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August 2016

PwC Regulatory Update

1 Legislative/Government developments

Indonesia-Australia Comprehensive Economic Partnership Agreement

The Government is seeking to build a relationship with Indonesia through the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). The IA-CEPA will create a framework for a new era of closer economic engagement between the two countries, open new markets and provide opportunities for Australian businesses, primary producers and service providers.

Negotiations, relaunched earlier this year, resulted in the reactivation of the Indonesia-Australia Business Partnership Group (IA-BPG). The IA-BPG is a unique platform that brings together peak Indonesian and Australian business groups to help inform IA-CEPA negotiations.

Source: Minister for Trade, Tourism and Investment

Budget Savings (Omnibus) Bill 2016

The Government has introduced the *Budget Savings (Omnibus) Bill 2016* and forecasts more than $6 billion in budget savings. It forms part of the $40 billion in budget improvement measures that the Government will be seeking to legislate over the coming months.

The Bill would implement measures announced in the 2016-17 Federal Budget and earlier Budget updates.

Source: Minister of Finance

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

Update on regulatory cost savings

APRA has released its second update on regulatory cost savings, providing a summary of areas where APRA has improved regulatory efficiency or reduced burden over the past year. The update details further efficiency and cost saving activities that APRA will pursue as part of its regular policy development processes.

The update also outlines activities undertaken by APRA during 2015, which have resulted in more than $5 million per annum in cost savings across APRA-regulated industries:

- Cross-industry:
  - Measures introduced to reduce reporting burden.
- Banking:
  - Suspending liquidity data collections for foreign bank branches.
  - Internal ratings-based (IRB) approach to credit risk.
  - Streamlining points of presence statistics.
- Insurance:
  - External peer review of appointed actuary requirements.
- Superannuation:
  - Extending reporting timeframes for a further two years (until 2017).

See media release

APRA releases Corporate Plan for 2016-2020

APRA has released its *Corporate Plan* for 2016-2020, setting out key strategies and activities over the next four years.

The Corporate Plan details APRA's focus on strengthening its core functions and capabilities through delivery of its strategic initiatives by:

- Enhancing leadership, culture and opportunities for APRA's people.
- Honing governance and workplace effectiveness.
- Sharpening risk-based management.
- Building recovery and resolution capability.

See media release

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

APRA has released a letter in relation to private health insurance prudential policy outlook and proposal to streamline the process for varying restricted access groups

APRA has released a letter to all private health insurers and other interested parties in regards to the prudential policy outlook for Private Health Insurance (PHI). The letter outlines the key points discussed in the meetings held with industry and other stakeholders on APRA's medium term PHI policy agenda.

The letter also stated that operational amendments to rules may be introduced to ensure that the prudential framework operates as intended.

APRA is also seeking submissions from private health insurers and other interested parties in relation to the consultation paper.

Submissions are due by 5 October 2016.

See media release

APRA finalises non-capital components of the supervision of conglomerate groups

APRA has finalised requirements for the governance and risk management components of the Level 3 framework for the supervision of banking and insurance conglomerate groups. APRA has also released a letter to the industry detailing these requirements.

APRA will formally determine the Level 3 Heads and members of each of the eight Level 3 groups between now and 1 July 2017, which will see these requirements take effect.

See media release

2

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

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APRA announces results of stress test of life insurance industry

APRA has released the results of its first comprehensive stress test of the life insurance industry, conducted in 2015. The stress test included a representative mix of diversified insurers, reinsurers and risk specialists who were subject to an adverse scenario over a three-year period.

The stress test outcomes demonstrated that with reasonable management actions the industry participants could restore their capital positions. The test highlighted areas of concern, such as disability income insurance and the need to address problems with this product in the near term. It also reinforced and set expectations for continued advancement of stress-testing capabilities in the life insurance industry.

See media release

APRA reaffirms revised mortgage risk weight target

APRA has reaffirmed its objective to raise Australian residential mortgage risk weights applied by banks using internal models, to an average of at least 25 percent. APRA also adjusted the risk weight calculation used by authorised deposit-taking institutions (ADIs) accredited to use the internal ratings-based (IRB) approach to credit risk in 2015. The increase in IRB risk weights came into effect from 1 July 2016.

The adjustment to mortgage risk weights remains an interim measure, pending the Basel Committee's finalization of reforms to the capital adequacy framework and APRA's subsequent consideration of how those reforms should be applied in Australia.

See media release

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

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APRA releases letter on margining and risk mitigation for non-centrally cleared derivatives

APRA has released a letter to all APRA-regulated institutions (other than private health insurers) in relation to the discussion paper and new Prudential Standard, *Margining and risk mitigation for non-centrally cleared derivatives* (CPS 226), which was released for consultation in February 2016.

