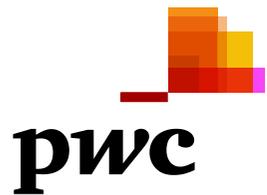


June 2016

PwC Regulatory Update



1

Legislative/Government developments

Due to the Federal election, there were no legislative/government developments in June 2016. Both Houses of the Parliament were dissolved on 9 May 2016 and the Coalition Government assumed a 'caretaker role' in the period preceding the election on 2 July 2016.

2

What have the regulators been up to?

APRA

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Reserve Bank of Australia

APRA releases discussion paper on proposed changes to general insurance statistical publications

APRA has released a [discussion paper](#), *Publication of general insurance*, seeking feedback on the proposal to publish more general insurance statistics, including data recently determined non-confidential in order to improve the relevance of APRA's statistics to users, and address feedback in stakeholder surveys and other formal and informal consultations.

APRA proposes to:

- publish more industry-level statistics each quarter
- modernise the segmentation of industry-level statistics
- publish more institution-level statistics each quarter and annually
- publish new industry-level claims development statistics by class of business.

All the proposals are based on data already reported to APRA by general insurers.

Submissions are due by 29 July 2016.

See [media release](#)

APRA proposes revisions to the role of the Appointed Actuary and actuarial advice for insurers

APRA has released a [discussion paper](#), *The role of the Appointed Actuary and actuarial advice within insurers*, seeking feedback on proposals to streamline and sharpen the role of the Appointed Actuary within general and life insurers. The Appointed Actuary plays an important role by providing independent, expert advice to boards and senior management on the key financial risks facing an insurer.

APRA has identified a set of proposals to improve the functioning of the Appointed Actuary role by strengthening the ability of the Appointed Actuary to act as a key strategic advisor to insurers and their boards. The feedback from actuaries, industry bodies and other interested parties suggested the increasing number of tasks required of Appointed Actuaries has led to the role being more focused on compliance rather than strategic advice.

The main proposals in the discussion paper cover the following areas:

- introducing a purpose statement for Appointed Actuaries
- implementing a clear actuarial advice framework
- managing potential conflicts of interest
- improving reporting requirements
- simplifying prudential standards.

Submissions are due by 21 September 2016.

See [media release](#)

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What have the regulators been up to? (cont'd)

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Authorised Deposit-taking Institutions (ADIs) Points of Presence - June 2016

APRA has released a [letter](#) to all ADIs, outlining its response to submissions in relation to consultation on ADIs' Points of Presence (PoP) statistics.

In the discussion paper, APRA sought feedback on the usefulness of the PoP statistics, and the proposed content and format of the streamlined statistics. The submissions indicated support for retaining the PoP statistics, with limited feedback provided in relation to the proposed content and format of the streamlined PoP statistics.

After considering the submissions, APRA concluded that it should continue to collect and publish PoP statistics, but in a modified form. APRA therefore intends to implement the following revisions to the PoP statistics:

- establishing a tighter definition of other face-to-face points of presence, which will result in greater consistency of reporting of these service channels
- removing the requirement to report non face-to-face points of presence
- collecting more accurate locational data of the points of presence
- capturing additional information about the remoteness of these locations using the Australian Statistical Geography Standard.

The first edition of the streamlined PoP statistics for the reporting period ending on 30 June 2017 will be published in late 2017.

See [media release](#)

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What have the regulators been up to? (cont'd)

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ASIC consults on a regulatory sandbox licensing exemption

ASIC has released a consultation paper, *Further measures to facilitate innovation in financial services* ([CP 260](#)), seeking feedback on proposed further measures to facilitate innovation in financial services. ASIC has identified some barriers faced by new fintech businesses seeking to enter the financial services market. These barriers include speed to market and meeting the organisational competence requirements of a licensee.

ASIC is seeking feedback on:

- additional guidance about when ASIC considers a responsible manager has appropriate knowledge and skills
- modifying ASIC policies to allow some small-scale, heavily automated businesses to rely, in part, on sign-off from an appropriately experienced third party in order to meet their organisational competence obligation
- a conditional, industry-wide exemption to allow new Australian businesses to test certain financial services for six months without holding an AFS licence.

[Infographic](#) on current financial services framework and ASIC's proposals in CP 260 is also available.

Submissions are due by 22 July 2016.

See [media release](#)

Singaporean and Australian regulators sign agreement to support innovative businesses

The Monetary Authority of Singapore (MAS) and ASIC have signed an Innovation Functions Co-operation [Agreement](#), aiming to help innovative businesses in Singapore and Australia in their foray to the respective markets.

The agreement will enable innovative FinTech companies in Singapore and Australia to establish initial discussions in each other's market faster and receive advice on required licences, thus helping to reduce regulatory uncertainty and time to market.

To qualify for the support offered by the agreement, businesses will need to meet the eligibility criteria of their home regulator. Once referred by the regulator, and ahead of applying for licence to operate in the new market, a dedicated team or contact person will help them to understand the regulatory framework in the market they wish to join, and how it applies to them.

ASIC and MAS have also committed to exploring joint innovation projects together, and to share information on emerging market trends and their impact on regulation.

See [media release](#)

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ASIC reports on ASX's listing standards

ASIC has released a report, *Assessment of ASX Limited's listing standards for equities (REP 480)*, concluding that up to this point in time ASX has met its statutory obligations. In reaching this conclusion, ASIC was informed by its own surveillance of ASX's equities market and its ongoing oversight of ASX and its surveillance practices. ASIC has also engaged extensively with ASX and regulators in the United Kingdom, United States, Canada, Singapore, Hong Kong and New Zealand.

In recognition of important developments taking place in financial markets here and overseas, ASX has recently undertaken a range of initiatives designed to ensure its listing standards continue to be fit for purpose. These include:

- undertaking a risk and trend analysis of developments in its listings market
- reviewing admission and governance processes to support early identification and decision-making on an entity's ability to meet the listing rules
- undertaking an international scan of developments in international markets to evaluate their likely impact here
- working with ASIC to impose a moratorium on the listings of entities adopting a variable interest entity (VIE) structure.

The report also highlights a number of good practices ASIC has observed, which may assist all Australian listing markets to ensure their listing standards continue to support markets that are fair, orderly and transparent.

See [media release](#)

ASIC reports on decisions to cut red tape – October 2015 to March 2016

ASIC has released its latest report, *Report 483 Overview of decisions on relief applications (October 2015 to March 2016) (REP 483)*, with the aim of improving the level of transparency and the quality of publicly available information about decisions ASIC makes when asked to grant relief from provisions of the *Corporations Act 2001* (Corporations Act) or *National Consumer Credit Protection Act 2009* (National Credit Act).

Businesses frequently approach ASIC for assistance to help make the law work better for them. ASIC uses its discretion to vary or set aside certain requirements of the law where there is a net regulatory benefit or where ASIC can facilitate business activity or cut red tape without harming other stakeholders.

The report summarises examples of situations where ASIC has exercised, or refused to exercise, its exemption and modification powers under the Corporations Act and the licensing and responsible lending provisions of the National Credit Act. The report also highlights instances where ASIC has considered adopting a no action position regarding specified non compliance with statutory provisions.

The Report also provides examples of decisions that demonstrate how ASIC has applied its policy in practice, which ASIC believes could be of particular interest and use for capital market participants and for participants in the financial services industry.

See [media release](#)

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ASIC releases report highlighting significant failures in the retail OTC derivatives industry

ASIC has released a report, *Compliance review of the retail OTC derivatives sector* ([REP 482](#)), detailing the findings of a recent surveillance program and identifying some serious and widespread compliance failures in the retail OTC derivatives industry.

ASIC undertook a review against the following seven compliance risks:

- failure to comply with the net tangible assets (NTA) requirement
- failure to comply with notification requirements for change of control events and issues around new ownership compliance
- failure to comply with client money provisions
- poor, misleading or deceptive Product Disclosure Statements (PDS) and website disclosure
- failure to comply with financial reporting obligations
- failure to supervise authorised representatives and non-compliance by authorised representatives
- claims that no financial services are being provided under the AFS licence.

ASIC's review identified a high degree of non-compliance. Over 70% of AFS licensees reviewed demonstrated issues with three or more of the seven compliance risks.

See [media release](#)

Limited AFS licensing regime: Transitional arrangements end 30 June 2016

ASIC has warned that from 1 July 2016, accountants must hold a limited Australian financial services (AFS) licence or be an authorised representative of a licence-holder or licensee in order to provide financial product advice on self-managed superannuation funds (SMSFs). This follows the three-year transition period that commenced on 1 July 2013.

ASIC had earlier issued a [media release](#) warning accountants wishing to apply for a limited AFS licence that failure to lodge applications in line with ASIC's requirements by 1 March 2016 would result in a significant risk that their application would not be assessed and approved by 30 June 2016.

In cases where ASIC has received an application but has not granted a licence by then, the applicant will not be able to provide SMSF-related financial advice and dealing services. They will not be able to give such advice until they are granted a licence or they become an authorised representative of a licensee.

The information sheet ([INFO 179](#)) is available for anyone intending to apply for a 'limited' AFS licence.

See [media release](#)

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Speech: Building trust and confidence - ASIC priorities

Greg Medcraft, ASIC Chairman, addressed the Annual Stockbrokers Conference. He discussed the topic, *Building trust and confidence: ASIC priorities*.

He started his speech by highlighting that ASIC's fundamental objective is to allow markets to fund the real economy and in turn, economic growth. This contributes to improved standards of living for all Australians. This is dependent on Australians having trust and confidence in the markets and is reflected in the twin regulatory strategic priorities of:

- investor and financial consumer trust and confidence
- fair, orderly, transparent and efficient markets.

ASIC's focus is on being proactive and forward looking to meet strategic priorities and face challenges which are set out in ASIC's four-year Corporate Plan. This is particularly important given the rapid pace of technological change.

He then provided an update on ASIC's Market Entity Compliance System and Market Analysis and Intelligence surveillance system.

He also provided an overview of the Government announcements made in April 2016 about ASIC, and how ASIC is responding in the markets area by outlining its three priorities for market integrity.

The full speech can be found [here](#).

Speech: Tone from the top: Influencing conduct and culture

Greg Medcraft, ASIC Chairman, addressed the Thomson Reuters 4th Annual Australian Regulatory Summit. He discussed why culture matters, and what is the role of the board, senior executives, and staff of an organisation in respect of culture.

The main points of the speech are:

- ASIC is concerned about culture because it is a key driver of conduct within the financial services industry. By focusing more on culture, ASIC expects to get early warning signs where things might be going wrong to help disrupt bad behaviour before it happens and catch misconduct early. It will also help ASIC in identifying not just individual instances of misconduct, but broader, more pervasive problems.
- In an organisation, values and cultural leadership must come from the top. The role of the board, senior executives and management is critical in setting the right culture.
- The board plays an important role in setting the tone, influencing and overseeing culture, and ensuring the right governance framework and controls are in place.
- The senior management is responsible for creating a culture where everyone has ownership and responsibility for 'doing the right thing'. Along with the board, they should set the values and principles of a firm's culture and ensure these are reflected in the business's strategy, business model, risk appetite, and compliance and governance frameworks.

The full speech can be found [here](#).

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Speech: Directors' duties and culture

Greg Medcraft, ASIC Chairman, addressed the Law Council of Australia, Business Law Section Corporations Workshop.

The main points of the speech are:

- ASIC is concerned about culture because it is a key driver of conduct within the financial services industry. Poor culture often leads to poor outcomes for investors and consumers, impacts on the integrity of the Australian financial markets, and erodes investor and financial consumer trust and confidence.
- ASIC is of the view that values and culture leadership must come from the top. In setting the right tone from the top, the board might wish to consider how the board is modelling the firm's desired behaviours and values when interacting with management and staff, how the actions and behaviours of the board support and advance the firm's desired culture and how the board sees its role in relation to cultivating the firm's values and ensuring that the firm has a culture of integrity.
- He also highlighted the work done by ASIC on culture and conduct. ASIC is incorporating consideration of a firm's culture into risk-based surveillance reviews to better detect areas of misconduct. ASIC is particularly focused on remuneration structures, conflicts of interest, complaints handling, treatment of whistleblowers, and timeliness of breach reporting to ASIC.

The full speech can be found [here](#).

ASIC finalises relief to smooth transition for responsible entities to implement new tax system for managed investment trusts

Following its [announcement](#) on 2 June 2016, ASIC has drafted an [instrument](#) to grant relief to assist responsible entities of registered schemes to allow them to make changes to their constitutions without holding a members' meeting. This is to help them smoothly implement the new tax system for managed investment trusts should they make the choice to do so.

ASIC has also granted relief from the duty to treat members who hold interests of the same class equally where responsible entities attribute part of a determined trust component to a member under the new tax system.

This relief will reduce uncertainty and costs associated with the requirements that apply under the Corporations Act in relation to making amendments to the constitution of a registered scheme. It will also reduce uncertainty about breaches of the duty to treat members equally without compromising fairness.

Under the relief, responsible entities may make changes to a scheme constitution to the extent that it is necessary or incidental to the scheme being able to be operated in a manner permitted by the new tax system. This could include modifications allowing the responsible entity to elect into the new tax system, treat different classes as separate attribution managed investment trusts and specify a right to be indemnified out of scheme assets in relation to the proper performance of its duties. The relief is designed to provide flexibility to responsible entities when making changes in order to apply the new tax system for managed investment trusts to their scheme.

See [media release](#)

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What have the regulators been up to? (cont'd)

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ASIC consults on 'sunsetting' class orders about rights issue notifications and money market deposits

ASIC has released a consultation paper, *Remaking and repealing ASIC class orders on rights issue notifications and money market deposits* ([CP 261](#)), seeking feedback on proposals to remake class order [CO 02/225] *Rights issue notifications* into a new [instrument](#) and repeal a class order [CO 00/231] *Money market deposits*. Both class orders are due to expire on 1 April 2017.

The new instrument would continue the relief currently given by [CO 02/225] without significant changes, so that the ongoing effect will be preserved without any disruption. However, ASIC is proposing:

- to remove the relief from s1021C of the *Corporations Act* that is currently given by the class order as ASIC consider the relief is unnecessary
- to amend the conditions of the class order to facilitate electronic access to documents.

Submissions are due by 15 July 2016.

See [media release](#)

ASIC remakes 'sunsetting' class order on financial product advice – exempt documents

ASIC has released a new legislative instrument, following public consultation ([CP 251](#)), to replace its class order on financial product advice – exempt documents, which is due to expire on 1 April 2017.

ASIC has replaced the class order [CO 03/606] *Financial product advice: Exempt documents* without significant changes so that their ongoing effect will be preserved without any disruption into an [instrument](#), *ASIC Corporations (Financial Product Advice – Exempt Documents) Instrument 2016/356*.

See [media release](#)

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Consultation paper: Changes to Clearing Participant minimum core capital requirements approach

ASX has released a [consultation paper](#), *Changes to Clearing Participant Minimum Core Capital Requirements Approach*, seeking views on ASX's proposed change in approach to determining Participant minimum core capital requirements to more fully reflect the complexity inherent within a Participant's business.

Under the changes being considered, ASX would retain the current base core capital requirement of \$5m, \$10m, \$15m and \$20m (depending on number of market participants the Participant clears for), and would introduce additional core capital requirements dependent on whether the participant undertakes any client short ETO activity, own account business in financial products and/or non-ASX business. An additional minimum core capital requirement of \$2.5m or \$5m would apply for each such activity undertaken by that Participant depending on the level of such activity.

A transitional period of up to 12 months following introduction of the changes is proposed to allow Clearing Participants (CPs) to meet any increased Core Capital requirements. A transitional period of up to 6 months is also proposed to allow CPs to meet any subsequent increases to their Core Capital following a review of the minimum core capital requirements applicable to its activities.

Submissions are due by 11 August 2016.

See [media release](#)

ASX finalises amendments to the Appendix 4C and Appendix 5B quarterly cash flow reports

ASX has finalised its amendments to the [Appendix 4C](#) and [Appendix 5B](#) (appendices) quarterly cash flow reports following its review of the submissions received on its [consultation paper](#). ASX has made some changes to the consultation versions of the appendices, including:

- re-structuring the entries in item 1.2 of the Appendix 4C to be more consistent with the corresponding entries in the Appendix 5B
- adding a new item 1.7 in the Appendix 4C - "Government grants and tax incentives"
- adding a new item 1.7 in the Appendix 5B - "Research and development refunds"
- adding a new item 3.4 in appendices - "Transaction costs related to issues of shares, convertible notes or options"
- recasting section 4 of the appendices to make its relationship to the preceding sections clearer
- adding a new item 9.7 in the Appendix 4C and item 9.6 in the Appendix 5B - "Other (provide details if material)"
- re-structuring section 9 of the Appendix 4C to be consistent with the changes make to item 1.2.

ASX anticipates that the new appendices will be incorporated into the Listing Rules and come into effect on 1 September 2016, subject to the receipt of the necessary regulatory approvals. The new forms should be used for all reports for quarters ending on or after 30 September 2016.

See [media release](#)

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Clarifying the exceptions to the beneficial ownership obligations

AUSTRAC has published new guidance to clarify the application of the exceptions to the beneficial ownership obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).

A reporting entity is not required to determine the beneficial owner of a customer if the customer is:

- a company which has been verified under the simplified company verification procedure under paragraph 4.3.8 of the AML/CTF Rules
- a trust which has been verified under the simplified trustee verification procedure under paragraph 4.4.8 of the AML/CTF Rules
- an Australian Government Entity
- a foreign-listed public company that is subject to beneficial ownership disclosure requirements that are comparable to the requirements in Australia.

Where a customer is an individual, the reporting entity is entitled to assume that the customer and the beneficial owner are the same – that is, there is no other individual that controls the customer, unless the reporting entity has reasonable grounds to consider otherwise.

See [media release](#)

AUSTRAC consults on draft costings - electronic safe harbour procedures

AUSTRAC has released a [consultation paper](#), *Draft Costings: electronic safe harbour procedures* for customer, seeking stakeholder feedback on the draft costings for the proposed amendments to the Chapter 4 electronic safe harbour provisions for customers.

AUSTRAC estimates that these draft amendments will generate average deregulatory savings of \$7.2 million for affected businesses and \$5.8 million for individuals over the next ten years resulting in a total average annual saving of \$13 million. AUSTRAC seeks close consideration from industry on the costing estimates, including whether the assumptions are reasonable and whether the population estimates are smaller or greater.

Submissions are due by 7 July 2016.

See [media release](#)

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Guidance for reporting entities providing remittance services incidental to their core business

AUSTRAC has published new [guidance](#) to clarify the obligations of reporting entities where they provide remittance services that are incidental to their core business.

Entities in some sectors (for example, online gaming, stockbroking, managed investment schemes, custodians and superannuation) may send funds overseas on behalf of their customers incidentally to their core business. In certain circumstances, AUSTRAC does not consider these funds transfers to constitute a designated remittance arrangement under the AML/CTF Act.

AUSTRAC will not enforce the AML/CTF Act obligations regarding designated remittance arrangements (including the remitter registration and IFTI-DRA reporting obligations) for reporting entities in the following circumstances:

- where a reporting entity provides a designated remittance service and has IFTI-DRA reporting obligations incidentally to providing another designated service and
- all funds transfers undertaken by the reporting entity are conducted through a financial institution.

See [media release](#)

Updates to the AUSTRAC compliance guide

AUSTRAC has made the following updates to the AUSTRAC compliance guide in June 2016:

- What are the exceptions to the beneficial ownership obligations? – A note has been added to Chapter 6 (Customer due diligence procedures) to clarify the application of the exceptions to the beneficial ownership obligations.
- What types of remittance services are required to be registered with AUSTRAC? - A text box has been added to Chapter 5 (Remitter registration requirements) to clarify the obligations of reporting entities where they provide remittance services that are incidental to their core business.
- Identification of persons of Aboriginal and/or Torres Strait Islander heritage - Guidance has been added into Chapter 6 (AML/CTF programs) which clarifies the requirement to refer to “reliable and independent documentation” when conducting customer identification. For a variety of reasons, some people may not have access to conventional identification documents.

See [media release](#)

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Speech: The Global Code of Conduct for the Foreign Exchange Market

Guy Debelle, RBA Assistant Governor (Financial Markets), addressed the ASIFMA/GFMA Liquidity Conference. He spoke on the topic, *The Global Code of Conduct for the Foreign Exchange (FX) Market*. He outlined the motivation for the Global Code and then updated the audience on the progress and the way forward.

The main points of the speech are:

- The Global Code sets out global principles of good practice in the FX market to provide a common set of guidance to the market, including in areas where there is a degree of uncertainty about what sort of practices are acceptable, and what are not. This should help to restore confidence and promote the effective functioning of the wholesale FX market.
- The Code is meant for the sell side, the buy side, non-bank participants and the platforms; its breadth is both across the globe and across the whole structure of the industry. The Code is intended to apply to all aspects of the wholesale FX market.
- Alongside drafting the Code, they have been devoting considerable time and effort to thinking about how to ensure widespread adoption of the Global Code by market participants. Global Foreign Exchange Committees (FXCs) have issued a joint statement of support at the launch of the Code in New York, making clear their intention for the Global Code to become an integral part of the wholesale FX market.
- The complete Code is intended to be released following the Global FXCs meeting in London in May 2017. The Code will need to evolve as the foreign exchange market continues to evolve.

The full speech can be found [here](#).

Speech: Liquidity in Australian Fixed Income Markets

Guy Debelle, RBA Assistant Governor (Financial Markets), addressed the 4th Australian Regulatory Summit. He discussed some of the factors affecting Australian fixed income markets, drawing on work done by his colleague Jon Cheshire published in the [RBA Bulletin](#).

The assessment is that liquidity in most segments of the physical bond market in Australia is lower than it has been in the past. It is generally a little more costly to transact in the same volumes, with immediacy, in the Australian bond markets than it used to be. These changes are partly a response to regulation and partly a reassessment of business models by banks. But, given that liquidity was oversupplied and underpriced in the years prior to the global financial crisis, these changes in liquidity are broadly desirable and, to date, have not presented any significant issues in the Australian market.

He then discussed what RBA means by bond market liquidity and how it is measured. He highlighted how growth in activity in derivative markets in recent years has significantly outpaced growth in issuance of Australian dollar bonds. This has more than offset the decline in bond market activity. He then outlined some key points on electronic trading, the price of liquidity, the role of market makers and high frequency trading.

The full speech can be found [here](#).

3

Industry bodies

FSC

Financial Services Council

Report: Australia as a financial centre – seven years on

FSC welcomed the release of a new [report](#), *Australia as a Financial Centre – Seven years on*, by Mark Johnson AO identifying barriers to exporting Australia's financial services.

The report is a follow up to the 2009 report *Australia as a Financial Centre – building on our strengths*, known as the Johnson Report.

The report shows that while progress has been made in implementing the original report's recommendations for growing Australia's export of financial services, some barriers previously identified in 2009 still remain and new barriers have emerged.

New barriers identified in the report include:

- Australia's overall withholding tax regime, beyond the specific instances identified in the original Johnson Report
- treatment of foreign exchange gains and losses under Australia's taxation rules
- lack of multi-currency class investment vehicles
- unique regulatory approach under the single Responsible Entity model
- lack of recognition of Australian financial services licenses offshore
- uncapped liability on capital for Responsible Entities/product issuers.

The report also provides a summary of the recommendations from the Johnson Report and their current status.

See [media release](#)

4

Overseas developments – Global

BCBS: Publishes reports assessing the implementation of the frameworks for SIBs

The Basel Committee on Banking Supervision (BCBS) has published reports assessing the implementation of the Committee's frameworks for global and domestic systemically important banks (G-SIBs and D-SIBs) in the five jurisdictions that are currently home to G-SIBs: [China](#), the [European Union](#), [Japan](#), [Switzerland](#) and the [United States](#). The five jurisdictions were simultaneously assessed against the Basel framework.

The assessment revealed:

- The implementation of the Basel G-SIB framework is found to be "compliant" in all five of the jurisdictions where G-SIBs are currently based. This is the highest of the four possible assessment grades.
- Overall, where detailed D-SIB frameworks have been implemented, those frameworks are found to be broadly aligned with the Committee's D-SIB principles, although there is some variation across these jurisdictions in the additional requirements and policy measures applied to D-SIBs.

Source: [BIS](#)

BIS: Releases its 86th annual report

The Bank for International Settlements (BIS) has released its [86th annual report](#).

The main points of the report include:

- There is an urgent need to rebalance policy in order to shift to a more robust and sustainable global expansion and address accumulated vulnerabilities.
- The recommended policy rebalancing should be incorporated into a long-term framework with a stronger focus on preventing costly financial boom-bust cycles.
- Prudential, fiscal and structural policies need to work alongside monetary policy, with a clear delineation of responsibilities.
- The Basel III framework is nearing completion. In addition to finalising the remaining calibration decisions, consistent and thorough implementation is now key, alongside more rigorous supervision.

Source: [BIS](#)

• – 16 –

FSB: Consults on policy recommendations to address structural vulnerabilities

The Financial Stability Board (FSB) has released a [consultation paper](#), *Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities*, proposing 14 recommendations seeking to address financial stability risks:

- liquidity mismatch between fund investments and redemption terms and conditions for fund units
- leverage within investment funds
- operational risk and challenges in transferring investment mandates in stressed conditions
- securities lending activities of asset managers and funds.

The recommendations would provide entities with the tools and data to effectively detect and address the identified risks. FSB intends to finalise the recommendations by 2016, some of which will be operationalised by the International Organization of Securities Commissions (IOSCO).

Source: [FSB](#)

4

Overseas developments – Global (cont'd)

FSB: Releases guidance on resolution planning for systemically important insurers

The FSB has released [Developing Effective Resolution Strategies and Plans for Systemically Important Insurers](#) (guidance), which provides guidance on developing effective resolution strategies and plans for systemically important insurers.

This guidance should assist authorities in meeting the resolution planning requirement under the [Key Attributes of Effective Resolution Regimes for Financial Institutions](#) and support Crisis Management Groups of global systemically important insurers (G-SIIs) in their resolution planning work.

It sets out considerations for determining a preferred resolution strategy based on a strategic analysis of insurers' business models, the criticality of insurers' functions and policy holder protection arrangements.

It also identifies a range of elements that need to be in place so that a resolution strategy can be credibly and feasibly be implemented, including effective cross-border cooperation, information systems and resources to absorb loss.

Source: [FSB](#)

IOSCO: Outlines its priorities regarding data gaps in the asset management industry

The IOSCO Board has issued a [public statement](#) outlining its priorities regarding data gaps in the asset management industry. To this end, IOSCO has identified a series of recommendations that will constitute its roadmap in this area. A key priority is to encourage IOSCO members to collect data with a view to better identify systemic risk.

Some of the recommendations include:

- addressing data gaps around open-ended regulated Collective Investment Schemes
- addressing the dearth of data on separately managed accounts generally and in relation to the leverage and derivative exposure of these vehicles.

Concurrently, the FSB has published for public consultation [Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities](#) asking IOSCO to take forward the international work arising from many of these recommendations.

Source: [IOSCO](#)

IOSCO: Releases guidance on cyber resilience for financial market infrastructures with CPMI

The Committee on Payments and Market Infrastructures (CPMI) and IOSCO Board have released the final [report](#), *Guidance on cyber resilience for financial market infrastructures*, aiming to add momentum to the industry's ongoing efforts to enhance financial market infrastructures' (FMIs') ability to pre-empt cyber-attacks, respond rapidly and effectively to them, and achieve faster and safer target recovery objectives if the attacks succeed.

Key concepts in the guidance include:

- Sound cyber governance is key. Board and senior management attention is critical to a successful cyber resilience strategy.
- The ability to resume operations quickly and safely after a successful cyber attack is paramount.
- FMIs should make use of good-quality threat intelligence and rigorous testing.
- Cyber resilience cannot be achieved by an FMI alone, it is a collective endeavour of the whole "ecosystem".

Source: [IOSCO](#)

4

Overseas developments – Global (cont'd)

IOSCO: Publishes update to the assessments of implementation monitoring of the PFMI

The CPMI and IOSCO Board have published [third update](#) to the [Level 1 assessments](#) of implementation monitoring of the *Principles for financial market infrastructures (PFMI)*.

Level 1 assessments are based on self-assessments by individual jurisdictions on how they have adopted, within their regulatory and oversight frameworks, the 24 PFMIs and four of the five responsibilities for authorities.

The update shows that further progress has been made among those participating jurisdictions that had not completed their implementation measures at the time of the previous update in 2015. The next update of the Level 1 assessment will be conducted in 2017.

The CPMI and IOSCO continue to monitor jurisdictions' progress at Levels 2 and 3. These assessments consider, respectively, the completeness of jurisdictions' implementation measures and their consistency with the PFMI, and consistency in the outcomes of such frameworks.

Source: [IOSCO](#)

4

Overseas developments – Europe

EBA: Publishes decision on data for supervisory benchmarking

The European Banking Authority (EBA) has published its [decision](#) on data for supervisory benchmarking. This decision comes after the publication of the amended technical standards on benchmarking of internal approaches and requires Competent Authorities to submit data for the 2016 benchmarking exercise, focusing on high default portfolios and with reference to end-2015 data.

A [list](#) of institutions has also been made available along with the Decision. The EBA is requesting Competent Authorities to transmit institutions' data for supervisory benchmarking purposes, leveraging on the usual data collection procedures and formats of regular supervisory reporting. Institutions should submit data to their Competent Authorities by 30 June 2016.

Source: [EBA](#)

EBA: Publishes final draft technical standards on specialised lending exposures

The EBA has published its final [draft](#) Regulatory Technical Standards (RTS) specifying how institutions should take into account and treat several factors when assigning risk weights to specialised lending exposures.

Specialised lending is a type of exposure towards an entity specifically created to finance or operate physical assets, where the primary source of income and repayment of the obligation lies directly with the assets being financed.

These RTS aim to harmonise the assignment of risk weights to specialised lending exposures for institutions that apply the 'supervisory slotting criteria' approach.

These final draft RTS will be part of the Single Rulebook aimed at enhancing regulatory harmonisation in the banking sector in Europe.

Source: [EBA](#)

EBA: Consults on guidelines on disclosure requirements for the EU banking sector

The EBA has launched a [consultation](#) on a set of guidelines on regulatory disclosure requirements following an update of the Pillar 3 requirements by the BCBS, aiming to improve and enhance the consistency and comparability of institutions' disclosures and ensure market discipline.

The guidelines will provide guidance to institutions to enable them to comply with the CRR provisions while implementing the revised Basel Pillar 3 requirements.

The guidelines apply to Globally and Other Systemically Important Institutions (G-SII and O-SII) and do not waive the requirements for these and other institutions to comply with the other CRR disclosure requirements for which the Guidelines offer no guidance.

The guidelines will apply for the year-end 2017 disclosures.

Submissions are due by 29 September 2016.

Source: [EBA](#)

4

Overseas developments – Europe (cont'd)

EIOPA: Proposes amendments for the supervisory reporting templates under Solvency II

The European Insurance and Occupational Pensions Authority (EIOPA) has published a draft [amendment](#) to the Implementing Technical Standards (ITS) on the templates for the submission of information to the supervisory authorities, following public [consultation](#).

This draft follows the changes introduced in the [Solvency II Implementing Measures](#) on tailored treatments to insurers' investments in infrastructure, in European Long-Term Investment Funds (ELTIFs) and in equities traded through multilateral trading platforms.

The proposed amendment is required to collect meaningful information for supervisory purposes. At the same time it ensures the smallest impact possible for the implementation by the industry and national supervisors.

Source: [EIOPA](#)

EIOPA: Issues preparatory guidelines on the POG arrangements

EIOPA has issued the preparatory [guidelines](#) on Product Oversight and Governance (POG) arrangements for manufacturers and distributors of insurance products in all the official languages of the EU, providing early guidance and supporting national competent authorities (NCAs) and market participants with the preparation of the implementation of the POG requirements as laid down in the Insurance Distribution Directive (IDD).

The requirements has to be transposed by the EU Member States into the national law by 23 February 2018. Therefore, 2016 and 2017 are considered as preparatory years.

These guidelines aim to further minimise the risks of consumer detriment and mis-selling of insurance products. They intend to provide direction for the dialogue between supervisors and industry on the necessary cultural change in this area.

Within 2 months, the NCAs should confirm to EIOPA whether they comply or intend to comply with these Guidelines.

Source: [EIOPA](#)

EIOPA: Sign a MOU with CIRC

EIOPA and the China Insurance Regulatory Commission (CIRC) have signed a Memorandum of Understanding ([MOU](#)) in Hungary where both authorities participate in the Executive Committee meeting of the International Association of Insurance Supervisors (IAIS). The Memorandum is the basis for the cooperation between EIOPA and CIRC to achieve three objectives:

- to build a practical framework for exchange of supervisory information
- to update each other on the developments in the regulatory and supervisory frameworks for insurance and private pensions
- to increase mutual understanding on the Chinese (C-ROSS) and European (Solvency II) supervisory regimes for insurance.

Under this Memorandum, EIOPA and CIRC will set up joint annual work programmes, experts' task forces, provide speakers for events organised by both Authorities and pursue other joint activities.

Source: [EIOPA](#)

4

Overseas developments – Europe (cont'd)

ESMA: Assesses usefulness of distributed ledger technologies

The European Securities and Markets Authority (ESMA) has published a [discussion paper](#), *The Distributed Ledger Technology Applied to Securities Markets*, seeking feedback from stakeholders on the possible use of DLT in securities markets, its potential benefits and the risks that such broader use may pose.

The paper provides a stock-take, with a particular focus on post-trading activities, of the key EU regulations which would be applicable to DLT. The regulations identified and discussed include the European Market Infrastructure Regulation (EMIR), the Securities Finality Directive (SFD), and the Central Securities Depositories Regulation (CSDR).

ESMA analyses the potential benefits of DLT such as higher security, greater efficiency in clearing and settlement and reduced costs. ESMA also sees a number of legal and technical challenges that would need to be overcome before DLT could be applied widely to securities markets.

Source: [ESMA](#)

ESMA: Publishes economic report on order duplication and liquidity measurement

ESMA has published an [economic report](#), *Order duplication and liquidity measurement in EU equity markets*. The report, which takes into account high-frequency trading (HFT), finds that overall multi-venue trading has increased the liquidity in EU equity markets. The report also shows that 20% of orders across European venues are duplicated and 24% of duplicated trades are immediately cancelled if unmatched.

ESMA found that order duplication and immediate cancellation is used by traders to ensure execution across multiple trading venues.

However, for measuring liquidity the ESMA report found that duplicated orders and immediate cancellation lead to the overestimation of available liquidity in fragmented markets. This means that a certain percentage of the liquidity visible in order books is ultimately not available to the markets.

Source: [ESMA](#)

ESRB: Conference on the macroprudential use of margins and haircuts

The European Systemic Risk Board (ESRB) has hosted an international conference in Frankfurt on the potential macroprudential use of margins and haircuts, aiming to gather the views of policymakers, academics and market participants from different jurisdictions on these new instruments.

Francesco Mazzaferro, Head of the ESRB Secretariat, introduced the topic of the conference. A keynote speech was then delivered by Vítor Constâncio, Vice-President of the European Central Bank (ECB). The first session, chaired by Prof. John Geanakoplos of Yale University, considered the systemic risks associated with the pro-cyclicality of collateral requirements and their role regarding the build-up of financial and synthetic leverage.

Finally, a high-level policy panel, moderated by Benoît Cœuré, Member of the Executive Board of the ECB, considered how global standard-setters and financial stability institutions view the potential for margins and haircuts as macroprudential instruments.

Source: [ESRB](#)

4

Overseas developments – UK

Bank of England: Speech by Mark Carney on enabling the FinTech transformation

Mark Carney, Governor of the Bank of England addressed the topic, *Enabling the FinTech transformation: Revolution, Restoration, or Reformation?*

He discussed the potential impact of FinTech on financial and monetary stability.

He then highlighted the five ways the Bank is enabling the FinTech transformation:

- by widening access to central bank money to non-bank Payments Service Providers, known as PSPs
- by being open to providing access to central bank money for new forms of wholesale securities settlement
- by exploring the use of Distributed Ledger (DL) technology in core activities, including the operation of RTGS
- by partnering with FinTech companies on projects of direct relevance to the Bank's mission
- the Bank is calibrating its regulatory approach to FinTech developments.

The full speech can be found [here](#).

FCA: Speech by Mary Starks on competition policy in financial markets

Mary Starks, Director of Competition at the Financial Conduct Authority (FCA), delivered her speech at the Centre for Competition Policy (CCP) Conference in Norwich. She discussed the topic, *Competition Policy in Financial Markets – the view from the regulators*.

She gave some background to how the FCA came to have a competition remit, discussed some of the work done in pursuit of that objective, described some of the challenges faced along the way, and outlined some of the big picture questions facing them in the next phase.

The full speech can be found [here](#).

FCA: Speech by John Griffith-Jones on global regulation in the post-crisis era

John Griffith-Jones, Chairman at FCA, delivered his speech at the TheCityUK Annual Conference in London. He spoke on the topic, *Global regulation in the post-crisis era*.

He addressed the following three questions in his speech:

- How does the industry set about thinking through in short order what its strategy is in the post crisis, post Brexit era?
- What can we regulators learn from the past about successful regulatory policy, and its inter connectedness with other global authorities and initiatives?
- How important will 'conduct' be in the future?

The full speech can be found [here](#).

4

Overseas developments – UK (cont'd)

FCA: Speech by Christopher Woolard on innovation and improving outcomes

Christopher Woolard, Director of Strategy and Competition at FCA, delivered his speech at the Global Digital Banking Conference in London. He addressed the topic, *Innovation and improving outcomes*.

The main points of the speech:

- The FCA's interest in innovation is primarily linked to its duty to promote competition in the interests of consumers.
- Since the launch of Project Innovate, the FCA has received over 500 requests for support and offered direct support to over 250 firms who presented genuinely innovative ideas likely to have customer benefit.
- The Advice Unit has a specific remit to support firms developing automated advice models which seek to deliver lower cost advice to consumers.
- More consumers than ever require access to financial services that serve their changing needs throughout their lifetime.

The full speech can be found [here](#).

FCA: Financial Advice Working Group established

The Financial Advice Working Group has been established in response to the recommendations of the Financial Advice Market Review (FAMR) [report](#) that was published in March 2016.

The Working Group will take forward the three [recommendations](#) assigned to it by FAMR.

The Working Group includes a selection of consumer and industry experts from the FAMR Expert Advisory Panel, the Financial Services Consumer Panel, the FCA Smaller Business Practitioner Panel, and the FCA Practitioner Panel.

Its members have been selected on the basis of their expertise and interest in advice and guidance, and also their ability to attend meetings and to contribute to its work. They will act in a personal capacity rather than represent the views of their firm or organisation.

Source: [FCA](#)

FCA: Publishes policy statement on changes to the DEPP and EG for the implementation of MAR

The FCA has published a policy statement, *Changes to the Decision Procedure and Penalties manual (DEPP) and the Enforcement Guide (EG) for the implementation of the Market Abuse Regulation (MAR)* ([PS16/18](#)), summarising the feedback received to [Consultation Paper 16/13](#).

This paper will be relevant to any firm or individual who directly or indirectly deals in or issues, financial instruments (FIs) that are:

- admitted to trading on a regulated market or for which a request for admission to trading on such a market has been made
- traded on a Multilateral Trading Facility (MTF), admitted to trading on an MTF or for which a request for admission to trading on an MTF has been made
- traded on an Organised Trading Facility
- not admitted to trading on one of those facilities, but the price or value of which depends on or has an effect on the price or value of an FI.

Source: [FCA](#)

4

Overseas developments – UK (cont'd)

FCA: Response to the CMA's provisional decision on remedies from its investigation

The FCA welcomed the Competition and Markets Authority's (CMA's) efforts to increase competition in retail banking and are supportive of its provisional decision to make recommendations to the FCA to take forward a range of remedies, namely on service quality information, prompts and overdraft measures. The treatment of existing customers is a key priority for the FCA, including within our work on competition in retail banking.

Once the CMA's investigation is concluded and the final remedies are confirmed, the FCA will publish a response to the CMA's final report. This will set out details of the work the FCA intends to undertake to develop and implement the relevant remedies, taking into account its statutory objectives and obligations.

Source: [FCA](#)

4

Overseas developments – US

CFTC: Requests public comment on swap clearing requirement submissions

The U.S. Commodity Futures Trading Commission (CFTC) is requesting public comment on submissions received over the past several years from seven registered derivatives clearing organizations (DCOs) pursuant to section 2(h)(2)(B) of the *Commodity Exchange Act* (CEA) and CFTC regulation 39.5(b).

The 34 submissions, which can be viewed at [DCO Swaps Submissions](#), and any comments submitted in response to this request, will inform the CFTC as it considers whether to propose a swap clearing requirement pursuant to section 2(h)(2)(D) of the CEA.

Submissions are due by 25 July 2016.

Source: [CFTC](#)

CFTC: Reopen comment period for specific elements of regulation automated trading

The CFTC has reopened the comment period for specific elements of Regulation Automated Trading (Regulation AT). This is being done in conjunction with a CFTC staff [roundtable](#) on Regulation AT on 10 June 2016.

The additional comment period is intended to obtain public input solely on the specific topics listed in the agenda for the roundtable and that arise during the roundtable.

Source: [CFTC](#)

CFTC: Signs MOU with the ESMA related to recognised central counterparties

The CFTC has signed an [MOU](#) with ESMA regarding cooperation with respect to derivatives clearing organizations (DCOs) established in the United States that have applied or that may apply to ESMA for recognition as central counterparties (Recognised CCPs). Through the MOU, the CFTC and ESMA express their willingness to cooperate with respect to Recognised CCPs.

The CFTC and the European Commission (EC) anticipated the execution of an MOU when the [common approach](#) for Transatlantic CCPs was announced earlier. As part of that common approach, the EC adopted an equivalence decision following which ESMA has undertaken a process for recognising DCOs established in the United States. The execution of this MOU satisfies a condition of the ESMA recognition process and serves to facilitate recognition of U.S. CCPs.

Source: [CFTC](#)

4

Overseas developments – US (cont'd)

CFTC: Proposes additional interest rate swaps for clearing requirement

The CFTC has proposed amending CFTC regulation 50.4(a) to require certain additional interest rate swaps to be cleared by market participants through a registered derivatives clearing organization (DCO) or a DCO that has been exempted from registration under the CEA (Exempt DCO).

The scope of proposed expanded regulation would make the CFTC's clearing requirement consistent with those proposed or finalised in 2015 or 2016 by the CFTC's counterparts in Australia, Canada, the European Union, Hong Kong, Mexico, and Singapore.

The proposed rule will be open for public comment for 30 days after publication in the Federal Register.

Source: [CFTC](#)

CFTC: Approves final rule to amend swap data recordkeeping and reporting requirements

The CFTC has approved a [final rule](#) that amends existing swaps reporting regulations in order to provide additional clarity to swap counterparties and registered entities regarding their reporting obligations for cleared swap transactions and to improve the efficiency of data collection and maintenance associated with the reporting of the swaps involved in a cleared swap transaction. The final rule will become effective 180 days following publication in the Federal Register.

The rule modifies Part 45 of the CFTC's regulations, which implements the requirements of Section 21 of the CEA by establishing the manner and contents of reporting to swap data repositories (SDRs). The rule removes uncertainty as to which counterparty to a swap is responsible for reporting creation and continuation data for each of the various components of a cleared swap transaction.

Source: [CFTC](#)

Federal Reserve: Board approves advance notice of proposed rulemaking

The Federal Reserve Board has approved an advance [notice](#) of proposed rulemaking (ANPR) inviting comment on conceptual frameworks for capital standards that could apply to systemically important insurance companies and to insurance companies that own a bank or thrift. The standards would differ for each group.

The Board has also approved a proposed [rule](#) to apply enhanced prudential standards to systemically important insurance companies designated by the Financial Stability Oversight Council. As required under the *Dodd-Frank Act*, these standards would apply consistent liquidity, corporate governance, and risk-management standards to the firms. These firms would also be required to employ both a chief risk officer and chief actuary to help ensure that firm-wide risks are properly managed. The enhanced prudential standards would only apply to systemically important insurance companies, reflecting the heightened risk these firms pose to financial stability.

Source: [Federal Reserve](#)

4

Overseas developments – US (cont'd)

Federal Reserve: Releases results of supervisory bank stress tests

Federal Reserve has released a [report](#), *Dodd-Frank Act Stress Test 2016: Supervisory Stress Test Methodology and Results*. This report provides:

- background on *Dodd-Frank Act* stress testing
- details of the adverse and severely adverse supervisory scenarios used in DFAST 2016
- an overview of the analytical framework and methods used to generate the Federal Reserve's projections, highlighting notable changes from last year's program
- the results of the supervisory stress tests under adverse and severely adverse scenarios for the bank holding companies (BHCs) that participated in the DFAST 2016 program, presented both in the aggregate and for individual institutions.

Source: [Federal Reserve](#)

OCC: Speech by Thomas J. Curry on supporting responsible innovation

Thomas J. Curry, Comptroller of the Currency addressed the Office of the Comptroller of the Currency (OCC) Forum on the topic, *Supporting Responsible Innovation in the Federal Banking System*.

He highlighted his agency's effort to develop a framework for identifying and evaluating responsible innovation.

In addition to the Comptroller's appearance, the forum brought together thought leaders from banks, financial technology companies, academia, community and consumer groups, and the OCC to discuss developments, opportunities, and challenges related to financial innovation.

The panel also discussed the impact of innovation on consumers and communities, the real-world successes and failures, the potential for partnerships between banks and fintechs, how banks evaluate risks and develop controls, and how we should define success.

The full speech can be found [here](#).

SEC: Adopts trade acknowledgment and verification rules for SBS transactions

The Securities and Exchange Commission (SEC) has adopted [rules](#) that will establish timely and accurate trade acknowledgment and verification requirements for security-based swap (SBS) entities that enter into SBS transactions.

Under the new rules, SBS entities must provide a trade acknowledgment that contains all of the terms of the transaction. The rules require an SBS entity to:

- provide a trade acknowledgment electronically to its transaction counterparty promptly, and no later than the end of the first business day following the day of execution
- promptly verify or dispute with its counterparty the terms of a trade acknowledgment it receives
- have written policies and procedures in place that are reasonably designed to obtain verification of the terms outlined in any trade acknowledgment that it provides.

Source: [SEC](#)

4

Overseas developments – US (cont'd)

SEC: Approves IEX proposal to launch national exchange, issues interpretation on automated securities prices

The SEC has approved Investors' Exchange LLC's (IEX) application to register as a national securities exchange. At the same time, the Commission issued an updated interpretation that will require trading centres to honour automated securities prices that are subject to a small delay or "speed" bump when being accessed.

IEX must satisfy certain standard conditions specified in the Commission's order before it is able to begin the process of transitioning its operation to a national securities exchange, including participating in a variety of national market system plans and joining the Intermarket Surveillance Group.

The Commission's [interpretation](#) applies to the [Order](#) Protection Rule under Regulation NMS, which protects the best priced [automated quotations](#) of certain trading centers by generally obligating other trading centers to honor those protected quotations and not execute trades at inferior prices.

Source: [SEC](#)

4

Overseas developments – Asia

Hong Kong: SFC and HKEX issue joint consultation on listing regulation

The Securities and Futures Commission (SFC) and Hong Kong Exchanges and Clearing Limited (HKEX) have jointly issued a [consultation paper](#) on proposed enhancements to the Stock Exchange of Hong Kong Limited's (SEHK) decision-making and governance structure for listing regulation. Under the proposals:

- two new Exchange Committees on which the SFC and SEHK are equally represented will be established – the Listing Policy Committee and the Listing Regulatory Committee
- the Listing Committee will provide a non-binding view to both the Committees on their decisions
- the listing function will remain within the Exchange which will continue to be the frontline regulator for listing matters
- the Listing Committee, together with the Listing Department, will continue to decide a large majority of initial listing applications and post-listing matters.

Source: [SFC](#)

Hong Kong: SFC publishes annual review of SEHK's performance

The SFC has published its [annual review](#) of SEHK's performance in its regulation of listing matters during 2014.

The SFC is of the view that within the scope reviewed during the period, SEHK's operational procedures and decision-making processes, other than certain procedures involving issuance of guidance to the market, were appropriate to enable it to discharge its statutory obligations to maintain an orderly, informed and fair market.

The SFC also identified certain areas for SEHK to continue to enhance its performance.

Source: [SFC](#)

Hong Kong: Speech - Hong Kong as an evolving international financial centre

Mr Ashley Alder, Chief Executive Office at the SFC addressed the topic, *Hong Kong as an evolving international financial centre: The significance of regulation*, at the HKSI Luncheon.

He concentrated on three areas:

- Hong Kong as a place to manage onshore China risks
- Hong Kong as a listed market
- Hong Kong as a fund management centre.

He highlighted that Hong Kong is already a connector as the leading offshore renminbi centre, through the Stock Connect programme and recently through cross-selling of Mainland and Hong Kong funds in each other's markets under the Mutual Recognition of Funds (MRF) scheme.

He noted that another area where Hong Kong should develop significantly is as a centre for managing the more difficult risks arising from overseas institutional investment in the Mainland markets.

The full speech can be found [here](#).

4

Overseas developments – Asia (cont'd)

Japan: The second meeting of the panel of experts on FinTech start-ups

The second meeting of the panel of experts on FinTech start-ups was held on 14 June 2016.

The following materials were made available:

- [Presentation](#) on the topic, *The Relationship between Artificial Intelligence and Finance* by Yutaka Matsuo from University of Tokyo
- [Presentation](#) on the topic, *A brief history and ecosystem of Silicon Valley* by Yasunori Kaneko.

Source: [FSA](#)

Japan: WG publishes final report on institutional framework on FG

In 2015, the Minister of State for Financial Services referred the following issue to the general meeting of the Financial System Council (FSC): Based on the environmental changes, including the progress of diversification and internationalisation of financial groups (FG), the study of the institutional framework on FG should be made.

In response to this, the FSC set up the Working Group on the FG. The Working Group has published the [report](#), *Institutional Framework for Financial Groups*.

[Summary](#) of the report is also available.

Source: [FSA](#)

Japan: WG publishes final report on strategies for reforming Japanese payment systems

In 2014, the Minister of State for Financial Services referred the following issue to the general meeting of the FSC: The study of payment and other related financial services as well as the development of platforms supporting such services should be made from various perspectives in response to the growing demand to advance payment services.

In response to this, the FSC set up the WG on Payments and Transaction Banking. The Working Group has published the [report](#), *Strategies for Reforming Japanese Payment Systems*.

[Summary](#) of the report is also available.

Source: [FSA](#)

4

Overseas developments – Asia (cont'd)

Korea: Foreign currency LCR will apply to banks starting 2017

The Financial Services Commission (FSC) will introduce foreign currency liquidity coverage ratio (LCR) rule starting in 2017, which requires commercial banks to hold 60% of their foreign exchange debt in high-quality liquid assets (HQLA) to withstand a 30-day net cash outflow in systemic risks.

The foreign currency LCR rule will apply to all banks with the exception of:

- commercial banks with foreign exchange debt of less than 5 % of their total debt and USD500 million or less in foreign exchange debt
- Export-Import Bank of Korea (KEXIM)
- branches of foreign banks operating in Korea.

The foreign currency LCR for commercial banks will be set at 60% in 2017, increased gradually to 70% in 2018 and 80% in 2019.

Source: [FSC](#)

Korea: FSC statement on results of MSCI 2016 Market Classification Review

Jeong Eun-bo, FSC Vice Chairman, held a meeting with officials from relevant agencies to discuss the government's responses, following MSCI's announcement of 2016 Market Classification Review.

In its annual market review, MSCI announced that Korea will not be included on the list for a potential reclassification to Developed status as part of the 2017 review because the recent changes announced by the FSC in South Korea will not take effect until 2017 and the investment frictions related to the lack of convertibility of the Korean Won and restrictions imposed by the local stock exchange on the use of exchange data for the creation of financial products remain unaddressed.

The statement highlighted the Korean government's stance on the MSCI requirements:

- convertibility of the Korean Won
- use of KRX price data.

Source: [FSC](#)

Singapore: Singaporean and Australian regulators sign agreement to support innovation

The Monetary Authority of Singapore (MAS) and ASIC have signed an *Innovation Functions Co-operation Agreement*, aiming to help innovative businesses in Singapore and Australia in their foray to the respective markets. The [agreement](#) will enable innovative FinTech companies in Singapore and Australia to establish initial discussions in each other's market faster and receive advice on required licences, thus helping to reduce regulatory uncertainty and time to market.

To qualify for the support offered by the agreement, businesses will need to meet the eligibility criteria of their home regulator. Once referred by the regulator, and ahead of applying for licence to operate in the new market, a dedicated team or contact person will help them to understand the regulatory framework in the market they wish to join, and how it applies to them.

Source: [MAS](#)

4

Overseas developments – Asia (cont'd)

Singapore: MAS consults on FinTech regulatory sandbox guidelines

MAS has published a [consultation paper](#), *FinTech Regulatory Sandbox Guidelines*, enabling financial institutions (FIs) as well as non-financial players to experiment with financial technology (FinTech) solutions.

MAS believes that a regulatory sandbox approach (sandbox) can be used to carve out a safe and conducive space to experiment with FinTech solutions, and where the consequences of failure can be contained.

The sandbox cannot remove all risks, as failure is an inherent characteristic of innovation. The sandbox aims to provide an environment where if an experiment fails, its impact on consumers and on financial stability will be limited.

The FinTech regulatory sandbox guidelines (guidelines) set out the objective and principles of the sandbox as well as provide guidance on the application process.

Source: [MAS](#)

Singapore: MAS to improve access to crowd-funding for start- ups and SMEs

MAS will make it easier for start-ups and Small and Medium Enterprises (SMEs) to access securities-based crowd-funding (SCF) in two ways.

- MAS will make it easier for SCF platform operators to rely on the existing regulatory framework for small offers, to raise funds through SCF including from retail investors.
- MAS will reduce the financial requirements for SCF platform operators who want to raise funds through SCF only from accredited and institutional investors.

MAS will publish new guidelines on SCF related advertising and Frequently Asked Questions (FAQs) on lending-based crowdfunding.

Source: [MAS](#)

Singapore: MAS sets up dedicated departments to combat money laundering

MAS will form a dedicated AML Department that will streamline the existing responsibilities for regulatory policies relating to money laundering and other illicit financing risks. In addition, a dedicated supervisory team will be set up to monitor these risks and carry out onsite supervision of how financial institutions manage these risks. These functions used to be carried out by different departments in MAS; the new structure will enhance supervisory focus.

MAS will centralise and strengthen its enforcement functions under a new Enforcement Department. The new department will continue to jointly investigate with the Commercial Affairs Department capital markets misconduct offences. In addition, the new department will be responsible for enforcement actions arising from regulatory breaches of MAS' banking, insurance and capital markets regulations.

The changes will take effect on 1 August 2016.

Source: [MAS](#)

5

PwC publications

PwC: Opportunities await - how InsurTech is reshaping insurance

PwC has published a report, *Opportunities await: How InsurTech is reshaping insurance*. The report presents findings from the Global FinTech survey.

The key messages from the report are:

- Nine in ten insurers fear losing part of their business to FinTechs.
- Margin pressure and loss of market share are top FinTech related threats.
- Little responsiveness to emerging innovation waves – insurers focus on commonly adopted trends.
- Insurers are closing existing gaps around customer centricity and digital channels.
- 74% of industry players acknowledge ongoing disruption; most are dealing with FinTechs at different levels.
- Cooperation with FinTechs is key to connect management cultures and bridge gaps over regulatory and IT concerns.

See [publication](#)

PwC AUS: Data risks of insurance in superannuation

PwC Australia has published a report, *Data risks of insurance in superannuation*.

The report notes that:

- For superannuation funds with Group life insurance, managing data can be a complex proposition amidst high regulator expectations. APRA expects more frequent and thorough programs of data verification, testing and cleansing and a degree of independence in this process.
- For providers of Group life insurance, managing data can be a complex proposition amidst high stakeholder (Trustee) and regulator expectations. Trustees expect more thorough and frequent programs of data verification, testing and cleansing.

See [publication](#)

PwC China/HK: Sink or swim - why wealth management can't afford to miss the digital wave

PwC China/HK has published a report, *Sink or swim: Why wealth management can't afford to miss the digital wave (Asia Pacific highlights)*. This Asia Pacific highlights looks at the survey responses from more than 300 high net worth individuals in the region. This data has been overlaid with insight from PwC's financial services, digital and wealth management specialists.

Some of the key findings are:

- High net worth individuals in Asia Pacific are already adopting technology in aspects of financial innovation.
- "Investment performance" and "range of products and services" are the most valued aspects of wealth managers.
- Lower confidence found in wealth managers to keep data safe.
- It is important for their financial advisors or wealth managers to have a strong digital offerings.

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PwC publications (cont'd)

PwC US: Consolidated Audit Trail - the CAT's out of the bag

The SEC recently released a plan to establish a Consolidated Audit Trail (CAT), one of the world's largest data repositories that will contain a complete record of all equities and options traded in the US. The plan will require national securities exchanges and FINRA, alternative trading systems, and broker-dealers to submit information related to trades, including customers and prices, to the CAT on a daily basis. It is estimated that the CAT will aggregate between 30 and 120 billion trade events per day from over 2,000 sources.

The release of the plan is an important milestone, but it has resulted in several pressing questions about CAT operations and technology like the uncertainty around when existing reporting requirements will be decommissioned.

PwC has published a regulatory brief, analysing the most significant outstanding issues for the CAT in the areas of operations and data technology, and offers our view on what's next.

See [publication](#)

PwC US: Five key points from the 2016 CCAR

PwC US has published a report, *Five key points from the 2016 Comprehensive Capital Analysis and Review (CCAR)*.

The key points from the report are:

- 2016 CCAR results echoed last year's, with the Fed issuing two objections and one conditional non-objection.
- The Fed related its CCAR findings to the distinct expectations it has for firms of varying size and complexity.
- While foreign-owned entrants to CCAR have not always fared well, two new foreign entrants were successful both in the quantitative test and qualitative assessment in 2016.
- CCAR is bigger than stress testing.
- In addition to putting internal controls, the Fed will undertake a review of internal audit practices around capital planning at the largest firms.

See [publication](#)

PwC US: Across the boards - views from the financial services boardroom

PwC US has published a report, *Across the boards: Views from the financial services boardroom*. The report presents insights from PwC's Annual Corporate Directors Survey conducted in 2015.

The survey shows that FS boards are responding to the various challenges with growing amounts of diligence and time. Among the key findings are:

- Directors are working to improve the quality of their boards.
- FS boards are talking more often with large shareholders and activist investors.
- IT strategy and spending are garnering more board-level attention.
- Cybersecurity is a major preoccupation for many FS boards.
- FS directors are confident in their boards' risk management abilities, but there is room for improvement.
- The job is getting more taxing.

See [publication](#)

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PwC publications (cont'd)

PwC US: Fed's proposed insurance regulations

PwC US has published a report, *Ten key points from the Fed's proposed insurance regulations*.

The report highlights that the Federal Reserve (Fed) has advanced its regulatory framework for savings and loan holding companies (SLHCs) and for designated non-bank systemically important financial institutions (non-bank SIFIs).

First, the Fed introduced capital standards for these insurers as part of an advance notice of proposed rulemaking (ANPR) which lays out two ways to measure capital: the building block approach for SLHCs, and the consolidated approach for non-bank SIFIs.

Second, the Fed issued a notice of proposed rulemaking (NPR) which detailed enhanced prudential standards (EPS) for non-bank SIFIs.

See [publication](#)

PwC US: SWIFT action - preventing the next \$100 million bank robbery

PwC US has published a report, *Financial crimes observer, SWIFT action: preventing the next \$100 million bank robbery*, analysing the Bangladesh Central Bank attack and provides advice on what banks should be doing now.

Attackers accomplished one of the biggest bank robberies in history, allegedly exploiting the Bangladesh Central Bank's credentials for the SWIFT network to steal \$81 million. The attack exploited weaknesses in the central bank's cyber and fraud controls, and the detailed information used to commit the theft suggests the possibility of insider involvement.

The attack is believed to be part of a broader campaign targeting multiple banks. Therefore, banks should take steps to integrate their cyber, fraud, and insider threat programs, and apply lessons learned from the attack to enhance their controls.

See [publication](#)

PwC US: Five key points from the Fed's 2016 DFAST.

PwC US has published a report, *Five key points from the Fed's 2016 DFAST*. The report suggests that large banks will be less constrained in returning capital to shareholders based on this year's *Dodd-Frank Act Stress Test* (DFAST).

The DFAST results published are the Fed's first stress test results released in 2016. On 29 June, the Fed has released the more important Comprehensive Capital Analysis and Review (CCAR) results.

Some of the key points are:

- As always, CCAR results are what matter most.
- Biggest banks fare better, but smaller banks fare worse.
- No bank will fail CCAR on quantitative grounds.
- Commercial real estate turns the corner.
- Quantitative test will get significantly tougher for big banks.

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