

April 2018

*PwC Regulatory Update*



## 1

# Legislative/Government developments

## The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

- The second round of Public Hearings were held by the Royal Commission during 16 – 27 April. The hearings focused on the conduct of financial services entities that provide financial advice to consumers.
- The third round of hearings are scheduled to commence on 21 May. These hearings will focus on small to medium enterprises (SMEs).

The Commission has published a number of background papers:

- [\*Some Features of the Australian Financial Planning Industry\*](#) provides information about the key participants in the Australian financial planning industry, features of the financial planning industry, the main services offered by planners and advisers and a brief summary of relevant regulatory issues.
- [\*Education and Training Requirements for Financial Advisers\*](#) explains the training requirements and current education for financial advisers or financial planners and the recent reforms in this area.
- [\*Financial Products Available to Retail Investors\*](#) outlines the main categories of financial products available to retail investors as well as the size of retail investment in the main categories of financial products held by Australian retail investors. The paper discusses the protection of retail investors, including prohibitions and restrictions on retail investment in particular financial products.
- [\*Legal Framework for the Provision of Financial Advice and Sale of Financial Products to Australian Households\*](#) provides an overview of the participants in the wealth management sector and

of the evolution of the current regulatory regime. The legal framework governing the provision of financial product advice to households and the way in which the legal framework seeks to resolve conflicts of interest and duty that routinely arise in the context of those activities is discussed in this paper.

- [\*Key reforms in the regulation of financial advice\*](#) provides an overview of key reforms in the regulation of financial advice, prepared by the Treasury.

Source: [Royal Commission](#)

## Government releases BEAR draft legislation

The Government sought feedback on the [draft legislation](#), *Banking Executive Accountability Regime (Size of an Authorised Deposit-taking Institution (ADI)) Determination 2018*.

Particular elements of the BEAR will apply differently depending on an ADI's size, including the commencement date, deferral of variable remuneration and the maximum civil penalty in case of breach.

The draft proposes the definition of small, medium and large ADIs:

- A small ADI would have less than or equal to \$10 billion on a three year average of total resident assets;
- A medium ADI would have between \$10 billion and \$100 billion on a three year average of total resident assets; and
- A large ADI would be any ADI with greater than or equal to \$100 billion on a three year average of total resident assets.

Source: [Treasury](#)

## 1

# Legislative/Government developments

## Government releases ASIC fees-for-service draft legislation and levies amendment draft regulations

The Government sought [feedback](#) on the proposed legislation in relation to the second phase of the ASIC industry funding model (model) - the introduction of ASIC fees-for-service.

Under the new fees-for-service regime, fees for activities will be revised to reflect ASIC regulatory costs that are directly attributable to a single, identifiable, entity. This is the final aspect of the model and will commence from 1 July 2018. Fees associated with registry activities are excluded from the scope of this proposal. Submissions are now closed.

The Government is seeking feedback on the [draft regulations](#), *ASIC Supervisory Cost Recovery Levy Amendment (Enhancements) Regulations 2018*, proposing to make amendments to the levies in the industry funding framework to ensure they operate as intended. The amendments include:

- Establishing new industry subsectors for crowd-sourced funding intermediaries and financial benchmark administrators, to reflect the recently introduced licensing schemes;
- Creating separate industry subsectors for small and large credit rating agencies; and
- Simplifying the operation of the large securities exchange participants industry subsector.

Submissions on the draft regulation are due by 14 May 2018.

Source: [Treasury](#)

## Government releases draft legislation, *Financial Sector (Shareholdings) Amendment (Relaxing Ownership Restrictions) Bill 2018*

The Government sought feedback on the [draft legislation](#), *Financial Sector (Shareholdings) Amendment (Relaxing Ownership Restrictions) Bill 2018*, proposing:

- Increase of the general *Financial Sector (Shareholdings) Act 1998 (FSSA)* ownership cap from 15 per cent to 20 per cent, in line with the requirements of the [Foreign Acquisitions and Takeovers Act 1975](#); and
- Introduction of a streamlined approval path for new and recent entrants, where assets are under a specified amount. This will allow them the time they need to test and grow their business before they need to consider diversifying ownership.