As part of that consultation, APRA has proposed that CPS 226 formally commence on 1 September 2016, with the new margining requirements phased-in from September 2016 to September 2020.

APRA has reconsidered the timeline for implementation of the standard, and will defer it beyond 1 September 2016. APRA will continue to monitor progress in other jurisdictions and will advise the implementation date and the revised phase-in schedule for margin requirements, in due course.

See letter

APRA releases prudential practice guide on capital buffers

APRA has released a new prudential practice guide (PPG), *Capital Buffers*. It provides guidance on the capital buffer that an ADI must hold above its prudential capital requirement, in accordance with *Prudential Standard APS 110 Capital Adequacy*. The capital buffer includes the capital conservation buffer, countercyclical capital buffer and the surcharge for domestic systemically important banks. In particular, the PPG provides guidance to an ADI on:

- Calculating its countercyclical capital buffer.
- The operation of the constraints on distributions that apply when its Common Equity Tier 1 capital ratio is within the capital buffer range.

See media release

2

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Speech: Finding success in failure

Wayne Byres, Chairman at APRA, recently addressed the Actuaries Institute Banking Conference 'Banking on Capital' at Sydney. He discussed the topic, *Finding success in failure*. The main points of the speech were:

- Why a sole reliance on capital is an unwise strategy and that steady accumulation of capital remains a sensible course of action for most ADIs.
- Two basic types of failures exist:
  - Orderly failures will be those which have been anticipated, produce no loss to protected beneficiaries, and can be managed in such a way that the firm's critical functions are maintained without disruption.
  - Disorderly failures will be those which catch everyone by surprise, impose significant losses on those who the regulatory framework seeks to protect, and/or involve significant disruption to the smooth operation of the financial system, and economic activity.
- Preconditions that the public sector needs to put in place to maximise the probability that failures will be orderly.

The full speech can be found here.

APRA releases various statistics for June 2016

APRA has released the following statistics for June 2016:

- Quarterly general insurance performance statistics
- Authorised deposit-taking institution (ADI) points of presence statistics
- Quarterly superannuation statistics
- Quarterly private health insurance statistics
- Quarterly life insurance performance statistics
- ADI quarterly property exposures statistics
- ADI quarterly performance statistics

2

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

ASIC's Corporate Plan 2016–2017

ASIC has released its *Corporate Plan* for 2016-17 to 2019 – 20 and Focus for 2016-17.

The Corporate Plan explains ASIC's vision, focus and long term strategic priorities, highlighting in particular the challenges it faces in the coming years due to increased globalisation, complexity in markets driven by innovation, digital disruption and cyber resilience, structural changes in markets and aligning conduct in a market-based system with investor and consumer trust and confidence.

Key risk areas that ASIC has identified as requiring its immediate attention over the coming year include:

- Gatekeeper culture and conduct in financial services and credit resulting in poor outcomes for investors and consumers.
- Gatekeeper culture and conduct in markets undermining good governance practices and risk management systems.
- Misalignment of retail product design and distribution with consumer understanding.
- Digital disruption and cyber threats.
- Cross-border businesses, services and transactions.

ASIC's strategy for responding to these challenges and key risks include a focus on strengthening its capabilities, developing specific actions to address each risk, and adopting a 'detect, understand and respond' approach in identifying misconduct.

See media release

ASIC repealed class order on managed investment schemes and consults on class orders about non-monetary consideration managed investment schemes

ASIC has repealed class order, *Managed investment schemes: no issue required disclosure* [CO 02/226], following public consultation.

ASIC has also released a consultation paper, *Remaking ASIC class orders on managed investment schemes: Not for money,* which seeks feedback on proposals to remake, without significant changes, the following class orders into a single instrument:

- Interests in film and theatrical ventures [CO 02/210].
- Managed investment schemes: Interests not for money [CO 02/211].
- Film investment schemes [CO 02/236].

See media release

2

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

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Speech: Self-managed superannuation funds (SMSF) – markets trends and regulatory focus

ASIC Commissioner Greg Tanzer addressed the annual CPA Australia National SMSF Conference 2016. He discussed the topic, *Self-managed superannuation funds – Markets trends and regulatory focus*. The main points of the speech were:

- Gatekeepers such as financial advisers, accountants and auditors play a crucial role in achieving the objective of consumer trust and confidence.
- The importance of the SMSF sector as a competitive force within the industry.
- The SMSF obligations associated with being licensed.
- Developments of the SMSF Taskforce established in 2012 to examine high-risk and emerging SMSF issues. ASIC reported to have achieved a number of regulatory outcomes, with the Taskforce focusing on misleading advertising of SMSFs. ASIC is currently working closely with the ATO as co-regulator in the SMSF auditor sphere.

The full speech can be found here.

Speech: FinTech, Platforms and Wraps – The Future of Wealth Management Technology

ASIC Commissioner Greg Tanzer addressed the Future of Wealth Management Technology in Sydney. He discussed the topic, *FinTech, Platforms and Wraps – The Future of Wealth Management Technology*. The main points of the speech were:

- Why culture matters to ASIC and that good culture is beneficial for businesses and generating long-term shareholder value. Poor culture will lead to misconduct and result in significant financial costs, including cost of remediation, compensation and fines.
- ASIC is recognising the importance of innovative business models in financial services. ASIC has established the Innovation Hub to help innovative FinTech start-ups navigate the regulatory system.
- ASIC intends to provide more detailed regulatory guidance on the management of conflicts of interest.
- Increased guidance around the quality of fees and costs disclosure for superannuation and managed investment products.

The full speech can be found here.

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

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ASIC remakes instruments that affect financial reporting

Following public consultation, ASIC has remade five legislative instruments that affect financial reporting by disclosing entities and entities generally.

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

ASIC releases guidance on regulating digital advice

ASIC has released a regulatory guide, *Providing digital financial product advice to retail clients*. It brings together some of the key issues that entities providing digital advice to retail clients should consider when operating in Australia. This includes from the onset of obtaining an Australian Financial Services (AFS) license, through to the actual provision of the advice.

Digital advice (also known as robo-advice or automated advice) is the provision of automated financial product advice using algorithms and technology without the direct involvement of a human adviser.

The regulatory guide also includes guidance on some issues that are unique to digital advice, such as how the organisational competence obligation applies to digital advice licensees and the ways in which digital advice licensees should monitor and test their algorithms.

See media release

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

ASIC releases report on review of Australian equity market cleanliness

ASIC has released a report, *Review of Australian equity market cleanliness*. Market cleanliness refers to the extent to which insider trading and information leakage occurs in the market.

The review found:

- A general improvement in market cleanliness for the 10-year period from 1 November 2005 to 31 October 2015.
- The established and new market cleanliness measures are positively correlated with each other, suggesting that the established method is useful for trend analysis.

The review also found that independent international research ranks Australian market cleanliness favourably compared to other developed equities markets.

See media release

ASIC releases report on review of handling of confidential information and conflicts of interest by sell-side research and corporate advisory

ASIC has released a report, *Sell-side research and corporate advisory: Confidential information and conflicts*, setting out key findings on the handling of material, non-public information (MNPI) and the management of conflicts of interest in the context of sell-side research and corporate advisory activities.

The report considers the interaction between financial intermediaries' research and corporate advisory activities.

While most firms have specific policies and procedures in place, the review found considerable variation in the following market practices:

- Identification and handling of confidential information including the inadequate use or supervision of information barriers and restricted trading lists.
- Management of conflicts of interest, including the structure and funding of research, insufficient separation of research and corporate advisory activities, decisions about share allocations in capital raisings, and mixed practices in relation to the disclosure of conflicts of interest.
- Staff and principal trading, including trading by corporate advisory and research staff.

See media release

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

ASIC publishes fifth report on corporate finance regulation

ASIC has published its fifth report on corporate finance regulation, *ASIC regulation of corporate finance: January to June 2016*. It highlights key statistical information, as well as observations on work undertaken in regulating and overseeing fundraising, mergers and acquisitions transactions, corporate governance, and other general corporate finance areas for the period from 1 January to 30 June 2016.

The report provides companies and their advisers with insights into ASIC's regulatory approach in the corporate finance sector and aims to assist them with their associated legal and compliance obligations.

The report also discusses a number of regulatory initiatives ASIC has undertaken in relation to due diligence practices, disclosure of financial information in prospectuses and applications to the Takeovers Panel.

See media release

ASIC releases enforcement report for January-June 2016

ASIC has released its enforcement report for the period 1 January to 30 June 2016, outlining the enforcement results achieved. It also highlighted ASIC's long-term challenges and future areas of focus, as well as outcomes supporting those areas. These include balancing a free-market system with investor and financial consumer protection, digital disruption, structural change, financial innovation-driven complexity and globalisation.

The report also highlighted some of ASIC's priorities over the next six-months. While conducting risk and integrity of the financial market benchmarks remains a high priority, ASIC is continuing to take enforcement action to address instances of market abuse or failures to meet disclosure obligations.

Further areas of focus for ASIC include:

- Ensuring that gatekeepers adhere to the high standards required by law and taking action against those that fail to meet the standards.
- Ensuring that financial advice firms and their advisers comply with the Future of Financial Advice reforms.
- ASIC's Wealth Management Project, which aims to improve the quality of financial advice provided to consumers.

See media release

2

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

The ASX consults on OTC interest rate derivatives clearing

The ASX has released a consultation paper, *ASX OTC Interest Rate Derivatives Clearing*, seeking feedback from OTC participants on:

- The ASX's proposal to expand the product coverage of the OTC Clearing Service to include:
  - New OTC Interest Rate Derivatives products – Asset Swaps and BBSW vs AONIA Basis Swaps.
  - Extended maturities for existing OTC Interest Rate Derivatives products.
- Whether the ASX should amend its OTC rules to confirm that OTC Open Contracts are 'settled to market' rather than 'collateralised to market' by variation margin payments.

The ASX also proposes to make a number of miscellaneous OTC Rule and Handbook amendments.

Submissions are due by 16 September 2016.

See media release

The ASX makes a submission to ASIC CP262: Remaking and repealing ASIC class orders on markets and securities

The ASX has made a submission to ASIC's consultation paper, *Remaking and repealing ASIC class orders on markets and securities (CP262)*. The submission supported ASIC's proposals to remake a number of class orders that reduce compliance costs for participants in public markets.

See media release

The ASX makes a submission to the Productivity Commission's inquiry into data availability and use

The ASX has made a submission to the Productivity Commission's Inquiry into Data Availability and Use. The submission:

- Provided background on the ASX's data services and high-level perspectives on some of the matters raised in the Issues Paper, focusing particularly on the advantages to be gained by commercial-led solutions.
- Outlined the ASX's perspective, based on experience as a producer of financial market data. The emergence of new sources of data and changes to how users consume data is reshaping many industries, as new technologies create new opportunities.

See media release

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

AUSTRAC and ACIC initiate project to sharpen intelligence capability

AUSTRAC and the newly formed Australian Criminal Intelligence Commission (ACIC) have initiated a first-of-its-kind joint project, exploring new technologies, such as blockchain, to sharpen the value and quality of intelligence products. This will be done by capturing user feedback, sharing insights, tracking and evaluating the use of information and enhancing security features and records management.

The project aims to help improve the future design of information systems and organisational practices which will help ensure that agencies share the right information to enable more rapid and proactive decisions.

See media release

New cyber team to target terrorism financing and financial crime

AUSTRAC has established a new cyber team dedicated to identifying online terrorism financing activities, money laundering and financial fraud. The new cyber team will use financial and cyber intelligence to investigate online payment platforms and financial cybercrime to crack down on money-laundering and criminal networks.

The agency will also work with iDcare, Australia and New Zealand's national identity support service, to target job recruitment scams that organised criminal syndicates use.

The team will also work with the Australian Cybercrime Online Reporting Network (ACORN) Joint Management Group (JMG) to identify patterns and trends that could indicate large-scale financial scams or their methodology.

Source: Minister for Justice

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

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Speech: Glenn Stevens final address as Governor of the RBA

Glenn Stevens recently delivered his final speech as Governor of the RBA, where he gave an account of the Bank's stewardship over his last 10 years as Governor.

Key issues covered in the speech included:

- Global growth had been lower than it was in the 'great stability' period, led by much weaker outcomes for the major advanced countries.
- The Australian economy avoided a major downturn and turned in a performance on economic activity characterised by no more, and on some metrics slightly less, volatility.
- Future challenges which remain for Australia include sustaining a stronger growth outlook over the longer term and an adjustment to interest rates.

The full speech can be found here.

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

RBA Assistant Governor, Guy Debelle, addressed the FX Week Asia conference in Singapore. He discussed the topic, *The Global Code of Conduct for the Foreign Exchange Market*.

Key issues covered in the speech included:

- Global principles of good practice in the FX market will provide a common set of guidelines to the market. This will also help restore confidence and promote the effective functioning of the wholesale FX market.
- The RBA has been devoting considerable time and effort to thinking about how to ensure widespread adoption of the Global Code by market participants, as well as drafting the Code.
- The complete Code is intended to be released following the Global FXCs meeting in London in May 2017. The Code will evolve as the foreign exchange market continues to evolve.

The full speech can be found here.

3 Industry bodies

ABA
Australian Bankers' Association

AFMA
Australian Financial Markets Association

APCA
Australian Payments Clearing Association

ASFA
Association of Superannuation Funds of Australia

The ABA responds to call for transparency on interest rates

The ABA has responded to the Federal Government's invitation for banks to brief a parliamentary committee on interest rate decisions.

The ABA Chief Executive Steven Münchenberg said that the Federal Government is entitled to call the banks before a parliamentary committee, however he did point out that no other businesses were required to justify their commercial pricing decisions in the same way. He also stated that banks are in a position to explain why the interest rates they set for borrowers are determined largely by the costs of funds and the pressures of a highly competitive market, and not by the Reserve Bank cash rate.

See media release

Bank CEOs declare commitment to strengthen industry

The Council of the ABA, comprising of 16 bank chief executives, have confirmed their commitment to respond to legitimate concerns raised about the industry. Former Commonwealth Auditor-General Mr Ian McPhee AO PSM is monitoring banks' progress and will be providing public reports.

See media release

The ABA comments on external dispute resolution review

The ABA has welcomed the release of the terms of reference of the Federal Government's review into external dispute resolution.

The ABA supports broadening external dispute resolution schemes so that more people have access to them if needed. This includes considering increasing the monetary limit on the claims that the Financial Ombudsman Service can assess, as well as the amount of compensation it can award.

See media release

3 Industry bodies (cont'd)

ABA
Australian Bankers' Association

AFMA
Australian Financial Markets Association

APCA
Australian Payments Clearing Association

ASFA
Association of Superannuation Funds of Australia

AFMA introduces an algorithmic fall-back to the BBSW calculation methodology

AFMA is changing the calculation methodology for BBSW as advised in the July 2016 market notice. One component of the new methodology is the introduction of an algorithmic fall-back stage, which would come into operation in the event that the NBBO calculation process fails to compute a BBSW rate for all tenors.

The development work in implementing the algorithmic fall-back component has progressed to the point where the associated rules will be codified within the BBSW Benchmark Rate Conventions and will take effect on 1 September 2016.

The algorithmic fall-back calculation methodology would operate sequentially as follows:

- Primary algorithmic fall-back – use of tenors formed under the NBBO calculation protocol to extrapolate or interpolate unformed tenors.
- Secondary algorithmic fall-back – use of the absolute movement in the ASX 90 Day Bank Bill Futures contract to extrapolate all BBSW tenors.
- Tertiary algorithmic fall-back – use prior day's rate if secondary fall-back fails.

The application of the algorithmic fall-back methodology to derive BBSW rates will not extend beyond two consecutive business days.

See notice

3 Industry bodies (cont'd)

APCA releases report for payment fraud in 2015

APCA has released a report, *Australian payments fraud details and data*, highlighting that online card fraud is increasing, while chip technology continues to prove effective in tackling counterfeit fraud in Australia.

The report shows that of the $1.92 trillion Australians spent on cheques and cards in 2015, 0.025 percent or $469 million worth of transactions were fraudulent. Australia's rate of card fraud increased from 58.8 cents in 2014 to 66.8 cents per $1,000 spent, driven by a 21 percent increase in card not present (CNP) fraud. The increase in card fraud is in line with global trends.

The report outlines industry measures to prevent payments fraud including:

- Reducing opportunities for sensitive card data to be stolen – through tokenisation and continued efforts by merchants and service providers to comply with global security standards for cards.
- Identifying and stopping fraudulent payments in real-time – through chip technology and dedicated analytics tools.
- Authenticating the cardholder – increasingly through one-time passwords, biometrics and the mandatory use of PINs for card present transactions.

See media release

3 Industry bodies (cont'd)

ASFA comments on the announcement of taxation of superannuation and the May 2016 superannuation proposals

ASFA commented on the Federal Opposition's announcement of its position on the taxation of superannuation and the May 2016 superannuation proposals. ASFA will take time to assess the impacts of the proposed measures on fund members and the system.

ASFA advocates policy settings which will see an increasing number of retirees reaching the ASFA comfortable standard, with a goal of 50 percent of retirees reaching or exceeding that level by 2050.

See media release

4 Overseas developments – Global

BCBS: Reports from CPMI-IOSCO advance regulatory agenda on central counterparties

The Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organisation of Securities Commissions (IOSCO) have published a consultative report, *Resilience and recovery of central counterparties (CCPs): Further guidance on the PFMI*, seeking feedback on guidance for use by central counterparties (CCPs) on certain principles and key considerations in the CPMI-IOSCO *Principles for financial market infrastructures* (PFMI) relating to financial risk management for CCPs.

Submissions are due by 18 October 2016.

Source: BIS

BCBS: CPMI and IOSCO consults on Harmonisation of the Unique Product Identifier

The CPMI and IOSCO have published a second consultative report, *Harmonisation of the Unique Product Identifier (UPI)*, seeking feedback on proposals for the harmonised global UPI aiming to uniquely identify over-the-counter (OTC) derivatives products that authorities require to be reported to trade repositories (TRs).

Submissions are due by 30 September 2016.

Source: BIS

BCBS: Issues FAQs on the Pillar 3 disclosure requirements

The Basel Committee on Banking Supervision (BCBS) has issued frequently asked questions (FAQs) on the Basel framework's Pillar 3 disclosure requirements.

The BCBS has received a number of interpretation questions related to the January 2015 publication of the revised Pillar 3 disclosure requirements. BCBS has agreed to periodically review FAQs, publish answers along with any technical elaboration of the standard and any interpretative guidance that may be necessary to promote consistent global implementation of the requirements.

Source: BIS

4 Overseas developments – Global (cont'd)

BCBS: Publishes report on implementation of Basel III standards

The BCBS has published a report, *Implementation of Basel standards: A report to G20 Leaders on implementation of the Basel III regulatory reforms* analysing the outcomes from the Committee's Regulatory Consistency Assessment Programme (RCAP), which included:

- Monitoring progress in adopting the Basel III standards.
- Assessing the consistency of national or regional banking regulations with the Basel III standards.
- Analysing the prudential outcomes from those regulations.

The report summarises the steps taken by Basel Committee member jurisdictions to adopt the Basel III standards, banks' progress in bolstering their capital and liquidity positions, the consistency of implementation in jurisdictions since the Committee's last report and the Committee's implementation work plan.

Source: BIS

FSB: Reports to G20 leaders on financial regulatory reforms

The Financial Stability Board (FSB) has published the second annual report on the implementation and effects of the G20 financial regulatory reforms.

The second annual report concludes that implementation progress remains steady but uneven, and that the strengthened resilience due to the reforms has placed the global financial system in good stead.

The report includes further analysis on three areas identified in last year's report: market liquidity, effects of emerging market reforms and maintaining an open and integrated global financial system.

The FSB also published a paper co-authored with the International Monetary Fund (IMF) and the BIS on *Elements of Effective Macroprudential Policies*.

Source: FSB

FSB: Publishes progress report on implementation of reforms to the OTC derivatives market

The FSB has published two progress reports:

- The report, *OTC Derivatives Market Reforms: Eleventh Progress Report on Implementation,* updates the G20 on OTC derivatives market reforms. These include trade reporting of OTC derivatives, central clearing and, where appropriate, exchange or electronic platform trading of standardised OTC derivatives and higher capital and minimum margin requirements for non-centrally cleared derivatives (NCCDs).
- Also, the report, *Report on FSB Members' Plans to Address Legal Barriers to Reporting and Accessing OTC Derivatives Transaction Data*, summarises FSB member jurisdictions' planned actions to remove legal barriers to reporting complete transaction information to trade repositories and to authorities' access to data held in trade repositories.

Source: FSB

4 Overseas developments – Global (cont'd)

FSB: Launches peer review on implementation of corporate governance principles

The Financial Stability Board (FSB) has launched a peer review on the implementation of the G20/Organisation for Economic Co-Operation and Development (OECD) principles of corporate governance, taking stock of how FSB member jurisdictions have applied the principles to publicly listed, regulated financial institutions, identifying effective practices and areas where good progress has been made, while noting gaps and weakness areas.

It will inform work that is underway to revise the OECD's assessment methodology that is used by the World Bank as the basis for country assessments undertaken as part of its Corporate Governance Report of Standards and Codes initiative. It will also provide input to governance-related aspects of the FSB's broader work on conduct for financial institutions.

Source: FSB

FSB: Publishes guidance papers to assist the resolution planning work of authorities and firms

The FSB has published two final guidance papers to assist the resolution planning work of authorities and firms:

- *Guiding Principles on the Temporary Funding Needed to Support the Orderly Resolution of a Global Systemically Important Bank (G-SIB):* The paper seek to address the risk of banks having insufficient liquidity to maintain critical operations during a resolution.
- *Guidance on Arrangements to Support Operational Continuity in Resolution:* The paper sets out arrangements to support the continuity of critical shared services, such as information technology infrastructure and software-related services, that are necessary to maintain a firm's critical functions in resolution.

The FSB has published its fifth report to the G20 on progress in resolution, *Resilience through resolvability – moving from policy design to implementation*.

Source: FSB

FSB: Publishes progress report on action plan to address the decline in correspondent banking

The FSB has established a Correspondent Banking Coordination Group (CBCG) in March 2016 to coordinate and maintain impetus in the implementation of the action plan. The CBCG and its members have made substantial progress towards implementing the FSB action plan, including:

- The CPMI has published the final version of its report on correspondent banking, with recommendations relating to various key measures, following consultation.
- CBCG has designed a survey to address remaining data gaps.
- CBCG has proposed areas where regulatory expectations should be clarified.

A comprehensive progress report will be published by the end of 2016. Work under the action plan will continue in 2017 to address these issues.

Source: FSB

4 Overseas developments – Global (cont'd)

IOSCO: Consults on its analysis of liquidity in corporate bond markets

The IOSCO has published a consultation paper, *Examination of Liquidity of the Secondary Corporate Bond Markets*, providing an objective and data driven examination of the development of the secondary corporate bond markets during the last decade, with a specific focus on liquidity.

IOSCO did not find substantial evidence showing that liquidity in secondary corporate bond markets has deteriorated markedly from historic norms for non-crisis periods. IOSCO has also stated that there is no reliable evidence that regulatory reforms have caused a substantial decline in market liquidity, although regulators continue to monitor closely the impact of regulatory reforms.

Submissions are due by 30 September 2016.

Source: IOSCO

IOSCO: Consults on practices for the termination of investment funds

The IOSCO has published a consultation report, *Good Practices for the Termination of Investment Funds*, seeking feedback from stakeholders on a proposed set of good practices on the voluntary termination process for collective investment schemes (CIS) and other fund structures. The scope is not limited to retail investment funds as it also addresses issues of relevance to investment funds for professional investors.

Submissions are due by 17 October 2016.

Source: IOSCO

IOSCO: Consults on practices for CIS fees and expenses to enhance market efficiency

The IOSCO has published a consultation report, *Good practice for fees and expenses of CIS*, aiming to identify common international examples of good practice that can be applied to CIS fees and expenses.

Source: IOSCO

4 Overseas developments – Europe

EBA: Publishes report on impact assessment and calibration of the LR in the EU

The European Banking Authority (EBA) has published its report on the impact assessment and calibration of the leverage ratio (LR). The report recommends the introduction of a LR minimum requirement in the European Union (EU) to mitigate the risk of excessive leverage. The analysis suggests that the potential impact of introducing a LR requirement of 3 percent on the provision of financing by credit institutions would be relatively moderate, while leading to more stable credit institutions.

Source: EBA

EBA: Amends technical standards on benchmarking of internal approaches

The EBA has published an amended version, submitted to the EU Commission, of its Implementing Technical Standards (ITS) on benchmarking of internal approaches. The amended ITS will assist Competent Authorities in their 2017 assessment of internal approaches both for credit risk and market risk. The updated draft ITS package is available. The EBA plans to annually update the ITS and to maintain them on a regular basis to ensure the success and quality of future benchmarking exercises.

Source: EBA

EBA: Publishes indicators from 36 global systemically important institutions (G-SIIs)

The EBA has published indicators from 36 large institutions in the EU, as provided for in the Implementing Technical Standards (ITS) and guidelines on disclosure rules applicable to institutions whose leverage ratio exposure measure exceeds 200 billion Euro. The ITS and guidelines on disclosure rules define uniform requirements for disclosing the values used during the identification and scoring process of global systemically important institutions (G-SIIs), in line with the internationally agreed standards developed by the FSB and by the Basel Committee on Banking Supervision (BCBS).

Source: EBA

4 Overseas developments – Europe (cont'd)

EBA: Provides input based on the Single Rulebook Q&As to the CRR-CRD review

The EBA has published the outcome of a review of its Single Rulebook Q&As. It provides an overview of possible errors, inconsistencies, as well as fundamental issues in relation to the CRR and the Capital Requirements Directive (CRD) observed via the Single Rulebook Q&A tool managed by the EBA. The EBA will use the outcome of its review to continue its technical discussions and collaboration with the EU Commission services in the context of the CRR/CRD review.

Source: EBA

EBA: Publishes an opinion on the proposal to bring virtual currency entities within AML Directive's scope

The EBA has issued an opinion on the EU Commission's proposal to bring virtual currency exchange platforms and custodian wallet providers within the scope of the 4th Anti-Money Laundering (AML) Directive. The EBA also made several recommendations aimed at supporting the consistent pan-EU implementation and supervision of the proposals that the Commission had published on 5 July 2016.

Source: EBA

EBA: Consults on customer authentication and secure communications under PSD2

The EBA has published a consultation paper on draft regulatory technical standards, specifying the requirements on strong customer authentication. The paper also covers common and secure communication under the revised Payment Services Directive (PSD2). Ensuring appropriate levels of security, while at the same time maintaining fair competition between all payment service providers and allowing for the development of user-friendly, accessible and innovative means of payment.

Submissions are due by 23 September 2016.

Source: EBA

4 Overseas developments – UK

FCA: Publishes policy statement on increasing transparency at renewal in general insurance markets

The FCA has published a policy statement, *Increasing transparency and engagement at renewal in general insurance markets – feedback on CP15/41 and final rules and guidance* (PS16/21), summarising the responses received to the consultation paper and confirming the final rules and non-Handbook guidance.

The paper intended to address concerns about levels of consumer engagement and the treatment of consumers by firms at renewal, and the lack of competition that results from this. The proposals were based on findings from the large-scale randomised controlled trial that conducted with three firms in the home and motor general insurance markets, as well as the wider research.

Source: FCA

FCA: Provides update on PPI

The FCA has confirmed that the package of proposals on payment protection insurance (PPI) complaints laid out in CP15/39 should be taken forward.

The FCA is consulting on changes to the proposed rules and guidance concerning the handling of PPI complaints (CP16/20) in light of Plevin. These proposed changes relate to three key aspects:

- To include profit share in approach to the assessment of fairness and redress.
- To allow previous rebates to a consumer when they cancelled their PPI policy to be partly reflected in any redress due.
- To clarify how firms should assess fairness and redress where commission or profit share rates vary during the life of the PPI policy.

Submissions are due by 11 October 2016.

Source: FCA

PRA: Publishes policy statement and supervisory statement in relation to remuneration

The PRA has published policy statement (PS22/16) in relation to the consultation paper *Solvency II: Remuneration Requirements* (CP13/16). The PS22/16 provides feedback to responses on the consultation paper and includes a final supervisory statement (SS10/16) on the requirements and a remuneration policy statement (RPS) reporting template for PRA category 1 and 2 firms.

The PS is relevant to all UK Solvency II firms. The PRA has published the final SS10/16 to support compliance by setting out the PRA's expectations of how compliance may be achieved, particularly by category 1 and 2 firms. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

Source: Bank of England

4 Overseas developments – US

CFTC: Recent announcements

The US Commodity Futures Trading Commission (CFTC) has announced two separate actions on how the rules related to the Dodd-Frank Wall Street Reform and *Consumer Protection Act* apply to cross-border transactions. The CFTC's Divisions of Swap Dealer and Intermediary Oversight (DSIO), Clearing and Risk, and Market Oversight (Divisions) have issued a time-limited no-action letter that extends relief to swap dealers registered with the CFTC that are established under the laws of jurisdictions other than the United States from certain transaction-level requirements under the *Commodity Exchange Act* (CEA).

The CFTC has also announced three separate measures that are designed to enhance the protection of customer funds.

Source: CFTC

Federal agencies: Finalise rule exempting certain users from margin requirements

Five federal agencies have announced a final rule exempting certain commercial and financial end users from margin requirements for certain swaps not cleared through a clearinghouse. The rule discusses the comments received and adopts the earlier interim final rule as final without change. The final rule implements a law passed by US Congress in January 2015.

Source: Federal Reserve Board

OCC: Recent announcements

The Office of the Comptroller of the Currency (OCC) has released a list of *Community Reinvestment Act* (CRA) performance evaluations that became public during the month of July 2016.

Source: OCC

4 Overseas developments – US (cont'd)

SEC: Publishes statement regarding progress on the review of the treasury market structure

The US Department of Treasury, the FRB, the Federal Reserve Bank of New York, the US Securities and Exchange Commission (SEC), and the CFTC (Joint Member Agencies) have issued a joint statement to highlight significant actions taken since the issuance of their Joint Staff Report in July 2015 on the US Treasury market. This includes the recently signed memorandum of understanding to share information on US Treasury cash and related derivative markets among the agencies, and their plans to host a second conference on 24 October 2016 to continue progress on these efforts.

The Joint Member Agencies have taken both joint and individual actions in the past year to promote understanding, transparency, risk management, and inter-agency coordination with respect to the US Treasury market. The Joint Member Agencies will continue to make progress on the next steps identified in the Joint Staff Report in the coming months.

Source: SEC

SEC: Recent announcements

The SEC has adopted amendments to several *Investment Advisers Act* rules, the investment adviser registration and reporting form to enhance the reporting and disclosure of information by investment advisers. The amendments will require investment advisers to provide additional information regarding their separately managed account business, including aggregate data related to the use of borrowings and derivatives, and information about other aspects of their advisory business, including branch office operations and the use of social media.

The SEC is consulting on disclosure requirements in Subpart 400 of Regulation S-K, including those relating to management, certain security holders, and corporate governance matters. The request for comment is part of the Disclosure Effectiveness Initiative, which is a broad-based staff review of the disclosure requirements and the presentation and delivery of the disclosures.

Source: SEC

4 Overseas developments – Asia

China: Establishment of Shenzhen-Hong Kong Stock Connect

The China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission (SFC) have approved the establishment of mutual stock market access between Shenzhen and Hong Kong (Shenzhen-Hong Kong Stock Connect (SHSKC)) to promote the development of capital markets in both the Mainland and Hong Kong.

Source: CSRC

Hong Kong: SFC and CSRC announce SHKSC

The SFC and the CSRC have announced the approval, in principle, of the structure of SHKSC, providing mutual stock market access between Hong Kong and Shenzhen via a northbound trading link and a southbound trading link. There will be no aggregate quota under SHKSC. A separate announcement on the commencement of SHKSC will be made in due course.

Source: SFC

Hong Kong: HKMA announces progress made in the handling of banking complaints

The HKMA has announced the progress made in its handling of banking complaints received as at end-July 2016 along with a table summarising the progress. Banking complaints include cases concerning general banking services and conduct-related issues. In July 2016, 152 cases were received and the handling of 149 cases was completed. Out of 152 cases received, only 17 related to conduct-related issues.

Source: HKMA

4 Overseas developments – