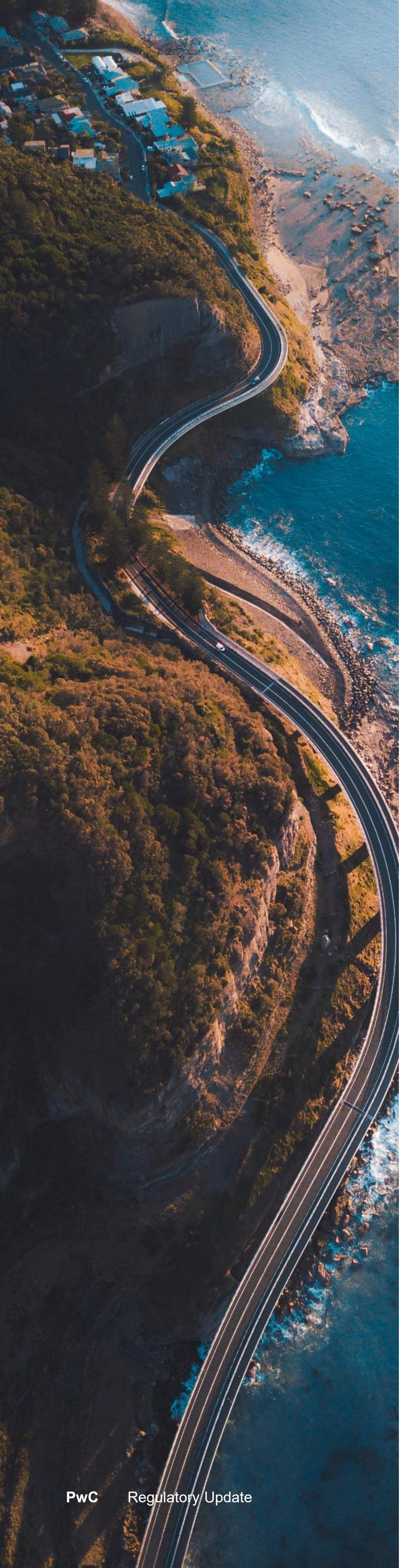
PwC Regulatory Update

December 2025



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What have the regulators been up to?

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ASIC – Australian Securities and Investment Commission

ASIC review raises fresh concerns over risks to retirement savings from poor SMSF advice

ASIC's review of 100 financial advice files on self-managed super fund (SMSF) establishment found widespread non-compliance with adviser obligations, with only 38 files showing best interests duty was met. Over one-quarter of files raised significant concerns about client detriment. Commissioner Alan Kirkland noted many Australians are being placed at risk by unsuitable SMSF advice, losing key protections of traditional funds. The sector is growing rapidly, but poor advice and conflicts of interest persist despite pre-vetting and licensee policies. ASIC warns advisers must prioritise client interests and urges implementation of recommended action points to improve standards. Regulatory action, including enforcement, is being considered. ASIC's report stresses informed SMSF establishment and provides guidance to help Australians assess suitability. Recent collapses highlight the dangers of poor SMSF advice.

Source: ASIC

RBA – Reserve Bank of Australia

Statement by the Monetary Policy Board: Monetary Policy Decision

The Board has decided to keep the cash rate unchanged at 3.60%. Although inflation has decreased since its 2022 peak, it unexpectedly rose in the September quarter, mainly due to temporary factors, with underlying inflation projected to remain above target until 2027. The housing market is strengthening and private demand is increasing, with credit readily available. The labour market remains tight, though employment growth has slowed and the unemployment rate has edged up. Uncertainties remain, especially around domestic demand, productivity growth, and global risks. The Board views monetary policy as still slightly restrictive and believes the full effects of previous rate cuts are yet to be seen.

Given persistent inflation risks, the Board chose to remain cautious, closely monitoring economic data and ready to adjust policy if required. The decision was unanimous, with a continued focus on price stability and full employment.

Source: RBA

AFCA – Australian Financial Complaints Authority

AFCA cautions against unregulated lending, as small business complaints reach record high

Last financial year, small business complaints to the AFCA rose 4% to a record 4,648. AFCA highlights that not all small business lenders are required to be AFCA members; when a lender is not a member, business owners have fewer options for dispute resolution. In 2024-25, 21% of finance-related complaints could not be considered because the lender was not affiliated with AFCA.

Service quality, poor communication, and incorrect charges were top issues driving the complaints surge. AFCA urges small businesses to confirm if lenders are members before obtaining finance, and encourages non-member lenders to join for better consumer protection. AFCA's dispute resolution service is free for small businesses and secured $27 million in compensation last year. The updated AFCA Datacube now provides monthly public data on complaints to boost transparency.

Source: AFCA

APRA – Australian Prudential Regulation Authority

APRA to limit high debt-to-income home loans to constrain riskier lending

APRA will introduce a limit on high debt-to-income (DTI) home lending from 1 February 2026 to contain emerging housing-related risks. Authorised deposit-taking institutions (ADIs) may allocate up to 20% of new mortgage loans with DTI ratios of 6 times income or more, with separate limits for owner-occupiers and investors. The move responds to recent increases in riskier lending, rising property prices, and above-average credit growth, particularly among investors. While current levels do not constrain most borrowers, the measure acts as a guardrail should risky lending increase. The DTI cap excludes bridging loans and loans for new housing to avoid hindering property supply.

APRA may consider further restrictions if financial risks escalate. Existing macroprudential tools, such as the mortgage serviceability buffer and counter-cyclical capital buffer, remain unchanged. The policy aims to strengthen financial system and household resilience before vulnerabilities build up.

Source: APRA

APRA publishes new report on financial system risks

APRA has released its inaugural System Risk Outlook report, providing a biannual assessment of risks facing Australia's financial system. Key findings highlight elevated international risks due to ongoing geopolitical volatility, though the system is currently resilient. APRA warns this resilience could diminish if institutions are unprepared for diverse scenarios, prompting coordinated action with other regulators. Domestically, vulnerabilities persist in the housing market; particularly high household debt and increased high-risk lending by investors although overall lending standards remain robust. The report also summarises APRA's first system risk stress test with major banks and super funds, noting that superannuation funds can both stabilise and in some cases amplify system shocks. APRA will continue to strengthen monitoring and regulatory tools, with further stress test results due in 2026. The overall message: while the system is stable, vigilance and ongoing preparedness are essential.

Source: APRA

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Industry bodies

Industry bodies

ABA – Australian Banking Association

Banks welcome progress on new digital asset regulations

The ABA supports new legislation introduced to Parliament establishing a robust regulatory framework for digital asset businesses. ABA CEO Simon Birmingham emphasised the need for digital assets to be regulated similarly to other financial services to ensure consumer protection and maintain trust in the financial system, given their increasing use in Australia. The ABA also welcomed the release of draft industry standards aimed at strengthening the fight against scams involving banks, telcos, and digital platforms. Additionally, banks are collaborating with the government, regulators, and stakeholders on these initiatives. Recent news also highlighted warnings to seasonal workers about scams and ongoing scrutiny from the banking regulator APRA over lending practices. Overall, the key focus is on adapting regulations to technological changes, improving consumer protections, and addressing scam risks.

Source: ABA

CALI – Council of Australian Life Insurers

CALI welcomes new legislation giving Australians confidence to use predictive genetic testing

The CALI welcomes new Federal legislation banning the use of predictive genetic test results in life insurance underwriting. CALI CEO Christine Cupitt emphasises that this milestone boosts confidence in genetic testing and life insurance, empowering Australians to make informed health decisions without fear of insurance repercussions.

Life insurers support responsible use of genetic testing and had introduced standards restricting its use in underwriting in 2019. The legislation's five-year review will ensure it remains current with genetic science advances. CALI members recognise predictive testing's role in promoting peace of mind and reducing health risks.

