C

Assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

SEC Seeks Public Comment on Draft FY22-26 Strategic Plan

The Securities and Exchange Commission released for public comment a draft strategic plan for fiscal years 2022 to 2026.

The draft strategic plan establishes three primary goals:

- Protecting working families against fraud, manipulation, and misconduct;

- Developing and implement a robust regulatory framework that keeps pace with evolving markets, business models, and technologies; and

- Supporting a skilled workforce that is diverse, equitable, inclusive, and is fully equipped to advance agency objectives.

About the SEC

The SEC is an independent federal agency, established pursuant to the Securities Exchange Act of 1934, headed by a five-member Commission.

The Commissioners are appointed by the President and confirmed by the Senate. The President designates one of the Commissioners as the Chair.

The federal securities laws task the SEC with a broad and diverse set of responsibilities, including to:

• Engage and interact with the investing public, directly and on a daily basis, through a variety of channels, including investor roundtables, education programs, and alerts on SEC.gov;

• Oversee annual trading of approximately $118 trillion in U.S. equity markets, $2.8 trillion in exchange-traded equity options, and $237 trillion in the fixed income markets;

• Selectively review the disclosures and financial statements of approximately 5,248 exchange-listed public companies with an aggregate market capitalization of $51 trillion;

• Oversee the activities of more than 29,000 registered entities, including investment advisers, mutual funds, exchange-traded funds, broker-dealers, and transfer agents, who collectively employ at least 1 million individuals in the United States;

• Oversee 24 national securities exchanges, 9 credit rating agencies, 7 active registered clearing agencies, the Public Company Accounting Oversight Board (PCAOB), the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB), the Securities Investor Protection Corporation (SIPC), and the Financial Accounting Standards Board (FASB); and

• Provide critical market information through technology systems, such as the more than 70 million pages of documents available on the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

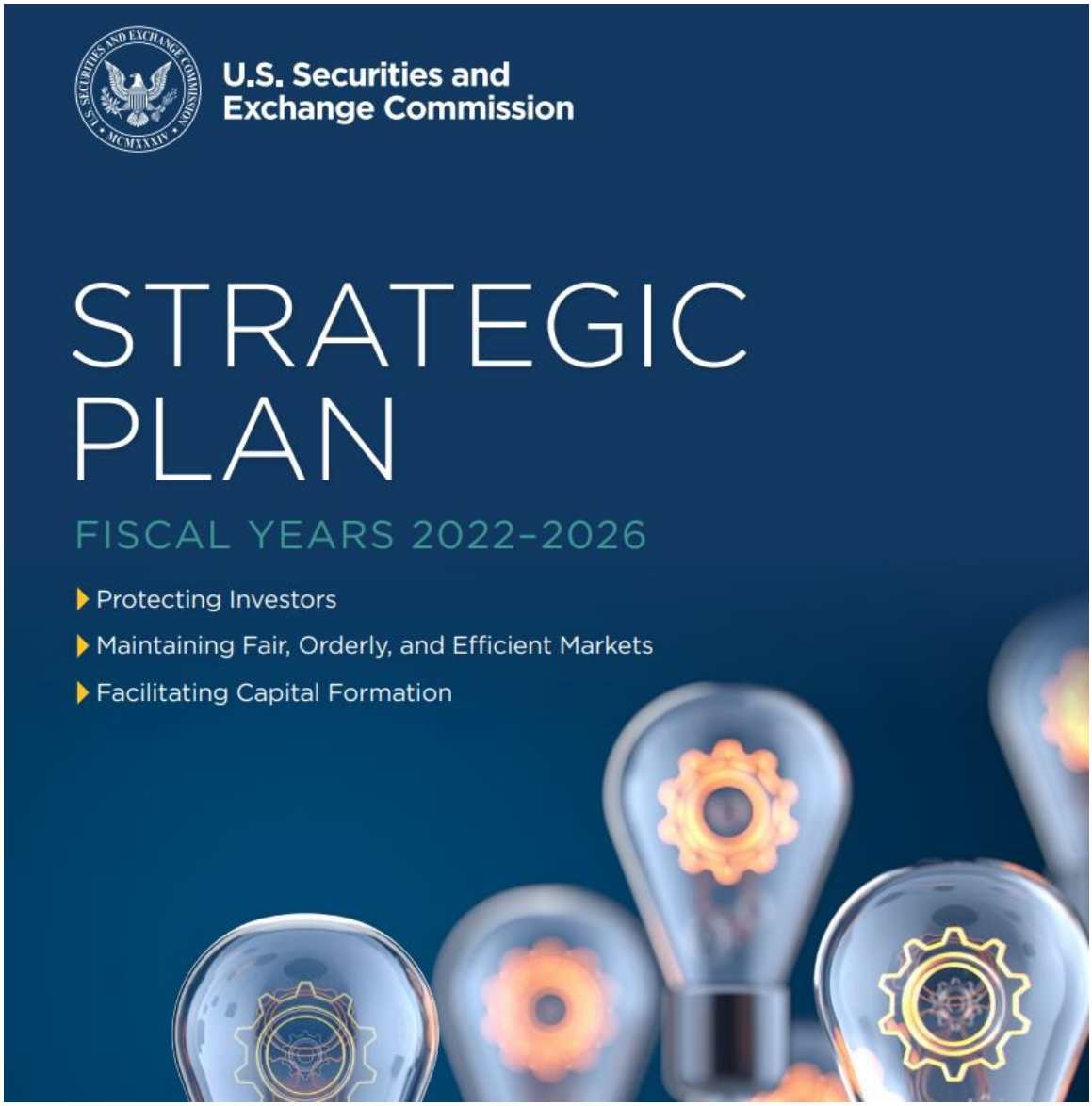
The members of the Commission act jointly to set and enforce the rules that govern the securities markets and its participants.

The Chair is responsible for overseeing the executive and administrative functions of the agency.

This includes supervision over approximately 4,500 staff members who are organized into 6 divisions and 25 offices located in the Washington, DC, headquarters and 11 regional locations.

This Strategic Plan sets forth the Chair's vision for the next four years. It was developed in consultation with, and with input from, all Commissioners, but may not necessarily represent the views of all Commissioners.

To read more: https://www.sec.gov/files/sec_strategic_plan_fy22-fy26_draft.pdf


U.S. Securities and Exchange Commission
STRATEGIC PLAN
FISCAL YEARS 2022-2026
Protecting Investors
Maintaining Fair, Orderly, and Efficient Markets
Facilitating Capital Formation

Digital euro - opportunities and risks

Dr Joachim Nagel, President of the Deutsche Bundesbank, at the Center for Financial Studies (CFS) and the Institute for Monetary and Financial Stability (IMFS) Special Lecture, Goethe University, Frankfurt am Main

1 Welcome, acknowledgement and congratulations

Ladies and gentlemen,

Thank you for your cordial invitation to this event, which is being co-hosted by the Center for Financial Studies (CFS) and the Institute for Monetary and Financial Stability (IMFS).

I have been following the work of both institutions for many years, and I am impressed by how they have been critically observing and advancing the public debate on monetary policy and financial markets. I have learned that around 15,000 interested parties in the German-speaking world and 5,000 others from elsewhere – mostly from the financial sector, but also from politics, central banks and academe – received invitations to attend this event.

These figures show that both institutions can claim to influence the economic debate far beyond Frankfurt. The Bundesbank has been supporting the CFS and the IMFS as one of the main sponsors for many years, and I can say in my role as President that we are very happy with how the CFS and the IMFS have evolved into highly sought-after and valued institutions. You all deserve our great appreciation for this.

Since 2006, Mr Issing, you have successfully chaired the Center for Financial Studies as President for 16 years. Under your presidency, the SAFE Research Center was opened in 2013.

As a member institute of the Leibniz Association for just over two years, it has been making valuable contributions to improving the architecture of the financial system. And the impressive list of Distinguished Fellows, Senior Fellows and many other Fellows, as well as the high-profile speakers at the lectures, are also an indication of the importance of the CFS. Mr Issing, this is due in large part to your efforts.

I would like to thank you personally for your many years of work and the influential impact you have had here at the Institute. I am pleased that you

will continue to share your valuable experience as an “elder statesman” in your new role as honorary president.

Your successor has already been found, and probably everyone here in the audience knows him: Axel Weber. I am convinced that you, Mr Weber, will fill your new position as President of the CFS just as ably and with much skill. Your wealth of experience makes you just the right choice for the CFS, where you will be following in Mr Issing’s great footsteps.

And you are already very familiar with the CFS, as you were its Director from 1998 to 2002 and also maintained contact during your tenure as Bundesbank President. Welcome back, just a few metres away from your old “stomping ground” in Frankfurt. Welcome home, and here’s to a fruitful working relationship! I am looking forward to exchanging ideas with you.

There is no shortage of topics for an exchange of views between the Bundesbank and Frankfurt’s research institutions. One of them is central bank digital currency (CBDC), specifically the digital euro. I would like to talk about this in my speech today. There are three aspects which I wish to address.

First, the opportunities and risks presented by the digital euro.

Second, the international dimensions of CBDC. Many central banks across the globe are currently working on this issue. We should take this opportunity and try to make systems compatible across currency zones.

And third, I will report on the current status of the digital euro project.

The digital euro offers a whole range of opportunities. However, I will begin with the potential economic risks of introducing it.

2 Risks and opportunities

Most of you certainly know what the “digital euro” project entails. The idea is to make a CBDC available to individuals and businesses: like euro banknotes but in digital form.

Alongside cash issued by central banks and “book money” created by commercial banks, the digital euro would constitute an additional form of money. This would then be the third form of money in our current monetary system that consumers can use as a means of payment.

The Bank for International Settlements (BIS) defines a monetary system as “the set of institutions and arrangements that supports monetary

exchange. It consists of money and payment systems." What quickly emerges from this definition is that a monetary system is a complex entity with many interdependencies. The ability of a monetary system to function hinges on the public's confidence in the system.

This also applies to the digital euro. If, at the end of the project, a decision should be taken to introduce a digital euro, a further component would be added to our monetary system. However, interventions in a complex system are always also associated with risks, as not all the consequences can be predicted with certainty. Two main risks to the financial system are highlighted.

One of the two risks is a well-known one: bank runs. In future, the digital euro would enable citizens, in the event of tensions in the financial system, to convert their overnight bank deposits into central bank money in seconds with a few mouse clicks or "touches".

In extreme cases, this could bring many banks to their knees if they encounter liquidity problems due to rapid outflows of deposits. US economist Perry Mehrling put it in somewhat martial terms: "Liquidity kills you quick," naturally meaning a lack of bank liquidity. Supervisors, governments and central banks have introduced insurance systems to protect against bank runs.

However, we are still well-advised to remain vigilant. Identifying and controlling risks at an early stage remains one of the key takeaways from the 2008 financial crisis. Depending on the design of the digital euro, however, I believe that these risks can be managed. More on this topic later.

The other risk is referred to as structural disintermediation: bank customers could shift a significant proportion of their bank deposits from their current or other deposit accounts to CBDC. For commercial banks, this would mean losing a cheap and stable source of funding.

Depending on the market situation, banks can use overnight deposits to obtain funding for a few basis points less than from other sources, such as refinancing operations with the central bank or bond issuance.

If commercial banks lose a significant portion of these deposits because citizens are using the digital euro as a store of value, banks' credit supply could fall and financing conditions for the real economy could deteriorate.

Further risks cannot be ruled out if the complex monetary system is expanded. In the event of an introduction, it will initially be necessary to

design the digital euro with an eye to keeping the potential risks manageable.

However, the fact that I began by looking at the risks does not mean that they should shape our perception of the digital euro. Ultimately, there are good reasons why the Eurosystem is looking at its introduction. Its advantages can be seen from several perspectives.

I would like to touch on two of these: first, the monetary and foreign exchange policy perspective; and, second, the payment transactions perspective.

From a monetary and foreign exchange policy perspective, the introduction of a digital euro is a measure that would safeguard the anchoring function of central bank money, even in an increasingly digitalised world.

Central bank money has hitherto included cash as well as the credit balances held by counterparties at the central bank. Besides central bank money, there is also book or giro money, which is put into circulation by commercial banks.

One of the reasons that citizens trust book money is because they can exchange it for cash, i.e. central bank money, at any time. Central bank money therefore acts as an anchor for private commercial bank money.

Let's assume that the trend toward digital payments continues and that central banks still do not offer consumers the opportunity to make digital payments using central bank-issued money, as has been the case so far.

The less cash were used, the less people would remember in this scenario that private commercial bank money can be exchanged 1:1 for central bank money at any time. In short, in this case, central bank money would be at risk of no longer being viewed as an anchor.

And as digitalisation continues, additional private digital forms of money, used on certain digital platforms, for instance, could emerge. Here, too, the anchoring function of central-bank issued money would remain important – it might even gain in importance.

If there were a digital euro, private commercial bank money could also be exchanged for central bank money within the digital world. This way, central bank digital currency could be an important building block for public money to continue to act as an anchor for all forms of money denominated in euro, even in an increasingly digitalised economy.

The second perspective concerns payment transactions in Europe. The introduction of a digital euro could support progress in the area of payments and increase Europe's sovereignty. There is currently no single cross-border solution for e-commerce or card payments for the euro area that is based on European infrastructure.

In order to overcome this deficit, the Eurosystem may also be able to build on work started by the private sector "European Payments Initiative," which includes a common digital wallet, amongst other ideas. One could imagine such a wallet also containing a digital euro in the future.

With a digital euro, future digital payments in the euro area could be carried out independently of non-European payment infrastructures. This would reduce risks and dependencies in payment transactions, which would also be beneficial to financial stability.

Furthermore, users' payment data are increasingly recognised as a valuable good, as some private payment service providers in online trading use them to analyse purchasing behaviour and customer characteristics. If data can be referred to as a commodity of the digital age, this is certainly also true of payment data.

In the private payment services market, there are a number of major players with market power. It is therefore difficult for users to get by without recourse to the services offered by these payment service providers. A digital euro could therefore contribute to the protection of payment data, as the Eurosystem itself has no interest in using this data commercially. One could expect better protection of privacy for this reason alone.

The introduction of a digital euro would be particularly beneficial for consumers if it would allow digital payments to be processed easily, quickly and cost-effectively as well as better protect their privacy when making payments. People would then have access to the digital euro in addition to cash. Like cash, it would be issued by the central bank and it would permit digital payment in central bank money.

Furthermore, depending on the design, the digital euro's infrastructure could open up the prospect of serving as a platform for innovation. In particular, this could apply to automated payment transactions, which are likely to become increasingly popular as digitalisation increases.

A wholesale version of the digital euro could make progress possible, especially for large-value payments, which are common amongst Eurosystem banks and counterparties. This option would be limited to a

specific user group and would provide an opportunity to process payments efficiently and automatically.

At present, discussions in the Eurosystem are mainly focused on the retail version, i.e. a digital euro for everyone, but a wholesale variant could also be provided if the need for it is there. This requires potential users to let their needs be known. However, regardless of whether people are paying large amounts or just enough for a coffee, the digital euro should help to save time, sometimes our nerves, too, and maybe even money.

Transaction fees are high particularly for payments across currency areas, which brings me to my next point – the role of CBDC in cross-border payments. The Bundesbank will soon be tackling this topic in its Monthly Report.

3 Central bank digital currency in cross-border payments

Nowadays, a large proportion of cross-border payment transactions are conducted through correspondent banking. During settlement, a payment often moves from bank to bank on its way to the final payee via very long transaction chains.

Throughout this process, neither the duration of the individual processing steps nor the associated fees are transparent for users. Often, they can only be quantified once the credit transfer has been completed.

The situation is not made any better by the fact that more and more correspondent banks are withdrawing from international payments – partly because the costs of preventing money laundering and terrorist financing have increased considerably.

In addition, there is a risk that individual regions or currencies will be largely cut off from international payments.

CBDC now opens up the possibility of designing settlement systems for payment transactions in such a way that cross-border payments can be processed more cheaply, faster and more efficiently than with current payment systems.

To this end, central bank digital currency systems in different currency areas need to be designed so that they enable interoperability. Put simply, the systems need to be able to talk to each other so that business can be conducted across systems. This requires close coordination between central banks.

However, implementation even in a single currency area alone is complex and fraught with many challenges, not to mention the time dimension. Good things take time. So when we talk about the interoperability of CBDC, we are looking at a medium-term goal.

But this opportunity should be taken nonetheless, because central bank digital currency is not just a means of payment – it also requires a new settlement infrastructure. Most central banks around the world are contemplating central bank digital currency. Many are considering building a new settlement structure for it. Given the right cooperation, this offers a historic opportunity to ensure interoperability from the outset.

In principle, there are two approaches to making CBDC usable for cross-border payments.

On the one hand, a unilateral approach would be conceivable: in other words, issuing digital currency according to one's own rules "without looking around" and – like cash – also making it available to holders abroad. On the other hand, one could take a multilateral approach that would rely on cooperation with other central banks.

A unilateral approach would certainly be less complex, but would have economic risks attached. If a foreign central bank digital currency became widespread domestically, this could impair the effectiveness of monetary policy. A similar phenomenon is known as informal currency substitution or dollarisation, and affects countries with unstable currencies and less stability-oriented monetary policy in particular.

However, undesirable consequences could also arise for the issuing central bank. For example, high demand for the digital euro from abroad could significantly expand the Eurosystem's consolidated central bank balance sheet.

This could increase balance sheet risks. If stocks of the digital euro rose sharply, driven by high foreign demand, the euro would be put under appreciation pressure. This stronger currency could then impair price competitiveness and therefore have an impact on the euro area economy as well.

Meanwhile, a multilateral approach involving cooperation between the issuing central banks would have the potential to make CBDC directly exchangeable in individual currency areas from the outset, i.e. interoperable. This approach does not provide for large quantities of digital money to be held in foreign currency, thereby potentially limiting the aforementioned economic risks for the participating currency areas. Varying degrees of interoperability can be aimed for.

At one end of the spectrum, minimally invasive common technical standards could be developed as a basis for compatible systems, granting system operators the greatest possible autonomy in terms of design. Message formats and programming interfaces, for instance, could be standardised.

At the other end of the spectrum, different digital currencies could conceivably be issued on a single platform, representing the maximum level of integration.

This option would require the highest degree of agreement between the central banks involved. In particular, the creation of a joint set of rules for system participation and transaction processing is likely to be no mean feat, given the different legal jurisdictions involved.

That said, such an option would probably generate the highest efficiency gains in the long term, as all payments could be processed immediately. Currency exchange functions could, in principle, be integrated directly into the platform, thereby considerably speeding up the processing of payments.

However, a degree of interoperability somewhere between the two extremes would probably be a more promising goal. For one thing, efficiency gains should be clearly apparent. For another, different legal frameworks and standards need to be taken into account.

In the European Union, for example, we rightly place high demands on cyber security and data protection. The governance structure needs to be clarified – who is involved, who decides what? And finally, we shouldn't endlessly put off making this kind of system operational.

CBDC could also offer a currency exchange solution by making processes automated, simplified and more transparent. This is another area of use for a wholesale variant of the digital euro, which is limited to a specific group of users. This group of users largely overlaps with institutions that currently already hold an account with the central bank; in other words, they are primarily commercial banks.

For example, it is conceivable for cross-border payments to be processed directly in various currencies as delivery-versus-payment transactions. Even as we speak, there is a range of pilot projects involving smart contracts and liquidity pools that promise significant advantages over traditional correspondent banking business.

After this overview, you may share my views on the topic of the interoperability of central bank digital currency: namely that CBDC

presents a special opportunity to make international payments faster, more cost-effective and more transparent.

The achievement of interoperability poses great economic, technical, legal and political challenges.

Once these can be overcome, the shortcomings of cross-border payments will decline significantly – something we should not leave to volatile crypto-assets or stablecoins in closed ecosystems alone.

In this vein, it is all the more important to proceed with great care when conducting studies for a digital euro, and also to take international aspects into account. As I see it, we should exploit the opportunities presented by CBDC. It has great potential.

4 Current project status

In the Eurosystem, we are currently working to establish how this potential can be harnessed. Allow me to give you a brief insight into the current status of the project in the last part of my speech.

The initial focus of the work is on using the digital euro within the euro area. Should it come to fruition, a digital euro is intended to enable simple payments in everyday life – just like we're familiar with when we use cash, but in digital form.

It should therefore be usable in both retail outlets and when making purchases online. Equally, it should be possible to use the digital euro for cashless payments from person to person or payments made between individuals and public authorities.

In the Eurosystem, we have identified two possible design options that would make the digital euro available for these purposes: an online version allowing payments to be processed by a third party and an offline version in which payments are made directly from person to person.

A digital euro that can be transferred online would be suited to all the aforementioned payment situations. It would thus slot seamlessly into the range of services offered by commercial banks and payment service providers, which would supply the digital euro issued by the Eurosystem.

It would create one payment solution that could be used to pay almost anywhere. In an ECB survey on new digital payment methods across all euro area countries, the majority of respondents expressed their preference for a single ("one-stop") solution. The online variant of a digital euro,

which would be held in a digital wallet on a smartphone, would fit this purpose.

At the same time, many respondents expressed a desire to be able to pay anonymously. An offline variant would be better equipped to meet this need. Paying via an electronic wallet without an internet connection could allow for a higher degree of financial privacy. Similarly to cash, a digital euro available offline would allow for person-to-person payments.

This is more complex from a technical perspective. And European legislators would first have to prepare the way for exempting payment service providers intending to offer it from their obligations with regard to preventing money laundering and counterterrorism. This would certainly only apply to payments involving smaller amounts – because, at the same time, it must be ensured that the digital euro does not become a preferred payment medium for illegal purposes.

Whether it be online or offline, a digital euro could complement cash in payment transactions by providing a digital component. However, anyone who wishes to continue using cash should and will be able to do so in future. And we, as the Eurosystem, would ensure that a digital euro – if it came to fruition – could be exchanged for cash at any time, and vice versa.

At the same time, we want to prevent the introduction of a digital euro from leading to instability in the banking and financial system, as described at the start of my speech. We are therefore considering measures at this early stage to prevent an excessive and abrupt shift of deposits from commercial banks into the digital euro.

Two kinds of upper limit come into consideration for this purpose: fixed upper limits or “soft” upper limits in the form of threshold values above which the interest rate becomes unattractive – the keyword here being “tiered remuneration”.

Fixed upper limits would allow for an effective limitation of the amount of digital euro in circulation. By contrast, a tiered remuneration system would provide more flexibility to meet the demand for digital euro.

Especially in the introductory period, fixed upper limits for individuals may be better in order to rule out disruptions in the financial system. However, it must also be possible to make payments in CBDC simply and efficiently even given an upper limit. This could be achieved by automatically channelling surplus digital euro balances into a commercial bank account.

For enterprises and merchants that accept payments on a larger scale, by contrast, a tiered remuneration system would, where possible, be more suitable from the start. That being said, the threshold values would have to be chosen carefully in order to avoid large shifts from bank deposits into the digital euro.

What the specific use of such instruments might look like and what the specific upper limits or threshold values would be can only be determined for good shortly before the potential introduction of a digital euro.

First of all, it has to be established what form the overall package preparing us for a digital euro might take. In a next step, then, we will get a better idea of the specific involvement of commercial banks and payment service providers.

Commercial banks and payment service providers will play a decisive role in the potential launch of the digital euro: they will have a say in whether an attractive range of services can be created for users.

They will also be needed when it comes to the question of what a digital euro should be able to do. This holds particularly true for a potential wholesale version.

5 Conclusion

Developments in the financial system and requirements for a stable financial architecture are being dealt with by the Center for Financial Studies, the Institute for Monetary and Financial Stability and the Leibniz Institute for Financial Research SAFE.

I am sure that the institutions will continue their critical observation of the necessary considerations and potential steps towards digital central bank money.

The work that is being done here is extremely valuable to us as central banks. Because even in an increasingly digital environment, it remains clear that a stable, resilient financial system is crucial to prosperity in Europe.

Cooperation between central banks and state-of-the-art research institutions is of great importance if the stability of the financial system is to be ensured as best as possible going forward.

We at the Bundesbank are delighted to have several of these establishments in such close proximity – and under such excellent leadership at that.

Thank you very much for your attention. I will now take your questions.

To read more: https://www.bundesbank.de/en/press/speeches/digital-euro-opportunities-and-risks-894326

NCSC and ICO call on legal profession to support position on ransomware payments

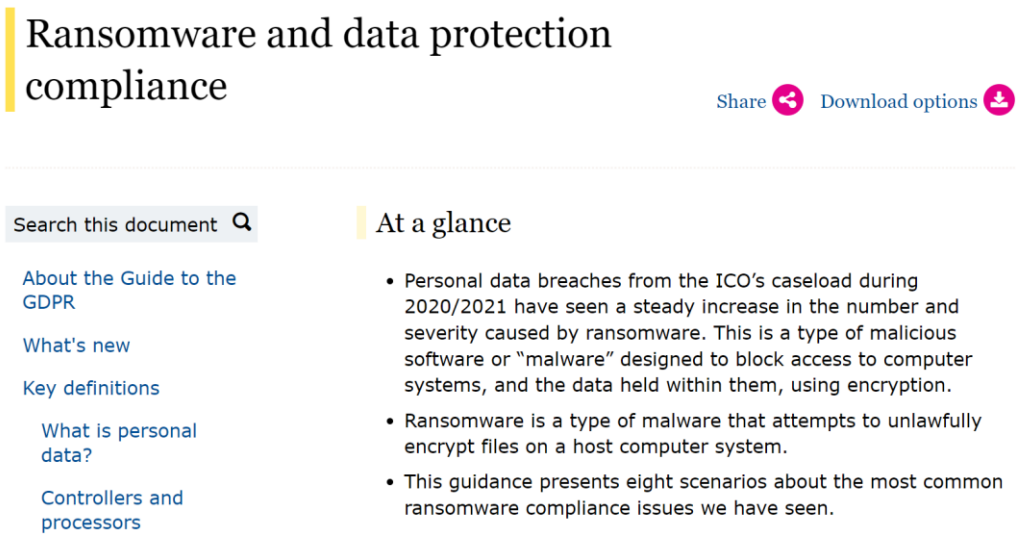
Ransomware is the biggest online threat to UK organisations and, worryingly, we've seen evidence of a rise in payments to criminals behind these attacks.

That's why the NCSC and the Information Commissioner's Office have called for help from the Law Society, after concerns that some victims were being advised by legal teams to pay. You may visit: https://www.ncsc.gov.uk/news/solicitors-urged-to-help-stem-the-rising-tide-of-ransomware-payments

Though it may be tempting to pay to get systems back up and running quickly, it's important to remember that UK Government does not encourage nor condone the payment of ransoms. There's no guarantee you'll get your data back and your systems could be compromised again in future. Paying a ransom doesn't mean you'll get a lower penalty from the ICO or be looked upon more favourably in any regulatory action.

The NCSC has a wide range of guidance on mitigating the ransomware threat, for example advising companies to keep offline back-ups. All of our advice can be found on the ransomware pages. You may visit: https://www.ncsc.gov.uk/ransomware/home

The ICO's recently updated ransomware guidance can be found on its website: https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/security/ransomware-and-data-protection-compliance/



Entity-based vs activity-based regulation: a framework and applications to traditional financial firms and big techs

FSI Occasional Papers, No 19
Claudio Borio, Stijn Claessens, Nikola Tarashev

BANK FOR INTERNATIONAL SETTLEMENTS

The policy debate about the relative merits of entity-based (EB) and activity-based (AB) financial regulation is a long-standing one (US (2010), FSB (2011).

It has recently come to the fore again, mainly due to the greater systemic importance of non-bank financial intermediaries after the Great Financial Crisis (FSB (2017), IAIS (2019), Carstens (2021)).

Non-bank financial intermediation has grown to account for roughly half of global financial assets and played a key role in the financial turmoil of March 2020 (FSB (2020)).

The foray of big techs into financial services and the digitalisation of finance have fuelled the debate further (Carstens et al (2021)).

When choosing the proper form of regulation for enhancing financial stability, the stakes are not trivial.

However, the debate has been muddied by the imprecise use of the EB and AB terms. This imprecision has made it more difficult to interpret catchphrases such as “same risk, same regulation” and “same activity, same risk, same regulation” – slogans that owe their popularity to their deceptive simplicity, but which say more about the desirability of a level playing field than about the general merits of alternative types of regulation.

In seeking to clarify the debate, we propose a framework for classifying regulation as EB or AB. We focus on regulation with a financial stability objective.

There are four main takeaways:

• **Basics**. Financial stability hinges on the resilience of financial activities that sustain the real economy – eg lending, deposit-taking, insurance underwriting, investing, trading, clearing and payments. Entities are the entry point of all regulatory measures.

• **Definitions**. AB regulation strengthens the resilience of a systemically important activity directly, by constraining entities in their performance of that activity alone.

EB regulation strengthens the resilience of activities indirectly, by imposing restrictions on their combination at the level of entities.

It reduces the likelihood and repercussions of the failure of entities, defined to include, besides insolvency, any other disruption to the entities' functioning that may affect financial stability.

• **Suitability**. There is a case for AB regulation when:

(i) an activity can fail even if the entities performing it do not, and

(ii) it is feasible to constrain this activity in isolation.

By contrast, EB regulation helps prevent systemic events due to entities failing in the performance of a combination of activities.

Since such combinations – notably, in the form of leverage or maturity transformation – are essential to much of financial intermediation, EB measures sit at the core of financial stability regulation.

• **Prioritisation and level playing field**. Within the EB and AB categories, it is useful to distinguish between micro- and macroprudential (MiP and MaP) measures.

When of a MaP nature, an EB or an AB measure should impose stricter constraints on entities of greater systemic importance.

Thus, not just EB but, contrary to a widely held view, AB regulation too need not be consistent with a level playing field.

The note is structured as follows. By way of prologue, the first section briefly recalls the relationship between three key elements of the financial system – functions, activities and entities – and defines financial stability and "failure".

The second provides definitions of EB and AB regulation.

The third considers conditions under which the pursuit of financial stability calls for using either EB or AB regulation. It also discusses when it is optimal to implement measures of each type in tandem, so that they reinforce each other.

The fourth relates the EB and AB classifications to the MiP and MaP dimensions of regulation.

The fifth applies the framework, first to the regulation of collective investment vehicles – such as money market mutual funds or open-ended bond funds – and then to that of big techs.

The last section concludes.

To read more: https://www.bis.org/fsi/fsipapers19.pdf

PCAOB Seeks Public Comment on Five-Year Strategic Plan for Protecting Investors

Draft plan outlines four goals: Modernize Standards, Enhance Inspections, Strengthen Enforcement, Improve Organizational Effectiveness

The Public Company Accounting Oversight Board (PCAOB) released a draft of its five-year strategic plan, inviting the public to comment on how the organization will pursue its mission of protecting investors from 2022 to 2026. The plan lays out an ambitious roadmap built around four goals:

1. Modernizing standards;
2. Enhancing inspections;
3. Strengthening enforcement; and
4. Improving organizational effectiveness.

"The people we serve are top of mind in everything we do at the PCAOB, and we look forward to hearing from the public as we move forward with our ambitious plan to protect investors," said PCAOB Chair Erica Y. Williams.

- Comments on the draft plan must be received by September 15, 2022, and may be submitted by email to comments@pcaobus.org; or by postal mail to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803.

- All comments are made public and posted on the PCAOB website. Commenters are encouraged, but not required, to provide their name and professional affiliation.

Since January, the Board has taken significant actions to protect investors, including:

- Announcing one of the most ambitious standard-setting agendas in the PCAOB's history;

- More than doubling the PCAOB's average penalty against individuals and increasing the average penalty against firms by more than 65% compared to the last five years; and

- Hiring the first-ever Investor Advocate to elevate the voice of investors and establishing two new advisory groups: the Investor Advisory Group and the Standards and Emerging Issues Advisory Group.

ORGANIZATIONAL PRIORITIES

Three priorities guided us as we crafted this plan:

Investor Protection

The PCAOB must continue to boldly pursue our investor-protection mission through our standardsetting, inspections, and enforcement programs. The Goals set forth below outline how we aim to achieve our mission.

Engagement

We pursue our mission by interacting with our stakeholders, including investors, investor advocates, audit firms and individual auditors, audit committee members, financial statement preparers, other regulators, Congress, and academics.

Regular and meaningful dialogue with all of these stakeholders helps us learn about developments in auditing and the capital markets, advances in technology, the effects of our work on our stakeholders, and other topics.

We are already taking steps to increase our external engagement by standing up two advisory groups, and these groups have met and provided thoughts on our strategic direction.

We also have appointed an Investor Advocate and a Stakeholder Relations Associate Director. We will continue this vital engagement as part of the execution of our strategic plan.

Adaptability

The audit profession is constantly adapting, and the PCAOB must adapt as well. Public companies, broker-dealers, and audit firms are using technology in new ways. Public companies are more global, as are audits.

As audit firms expand their operations, and as the technical complexity of financial statements and audits increases, the effectiveness of an audit firm's quality control system continues to be critical.

Additionally, emerging trends – such as new approaches to raising capital

(including through special purpose acquisition companies), digital assets, the war for talent, and increased remote work at public companies, broker-dealers, and audit firms – are transforming auditing and financial statement preparation while creating additional risks.

The PCAOB must continue to anticipate and respond to developments in the audit profession. As a result, we are researching emerging trends and modernizing our standards to drive changes in auditing practices and enhance investor protection.

We are also continually improving our inspections program, using a data-driven and risk-based approach, with a focus on riskier engagements and audit areas.

We are committed to providing, to the extent permitted by law, timely information to the public on the results of our inspections.

We are also publishing more material to educate our stakeholders on our regulatory activities, including guidance addressing the implementation and application of our standards.

Finally, we are focused on aggressively pursuing all statutory legal theories for charging respondents and remedies available in executing our enforcement program, which is central to protecting investors and promoting the public interest.

GOALS

The execution of this ambitious plan requires the collaboration and commitment of the entire organization.

Although standard setting, inspections, and enforcement are the key public-facing programs necessary to achieve our statutory mandate, their success is highly dependent on the dedicated support of our other offices.

Our Office of International Affairs is at the forefront of our cooperation and collaboration with nonU.S. regulators to facilitate our international inspection and enforcement activities.

Our Office of Economic and Risk Analysis helps to guide our data-driven regulatory activities.

Our Office of the General Counsel provides expert legal advice to the Board and all of its divisions and offices.

Our Office of Communications and Engagement leads our internal and external engagement with our staff and stakeholders.

Our strength is also grounded in the staff in our Office of Administration, Office of Data, Security, and Technology, and Office of Enterprise Risk Management, who make our work possible.

Finally, our Office of Internal Oversight and Performance Assurance examines our programs and operations to help ensure their integrity, efficiency, and effectiveness.

Our standard-setting, inspections, and enforcement programs work together to advance our mission.

The standard-setting process produces standards that are clear and scalable; the inspection process provides insights on where standards could be improved, as well as information that may lead to investigations and enforcement; and the enforcement and investigations process informs the PCAOB on areas where we need to focus our inspection efforts or enhance standards.

These programs reinforce each other, and all three are shaped by input from, and with an eye toward protecting, investors.

Goal 1: Modernize Standards

In May 2022, we announced one of the most ambitious standard-setting agendas in the organization's history.

Effective audit, attestation, quality control, ethics, and independence standards advance audit quality and are foundational to the PCAOB's execution of its mission to protect investors.

These standards provide the requirements auditors must satisfy when conducting their audits.

They also serve as a basis against which our inspectors inspect firms and our enforcement teams investigate firms and associated persons and pursue disciplinary sanctions.

Yet, as important as these standards are, some of them were written by the audit profession and have not been updated since before the PCAOB was established in 2003, when they were adopted on what was intended to be an interim basis.

The world has changed since 2003, and our standards must adapt to keep up with developments in auditing and the capital markets.

We intend to modernize and streamline our existing standards and to issue new standards where necessary to meet today's needs.

Goal 1 Objectives:

Adopt Standards That Meaningfully Improve Audit Quality and Enhance Our Ability to Enforce the Standards and Inspect for Compliance

We will improve audit quality by adopting standards that are clear and scalable, to account for differences in the complexities and sizes of audit firms and the public companies and broker-dealers they audit.

We expect to propose and adopt numerous amendments and new standards over the coming years, in accordance with our standard-setting and research agendas.

We also plan to evaluate certain existing standards to determine whether they are outmoded.

Our standard-setting agenda is necessarily dynamic and will be updated in response to our regulatory activities and engagement with our external stakeholders.

We plan to continue to focus on emerging risks and trends, updating our standards as practices in financial reporting and the audit profession evolve.

Engage in Robust Dialogue With Stakeholders

Our standards are developed with input from the public through, among other things, the noticeand-comment process.

In addition, we gain ongoing input and insights from our advisory groups in advancing our mission.

We look forward to receiving comments on our proposed standards and to working with our advisory groups to understand the perspectives of key stakeholders as we revisit some existing standards and develop and adopt new standards.

Evaluate Developments in Data and Technology

We will continue to assess whether there is a need for guidance, changes to PCAOB standards, or other action in light of the increased use of technology-based tools by auditors and financial statement preparers.

This assessment includes evaluating the role technological innovation plays in driving audit quality.

Research from this effort may give rise to individual standard-setting projects and inform the nature and scope of other projects that are on the standard-setting agenda.

In addition, we will look for opportunities to leverage our internal teams and external experts when developing thought leadership on the impact of emerging technologies on audit quality.

Goal 2: Enhance Inspections

Inspecting registered public accounting firms' audits and quality control systems for compliance with applicable laws, rules, and standards is one of the most important tools the PCAOB has to protect investors.

Inspections also provide an opportunity to inform the PCAOB's standard-setting activities by observing firms' practices.

Goal 2 Objectives:

Perform Quality Inspections

We will continue to perform robust inspections that assess firms' compliance with applicable laws, rules, and standards.

Our Inspections Quality Group will continue to drive excellence across our inspections function by assessing the quality, consistency, and efficacy of our inspections.

Increase Transparency in Reporting Inspection Results

Subject to our statutory limitations, we will continue our efforts to make publicly available relevant and reliable information that is useful to our stakeholders.

This includes increasing the transparency of our inspection reports.

Improve the Timeliness of Inspection Reports

We are taking additional steps to streamline our internal processes to enable more timely issuance of inspection reports.

We are renewing our focus in this area and are committed to delivering meaningful results.

Deliver Useful Guidance to the Audit Profession

We will publish staff Spotlight reports and other materials that describe observations from our inspection activities, including areas where we find common deficiencies.

In addition, as appropriate, we plan to continue to highlight "good practices" implemented by some firms where such deficiencies are not observed.

Our focus is to provide audit committees, auditors, and others with additional context and relevant information on our inspections to further their understanding and support their efforts to proactively improve audit quality.

Place Greater Focus on Firms' Remediation Efforts

The PCAOB will place a greater emphasis on the expectation that firms take meaningful actions to remediate criticisms of, or potential defects in, their quality control systems in accordance with PCAOB guidance.

We expect firms to be diligent in designing and implementing actions that address the identified criticisms in a timely manner.

Consistent with the requirements of the Sarbanes-Oxley Act, we will publish all quality control criticisms that the firms have not remediated to the Board's satisfaction within the required time period.

Goal 3: Strengthen Enforcement

The PCAOB's enforcement program protects investors by holding accountable those who violate PCAOB rules and standards and other related laws and rules.

Assertive enforcement and meaningful sanctions for those who violate the rules also deter wrongdoing.

Goal 3 Objectives:

Rigorously Enforce PCAOB and Other Applicable Standards, Laws, and Rules

Rigorous enforcement incentivizes the auditing profession to diligently follow all applicable requirements and, in so doing, promotes audit quality and investor protection.

The PCAOB will take a more assertive approach to bringing enforcement actions. We will diligently pursue and hold accountable those who violate our rules and standards and related laws and rules, including violations that result from negligent conduct.

We will continue to pursue other serious cases involving reckless, intentional, and repeated violations of our rules and standards.

Investor protection demands that we consider whether violations of our rules and standards merit enforcement actions, even if we have never brought charges under those rules or standards before.

Impose More Significant Penalties and Other Relief

We will use all of the statutory tools available to our enforcement program, and, when the conduct warrants it, we will use them to the maximum extent possible.

The penalties, bars, suspensions, and other relief that the PCAOB pursues through its enforcement actions must protect investors and the public from wrongdoers and incentivize audit firms and professionals to perform their roles with the utmost quality and integrity.

Increase Transparency in Enforcement Actions

We will increase transparency in settled enforcement actions by more frequently naming the issuers or broker-dealers whose audits are implicated and by increasing transparency around penalties.

Collaborate With Other Regulators to Bring Concurrent Actions

We will continue to coordinate our enforcement work with other regulators, including internationally, as appropriate.

We will strive to bring concurrent enforcement actions with the SEC where the attorneys and accountants in the PCAOB's Division of Enforcement and Investigations can provide expertise in bringing cases against audit firms and individual auditors.

Goal 4: Improve Organizational Effectiveness

The PCAOB's most valuable resource is people, including the approximately 800 dedicated professionals on our staff who carry out our mission and our external stakeholders whose input helps to make us more effective.

Investing in our staff and enhancing our stakeholder engagement will improve both our overall organizational effectiveness and our efforts to meet our mission.

Goal 4 Objectives:

Radically Improve the Employee Experience

The PCAOB cannot achieve its mission without a talented, experienced, and engaged staff. We rely on their expertise, skills, and experience to write standards, inspect audit firms, bring enforcement actions, and support our efforts.

We will strive to retain current staff members and attract future employees by increasing employee engagement.

This means investing in professional development, fostering a diverse and inclusive workplace culture, and promoting employee well-being.

We will enhance productivity and a sense of connectedness among employees through working arrangements that provide flexibility, autonomy, and opportunities for meaningful employee interaction.

Enhance Stakeholder Engagement

We will make external engagement an institutional capability and a program through which the PCAOB seeks and receives feedback from stakeholders and shares its story.

We recognize the need to increase and improve our engagement with investors, investor advocates, audit firms and individual auditors, audit committee members, financial statement preparers, other regulators in the U.S. and abroad, Congress, and academics as we pursue our mission.

Ongoing dialogue makes us more effective in executing our mission. Re-establishing the PCAOB's advisory groups was the first step, and we will continue to enhance this work.

As noted above, we have expanded senior leadership by hiring an Investor Advocate to further the interests of investors at the PCAOB.

We will launch an investor education campaign to help investors understand the critical role that the PCAOB plays in the financial reporting system.

We have also filled an Associate Director for Stakeholder Relations position to increase and enhance our engagement with other external stakeholders.

We plan to consider new ways to provide investors with user-friendly data and information regarding our regulatory activities.

Improve Internal Processes to Make It Easier for PCAOB Staff to Advance the PCAOB's Mission

We will create greater impact and reinvigorate the PCAOB staff by removing impediments and adding tools to help them do the PCAOB's work more effectively.

As the external environment changes ever more rapidly, the PCAOB needs to become more agile.

That means staying focused on the mission, engaging in more efficient decision-making, achieving greater coordination across the organization, and clearing away barriers so that talented professionals can get things done. As we make progress in these areas, we will be poised to more effectively execute our mission.

To read more: https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/draft-2022-2026-strategic-plan.pdf?sfvrsn=65f830db_4

Audit Committee Resource

This Spotlight serves as a timely reference point for auditors, audit committee members, investors, and others.

It offers questions that audit committees of public companies might want to consider as part of their ongoing engagement and discussion with their auditors, including how the auditors are responding to the financial reporting and audit risks posed by the current economic environment.

Stakeholders may also consider other Spotlights as reference points for relevant discussions, including our June 2022 Spotlight: "Staff Overview for Planned 2022 Inspections." You may visit: https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/2022-inspections-overview-spotlight.pdf?sfvrsn=8d3e48ef_2/2022-Inspections-Overview-Spotlight.pdf

Interactions with Management

As a reminder, management is responsible for the preparation of the company's financial statements and related disclosures, as well as maintaining effective internal control over financial reporting (ICFR) and disclosure controls and procedures.

Management should provide the audit committee with a summary of key areas it needs to evaluate, including new matters. The audit committee should consider asking similar questions to management teams.

FRAUD AND OTHER RISKS

- How have economic factors (e.g., supply chain disruption, inflation) influenced the auditor's risk assessment for the current year's audit?

- Have emerging issues influenced the nature, timing, or extent of procedures the auditor plans to perform to address the risk of material misstatement due to fraud?

- If management made changes to certain accounting policies, practices, or estimates as a result of current events (e.g., higher inflation and costs of capital, the invasion of Ukraine), has the auditor considered how those changes may impact the planned audit strategy?

- If other auditors were used in Russia, Ukraine, or Belarus, were there difficulties in communicating with or assessing the other auditor's procedures? If so, did the lead auditor determine that it was required to develop an alternative plan for supervising or using the work and reports of other auditors?

- How does the lead auditor anticipate handling work going forward that was previously done by other auditors in Russia, Ukraine, or Belarus?

Responding to Cyber Threats

- What is the auditor's view on management's cybersecurity risk assessment approach, overall cyber assessment, and conclusions?

- Did the auditor identify and assess cybersecurity risks and evaluate potential cyber breaches within the company's operations, which may have an effect on financial reporting? If so, what were the results of the auditor's procedures?

- Has the auditor changed its overall approach to addressing cybersecurity risks as a result of increased cyber threats to corporations and government agencies from external sources?

Use of Data and Technology in the Audit

- How is the use of technology in the audit helping the auditors perform a more effective audit?

- Are there any complexities (e.g., multiple systems) or concerns (e.g., data security) at the company preventing the use of technology by the auditor?

To read more: https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/documents/2022-audit-committee-resource-spotlight.pdf?sfvrsn=fb550f2b_4

Social Media Monitoring Tools: An In-Depth Look

NATO STRATEGIC COMMUNICATIONS CENTRE OF EXCELLENCE

The growing relevance of social media

Information is power and, in this day and age, the Internet is increasingly becoming the primary source and vector for the transfer of information between people.

Digital media is an essential source of information for people worldwide. Compared to traditional media, digital media consumption grows rapidly with each year.

The COVID-19 pandemic contributed to this process, with most work, learning, entertainment and communication in technologically advanced countries transferring to the online environment.

Social media plays a significant role in people's lives. There are 4.2 billion social media users worldwide, more than 53% of the world's population.

Since 2021, the number of social media users has grown by 490 million, a 13% increase. This means that the number of new social media users grew by more than 900 users per minute.

The amount of content generated on social media is tremendous—there are 474,000 Tweets, 69 000 Instagram posts, and 400 hours of new Youtube videos uploaded each minute.

On Facebook alone, there are 510,000 comments, 293,000 status updates, and 136,000 photos uploaded per minute.

An Introduction to Media Monitoring

From press clippings in the area of traditional media to online media monitoring (or sometimes also listening), online media monitoring is used to observe social media and other media on the Internet (websites, blogs, news, etc.).

Tools to conduct monitoring can vary, from a simple Excel sheet, to using a specific tool to analyse data. In addition, there are possibilities to analyse data on-the-go via mobile-friendly platforms.
One of the important aspects is to know how and what data to gather. However, one of the challenges is getting useful insights from the gathered data as this is a process on its own.

The aims of media monitoring can vary, and analysis can be conducted by different parties. As these tools primarily have a limited trial or a demo, depending on the target group (for businesses, decision/makers, media specialists, governments etc.); this is also reflected in the business plans of the tools.

Public figures may be interested in how their brand is doing and what people say about them; entrepreneurs and businesses may be interested in how their products are being received, PR specialists or agencies would be interested in keeping their eye on their clients and online campaigns.

Also, understanding the depth of and belief in disinformation and its effect on democracy or a military operation, governments and military organisations can use media monitoring to serve their interests.

The gathered data can provide many insights into current or past conversations about a certain topic, opinions of the public, identify sources or originators of information, and more.

It all can be done manually by creating a systematic overview of when, what, and how something was posted. For large amounts of work, automation is helpful to process data. With automation, third-party tools and getting data directly from social media platforms is possible.

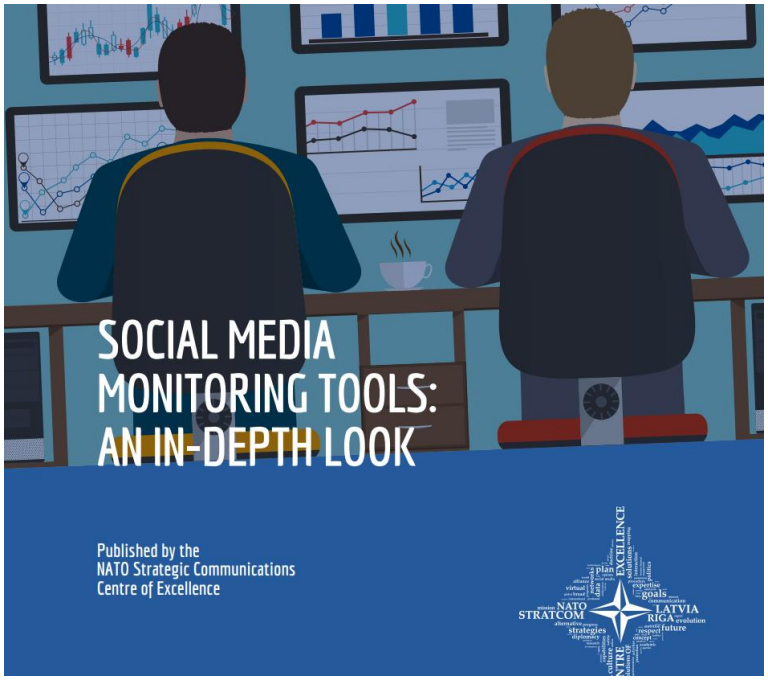
The analysis can be done based on different levels, starting from hashtags or finding trending topics, but also in a more complex way of understanding how something was commented, for example, searching for negative comments about a brand.

Therefore, the main functionalities that help make sense of the data would then include real-time listening, analysis, access to historical data, and visualisation of data via dashboards.

In order to get information, there are various ways to get the data—either programmatically, using the methods officially provided by social media platforms, or using the tools discussed in this report, or manually searching social media platforms using their built-in functionality.

To read more: https://stratcomcoe.org/publications/social-media-monitoring-tools-an-in-depth-look/245

Consideration	Description
Social media platforms	How much data the tool analyses, which platforms the tool assesses, if data is filtered and how the tool analyses visual content
News	If the tool analyses news and if it can access paid content
Historical data	If the platform analyses it and the length of the analysis period
Keyword search	Number limits, granularity, response time, ease of use
Artificial Intelligence (AI) tools	Presence of AI-assisted analytics (opinion mining, semantic search), how well these tools work in a multi-lingual setting
Visualisations	Which type of visualisations does a platform provide for the user, and how easy is it to get and customise them
Alerts	If the user can set them, how are they set, and how fast and in which channels the tool alerts the user
Posting, scheduling	If the platform supports not only analytics but also engagement and posting on different social media platforms
Mobile functionality	The possibility to access the tool using a mobile device
Support	How fast and helpful is the response from the tool's team
Trial period availability	If it is possible to try out the tool before committing to the service
Application Programming Interface (API) access	Necessity of having API access, what type of data could be accessed via API, what are daily/monthly API usage limits
Cost range and cost-dependent features	Price, pricing model, if costs change depending on number of used features, monitored queries, users, etc.



U.S. Treasury Sanctions Notorious Virtual Currency Mixer Tornado Cash

U.S. DEPARTMENT OF THE TREASURY

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) sanctioned virtual currency mixer Tornado Cash, which has been used to launder more than $7 billion worth of virtual currency since its creation in 2019.

This includes over $455 million stolen by the Lazarus Group, a Democratic People's Republic of Korea (DPRK) state-sponsored hacking group that was sanctioned by the U.S. in 2019, in the largest known virtual currency heist to date.

Tornado Cash was subsequently used to launder more than $96 million of malicious cyber actors' funds derived from the June 24, 2022 Harmony Bridge Heist, and at least $7.8 million from the August 2, 2022 Nomad Heist.

Today's action is being taken pursuant to Executive Order (E.O.) 13694, as amended, and follows OFAC's May 6, 2022 designation of virtual currency mixer Blender.io (Blender).

"Today, Treasury is sanctioning Tornado Cash, a virtual currency mixer that launders the proceeds of cybercrimes, including those committed against victims in the United States," said Under Secretary of the Treasury for Terrorism and Financial Intelligence Brian E. Nelson.

"Despite public assurances otherwise, Tornado Cash has repeatedly failed to impose effective controls designed to stop it from laundering funds for malicious cyber actors on a regular basis and without basic measures to address its risks. Treasury will continue to aggressively pursue actions against mixers that launder virtual currency for criminals and those who assist them."

Treasury has worked to expose components of the virtual currency ecosystem, like Tornado Cash and Blender.io, that cybercriminals use to obfuscate the proceeds from illicit cyber activity and other crimes.

While most virtual currency activity is licit, it can be used for illicit activity, including sanctions evasion through mixers, peer-to-peer exchangers, darknet markets, and exchanges.
This includes the facilitation of heists, ransomware schemes, fraud, and other cybercrimes. Treasury continues to use its authorities against malicious cyber actors in concert with other U.S. departments and

agencies, as well as foreign partners, to expose, disrupt, and hold accountable perpetrators and persons that enable criminals to profit from cybercrime and other illicit activity.

For example, in 2020, Treasury's Financial Crimes Enforcement Network (FinCEN) assessed a $60 million civil money penalty against the owner and operator of a virtual currency mixer for violations of the Bank Secrecy Act (BSA) and its implementing regulations.

MIXER: TORNADO CASH

Tornado Cash (Tornado) is a virtual currency mixer that operates on the Ethereum blockchain and indiscriminately facilitates anonymous transactions by obfuscating their origin, destination, and counterparties, with no attempt to determine their origin.

Tornado receives a variety of transactions and mixes them together before transmitting them to their individual recipients. While the purported purpose is to increase privacy, mixers like Tornado are commonly used by illicit actors to launder funds, especially those stolen during significant heists.

Tornado is being designated pursuant to E.O. 13694, as amended, for having materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of, a cyber-enabled activity originating from, or directed by persons located, in whole or in substantial part, outside the United States that is reasonably likely to result in, or has materially contributed to, a significant threat to the national security, foreign policy, or economic health or financial stability of the United States and that has the purpose or effect of causing a significant misappropriation of funds or economic resources, trade secrets, personal identifiers, or financial information for commercial or competitive advantage or private financial gain.

ILLICIT FINANCE RISKS

Virtual currency mixers that assist criminals are a threat to U.S. national security. Treasury will continue to investigate the use of mixers for illicit purposes and use its authorities to respond to illicit financing risks in the virtual currency ecosystem.

Criminals have increased their use of anonymity-enhancing technologies, including mixers, to help hide the movement or origin of funds. Additional information on illicit financing risks associated with mixers and other anonymity-enhancing technologies in the virtual asset ecosystem can be found in the 2022 National Money Laundering Risk Assessment.

Those in the virtual currency industry play a critical role in complying with their Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) and sanctions obligations to prevent sanctioned persons and other illicit actors from exploiting virtual currency to undermine U.S foreign policy and national security interests.

As part of that effort, the industry should take a risk-based approach to assess the risk associated with different virtual currency services, implement measures to mitigate risks, and address the challenges anonymizing features can present to compliance with AML/CFT obligations.

As today's action demonstrates, mixers should in general be considered as high-risk by virtual currency firms, which should only process transactions if they have appropriate controls in place to prevent mixers from being used to launder illicit proceeds.

SANCTIONS IMPLICATIONS

As a result of today's action, all property and interests in property of the entity above, Tornado Cash, that is in the United States or in the possession or control of U.S. persons is blocked and must be reported to OFAC. In addition, any entities that are owned, directly or indirectly, 50 percent or more by one or more blocked persons are also blocked.

All transactions by U.S. persons or within (or transiting) the United States that involve any property or interests in property of designated or otherwise blocked persons are prohibited unless authorized by a general or specific license issued by OFAC, or exempt.

These prohibitions include the making of any contribution or provision of funds, goods, or services by, to, or for the benefit of any blocked person and the receipt of any contribution or provision of funds, goods, or services from any such person.

The power and integrity of OFAC sanctions derive not only from OFAC's ability to designate and add persons to the SDN List, but also from its willingness to remove persons from the SDN List consistent with the law. The ultimate goal of sanctions is not to punish, but to bring about a positive change in behavior. For information concerning the process for seeking removal from an OFAC list, including the SDN List, please refer to OFAC's Frequently Asked Question 897 here. For detailed information on the process to submit a request for removal from an OFAC sanctions list, click here.

For identifying information on the entity sanctioned today, as well as associated virtual wallet addresses, click here.

To report a cyber-crime, contact the Federal Bureau of Investigation's Internet Crime Complaint Center here.

For the U.S. government's 2020 DPRK Cyber Threat Advisory, click here.

For information on complying with virtual currency sanctions, see OFAC's Sanctions Compliance Guidance for the Virtual Currency Industry here and OFAC's FAQs on virtual currency at: https://home.treasury.gov/policy-issues/financial-sanctions/faqs/topic/1626

Joint report on the extent of voluntary disclosure of principal adverse impact under the Sustainable Finance Disclosure Regulation (SFDR)

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (hereinafter 'SFDR') tasks the ESAs, under its Article 18, to 'take stock of the extent of voluntary disclosures in accordance with point (a) of Article 4(1) and point (a) of Article 7 (1)' and that 'By 10 September 2022, and every year thereafter, the ESAs shall submit a report to the Commission on best practices and make recommendations towards voluntary reporting standards'.

Article 18 also states: 'That annual report shall consider the implications of due diligence practices on disclosures under this Regulation and shall provide guidance on this matter'.

Contents

To gather information for the purposes of this report, the European Supervisory Authorities (ESAs) have launched through the Joint Committee (JC), as well as through the relevant Standing Committees of the ESAs, a survey of its members, the National Competent Authorities ('NCAs'), with the purpose of gathering feedback on the current state of entity level voluntary disclosures under Article 4 (1) point (a) SFDR.

With the view of getting a complete picture of the state of voluntary disclosures in the market, the ESAs have decided to ask NCAs for their feedback also on the disclosures for financial market participants (FMPs) choosing to explain why they do not consider adverse impacts of investment decisions on sustainability factors as per Article 4 (1) (b) SFDR, even if not explicitly requested by Article 18 SFDR.

The survey has not covered disclosures under Article 7 (1) SFDR as it is expected that FMPs will start applying those by 30 December 2022.

The ESAs have carefully analysed the 33 responses received and developed an indication of good examples of best practices observed by April 2022 and preliminary recommendations.

Those are based on a combination of responses from the NCAs, of which the most relevant extracts are reported anonymously in Section 4.3 of this report, and ESAs' staff's desk-based research.

The first report's preliminary conclusions are that the extent of compliance with voluntary disclosures under Article 4 (1) (a) varies significantly across jurisdictions and FMPs under the scope of SFDR, and it is difficult to identify definite trends.

It was not possible to draw conclusions in terms of the differences across FMPs based on size, nature, and scope of activities.

At this stage, the ESAs have identified that the disclosures for FMPs that do not take into account adverse impact of investment decisions on sustainability factors under Article 4 (1) (b) are lacking in detail, and FMPs largely fail to provide clear reasons for why they do not do so, with insufficient information as to whether and when they intend to consider such adverse impacts.

Finally, NCAs have reported overall low level of disclosure of the degree of alignment with the objective of the Paris agreement, with disclosures on the alignment being vague and high level.

Section 2 this report includes the background and rationale of this exercise and lessons learned from the first year of implementation of the voluntary disclosures, based on responses from NCAs.

Section 3 provides an overview of good examples of best practices, and other less good examples of voluntary disclosures under Article 4 (1) (a) and (b) SFDR.

The last part of this section also includes recommendations to the Commission and NCAs.

The Annex provides an overview of the questions included in the survey with some highlights from the responses received from the NCAs.

The ESAs would like to state that SFDR has become applicable on 10 March 2021. However, as the detailed Regulatory Technical Standards (RTS) on these disclosures are not yet applicable and given the still emerging NCAs' supervisory practices on voluntary disclosures by FMPs, the indications of good examples of best practices and recommendations included in this report must be considered preliminary at this stage and will be complemented further in subsequent reports.

In addition, as it is too early to offer meaningful guidance on the implications for due diligence disclosures more generally, the ESAs plan to address this in future iterations of the report.

Finally, the future iterations will also cover voluntary disclosures under Article 7 (1), which will only be fully applicable from 30 December 2022.

In terms of next steps, the Commission may consider the ESAs' findings and take those into account in any preliminary evaluation on the functioning of the SFDR.

The ESAs may also consider the findings in the work on the new mandate received on 28 April 2022 to review the PAI framework.

To read more:
https://www.eiopa.europa.eu/sites/default/files/publications/reports/jc-2022-35-joint-esas-report-on-the-extent-of-voluntary-disclosures-of-pai-under-sfdr.pdf

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