

October 2016

PwC Regulatory Update



1

Legislative/Government developments

Superannuation reform package – tranche three

The Government has released for consultation a third round of exposure draft legislation regarding superannuation reform, as announced in the 2016-17 Budget.

Tranche three focused on:

- Lowering the annual non-concessional contributions cap to \$100,000.
- Restricting eligibility to make non-concessional contributions to individuals with superannuation balances below \$1.6 million.

Source: [Treasury](#)

Revised life insurance remuneration reform regulations

The Government has released for consultation, the [exposure draft](#) of the *Corporations Amendment (Life Insurance Remuneration Arrangements) Regulation 2016*.

The regulations, combined with pending legislation, will address the following issues raised by consultation:

- Explicitly ensuring that the reforms apply to the direct sale of life risk insurance products.
- Removing existing grandfathering and transitional provisions that are no longer required due to the revised reform commencement date of 1 January 2018.

Source: [Treasury](#)

ASIC Enforcement Review Taskforce

The Minister for Revenue and Financial Services has released the details of taskforce members and the terms of reference for the ASIC Enforcement Review Taskforce. The taskforce will assess the suitability of the existing regulatory tools available to ASIC to perform its functions adequately.

The taskforce will be chaired by the Treasurer and will include ASIC, the Attorney-General's Department and the office of the Commonwealth Director of Public Prosecutions, supported by an Expert Group drawn from industry bodies, consumer groups and academia.

The taskforce will report to the Government in 2017 with specific recommendations to best enhance ASIC's enforcement regime.

Source: [Minister for Revenue and Financial Services](#)

In a recent [media release](#), the Australian Bankers' Association (ABA) welcomed the ASIC Enforcement Review Taskforce.

1

Legislative/Government developments

The CFR consults on options to reform the regulation of financial benchmarks

The CFR has consulted and provided [advice](#) to the Government on options to reform the regulation of financial benchmarks, which include:

- Administrators of systemically important benchmarks required to hold a new 'benchmark administration' licence issued by ASIC, unless granted an exemption.
- ASIC being given the power to enforce rules and compel submission to a significant benchmark in order to support market functioning.
- The manipulation of any financial benchmark be made a specific criminal and civil offence.
- Bank Accepted Bills and Negotiable Certificates of Deposit be expressly made financial products under Chapter 7 of the Corporations Act 2001.

The Government has accepted the CFR's recommendations and will work to implement these critical reforms over the next 18 months.

Source: [Treasurer](#)

Professional standards for financial advisers

The Government will soon introduce legislation into the Parliament to impose mandatory professional standards for financial advisers, including:

- Compulsory education requirements for both new and existing financial advisers, including a common benchmark exam.
- Supervision requirements for new advisers.
- An industry-wide code of ethics.
- Ongoing professional development requirement.

The new professional standards regime will commence on 1 January 2019. Existing advisers will have until 1 January 2021 to pass the new exam and until 1 January 2024 to reach degree-equivalent status.

The professional standards legislation will also establish an independent standards body to govern the professional standing of the financial advice industry.

Source: [Minister for Revenue and Financial Services](#)

ABA [comments](#) on establishment of a new independent standards body.

FPA [welcomes](#) introduction of Education and Professional Standards Legislation.

2

What have the regulators been up to?

APRA

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APRA releases updated residential mortgage lending guidance and reporting

APRA has released revisions to prudential [practice guide](#), *Residential mortgage lending*, outlining risk management practices arising from residential mortgage lending. APRA has also released a [discussion paper](#), *Residential mortgage lending reporting requirements for ADIs*. The revised paper will provide detailed guidance on:

- Quantitative serviceability parameters, including the application of interest rate buffers and floors, haircuts for non-salary income such as rental income and treatment of interest-only loans.
- Qualitative measures, including meeting responsible lending obligations, monitoring serviceability policy overrides and treatment of self-managed superannuation fund loans.

Submissions on the proposed revisions to practice guide and reporting requirements are due by 19 December 2016 and 10 February 2017, respectively.

See [media release](#). The proposed [reporting standard](#) and [reporting guidance](#) are also available.

APRA releases information paper on risk culture

APRA has published an information paper, *Risk culture*, highlighting industry practice in various banking, insurance and superannuation businesses. The regulator acknowledges it cannot regulate culture, but it will intensely scrutinize organisations unwilling to address it.

See [media release](#)

ABA [welcomes](#) and COBA [comments](#) on APRA's focus on risk culture.