Source: [Treasury](#)

## Government releases draft legislation, *Corporations Amendment (Client Money Reporting Rules Enforcement Powers) Regulations 2018*

The Government sought feedback on the draft legislation, *Corporations Amendment (Client Money Reporting Rules Enforcement Powers) Regulations 2018*, proposing to improve ASIC's power to enforce the [ASIC Client Money Reporting Rules 2017](#). The new rules make Australian financial services licensees more accountable for the way in which they hold client money. Non-compliance with the rules can attract civil penalties of up to \$1 million.

Source: [Treasury](#)

## 1

# Legislative/Government developments

## Government releases response to the ASIC Enforcement Review Taskforce Report

The Government has released its [response](#) to the ASIC Enforcement Review Taskforce report. The Government has agreed to all 50 recommendations and will prioritise the implementation of 30 of the recommendations.

The remaining 20 recommendations relate to self-reporting of breaches, industry codes and ASIC's directions powers, which will be considered with the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The Government is giving ASIC greater power in relation to criminal and civil penalties for corporate misconduct, in order to protect Australian consumers from corporate and financial misconduct.

Source: [Treasury](#)

The FSC [supported](#) the Government's announcement to increase criminal and civil penalties for corporate misconduct to better protect consumers.

ABA's CEO Anna Bligh is of the [view](#) that Australia's banks are committed to tackling misconduct head-on and strongly back the reforms proposed by the Government to penalise misconduct.

## Terrorism Insurance Act Review 2018

The Treasury is seeking feedback on the issues outlined in the [terms of reference](#) of the 2018 review of the *Terrorism Insurance Act*:

- Whether the risk of cyber terrorism causing physical property damage should be included in the scheme by removing the scheme regulations for cyber crime and therefore superseding policy exclusions for cyber terrorism; and
- The extent of coverage available for terrorism incidents causing harm to people including armed assault.

Submissions are due by 30 June 2018.

Source: [Treasury](#)

## Establishment of AFCA

The Government has authorised Australian Financial Complaints Limited to operate the Australian Financial Complaints Authority (AFCA). Consumers will be able to lodge complaints with the existing industry ombudsman schemes until AFCA commences. AFCA will begin to accept complaints from 1 November 2018. Financial firms would be required to become members of AFCA by 21 September 2018.

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

ASIC will [oversee](#) the operation of AFCA and receive reports including oversights on systemic issues and serious contraventions by financial firms.

## 2

# What have the regulators been up to?

## APRA

Australian Prudential  
Regulation Authority

## ASIC

Australian Securities and  
Investments Commission

## ASX

Australian Securities  
Exchange

## AUSTRAC

Australian Transaction  
Reports and Analysis Centre

## RBA

Reserve Bank of Australia

### APRA releases response to submission on counterparty credit risk for ADIs

APRA has released a [letter](#) to all ADIs in response to submissions on counterparty credit risk for ADIs. APRA received seven submissions on its proposals. Respondents supported APRA's proposed adoption of the adjusted current exposure method, but general issues were raised with some covering technical aspects of the proposals.

APRA has released the final versions of the following standards:

- [Prudential standard](#), *APS 112 - Capital Adequacy: Standardised Approach to Credit Risk*;
- [Prudential standard](#), *APS 180 - Capital Adequacy: Counterparty Credit Risk*;
- [Reporting standard](#), *ARS 112.2 - Standardised Credit Risk - Off-balance Sheet Exposures*;
- [Reporting standard](#), *ARS 118.1 - Other Off-balance Sheet Exposures*; and
- [Reporting standard](#), *ARS 180.0 - Counterparty Credit Risk*.

The standards will be effective from 1 July 2019, to allow ADIs time to make the new and revised requirements for counterparty credit risk.

### APRA announces plans to remove investor lending benchmark and embed better practices

APRA has released a [letter](#) to all ADIs, implementing a range of supervisory measures to reinforce sound residential mortgage lending practices, including benchmarks on investor loan growth and

interest-only lending, prudential guidance to strengthen industry standards and targeted reviews to scrutinise lending practices.

See [media release](#)

### APRA publishes information paper on remuneration practices at large financial institutions

APRA has published an [information paper](#), *Remuneration practices at large financial institutions*, presenting findings from the review of remuneration policies and practices across a sample of large APRA-regulated entities. The review examined how the stated remuneration frameworks and policies were translating into outcomes for senior executives.

The review focused on three main themes:

- Design of risk management performance measures;
- Remuneration outcomes; and
- Board Remuneration Committee oversight.

The review found scope for improvement in:

- Ensuring practices were adopted that were appropriate to the institution's characteristics (size, complexity and risk profile);
- The extent to which risk outcomes were assessed, and weighted, within performance scorecards;
- Enforcement procedures of accountability mechanisms in response to adverse risk outcomes; and
- Evidence of rationale for remuneration policies and decisions.

See [media release](#)

## 2

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### ASIC releases updated guidance on client money

ASIC has released a [regulatory guide](#), *RG212 - Client money relating to dealing in OTC derivatives*, providing an overview of the client money provisions under the *Corporations Act 2001* and the specific provisions that relate to derivatives. It also seeks better disclosure in connection with client money.

The guide is applicable to Australian Financial Services (AFS) licensees who are required to hold client money and for investors who pay money to an AFS licensee for the purpose of trading in derivatives in the over-the-counter (OTC) market.

Some of the reforms include:

- AFS licensees can no longer withdraw derivative retail client money from the client money account and use it for a wide range of purposes, including as the licensee's own working capital.
- The reforms also impose new record-keeping, reconciliation and reporting requirements on AFS licensees that hold derivative retail client money.

See [media release](#)

### ASIC and DJSB sign Memorandum of Understanding (MoU) for enhanced co-operation

ASIC has signed a [MoU](#) with the Australian Government Department of Jobs and Small Business (DJSB) to facilitate co-operation, assistance and the exchange of information between the two agencies for the effective and efficient performance of their respective functions.

See [media release](#)

### ASIC releases guidance on AFS licensing exemption for tax and Business Activity Statement (BAS) agents

ASIC has released guidance for accountants who provide services on self-managed superannuation funds (SMSFs) to cover the exemption from the AFS licensing requirements for tax and BAS agents.

See [media release](#)

## 2

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### ASX consults on removal of Registered Holder Collateral Cover Authorisation form

ASX has published a [consultation paper](#), *ASX Clear: Removal of Registered Holder Collateral Cover Authorisation (RHCCA) form*, seeking feedback on its proposals to:

- Remove the RHCCA form for client accounts from the ASX Clear operating rules procedures to improve the operational efficiency of the collateral lodgement process; and
- Enable a third party to take a security interest over collateral and excess cash where the parties have agreed in writing that ASX Clear's security interest has priority.

Submissions are due by 15 May 2018.

See [media release](#)

### ASX consults on new scope and implementation plan of CHES replacement

ASX has released a [consultation paper](#), *CHES Replacement: New Scope and Implementation Plan*, seeking feedback on the proposed enhancements:

- New business functionality and the decommissioning of some redundant services;
- Describes the system architecture for the Distributed Ledger Technology (DLT)-based model and the different connectivity options;
- A draft plan for the implementation of the new features; and
- Testing and transition arrangements.

Submissions are due by 22 June 2018.

### AUSTRAC announces new laws to regulate cryptocurrency providers

AUSTRAC has announced new laws for digital currency exchange (DCE) providers operating in Australia, covering the regulation of service providers of cryptocurrencies, including bitcoin. The existing providers must register with AUSTRAC by 14 May 2018 and meet the AML/CTF compliance and reporting obligations, effective immediately.

The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* requires regulated entities to:

- Adopt and maintain an AML/CTF program to identify and manage money laundering and terrorism financing risks;
- Identify and verify the identities of their customers;
- Report to AUSTRAC suspicious matters, and transactions involving physical currency of \$10,000 or more; and
- Keep certain records for seven years.

See [media release](#)

### RBA extends bilateral local currency swap agreement with the PBC

The RBA has extended its bilateral local currency swap agreement with the People's Bank of China, first signed in 2012 and subsequently extended in 2015, for a further three years. The agreement allows for the exchange of local currencies between the two central banks of up to A\$40 billion or CNY 200 billion. This will support trade and investment between Australia and China and strengthen bilateral financial cooperation.

See [media release](#)

# 3

## Industry bodies

### ABA

Australian Bankers'  
Association

### AFMA

Australian Financial Markets  
Association (AFMA)

### FSC

Financial Services Council

#### **Eighth report on bank reforms**

The eighth and final [report](#), *Australian banking industry: Package of initiatives*, by Ian McPhee AO PSM, was released on 17 April 2018 as per the ABA's appointment of an independent governance expert to report quarterly on industry initiatives. The report highlights that banks have made significant progress on the Better Banking Reform Program, including finalising many of its measures.

The industry has committed to finalise measures of effectiveness of the customer advocate function and to continue to work with the Combined Industry Forum (CIF) to reach a position on conflicted remuneration structures, in order for the participating banks to implement the Sedgwick Review recommendations by the 2020 deadline.

Key initiatives already implemented include:

- Ensuring that customer complaints are resolved efficiently and adequately by customer advocates within banks;
- Bettering protections and awareness of processes for whistleblowers, including best practice industry guidelines; and
- Stamping out poor conduct in the industry by ensuring that staff who hold a record of poor behavior can not easily move around the industry.

#### **AFMA releases amendments to the NTI Conventions**

AFMA has released a [notice](#) in relation to the amendments to the Negotiable/Transferable Instruments Conventions for the reporting of stock details.

The ASX, as BBSW benchmark rate administrator, is preparing to transition the primary calculation of the rate from a national best bid and best offer (NBBO) methodology to that of a volume weighted average price (VWAP). This requires a selling counterparty of prime bank paper to report all secondary market trades that occur within the VWAP trade set window and not through an approved trading venue to a trade reporting agent.

#### **Industry summit in Sydney to finalise Asia Region Funds Passport implementation**

Financial regulators and observers from eight nations - Australia, Japan, Korea, Hong Kong, Philippines, Singapore, New Zealand and Thailand - have gathered in Sydney for an industry summit convened by the FSC and the ASIC to discuss the implementation of the Asia Region Funds Passport.

The industry summit follows on from the launch of a pilot scheme which is designed to test system architecture and prove all scheme participants' stakeholders are Passport-ready. The FSC has strongly supported the pilot scheme and assisted in its arrangement.

Once remaining legislative and administrative issues have been resolved the Passport scheme will go live.

See [media release](#)



## 4

# Overseas developments – Global

## BIS: Recent announcements

The Basel Committee on Banking Supervision (BCBS) has published the [fourteenth progress report on adoption of the Basel regulatory framework](#), providing the adoption status of Basel III standards for each BCBS member jurisdiction as of end-March 2018. It also includes the finalised Basel III post-crisis reforms published in December 2017, expected to take effect from 1 January 2022.

The report shows that:

- The leverage ratio is now in force in most member jurisdictions.
- 24 member jurisdictions have issued draft or final rules for the Net Stable Funding Ratio.
- 19 member jurisdictions have issued draft/final rules for the revised securitisation framework.

Source: [Bank for International Settlements \(BIS\)](#)

## FSB: Recent announcements

The Financial Stability Board (FSB) has released the second [consultation paper](#) on unique product identifier (UPI) governance, seeking feedback on the proposed governance arrangements for a global UPI, as a key harmonised identifier designed to facilitate effective aggregation of transaction reports about OTC derivatives markets. Submissions are due by 28 May 2018.

The FSB has issued a [report](#), *Strengthening Governance Frameworks to Mitigate Misconduct Risk*, providing a toolkit that firms and supervisors can use to tackle the causes and consequences of misconduct.