Source: CALI

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Overseas developments

Overseas developments

International

IOSCO publishes Final Report on Financial Asset Tokenization

The International Organization of Securities Commissions (IOSCO) has published its Final Report on the Tokenisation of Financial Assets, exploring the growing use of distributed ledger technology (DLT) in capital markets. While tokenisation offers benefits like enhanced efficiency and transparency, it also presents emerging and evolving risks that regulators must address to protect investors.

The report highlights that tokenisation remains at an early stage, with rising commercial interest but limited adoption due to challenges like interoperability and lack of credible settlement assets. Efficiency gains vary, and many participants still depend on traditional trading infrastructure. Key risks such as legal uncertainty, operational vulnerabilities, and cyber risks resemble existing ones but manifest differently in DLT environments, necessitating tailored regulatory measures.

IOSCO members exhibit diverse regulatory approaches, ranging from applying existing frameworks to issuing new guidelines and sandbox programs. IOSCO encourages regulators to apply its policy recommendations for crypto, digital assets, and decentralised finance to tokenised financial assets, adhering to the principle of “same activities, same risks, same regulatory outcomes.” The report aims to guide members in safeguarding market integrity and investor protection as tokenisation evolves and reshapes the financial asset landscape.

Source: IOSCO

Global standard-setting bodies publish an assessment report and a consultative report to set out guidance on general business risks and general business losses

The Bank for International Settlements (BIS) Committee on Payments and Market Infrastructures (CPMI) and IOSCO published two reports on financial market infrastructures' (FMIs) management of general business risks and losses.

The assessment report reviewed 34 FMIs and identified serious concerns regarding their liquid net assets funded by equity, risk coverage, recovery, and orderly wind-down planning. The consultative report offers guidance for public consultation, supplementing the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI). It addresses managing general business risks and losses, focusing on recovery and orderly wind-down strategies, incorporating findings from the assessment to strengthen FMIs' resilience and transparency.

Source: IOSCO

FSB Plenary sets out 2026 work plan

The Financial Stability Board (FSB) met in November 2025 to discuss global financial risks, focusing on stretched asset valuations, credit tightening, rising government debt, and risks from nonbank financial intermediaries (NBFI). Rapid growth in private credit and crypto-assets, including stablecoins, will be closely monitored due to leverage and regulatory challenges.

The 2026 work plan prioritises modernising global financial regulation, enhancing regulatory alignment, addressing anti-money laundering, and improving financial stability. Efforts include advancing cross-border payments, strengthening NBFI resilience, and reviewing crisis preparedness after recent banking turmoil. Governor Andrew Bailey emphasised the FSB's commitment to ensuring market stability and supporting economic growth.

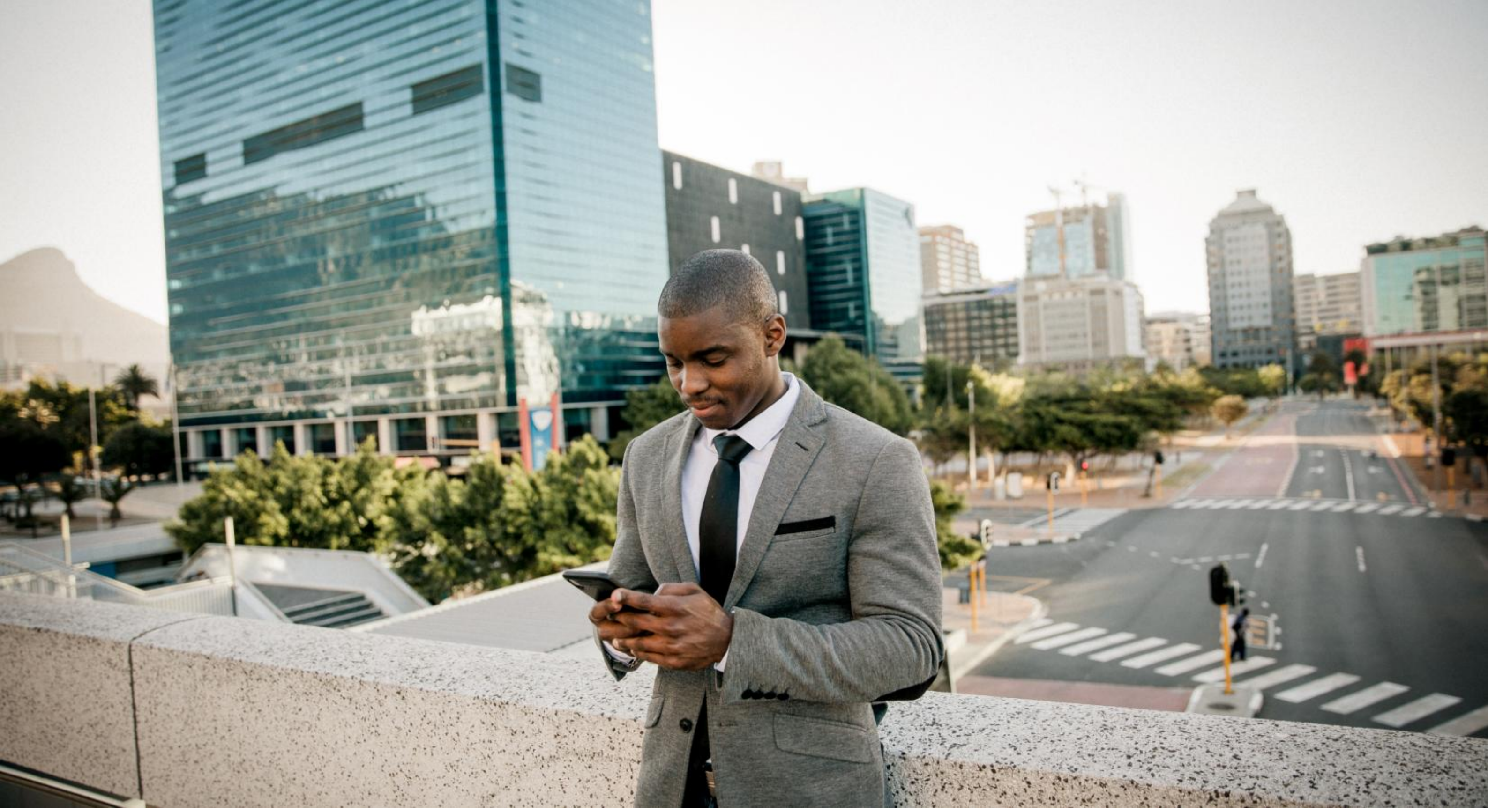
Source: FSB

Basel Committee publishes more details on the 2025 assessment of global systemically important banks

The Basel Committee on Banking Supervision has published additional details regarding its 2025 assessment of global systemically important banks (G-SIBs), coinciding with the Financial Stability Board's updated G-SIB list.

The release provides greater transparency into the scoring methodology used to evaluate systemic importance. It includes the denominators of key indicators, individual banks' indicator values, the cut-off score for G-SIB identification, and thresholds for categorising banks into buckets that determine their higher loss-absorbency requirements. The assessment uses data from the 2024 fiscal year-end submitted by banks and validated by national authorities. These scores help map each bank to a specific bucket, which dictates the enhanced capital requirements aimed at strengthening banking sector resilience globally.

Source: BIS



Europe

The EBA publishes its final Guidelines on environmental scenario analysis

The European Banking Authority (EBA) has published its final Guidelines on environmental scenario analysis to enhance banks' management of environmental risks.

These Guidelines complement existing ESG risk management standards by setting supervisory expectations on conducting environmental scenario analyses. They are built around two complementary pillars:

- Integrating environmental risks into current stress-testing frameworks for short-term financial impacts, and
- Resilience analysis to evaluate medium- to long-term effects on business models and risk profiles.

This approach aims to embed environmental risk considerations into banks' risk management and strategic planning consistently across the EU. The Guidelines, based on the Capital Requirements Directive and Regulation, will become effective on January 1, 2027, supporting EBA's sustainable finance roadmap.

Source: EBA

UK

Life Insurance Stress Test: 2025 Results

The 2025 Life Insurance Stress Test (LIST 2025) by the UK Prudential Regulation Authority (PRA) shows that UK life insurers remain resilient to severe financial shocks, including declining interest rates, falling equity and property prices, and credit downgrades. Covering major firms responsible for over 90% of annuity liabilities, the test found an aggregate capital surplus reduction of £8.6 billion and asset downgrades of £12.9 billion, yet firms maintained strong solvency with coverage ratios falling from 185% to 154%.

Key risks include credit defaults, residential property value drops, and lower interest rates raising liability values. Exploratory scenarios on asset concentration and funded reinsurance revealed potential vulnerabilities but overall sector strength. The Matching Adjustment mechanism helps smooth volatility, while mandated transparency and robust governance under the new Solvency UK regime improve risk management and market confidence, ensuring insurers can withstand future stresses.

Source: BOE

The PRA holds model risk management roundtable on artificial intelligence and machine learning technologies

The PRA held two CRO roundtable sessions on 20 and 22 October with 21 PRA-regulated firms to discuss the adoption of artificial intelligence and machine learning technologies (AI and ML) in the context of implementing the principles set out in SS1/23 'Model risk management principles for banks' as supervisory expectation. The PRA presented thoughts on specific topics for AI and ML and held a discussion with firms.

The roundtable examined risks from using AI and machine learning in model risk management, arguing explainability techniques can be misleading and model tiering policies may be inadequate. It emphasised data quality, overfitting and the need for frequent monitoring, particularly for dynamic models, and flags model development testing and clear risk appetite. PRA also urges stronger governance and consideration of simpler modelling techniques where appropriate to reduce operational and model risk.

Source: BOE

FCA collaborates with industry to help shape future of UK's crypto markets

The FCA has admitted RegTech platform Eunice into its Regulatory Sandbox to develop an industry-led solution aimed at increasing transparency in the UKs crypto markets. Eunice, collaborating with major crypto firms like Coinbase and Kraken, is testing standardised crypto disclosure templates to help firms improve documentation and ensure UK investors understand crypto risks. Insights from these tests will inform future FCA rules on cryptoasset disclosures, with final regulations expected in 2026. The FCA encourages further industry participation to refine regulatory approaches. This initiative supports better market integrity, consumer protection, and UK competitiveness as part of the FCA's broader crypto roadmap and innovation strategy.

Source: FCA

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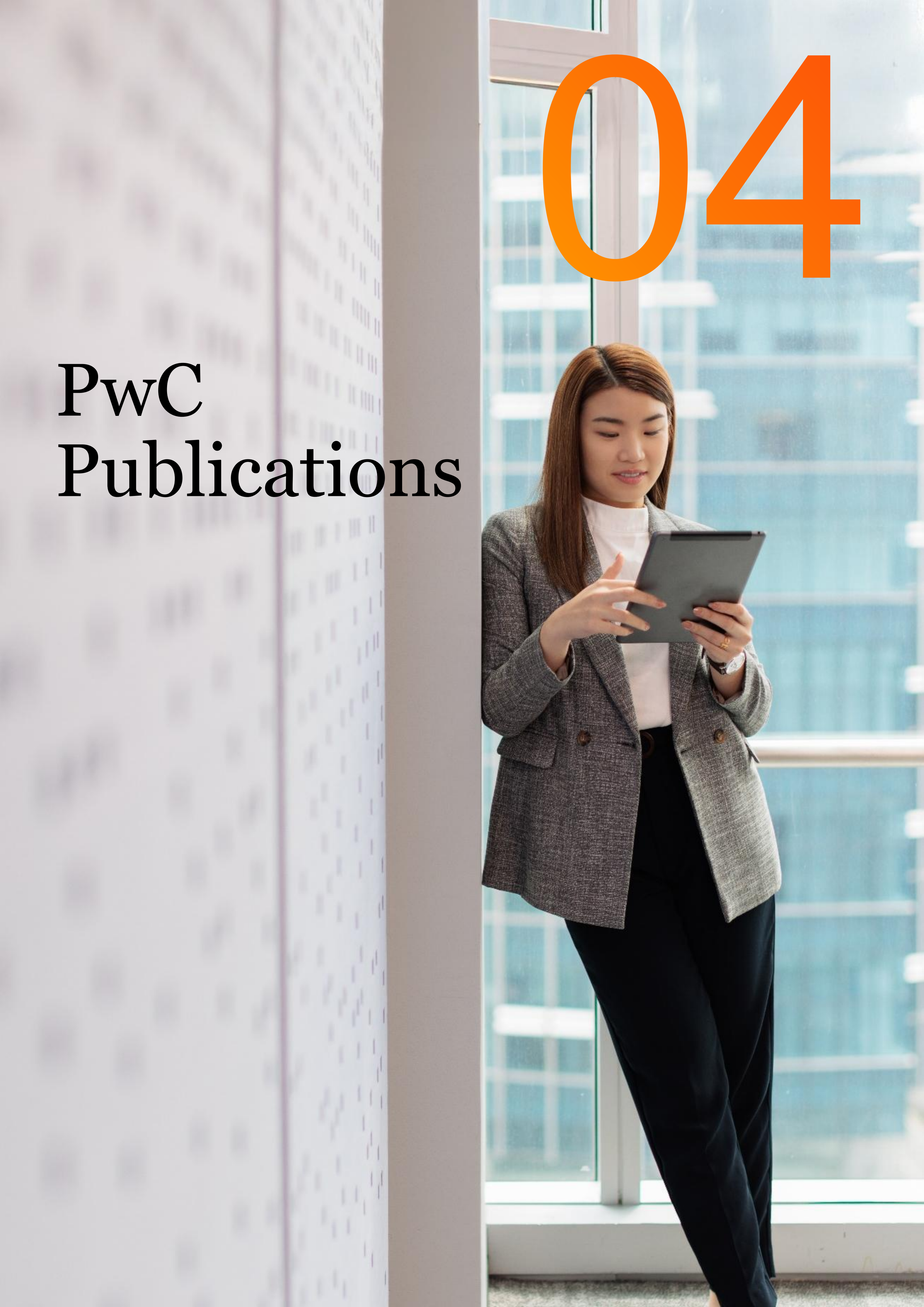
PwC Publications



PwC Publications

Sharper focus, steady performance

Amid leadership changes and intensified competition, Australia's major banks reported a headline 4.5% year-on-year decline in cash earnings to $29.4 billion and a drop in return on equity (ROE) to 10.5%, weighed down by substantial one-off charges related to restructuring and remediation efforts. However, excluding these one-offs and acquisitions, underlying cash earnings showed steady growth of 1%, supported by robust net interest income rising 4% to $77.1 billion due to strong lending growth and a modest improvement in net interest margin to 1.8%.

Lending expanded 5.5% year-on-year, driven by business lending growth alongside stable home loans, while deposits grew 6.4% to $3 trillion, providing a solid funding base despite ongoing competitive pressure that has slightly eroded the major banks' market share. Strategic investments totaling $7.7 billion, including significant technology initiatives like AI and legacy system upgrades, are increasing near-term costs but aim to enhance operational resilience and future positioning. Credit quality remains stable and capital ratios remain robust at 12.1%, well above regulatory requirements, underscoring the banks' financial stability as they navigate transformation and pursue growth amid challenging market dynamics.

