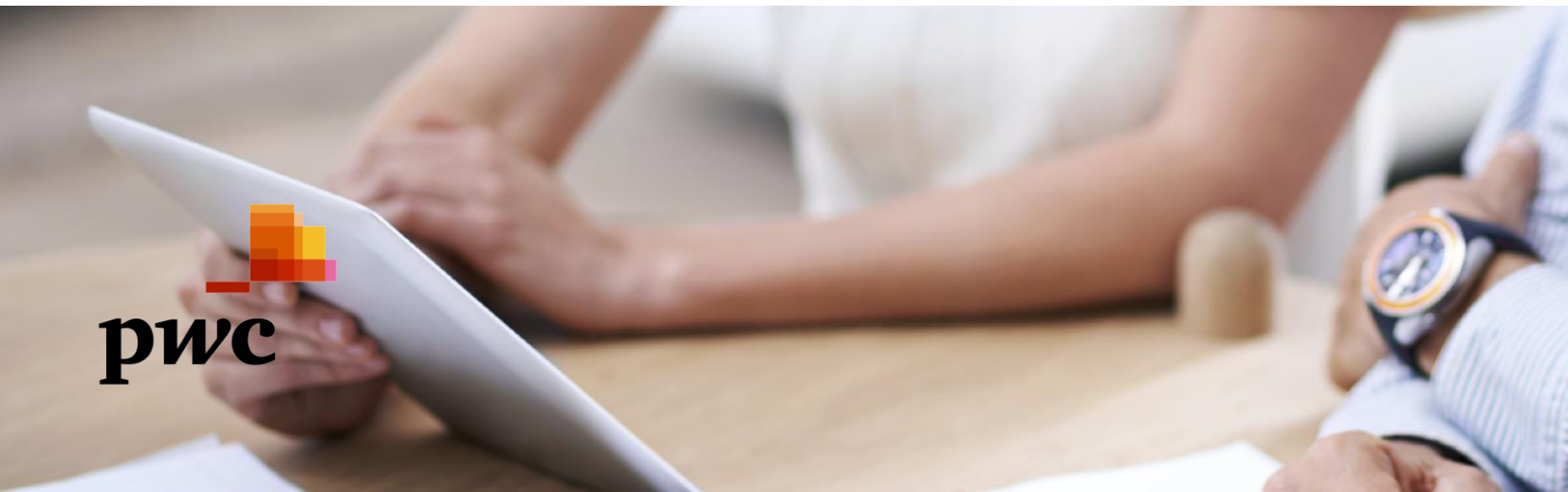
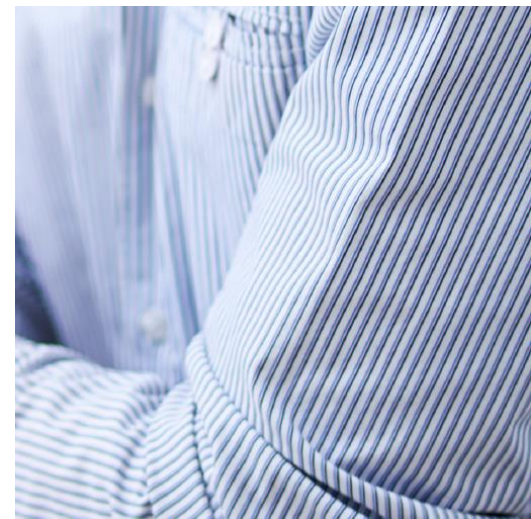


# PwC Regulatory Update

April 2019



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# 1

Legislative/  
Government  
developments

# 1. Legislative/Government developments

## Government consults on Recommendation 1.15 of Commissioner Hayne's final report

Responding to recommendation 1.15 of Commissioner Hayne's final report, the Government has released a consultation paper, *Enforceability of financial services industry codes*. The paper sets out a series of questions, which will inform the development of legislation to provide the Australian Securities and Investments Commission (ASIC) with additional powers to approve and enforce code provisions.

Source: [Treasury](#)

## Government seeks feedback on Capability Review of the Australian Prudential Regulation Authority (APRA)

A review of APRA's ability to respond to an environment of growing complexity and emerging risks was announced by the Government in February 2019. All interested parties are invited to make submissions regarding APRA's capability, per the final Terms of Reference for the Capability Review.