The toolkit identifies 19 tools that could be used to address three overarching issues, namely:

- Alleviating cultural drivers of misconduct;
- Strengthening individual responsibility and accountability; and
- Addressing the “rolling bad apples” phenomenon.

Source: [FSB](#)

## IOSCO: Recent announcements

The Board of the International Organization of Securities Commissions (IOSCO) and the Committee on Payments and Market Infrastructures (CPMI) has published the [framework](#) for supervisory stress testing of central counterparties (CCPs) to provide authorities with guidance to support their design and implementation of supervisory stress tests for CCPs.

The IOSCO is seeking [feedback](#) on its proposed good practices for audit committees to support audit quality. Submissions are due by 24 July 2018.

The IOSCO has issued [recommendations](#) to improve regulatory reporting and transparency in corporate bond markets.

The CPMI and IOSCO has published a [report](#), *Harmonisation of critical OTC derivatives data elements (other than UTI and UPI)*, providing technical guidance to authorities on harmonised definitions, formats and usage of a set of critical data elements for OTC derivative transactions reported to trade repositories, excluding the Unique Transaction Identifier (UTI) and the UPI.

Source: [IOSCO](#)

## 4

# Overseas developments – Europe

## EBA: Recent consultations

The European Banking Authority (EBA) has released a [consultation paper](#), *Draft Guidelines on specification of types of exposures to be associated with high risk*, specifying which types of exposures are to be associated with particularly high risk and under which circumstances. The guidelines clarify the notion of investments in venture capital firms and private equity. Submissions are due by 17 July 2018.

The EBA has published a [consultation paper](#), *Draft Guidelines on the STS criteria for non-ABCP securitisation*, providing a harmonised interpretation of the criteria for the securitisation to be eligible as simple, transparent and standardised (STS). Submissions are due by 20 July 2018.

The EBA has launched a [consultation paper](#), *Draft guidelines on disclosure of non-performing and forborne exposures*, specifying the information related to non-performing (NPE) and forborne exposures and foreclosed assets that banks should disclose and provide uniform disclosure formats. Submissions are due by 27 July 2018.

Source: [EBA](#)

## EBA: Recent announcements

The EBA has published [amendments](#) to the Implementing Technical Standards (ITS) on supervisory reporting, a new ITS on reporting for resolution plans and the corresponding Data Point Model (DPM) and XBRL taxonomy.

The European Supervisory Authorities have signed a multilateral [MoU](#) on cooperation, information exchange and consultation with the European Free Trade Association (EFTA) Surveillance Authority.

Source: [EBA](#)

## ECB: Recent announcements

ECB has released a [consultation paper](#), *Cyber Resilience Oversight Expectations (CROE) for financial market infrastructures*, defining ECB's expectations based on existing global guidance in terms of cyber resilience, based on existing global guidance. The paper serves three key purposes:

- They set out clear criteria against which the overseers assess the FMIs for which they are responsible, helping them to determine the FMIs' level of resilience against cyber threats;
- They provide FMIs in the euro area with a long term strategy on how to implement the guidance and enhance their cyber resilience; and
- They provide the basis for a meaningful discussion between the FMIs and their respective overseers.

Submissions are due by 5 June 2018.

Source: [ECB](#)

## 4

# Overseas developments – UK

## Bank of England: Recent announcements

The Bank of England has [implemented](#) its reforms to strengthen the Sterling Overnight Index Average ([SONIA](#)) interest rate benchmark. Some of the reforms include:

- It captures a broader scope of overnight unsecured deposits, by including bilaterally negotiated transactions alongside brokered transactions.
- Volumes underlying the rate based on the new methodology now average around £50 billion daily, which is over three times larger than those underlying SONIA previously.
- The publication time has been moved.

The New Payment System Operator (NPSO) is expected to take over responsibility for the Cheque and Credit Clearing Company, Bacs and Faster Payment systems to streamline the retail payment systems. The NPSO will also be responsible for delivering the New Payments Architecture (NPA) in order to increase competition and resilience as well as enhance innovation across the payments and banking industry.