APRA releases enhanced governance requirements for superannuation trustees

APRA has released a [letter](#) to all RSE licensees in relation to enhanced governance requirements for superannuation trustees. APRA has recently reviewed *Prudential Standard* and *Prudential Practice Guide (PPG) on Governance* and released final versions of both the [prudential standard](#) and [PPG](#).

The changes to SPS 510 and SPG 510 include requiring RSE licensees to have in place:

- A governance framework which sets out policies and procedures to support effective governance practices.
- Policies on appointing, nominating and removing directors, director tenure and board size.

See [media release](#)

APRA releases final requirements for margining and risk mitigation for non-centrally cleared derivatives

APRA has released the final [prudential standard](#), *Margining and risk mitigation for non-centrally cleared derivatives* and a [response](#) to submissions paper.

APRA will advise an implementation date and phase-in timetable in due course based on international implementation of the requirements.

See [media release](#)

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

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ASIC releases report on the charging of advice fees without providing advice

ASIC has published a [report](#), *Financial advice: Fees for no service*, presenting the outcomes to date from their investigation into instances of Australian financial services (AFS) licensees charging fees for financial advice where advice was not provided. Most of these fees were charged as part of a customer's ongoing service agreement with their financial adviser. The report also summarises ASIC's ongoing work to ensure customers are fairly compensated.

Changes made under the Future of Financial Advice (FOFA) reforms have significantly reduced the likelihood of similar systemic failures in the future. In particular, the risk of fees being charged without any advice service provided has been reduced by the requirement to now provide an annual Fee Disclosure Statement to the client, and the requirement for the client to 'opt-in' to the advice relationship every two years.

See [media release](#)

In a recent media release, the Australian Bankers' Association (ABA) has [commented](#) on the ASIC report, stating the issues were due to legacy compliance and record-keeping systems.

ASIC releases market integrity report from 1 January to 31 June 2016

ASIC has released a market integrity [report](#) from 1 January to 31 June 2016, focusing on three areas: deterrence, standards and education, and behavioural change. The report consists of a short [video](#) and [webpage](#). ASIC achieved a total of 15 significant market integrity enforcement outcomes during the six month period.

The Market Integrity Group undertook various activities, including:

- Managing confidential information and conflicts of interest.
- Analysing listed equity market cleanliness.
- Crackdown on unlicensed retail OTC derivative providers.
- Assessment report on ASX's listing standards and administration.

ASIC's focus on the regulation of Australia's financial markets over 2016-17 will include:

- Cyber resilience.
- Ensuring appropriate handling of confidential information.
- Mitigating conduct risk.
- Ensuring client money is appropriately managed.
- Ensuring financial stability and capital review.
- Ensuring supervisory frameworks, risk management and controls are in place.

See [media release](#)

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ASIC consults on remaking several class orders about registered managed investment schemes and managed investment scheme buy-backs

ASIC has released a [consultation paper](#), *Remaking ASIC class orders on registered schemes*, seeking feedback on proposals to remake, without significant changes, the following class orders into a single legislative [instrument](#):

- *Incorporating parts of other compliance plans [CO 98/50];*
- *Protecting class rights in a managed investment scheme [CO 98/60];*
- *Related bodies corporate and external members of compliance committee [CO 98/1806]; and*
- *Allowing constitutions to use Appendix 15A of the ASX Listing Rules [CO 98/1808].*

Submissions are due by 25 November 2016.

ASIC has also released a [consultation paper](#), *Remaking ASIC class order on managed investment scheme buy-backs and updating related guidance*, seeking feedback to remake class order, *On-market buy-backs by ASX-listed schemes [CO 07/422]* into a legislative [instrument](#). The paper seeks feedback on the [draft updated regulatory guide](#), *Managed investment scheme buy-backs*, which provides guidance on relief for managed investment scheme buy-backs.

Submissions are due by 23 November 2016.

See [media release](#)

ASIC clarifies record-keeping obligations for financial services licensees

ASIC has released [ASIC Corporations \(Amendment\) Instrument 2016/1006](#), clarifying record keeping obligations for financial services licensees, following [consultation](#). The amendments are:

- Australian financial services (AFS) licensees must have access to records for the period of time they are required to be kept, even if a person other than the licensee holds the records.
- Authorised representatives who are advisers must keep records and make available the records to their authorising licensee if needed to comply with financial services laws.

See [media release](#)

ASIC updates guidance for historical financial information disclosure in prospectuses

ASIC has released a [regulatory guide](#), *Prospectuses: Effective disclosure for retail investors*, providing guidance on how to prepare prospectuses that satisfy the content requirements set out in s710 of the *Corporations Act 2001*. The updated guidance provides additional clarity on ASIC's disclosure expectations and describes:

- The disclosure expected for business and asset acquisitions.
- Appropriate types of audit and review opinions.
- When cash flow information should be included in prospectus.
- The circumstances where historical financial information disclosures and/or updating may be required.

See [media release](#)

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ASIC remakes several class orders into legislative instruments

Following [consultation](#), ASIC has remade ten legislative instruments related to markets and securities:

- [ASIC Corporations \(Disclosure of Directors' Interests\) Instrument 2016/881](#).
- [ASIC Corporations \(Transfers of Division 3 Securities\) Instrument 2016/893](#).
- [ASIC Corporations \(Exchange-Traded Warrants\) Instrument 2016/886](#).
- [ASIC Corporations \(Low Volume Financial Markets\) Instrument 2016/888](#).
- [ASIC Corporations \(Records: Dealings on Foreign Markets\) Instrument 2016/889](#).
- [ASIC Corporations \(Amendment and Repeal\) Instrument 2016/895](#).
- [ASIC Corporations \(Exchange-Traded Derivatives: Multiple Issuers\) Instrument 2016/883](#).
- [ASIC Corporations \(Securities: NZ FASTER System\) Instrument](#).
- [ASIC Corporations \(Dematerialised Securities: Austraclear\) Instrument 2016/841](#).

ASIC have also repealed three class orders:

- [CHESSE-approved foreign securities](#).
- [ASX Online—relief from paper lodgment](#).
- [ASX managed investment warrants—FSR Act transition](#).

Following public [consultation](#) on remaking class orders related to rights issue notifications and money market deposits, ASIC has remade a new legislative instrument, [ASIC Corporations \(Renounceable Rights Issue Notifications\) Instrument 2016/993](#) and repealed the class order on money market deposits.

ASIC commenced changes to these instruments before they were due to sunset over the next few years under the Legislation Act 2003.

See [media release](#)

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The ASX releases its response to consultation on updating admission requirements for listed entities

The ASX has released its [response](#) in relation to [consultation](#) on updating the ASX's admission requirements for listed entities, together with the final listing rule and guidance note changes which are due to come into effect on 19 December 2016:

- [Final Listing Rule changes.](#)
- [GN 1 Applying for Admission – ASX Listings.](#)
- [GN 4 Foreign Entities Listing on ASX.](#)
- [GN 12 Significant Changes to Activities.](#)
- [GN 29 Applying for Admission – ASX Debt Listings.](#)
- [GN 30 Applying for Quotation of Additional Securities.](#)

The ASX has also published a package of changes to the following guidance notes:

- [GN 5 CHESSE Depository Interests \(CDIs\) and GN 28 Reasonable Fees for Activities Covered by Listing Rule 8.14.1.](#)
- [GN 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B.](#)
- [GN 9 Disclosure of Corporate Governance Practices.](#)
- [GN 23 Quarterly Cash Flow Reports.](#)
- [GN 27 Trading Policies.](#)
- [GN 33 Removal of Entities from the ASX Official List.](#)

See [media release](#)

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Clarifying 'safe harbour' verification procedures for individual customers

AUSTRAC has released its updated [guidance](#) to clarify the 'safe harbour' verification procedures for individual customers with a medium or lower ML/TF risk, including requirements for verification of a customer's full name. There are two types of procedures:

- Documentation based procedures.
- Electronic based procedures.

See [media release](#)

AUSTRAC signs historic MoU with China

AUSTRAC and CAMLMAC (China Anti-Money Laundering Monitoring and Analysis Center), have signed the long-awaited Memorandum of Understanding to protect Australia and China against money laundering and terrorism financing.

See [media release](#)

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Speech: Digital Leadership in Today's Economy

Sarv Girn, Chief Information Officer at the RBA addressed the Gartner Symposium at the Gold Coast. He discussed the topic, *Digital Leadership in Today's Economy*.

Key points covered in the speech included:

- CIOs are now given the quest to seek, disrupt or protect business models to keep their organisation ahead in the race.
- The fit-for-purpose approach at the Bank means delivering a very large portfolio of projects related to national infrastructure in the financial system together with maintaining existing services.

The RBA aims to focus on:

- Enhancing resilience by having a digital environment that is stable and secure in order to provide the required service today and the strength for future change.
- The 'race' in delivering business change and transformation through a portfolio of projects.
- Renewal in adapting and tailoring an approach.