Source: **Publication**

Australian major banks hit record headcount as strong performance fuels future investment

Australia's major banks have reached a record headcount of over 171,000 employees as strong financial performance fuels significant investment in technology and capability building, according to PwC Australia. Despite a 4.5% headline drop in cash earnings driven by restructuring and one-off charges, underlying earnings remained stable, supported by a 4% rise in net interest income and modest net interest margin improvement.

The sector is undergoing strategic repositioning focused on proprietary home lending channels, deposit growth, and business banking expansion, accompanied by a surge in technology spending—up 11.2% to $8.8 billion—and total investment rising by $750 million to $7.7 billion. Operating expenses hit a record $46.7 billion as banks reconfigure their workforce, hiring more bankers and technology specialists to drive transformation. Deposits climbed past $3 trillion while loans grew 5.5%, with business lending increasingly central to growth. Despite intense competition and pricing pressures, solid credit quality and robust capital ratios at 12.1% underpin the sector's stability.

The banks face the ongoing challenge of converting heavy investment into operational leverage and competitive advantage, but with refreshed leadership and clear strategic priorities, they are well-positioned to support the Australian economy amid evolving market dynamics.

Source: Publication

Australia's first stablecoin licences have opened the door. Will customers walk through?

Australia has granted its first financial services licenses to stablecoin issuers, with ASIC endorsing intermediaries to distribute these licensed stablecoins, marking a pivotal moment in the nation's payments landscape.

PwC's research highlights that global industry transformations driven by megatrends like AI and climate change are creating new growth domains, fundamentally reshaping how we fund and insure essential human needs. Practical examples illustrate how AI-powered agents paired with stablecoins can enable seamless, instant, and cost-effective transactions such as travel bookings or retail purchases within integrated digital ecosystems. This surge in innovation signals a profound reconfiguration of financial services, where stablecoins and AI-driven "agentic payments" are poised to revolutionise payment processing, blockchain settlement, and customer experience.

Banks, as the primary touchpoint for payments, face both significant risks—including customer attrition to non-bank alternatives—and opportunities to maintain their role by leveraging trusted digital identity solutions, issuing their own stablecoins or tokenised deposits, and embedding into emerging ecosystems. However, these technologies introduce challenges such as liquidity risk and systemic exposure, requiring thoughtful regulatory and risk management approaches.

To thrive, financial services leaders must act decisively by defining their future role, prioritising digital identity and settlement capabilities, fostering cross-sector collaboration, and driving adoption with compelling user-centric payment innovations—recognising that the rapid pace of change demands urgent strategic action in this unfolding digital payments revolution.

Source: Publication

Risk preparedness gap widens, as insurers face unprecedented and complex risk landscape

Rising concerns over artificial intelligence (AI) and cyber threats have led Australian insurers to record their lowest risk readiness in four years, placing the sector 6.6% behind global peers on PwC's Preparedness Index, according to the latest Insurance Banana Skins survey. The biennial study highlights cybercrime as the top risk, with technology and AI rapidly ascending to second and third positions respectively—AI notably jumping eight places since 2023—reflecting swift shifts in the industry's risk landscape. Despite these evolving threats, Australian insurers' preparedness to manage them is declining, contrasting with improvements internationally, signalling a significant readiness gap. Political risk has also surged amid rising premiums and coverage restrictions in disaster-prone regions, compounded by geopolitical uncertainties.

PwC stresses that managing technology risk effectively through modernising legacy systems, investing in resilient cyber infrastructure, and integrating AI with human oversight is key not only for risk mitigation but for competitive growth via smarter pricing and streamlined operations. Addressing affordability remains critical, with smarter, data-driven pricing seen as essential to making insurance more accessible and reducing underinsurance, especially in high-risk areas. The 10th edition of PwC's survey, involving 698 global insurance leaders including 37 from Australia, underscores that while emerging risks intensify, insurers must adapt strategically to protect consumers and sustain industry resilience.

Source: Publication

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Thank you

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