Source: [Bank of England](#)

## PRA: Recent consultations

The Prudential Regulatory Authority (PRA) has released a [consultation paper](#), *Regulated fees and levies: rates proposals 2018/19*, seeking feedback on the proposed fees and levies for 2018/19. The proposals include:

- The fee rates to meet the PRA's 2018/19 Annual Funding Requirement (AFR);
- Amendments to the Ring-fencing Implementation Fee (RFIF) rules;
- An amendment to the Model Maintenance Fee rules; and
- How the PRA intends to distribute the retained penalties for 2017/18.

Submissions are due by 21 May 2018.

The PRA is also seeking feedback on its [proposal](#) to amend the rule that requires the external audit of parts of the Solvency and Financial Condition Report (SFCR). It is also seeking feedback on its [proposal](#) to consider applications from internal model firms that include a dynamic volatility adjustment (DVA). Submissions are due by 11 July 2018.

Source: [PRA](#)

## PRA: Recent policy statements

The PRA has released a [policy statement](#), providing feedback in relation to the [consultation paper](#), *CP26/17 - Model risk management principles for stress testing*, setting out that all firms applying the principles are expected to undertake a self-assessment of their stress test model risk management practices against the principles as part of the Internal Capital Adequacy Assessment Process (ICAAP). They are also required to report the findings in the ICAAP documents from 1 January 2019 onwards, depending on the frequency of the Supervisory Review and Evaluation Process (SREP).

The statement includes the [supervisory statement](#), *SS3/18 - Model risk management principles for stress testing*, effective from 1 June 2018.

Source: [PRA](#)

## 4

# Overseas developments – US

## FRB: Recent consultations

The Federal Reserve Board (FRB) is seeking feedback on its [proposal](#) to simplify its capital rules for large banks, while preserving strong capital levels that would maintain their ability to lend to households and businesses under stressful conditions.

Source: [FRB](#)

## OCC: Recent announcements

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (OCC) (collectively, the Federal banking agencies) has issued a [final rule](#) to increase the threshold for commercial real estate transactions requiring an appraisal from \$250,000 to \$500,000.

The Federal banking agencies has [proposed](#) revised regulatory capital rules to consider the regulatory capital effects of the new accounting standard for credit losses, known as the “Current Expected Credit Losses” (CECL) methodology.

The Federal banking agencies are seeking [feedback](#) on the proposed rule to modify the enhanced supplementary leverage ratio standards for the largest domestic firms.

Source: [OCC](#)

## SEC: Recent consultations

The Securities and Exchange Commission (SEC) is seeking feedback on its proposal of a package of rulemakings and interpretations to enhance the quality and transparency of investors’ relationships with investment advisers and broker-dealers:

- A broker-dealer would be required to act in the best interest of a retail customer when making a recommendation of any securities transaction or investment strategy involving securities to a retail customer.
- The SEC proposed an interpretation to reaffirm and clarify SEC’s views of the fiduciary duty that investment advisers owe to their clients.
- The SEC proposed to restrict certain broker-dealers and their financial professionals from using the terms “adviser” or “advisor” as part of their name or title with retail investors.

Source: [SEC](#)

## 4

# Overseas developments – Asia

## China: Recent announcements

The China Securities Regulatory Commission and the Hong Kong Securities and Futures Commission (SFC) have [agreed](#) to increase the daily quotas under both Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect to enhance the Mainland-Hong Kong Stock Connect. The daily quota for each of the northbound trading links will be adjusted to RMB52 billion and the daily quota for each of the southbound trading links will be adjusted to RMB42 billion with effect from 1 May 2018.

China Banking and Insurance Regulatory Commission (CBIRC) was formally unveiled in Beijing on 8 April 2018, marking the official launch of the new regulatory authority into operation.

Source: [CBRC](#)

## Hong Kong: Recent announcements

The SFC has [announced](#) amendments to the Codes on Takeovers and Mergers and Share Buy-backs (Codes) to align them in line with the new listing regime for companies from emerging and innovative sectors, after consultation with the Takeovers and Mergers Panel and will take effect from 30 April 2018.