Source: [Treasury](#)

## Government releases draft regulations for ending grandfathered conflicted remuneration for financial advisers

The *Treasury Laws Amendment (Ending Grandfathered Conflicted Remuneration) Regulations 2019* has been released by the Government for public consultation. The Exposure Draft Bill removes the grandfathering arrangements for conflicted remuneration and other banned remuneration from 1 January 2021, per Recommendation 2.4 of Commissioner Hayne's final report.

Source: [Treasury](#)

# 1. Legislative/Government developments (cont'd)

## Government requests feedback on universal terms for insurance within MySuper

The Government has released a consultation paper, *Universal terms for insurance within MySuper* and is seeking stakeholder views on universal terms for default MySuper group life policies. The paper reflects the Government's commitment to implement Recommendation 4.13 of Commissioner Hayne's final report.

Source: [Treasury](#)

## Government will consult on options to amend unfair contract terms (UCT) for small businesses

In late 2018, a review of existing legislative protections provided to small businesses revealed UCTs weren't providing appropriate protections to many small businesses. Responding to the findings from the review, the Government has announced that it will consult on options to amend current laws through a Regulation Impact Statement (RIS) process.

Source: [Treasury](#)

# 1. Legislative/Government developments (cont'd)

## Government reduces ASIC search fees and amends ASIC industry funding model

The Government has announced plans to reduce and remove fees for accessing certain information from ASIC's online registries from 1 July 2019. Amendments will also be made to ASIC's industry funding model to ensure it is reflective of ASIC's regulatory effort.

Source: [Treasury](#)

## Other key updates

After consultation with the mortgage broking industry and small lenders, the Government has decided not to prohibit trail commissions on new loans, but rather review their operation in three years' time.

Source: [Treasury](#)

# 2

What have  
the regulators  
been up to?

## 2. What have the regulators been up to?

### APRA

Australian Prudential Regulation  
Authority

#### APRA begins consultation on Financial Sector (Shareholdings) Rules 2019

APRA has begun its consultation on the *Financial Sector (Shareholdings) Rules 2019*. The proposed rules set out the matters that must be considered in determining:

- Whether a person is fit and proper for the purposes of the Financial Sector (Shareholdings) Act 1998 (FSSA);
- The calculation used to determine if an entity's assets are within the relevant threshold; and
- The information to be reported to APRA annually if an application under the "fit and proper" test is approved.

Source: [APRA](#)

### ASIC

Australian Securities and  
Investments Commission

### ASX

Australian Securities Exchange

### RBA

Reserve Bank of Australia

#### APRA proposes minor changes to the prudential framework to implement the cross industry appointed actuary standard

In a letter to all General Insurers, Life Insurers, and Private Health Insurers, APRA has stated its intention to amend thirteen prudential standards to reflect changes arising from the introduction of the new *Prudential Standard CPS 320 Actuarial and Related Matters* (CPS 320) and *Prudential Standard GPS 340 Insurance Liability Valuation* (GPS 340).

Source: [APRA](#)



## 2. What have the regulators been up to?

### APRA

Australian Prudential Regulation  
Authority

#### APRA seeks to modernise prudential standard on credit risk management

APRA has released a discussion paper proposing changes to *Prudential Standard APS 220 Credit Quality* (APS 220). The revised APS 220 would incorporate the outcomes from APRA's recent supervisory focus on credit standards and address Recommendation 1.12 of Commissioner Hayne's final report.

Source: [APRA](#)

### ASIC

Australian Securities and  
Investments Commission

### ASX

Australian Securities Exchange

### RBA

Reserve Bank of Australia

#### APRA takes action to protect against the rise in information security risks

The updated *Prudential Practice Guide 234 Information Security* (CPG 234) has been released by APRA for consultation. The updated CPG 234 has been developed to address several common information security weaknesses that APRA has observed through its regular supervisory activities.

Source: [APRA](#)

## 2. What have the regulators been up to?

### APRA

Australian Prudential Regulation  
Authority

### ASIC

Australian Securities and  
Investments Commission

### ASX

Australian Securities Exchange

### RBA

Reserve Bank of Australia

#### ASIC consults on the ePayments Code

In light of significant developments in the payments environment, ASIC is undertaking a review of the ePayments code and seeking feedback on the proposed coverage of its review.