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

Research discussion paper: The efficiency of central clearing - a segmented markets approach

The RBA has released a [research discussion paper](#), *The Efficiency of Central Clearing: A Segmented Markets Approach*, examining the role of central clearing in a consumption-based asset pricing model with incomplete markets and default.

The analysis suggests that:

- Central clearing can improve welfare by mitigating counterparty credit risk in OTC derivatives markets.
- In the absence of an initial margin, the moral hazard problem that arises from mutualising default losses through a CCP's default fund is large. This inefficiency can outweigh the benefits from central clearing and worsens as the probability of default rises.
- Initial margin requirements are an effective tool to mitigate this externality and are a good substitute for state-contingent taxes. If margin requirements are set optimally, central clearing is always welfare improving. Optimal margin requirements are higher when default is more likely.
- The optimal level of central clearing is sensitive to how margin requirements are calibrated.

See [media release](#)

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CFR releases policy statements for conduct in operating cash equity clearing and settlement services in Australia

The CFR has released two policy statements:

- *[Regulatory Expectations for Conduct in Operating Cash Equity Clearing and Settlement Services in Australia](#)*, setting its expectations for the ASX's conduct in operating its cash equity clearing and settlement services. The Regulatory Expectations cover a range of matters relevant to governance, pricing and access, and apply to the ASX's engagement with users of its monopoly cash equity clearing and settlement services.
- *[Minimum Conditions for Safe and Effective Competition in Cash Equity Clearing in Australia](#)*, setting minimum conditions to ensure safe and effective competition. The Minimum Conditions cover the following:
 - Adequate regulatory arrangements.
 - Appropriate safeguards in the settlement process.
 - Access to settlement infrastructure on non-discriminatory, transparent, fair and reasonable terms.
 - Appropriate interoperability arrangements between competing cash equity central counterparties.

See [media release](#)

The Treasurer [welcomed](#) the release of policy statements as a further step in the opening of competition in clearing of Australian cash equities.

3

Industry bodies

ABA

Australian Bankers'
Association

COBA

Customer Owned Banking
Association

FSC

Financial Services Council

The ABA welcomes the release of second Ian McPhee report around initiatives in the Australian banking industry

The ABA has welcomed the release of the second quarterly independent governance expert [report](#), *Australian banking industry: Package of initiatives by Ian McPhee*, on how the industry is progressing with new initiatives to protect customer interests.

McPhee stated that good progress has been made in advancing the various measures in the three months since his last report:

- Further refinement of the objectives and measures for implementation by the industry.
- The independent reviews of product sales commissions and product based commissions and the Code of Banking Practice have commenced, sought and received submissions, and the respective reviewers have made available progress reports on their websites.
- The ABA has met a number of milestones, especially in relation to providing key submissions to government, announcing industry positions and developing papers for the purpose of consulting with stakeholders.
- The industry has actively engaged with the regulatory community and other key stakeholders on the most effective means of implementing the various measures.

The ABA has also released guiding principles on improvements to complaints handling and protections for whistleblowers. Two independent reviews into retail bank staff pay and incentives and conduct standards, are well into the analysis phase after a period of public consultation.

See [media release](#)

ABA makes a submission to the review of external dispute resolution (EDR)

The ABA has made a [submission](#) to the Independent Expert Panel's review of the financial systems external dispute resolution framework.

Key points made in the submission:

- Ensuring bank practices meet the highest standards of ethical behaviour and that any issues are quickly raised and addressed.
- Improvement of internal mechanisms for dealing with customer issues. This is being effected through the establishment of a dedicated customer advocate in each bank and improvements to complaint handling and remediation programs.
- Improved complaints handling and internal dispute resolution (IDR) practices should lead to a reduced need and recourse to EDR. The EDR system must work as efficiently and quickly as possible, when required, to resolve disputes and achieve fair outcomes, and to show that justice has been done.
- The simplest and easiest system for customers of all financial institutions would be a 'one stop shop'. Customers cannot be expected to understand and navigate the complexities of the current arrangements.

See [media release](#)

3

Industry bodies (cont'd)

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Customer Owned Banking
Association

FSC

Financial Services Council

Regulators can promote competition in banking

COBA announced that regulators can promote competition in banking through various measures:

- APRA should act to narrow the gap in risk weight requirements for mortgages by requiring the average risk weight for major banks to be at least 30%.
- Currently, major banks' average risk weight is 25% while their smaller competitors' average risk weight is 39%. Reducing this gap would build capital levels in the system and foster competition.
- APRA should increase the capital surcharge imposed on the four systemically important banks from 1% to 2%. The current surcharge is at the low end of the international spectrum, which ranges up to 6%.

See [media release](#)

COBA makes a submission to the review of external dispute resolution

COBA has made a [submission](#) to the Government's review of external dispute resolution (EDR).

Key points made in the submission:

- COBA supported the Review's proposal for a 'triage' service that would direct consumers to the right scheme. It would build on the strengths of the existing system by giving consumers a one-stop shop to find their appropriate scheme. The service should be operated by an appointee of the boards of the two existing schemes and it should be funded by the existing schemes.
- COBA is of the view that the two dispute resolution schemes currently operating in retail banking, FOS and CIO, are performing effectively and there is no strong case for either of the two schemes to be scrapped.
- Two ASIC-approved schemes provides the capacity to benchmark service levels, efficiency and costs, and to create competitive tension to drive innovation and better performance.

See [media release](#)

3

Industry bodies (cont'd)

ABA
Australian Bankers'
Association

COBA
Customer Owned Banking
Association

FSC
Financial Services Council

The FSC launches the life insurance Code of Practice (Code)

The FSC has launched the [Code](#) which is governed by an independent body to ensure compliance and is mandatory for FSC members.

The Code requires insurers to improve disclosure to customers, provide greater transparency in communications, decide claims within set timeframes, limit the use of surveillance, and provide additional support for vulnerable consumers.

The FSC has determined a number of key priority areas it will focus on, including:

- Life Cover in Group Superannuation: the FSC has released a [Statement of Intent](#) with organisations representing all superannuation trustees, ASFA, AIST, ISA and IFF, which commits to working together to lift standards for group insurance, including the role of super trustees.
- Advisers: the FSC is committed to working with the peak adviser organisations to address mutual obligations.
- Funeral Insurance and Consumer Credit Insurance: the industry will address the issues raised in the recent ASIC report, including through limitations on sales and premium structures.
- Enforcement: the FSC will consider making an application for ASIC approval of the second iteration of the Code.
- Products and definitions: The FSC will investigate whether further standardisation or updating of definitions is required.

- Mental-health specific standards: the FSC will work with groups like Beyond Blue, Lifeline, Mental Health Australia and the Public Interest Advocacy Centre to determine how to better serve those consumers with mental health issues.

See [media release](#)

The Government [welcomes](#) the release of the Code by FSC. In a recent [media release](#), ASFA comments on life insurance Code of Practice.

4

Overseas developments – Global

BCBS: Publishes final standard on TLAC holdings

The Basel Committee on Banking Supervision (BCBS) has published [final standards](#) on the regulatory capital treatment of banks' investments in instruments that comprise total loss-absorbing capacity (TLAC) for global systemically important banks.

The main elements of the prudential treatment are as follows:

- Banks must deduct holdings of TLAC instruments that are not already included in regulatory capital from their own Tier 2 capital.
- Thresholds below which no deduction is required apply to existing holdings of regulatory capital and an additional 5% threshold for non-regulatory-capital TLAC holdings only.
- Instruments ranking pari passu with subordinated forms of TLAC must also be deducted.

The final standards are effective from 1 January 2019

Source: [BIS](#)

BCBS: Publishes regulatory treatment of accounting provisions

The BCBS has published a [consultation paper](#), *Regulatory treatment of accounting provisions – interim approach and transitional arrangements*, and a [discussion paper](#) seeking feedback on the policy considerations related to the regulatory treatment of accounting provisions under the Basel III regulatory capital framework:

- The new accounting standards modify provisioning standards to incorporate forward-looking assessments in the estimation of credit losses.
- The Committee proposes to retain the current regulatory treatment of provisions under the standardised and the internal ratings-based approaches for an interim period.
- The BCBS is seeking comments on whether any transitional arrangement is warranted to allow banks time to adjust to the new ECL accounting standards.

Submissions are due by 13 January 2017.

Source: [BIS](#)

FSB: Publishes methodology for assessing the implementation of the Key Attributes

The Financial Stability Board (FSB) has published its [methodology](#) for assessing the implementation of key attributes of effective resolution regimes for financial institutions in the banking sector.

The overall assessment should take into account:

- The structure and complexity of the financial sector.
- The relative systemic importance of different sectors.
- The market environment of the jurisdiction that is being assessed.

An assessment must recognise that a jurisdiction's resolution regime for a bank should be proportionate to the size, structure and complexity of the jurisdiction's banking system.

Source: [FSB](#)

4

Overseas developments – Europe

EBA: Recent consultations

The European Banking Authority (EBA) has published a [consultation](#) on revised guidelines on internal governance, aiming to harmonise institutions' internal governance arrangements, processes and mechanisms across the EU.

Submissions are due by 28 January 2017.

The EBA and European Securities and Markets Authority (ESMA) have published a [consultation](#) on guidelines for assessing the suitability of members of the management body and key function holders within banks and investment firms .

Submissions are due by 28 January 2017.

The EBA has released a [consultation](#) on guidelines on the information to be provided for the authorisation as payment and electronic money institutions and to register as account information service providers under PSD2:

Submissions are due by 3 February 2017.

Source: [EBA](#)

EIOPA: Publishes peer review of the SIPP for IORPs

The European Insurance and Occupational Pensions Authority (EIOPA) has published a [peer review](#) of the Statement of Investment Policy Principles (SIPP) for Institutions for Occupational Retirement Provisions (IORPs), aiming to explore supervisory practices and identify best practices.

The peer review helped to identify eight of the best supervisory practices and recommended three actions to National Competent Authorities (NCAs), aiming to ease burden on IORPs:

- Define supervisory procedures relating to the SIPP in order to improve coordination between the NCAs.
- A single point of entry for the submission of the SIPP.
- Develop appropriate communication to IORPs explaining their obligations and rights with respect to the SIPP.

Source: [EIOPA](#)

ESMA: Recent consultations and reports

The ESMA has issued a [consultation paper](#), *Draft guidelines on MiFID II product governance requirements*, regarding the target market assessment by manufacturers and distributors of financial products. The guidelines address issues specific to manufacturers and distributors as well as issues common to both.

The ESMA has issued a [report](#), *Report on securities financing transactions (SFTs) and leverage in the EU*, assessing

- Whether the use of SFTs leads to the build-up of significant leverage that is not addressed by existing regulation.
- Where appropriate, the options available to tackle such a build-up.
- Whether further measures to reduce the pro-cyclicality of that leverage are required.

ESMA's report shall also consider the quantitative impact of the FSB recommendations.

Source: [ESMA](#)

4

Overseas developments – UK

FCA: Publishes thematic review of annuity sales practices

The Financial Conduct Authority (FCA) has published the [findings](#) of its thematic review of annuity sales practices and identified the following areas of concern:

- Heavy reliance on scripts by call handlers, which meant that they were often unable to respond to the customer's needs or clarify areas of misunderstanding.
- Customers were not always made aware that they could obtain a higher income by shopping around, even when enhanced annuities were discussed.
- Clear messages about enhanced annuities were sometimes undermined by subsequent comments which included under-playing the level of increase which a consumer may obtain by shopping around.
- Where firms do not sell enhanced annuities, they did not always inform customers of this or may not even mention enhanced annuities at all when speaking to customers.

Source: [FCA](#)

FCA: Publishes proposals on transactions cost disclosure

The FCA has published a [consultation paper](#), *Transaction cost disclosure in workplace pensions*, proposing to standardise the disclosure of the transaction costs incurred by pension investments.

Currently, independent governance committees (IGCs) and trustees are required to request and report on transaction costs.

The FCA is proposing:

- Asset managers, as a duty, will have to disclose aggregate transaction costs to pension schemes that, directly or indirectly, invest in their funds.
- Asset managers provide the breakdown of transaction costs on request with the total broken down into categories of identifiable costs, for instance taxes and securities lending costs.

Submissions are due by 4 January 2017.

Source: [FCA](#)

FCA: Publishes the final report of its investment and corporate banking market study

The FCA has published the [final findings](#) of its investment and corporate banking market study, setting out a targeted package of remedies to ensure effective competition in the market, including:

- Banning banks from using contractual clauses that seek to limit clients' choices on future transactions.
- Ending league table misrepresentation in banks' pitches to clients.
- Removing incentives for loss-making trades to climb league tables.
- Supervisory program for initial public offering (IPO) allocations.

Source: [FCA](#)

4

Overseas developments – US

CFTC: Signs MOU to enhance supervision of cross-border regulated firms

The US Commodity Futures Trading Commission (CFTC) and the FCA have signed a Memorandum of Understanding ([MOU](#)) regarding cooperation and exchange of information in the oversight of certain regulated firms that operate cross-border in the United States and the United Kingdom.

The CFTC and Superintendent of Securities (Newfoundland and Labrador) have signed a [counterpart](#) to a 2014 MOU relating to cooperation and exchange of information in the supervision and oversight of regulated entities that operate on a cross-border basis in the United States and in Canada.

Source: [CFTC](#)

OCC: Releases risk reevaluation guidance for foreign correspondent banking

The Office of the Comptroller of the Currency (OCC) has released risk reevaluation [guidance](#) to national banks, federal savings associations, and federal branches and agencies associated with foreign correspondent banking accounts.

The guidance shares a range of best practices for banks to consider when conducting these periodic reevaluations and making account retention or termination decisions.

Source: [OCC](#)

SEC: Recent announcements

The Securities and Exchange Commission (SEC) has proposed to adopt [rules](#) to modernize and enhance reporting of by open-end funds, enhancing the quality of information available to investors and facilitating more effective data collection by the Commission. These rules will also improve liquidity risk management and enhance disclosure regarding fund liquidity and redemption practices.

The SEC has adopted final [rules](#) to provide more options for companies to raise money to fund their businesses through intrastate and small offerings while maintaining investor protections.

Source: [SEC](#)

5

PwC publications

PwC: Banking & capital markets 2020 - is your business equipped with a tax function for the future?

PwC has published a report, *Banking & capital markets 2020 - is your business equipped with a tax function for the future?*, pointing out that the global tax landscape and the banking and capital markets industry are both in a state of rapid and constant change, primarily as a result of a more global and technologically-advanced world. These changes directly impact the function and expectation of a tax function.

The paper highlights six priorities for success in 2020:

- Proactively manage risk, regulation and capital.
- Establish stronger culture and conduct.
- Redefine the business model.
- Strategically renew the operating model.
- Enable innovation, and the capabilities to foster it.
- Obtain an information advantage.

See [publication](#)

PwC: The wait is nearly over? IFRS 17 is coming, are you prepared for it?

The new IFRS for insurance contracts accounting (previously referred to as IFRS 4 Phase II, now expected to be IFRS 17) has been under development for many years. However, the International Accounting Standards Board (IASB) are now finalising the final standard.

A robust standard is clearly needed as current IFRS 4 allows a myriad of different accounting policies resulting in a lack of comparability, even within insurance groups. The standard is expected in early 2017 with an effective date of 2020 or 2021.

PwC has published a report, *The wait is nearly over? IFRS 17 is coming, are you prepared for it?*, which touches on the following topics:

- An overview of the standard.
- Key IFRS challenges.
- Approaching IFRS implementation with confidence.

See [publication](#)

PwC: Blockchain - the \$5 billion opportunity for reinsurers

PwC has published a report, *Blockchain: The \$5 billion opportunity for reinsurers*, highlighting that reinsurers are in line to build some of the biggest blockchain applications outside the payments sector.

These applications will enhance risk understanding and open up a \$5-10 billion cost saving opportunity through faster, more efficient and more accurate placement, claims settlement and compliance checks.

See [publication](#)

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PwC publications (cont'd)

PwC China/HK: Billionaires Insights 2016 - "Are billionaires feeling the pressure?"

PwC China has published a report, *Billionaires Insights 2016: "Are billionaires feeling the pressure?"*, addressing the challenges faced by some of the wealthiest individuals in the world. It is global in scope across all major markets and covers both self-made and inherited wealth.

Key findings of the report:

- Led by China, Asia is creating a billionaire every three days.
- During 2015, 113 Asian entrepreneurs attained billionaire status, representing 54% of the global total for the year.
- The largest ever transfer of wealth to the Millennial generation is imminent. It will be Asia's first-ever handover of billionaire wealth.
- With better education and access to technology, the new generation of ultra wealthy typically emphasises social good and philanthropy, seeing business success as a means of benefitting society.

See [publication](#)

PwC HK: Risk committee - guidance note on corporate governance

PwC Hong Kong has published a report, *Risk committee - Guidance note on corporate governance*.

Key findings from the report:

- The establishment of a Risk Committee is mandatory in the revised Guidance Note on the Corporate Governance of Authorised Insurers (GN10).
- While the board retains the ultimate responsibility for risk oversight, the Risk Committee should oversee the establishment and operation of the risk management system independently, as well as the implementation of the appropriate risk appetite.

See [publication](#)

PwC UK: Sanctions and the insurance market

PwC UK has published a report, *Sanctions and the Insurance Market - Putting in place an effective compliance programme*, highlighting that risk management is a constant challenge for every company. This is particularly true for sanctions on account of increase in enforcement, regulation and complexity of regimes.

PwC UK has developed a holistic program which will enable insurers to achieve and demonstrate an effective sanctions compliance framework.

See [publication](#)

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PwC publications (cont'd)

PwC UK: Effectively managing financial crime risk within the SM&CR - five key challenges

The Senior Managers and Certification Regime (SM&CR) required firms to appoint Senior Managers to manage certain specified 'prescribed responsibilities', which include the firm's policies and procedures for countering the risk that the firm might be used to further financial crime (FCA 4).

A PwC report has identified five key SM&CR financial crime challenges:

- Defining financial crime.
- Specifying joint prescribed responsibilities for financial crime.
- Overseeing firm-wide financial crime risk management.
- Working towards holistic financial crime risk management.
- Supervision of the firm's MLRO.

See [publication](#)

PwC UK: In search of lost time - a time-to-report analysis in the B&CM industry

PwC UK has published a report, *In search of lost time - a time-to-report analysis in the Banking & Capital Markets (B&CM) industry*.

PwC tested a number of common hypotheses against the database of over 350 US and UK companies and came across surprising results.

Key findings include that UK banks, while announcing their annual results long after the rest of the world, compete with the European best in class when it comes to quarterly public announcement.

See [publication](#)

PwC US: US G-SIBs' resolution plan progress reports

PwC US has published a report bringing out key points from the US global systemically important banks' (G-SIBs) resolution plan progress reports:

- There is evidence of real change to banks' legal entity structures.
- The Board of Directors is getting more engaged.
- Resolution planning requires extensive human capital.
- More banks' senior executives are taking responsibility.
- The October Submissions are easier to understand than previous public sections.
- The industry may be gravitating toward similar solutions for other deficiencies.
- Feedback is unlikely to come quickly and there are more hurdles yet to come.

See [publication](#)

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PwC publications (cont'd)

PwC US: SEC's final liquidity risk management rule and swing pricing amendment

PwC US has published a report, *SEC's final liquidity risk management rule and swing pricing amendment*, touching on the following key points:

- The final LRM rule shifts its focus to protecting remaining shareholders and reduces the number of required liquidity classifications
- Emphasis on board's oversight role.
- Fund managers will have to consider position sizes when making liquidity determinations.
- Every fund must establish a highly liquid investments minimum.
- The SEC provides some concessions to the HLIM determination.
- Funds will have to keep the SEC informed of significant liquidity events.
- The SEC caps swing pricing.

See [publication](#)

PwC US: Counterparty credit limits - do you know where your exposures are?

The Federal Reserve Board (Fed) concluded the comment period on its re-proposed single counterparty credit limits (SCCL) rule. SCCL is intended to reduce systemic risk by limiting a bank's exposure to any single unaffiliated counterparty as a percentage of the bank's capital.

The rule is expected to be finalised this year. The PwC report analyses how the Fed may address these and other issues.

See [publication](#)

PwC US: SEC's final rule on fund reporting

In October 2016, the SEC adopted its final rule to overhaul and modernise reporting requirements for all registered investment funds (i.e., mutual funds, closed end funds and ETFs, but excluding money market funds). The new reporting requirements will change the manner in which portfolio and certain other information is reported to the SEC.

PwC US has published a report, *SEC's final rule on fund reporting*, bringing out five key points from the final rule:

- For the first time, registered funds will be required to file monthly reports.
- New reporting methods will lead to increased transparency.
- The new reporting requirements will create operational challenges.
- The SEC will consider allowing funds to deliver electronic shareholder reports.
- The compliance runway.

See [publication](#)

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PwC publications (cont'd)

PwC US: Sales practices - OCC exams and beyond

During late 2016, the Office of the Comptroller of the Currency (OCC) began its examinations of sales practices at large and mid-size banks. Many banks have been actively preparing for these exams, and several are far along in conducting their own self assessments.

The regulators will hold the Board of Directors accountable given its responsibilities for overseeing that the bank's revenue-generating strategies are in line with the bank's risk appetite.

PwC US has published a report, *Sales practices: OCC exams and beyond*, providing its view of

- Supervisory expectations for the enterprise-wide sales practices risk management program and overall risk governance.
- Possible enhancements to improve culture.
- Implications for future business strategy.

See [publication](#)

PwC US: Treasury's final rule on QFC recordkeeping

On October 31st, the US Treasury finalised its long awaited rule governing Qualified Financial Contracts (QFCs) recordkeeping, requiring most systemically important US financial institutions to maintain standardised information related to their end-of-day QFC positions.

PwC US has published a report, *Treasury's final rule on QFC recordkeeping*, touching on five key points:

- The final rule gives the industry a more realistic timeline.
- The scope of affected SIFIs and their affiliates is narrowed.
- QFC documentation is no longer required to be fully searchable.
- Records must be maintained for more types of QFCs than the industry hoped.
- Relief with respect to counterparties' entity identifiers.

See [publication](#)

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