The SFC has published a [consultation paper](#), seeking feedback on proposed enhancements to the Investor Compensation Regime:

- Increasing the compensation limit from \$150,000 to \$500,000 per investor per default and covering northbound trading under Mainland-Hong Kong Stock Connect.
- Raising the trigger levels for suspending from \$1.4 billion to \$3 billion and reinstating the Investor Compensation Fund levies from \$1 billion to \$2 billion.

Submissions are due by 27 June 2018.

Source: [SFC](#)

## Singapore: Recent announcements

The Monetary Authority of Singapore (MAS) have [signed](#) a MoU to establish a new partnership to encourage FinTech innovation and to strengthen cooperation in banking supervision with the State Bank of Viet Nam (SBV).

The MAS is working with the financial industry to develop [guidance](#) on use of artificial intelligence (AI) and data analytics by financial institutions.

The MAS is seeking [feedback](#) on proposed guidelines on individual accountability and conduct to reinforce financial institutions' responsibilities in these areas:

- Promoting the individual accountability of senior managers;
- Strengthening the oversight of employees in material risk functions; and
- Embedding standards of proper conduct among all employees.

Submissions are due by 25 May 2018.

Source: [MAS](#)

## 5

## PwC publications

### PwC HK: Tax exemption regime for privately offered HK open-ended fund companies gazetted

The Hong Kong (HK) Government has recently published the *Inland Revenue (Amendment) (No. 2) Ordinance 2018* (Ordinance) in the Gazette. The Ordinance changes the existing tax law by extending the profits tax exemption to privately offered Hong Kong open-ended fund companies (OFCs).

PwC HK has published a news flash, summarizing both the conditions an OFC would need to fulfil for the profits tax exemption to apply and highlighting some key areas market players should be aware of.

See [publication](#)

### PwC US: Fed's stress buffer and leverage ratio proposals

The FRB has announced proposals related to stress buffer and leverage ratio to maintain or increase capital requirements for few of the largest banks while reducing them for all others, particularly the custody banks.

PwC US has released a report, bringing out the key points from the proposals:

- Capital relief for all but the largest GSIBs.
- Spotlight on the baseline scenario.
- Capital requirements will be (more) Fed scenario and model dependent.
- Efficiency, simplicity, transparency...and due process.
- Fed meets banks halfway on balance sheet assumptions.
- Simplified capital actions assumptions are a gain for some banks.
- Buffer for eSLR calibrated in line with systemic risk.

See [publication](#)

### PwC US: SEC's "best interest" rule proposal

PwC US has issued a report, outlining the five key points regarding the "best interest" rule proposal:

- “Best interest” standard for broker-dealers, but no definition of “best interest”;
- Requirements for investment advisers enhanced and made more explicit;
- New, standardized relationship summary required for broker-dealers and investment advisers;
- Disclosures get digital; and
- Limits on use of advisor/adviser titles have broad support.

See [publication](#)

## 5

# *PwC publications*

## **PwC US: FinCEN's customer due diligence rule**

The US Treasury's Financial Crimes Enforcement Network (FinCEN) has released a series of FAQs to provide clarity around compliance with its customer due diligence (CDD) rule. The CDD rule is intended to support financial institutions to avoid illicit transactions by providing greater insight into their customers' identities and business relationships. It also contains the first prescriptive regulatory obligation to identify and verify ownership information of legal entity customers.

Specifically, the rule requires that covered financial institutions collect ownership information for individuals with at least a 25% equity interest in the legal entity, or with substantial responsibility to control or manage the legal entity.

PwC US has issued a report, highlighting five key takeaways from FinCEN's FAQs and advising on what financial institutions should be doing now.

See [publication](#)

## **PwC US: The future of market abuse surveillance**

PwC US has released a regulatory brief, outlining challenges in market abuse surveillance and trends in regulatory technology that can help address these challenges.

Market abuse has long plagued the financial services industry, often resulting in enforcement actions and regulatory requirements for firms to implement surveillance programs. Regulators have recently focused on leveraging new technologies to identify potential misconduct and firms should anticipate that regulators will expect the same of them.

See [publication](#)

# 6

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