Source: [ASIC](#)

#### Other key updates

ASIC has remade Class Order [CO 08/781] *Warrants: Out-of-use notices*, which was due to sunset on 1 April 2019. The new instrument will continue to provide issuers of warrants relief from the requirement under the Corporations Act to notify ASIC when a warrant ceases to be available in certain circumstances.

Source: [ASIC](#)

ASIC has extended relief provided by Class Order [CO -2/273] *Business introduction or matching services* (original class order) for an additional three years through the introduction of ASIC Corporation (Amendment) Instrument 2019/216.

Source: [ASIC](#)

## 2. What have the regulators been up to?

### APRA

Australian Prudential Regulation  
Authority

### ASIC

Australian Securities and  
Investments Commission

### ASX

Australian Securities Exchange

### RBA

Reserve Bank of Australia

#### Other key updates

ASIC cancelled the Australian financial services (AFS) licences of two NSW-based financial services providers on failure to obtain membership of the Australian Financial Complaints Authority (AFCA) scheme. All AFS licensees, Australian credit licensees, superannuation trustees and other financial firms that provide services to retail clients were required to become AFCA members by 21 September 2018.

Source: [ASIC](#)

ASIC released a report, *Indicative levies for ASIC industry funding: 2018–19*, setting out the indicative levies for industry funding for the 2018–19 financial year, as well as, detailing how it allocated its regulatory costs in 2017–18. The indicative levies are based on ASIC's budgeted regulatory costs outlined in ASIC's draft Cost Recovery Implementation Statement (CRIS).

Source: [ASIC](#)

#### Other key updates

ASIC provided an update on the fees for no service (FFNS) further review programs undertaken by six of Australia's major banking and financial services institutions (AMP, ANZ, CBA, Macquarie, NAB and Westpac).

The ongoing supervision indicated that most of the institutions are yet to complete *further reviews* since 2013 due to poor report practices and failure to propose reasonable customer-centric methodologies to identify and compensate customers.

Source: [ASIC](#)

## 2. What have the regulators been up to?

### APRA

Australian Prudential Regulation  
Authority

### ASIC

Australian Securities and  
Investments Commission

### ASX

Australian Securities Exchange

### RBA

Reserve Bank of Australia

#### ASX: Recent consultations

ASX released a consultation paper, *Proposed changes to Guidance Note 1 Admission as a Participant, and Guidance Note 10 Business Continuity and Disaster Recovery relating to business continuity and cyber resilience*, seeking stakeholder feedback on ASX's proposed amendments to Guidance Note 1 and Guidance Note 10:

- Whether participants agree with ASX's proposal to not impose prescriptive requirements on how participants should manage cyber risk and instead require participants to align their cyber resilience arrangements to one or more of the latest global or national cyber standards and guidance;
- Whether the proposed transition arrangements are sufficient for participants to align their current business continuity arrangements with the updated guidance in Guidance Note 10.

Submissions are due by 3 May 2019.

Source: [ASX](#)

#### RBA extends local currency swap agreement with Bank of Japan

The RBA extended its bilateral local currency swap agreement with the Bank of Japan for a further three years. The agreement will enhance the financial stability of the two countries and allow for the exchange of local currencies between the two central banks of up to AUD 20 billion or the equivalent of JPY 1.6 trillion.

Source: [RBA](#)

# 3

Industry bodies

### 3. Industry bodies

#### ABA

Australian Banking Association

##### **Independent report highlights banks on track to meet their 2020 deadline to overhaul staff pay**

The former Public Service Commissioner Mr Stephen Sedgwick AO released a report, *Retail Remuneration Review - Assessment of Progress*, making an assessment on the progress made by the member banks to implement the 21 recommendations of the 2017 Retail Banking Remuneration Review. Some of the key findings of the report are:

- Banks are on track to implement the report in advance of the 2020 deadline.
- Banks have reduced the use of bonuses based on financial incentives considerably for front line staff.
- Bonuses for bank tellers are now based on broader customer service measures, with 'sales based' measures greatly reduced.
- Salaries for other bank staff are now weighted towards fixed pay, rather than variable bonuses.
- Banks are retraining front line staff to encourage a 'customer first' approach, rather than a 'sales first' mindset.

Source: [ABA](#)

#### AFCA

Australian Financial Complaints Authority

#### COBA

Customer Owned Banking Association

##### **ABA consults on the new industry guideline to support vulnerable customers**

The ABA released a consultation paper, seeking feedback on the new industry guideline on supporting vulnerable customers, to complement the new Banking Code of Practice. The guidelines are as follows:

- Outline ABA members' commitment in ensuring customers can access appropriate banking products, services and support, and that these are suitable and fair;
- Assist customers to feel comfortable to disclose to their bank that they are experiencing financial hardship and/or, vulnerability and to be treated with sensitivity, respect and compassion.

Written consultation responses are due by 10 May 2019.

Source: [ABA](#)

### 3. Industry bodies

#### ABA

Australian Banking Association

#### AFCA

Australian Financial Complaints Authority

#### COBA

Customer Owned Banking Association

##### **AFCA consults on rule changes**

The AFCA is seeking feedback on the following matters:

Proposed changes to its rules to expand its jurisdiction to deal with eligible complaints about conduct from 1 January 2008. The expanded jurisdiction would stay in operation from 1 July 2019 for 12 months.

Whether the proposed changes satisfy the requirements of the new authorisation conditions and if the proposed additions to AFCA's operational guidelines explain how they will apply.

The proposed rules amendment will be provided to ASIC for review and approval. The amended rules are due to be released in June 2019.

Source: [AFCA](#)

##### **AFCA announces establishment of Consumer Advisory Panel**

The AFCA announced the establishment of its Consumer Advisory Panel to provide insights on strategic and policy issues together with highlighting emerging issues facing consumers.

Source: [AFCA](#)

##### **COBA makes a submission to APRA for fairer capital rules**

The COBA made a submission to APRA stating that APRA should narrow the capital gap between the 'standardised' approach used by smaller banking institutions and the 'IRB' approach used by major banks. This would help foster more competition in the Australia mortgage market.

Source: [COBA](#)

# 4

Overseas  
developments



## 4. Overseas developments – Europe

### EBA: Recent announcements

The European Banking Authority (EBA) issued an Opinion on deposit protection issues in case of a withdrawal of the United Kingdom from the European Union. In such case, the EBA called on the Deposit Guarantee Schemes Designated Authorities (DGSDAs) to ensure that depositors in the branches of the UK credit institutions in the EU are adequately protected by the EU deposit guarantee schemes (DGSs).

Source: [EBA](#)

The EBA published a consultation paper, *Draft Guidelines on harmonised definitions and templates for funding plans of credit institutions*.

Submissions are due by 5 May 2019.

Source: [EBA](#)

The EBA published its final guidelines on how institutions should quantify the estimation of loss given default (LGD) during an economic downturn. The specific focus is on the quantification of the calibration target used for downturn LGD estimation.

Source: [EBA](#)

### EBA: Recent announcements

The Board of Supervisors of the EBA published a template for the memorandum of understanding (MoU) which provides detail of supervisory cooperation and information exchange between the EU supervisory authorities, the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). The template will serve as the basis for bilateral MoUs between the EU competent authorities and the UK authorities.

Source: [EBA](#)

The EBA has gone live with its central register of payment and electronic money institutions under the Payments Services Directive (PSD2). The launch will facilitate increased transparency and ensure a high level of consumer protection within the European Single Market. The register will provide consistent information on:

- The identity of authorised payment and electronic money institutions, including payment initiation service providers and account information service providers;
- The country of establishment of these providers and the services they provide; and
- Information on passporting, i.e. the services provided in host Member States.

Source: [EBA](#)

### ECB: Recent announcements

The European Central Bank (ECB) and the Bank of England agreed to activate a standing swap line through which the Bank of England will offer to lend euro to UK banks on a weekly basis and obtain euro from the ECB in exchange for pound sterling. This arrangement will provide additional flexibility in providing liquidity insurance and support the functioning of markets that serve households and businesses.

Source: [ECB](#)

The ECB decided that the eligibility requirements for loan-level data reporting in collateral framework has to be adjusted to reflect EU Securitisation Regulation's disclosure requirements and the eligibility criteria for asset-backed securities will depend on fulfilment of certain conditions. The process will be gradual and will facilitate continued eligibility of transactions fulfilling current reporting standards.

Source: [ECB](#)

## 4. Overseas developments – UK

### FCA: Recent announcements

The FCA has released a policy statement introducing the following measures to aid in protecting vulnerable customers in the rent-to-own (RTO) sector:

- Setting a total credit cap of 100%;
- Introducing a requirement for firms to benchmark base prices against the prices charged by 3 mainstream retailers; and
- Preventing firms increasing their prices for insurance premiums, extended warranties, or arrears charges to recoup lost revenue from the price cap.

Source: [FCA](#)

### FCA: Recent consultations

The FCA has released a consultation paper, *Consultation on Investment Platforms Market Study remedies*, and is seeking feedback from key stakeholders on proposed changes designed to reduce the barriers to effective competition, which have been experienced by consumers who use platforms and similar services.

These proposed changes include:

- Rules to allow consumers to switch platforms and remain in the same fund without having to sell their investments; and
- A ban or cap on exit fees.

Submissions are due by 14 June 2019.

Source: [FCA](#)

### PRA: Recent announcements

The PRA, FCA and European Insurance and Occupational Pensions Authority (EIOPA) have signed Memoranda of Understanding regarding supervisory cooperation and information-sharing arrangements with respect to UK and EU insurance companies in the event of Brexit without a withdrawal agreement and implementation period.

Source: [Bank of England](#)

The PRA has released a consultation paper, seeking feedback on expectations for liquidity risk management by insurers. These include the following aspects:

- Key elements of an insurer's liquidity risk management framework;
- Expectations of the design and conduct of a stress testing programme;
- Considerations for assessing asset liquidity;
- Quantitative metrics and tools for measuring and monitoring liquidity risk; and
- Effective liquidity contingency planning.

Submissions are due by 5 June 2019.

Source: [Bank of England](#)

## 4. Overseas developments – ASIA

### Singapore: Recent consultations

The Monetary Authority of Singapore (MAS) has issued two consultation papers on proposed changes to the Technology Risk Management (TRM) and the Business Continuity Management (BCM) guidelines and is seeking feedback on its following proposals:

- Expand the TRM guidelines to provide guidance on effective cyber surveillance, secure software development, adversarial attack simulation and management of cyber risks posed by the Internet of Things;
- Update the BCM guidelines to raise financial institutions' (FIs) standards in the development of business continuity plans to better account for interdependencies across FIs' operational units and linkages with external service providers.

Source: [MAS](#)

### South Korea: Recent announcements

The Financial Services Commission (FSC) will grant a grace period of two or three years for the implementation of Basel III regulations to the new online only banks to ease their regulatory burden at the early stage of business operation. The regulations will be fully effective from 2020 for other banks.

Submissions are due by 7 May 2019.

Source: [FSC](#)

The FSC has announced financial policy plans to support Korea's innovation-led economic growth. The plan consists of the following proposals:

- Overhauling bank's corporate loan approval system;
- Helping innovative start-ups raise funds based on their growth potential; and
- Financing industrial innovation.

Source: [FSC](#)

## 4. Overseas developments – US

### OCC: Recent announcement

The five federal agencies are seeking feedback on their interim final rule to facilitate transfers of legacy swaps without triggering new margin requirements (Swap Margin Rule) in response to Brexit. This action applies to legacy swaps that were entered into before the applicable regulatory margin requirements took effect.

Source: [OCC](#)

### SEC: Recent announcement

The Securities and Exchange Commission (SEC) has released final rules to adopt changes to modernise and simplify disclosure requirements for public companies, investment advisers, and investment companies in response to the Commission's mandate under the Fixing America's Surface Transportation (FAST) Act. The rule will benefit investors by removing redundant disclosure requirements and improve the ease of reading and navigating company disclosures.

Source: [SEC](#)

The SEC has proposed rules to amend certain provisions of the *Small Business Credit Availability Act* and the *Economic Growth, Regulatory Relief, and Consumer Protection Act* by modifying the registration, communications and offering processes available to Business Development Companies (BDCs) and registered closed-end funds. The proposal would improve access to capital and facilitate investor communications.

Source: [SEC](#)

5

PwC publications

## 5. PwC publications

### PwC Australia: Federal Budget Insights 2018-19

PwC Australia has released the Federal Budget Insights 2018-19 report, analysing the impact on taxes, research & development, private business, asset & wealth management and superannuation from the Federal budget.

See [publication](#)

### PwC Australia: Recent Updates to the Economic and Financial Statistics Collection

PwC Australia has released a report, highlighting the updates to the Economic and Financial Statistics (EFS) collection. It summarises the reporting requirements required until the end of the calendar year and new thresholds that apply to Authorised Deposit-taking Institutions (ADI) and Registered Financial Corporations (RFC).

See [publication](#)

### PwC China: Chinese Bankers Survey 2018 Report

PwC China has released the Chinese Bankers Survey 2018 report, prepared in collaboration with the China Banking Association (CBA). The report discusses sector developments from the Chinese bankers' view and the challenges they face.

Some of the key findings are as follows:

- Bankers are optimistic about the banking industry's future over the next three years, with most expecting a GDP increase of around 6.5%.
- Approximately 70% of the respondents believe that strengthening risk controls is the most important part of banks' transformation strategy.
- Bankers managed their expectations when the economic development began shifting from a high to a steady growth rate.
- Chinese bankers are allocating more resources to FinTech and IT development.
- Greater progress will require more innovative approaches.

See [publication](#)

## 5. PwC publications (cont'd)

### PwC US: LIBOR's end for asset managers - Turning new reference rates to your advantage

Asset managers face particular challenges from the transition caused by LIBOR being phased out in 2021, including their diversity of asset classes, dependence on third parties, and complex investor base.

PwC US has released a report, *LIBOR's end for asset managers: Turning new reference rates to your advantage*, discussing how asset managers can use this shift to enhance products and profitability.

See [publication](#)

### PwC US: Smarter bots - PwC's 2019 financial services intelligent automation survey

Leading financial service institutions are using intelligent automation (IA) to solve various long-standing problems. IA differentiates itself from its predecessors, as is not a single tool but a collection of automation tools that can solve problems that are more sophisticated.

PwC US has released a report, *Smarter bots: PwC's 2019 financial services intelligent automation survey*, outlining the results of the survey discussing how the IA technology is working, its future, and how firms can implement and benefit from the technology.

See [publication](#)

### PwC US: Merger integration: harder than ever?

The planning and execution phases of a merger are more difficult than announcing a merger due to two major reasons: increased customer expectations and stringent regulatory requirements. PwC has released a report, outlining the eight keys to get banking M&A integration right:

- Staffing the integration management office with top talent, and giving them the authority to succeed;
- Treating change management as more than an afterthought;
- Thinking beyond cost savings;
- Building agility;
- Investing in tools thoughtfully;
- Going slow with data to go fast;
- Choosing platform wisely; and
- Addressing regulatory filings early and thoughtfully.

See [publication](#)

## 5. PwC publications (cont'd)

### PwC US: Digital Intelligence – A new playbook for top-of-funnel acquisition

PwC US has released a report, *Digital intelligence - A new playbook for top-of-funnel acquisition*, analysing the top digital developments influencing financial services.

The report discusses how customer acquisition methods will change as institutions build out their digital platforms. New methods will focus on scale, which can include bulk acquisition or products flexible enough for national reach through digital-only channels. Both approaches will change the top of the funnel, and can inform strategic decisions and accelerate growth for the broader physical business.

See [publication](#)

### PwC US: Capital markets: The unequal evolution of sales and trading

PwC US has published a report, *Capital markets - The unequal evolution of sales and trading*, discussing how successful transformation is about planning the downstream operating decisions carefully. The report also discusses key areas to address in assessing future operating decisions:

Many institutions implement process automation to control costs in line with digital-based pressures such as commission and spread contraction.

As broader parts of the capital markets business move toward digitisation, methods of client interaction will change and prompt re-evaluation of the sales approach and how to maximize client profitability.

Operational risk management will increasingly need to consider the evolving nature of how products are delivered and by whom, relative to the product itself.

See [publication](#)



# 6

Contacts

## 6. Contacts



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# Thank you

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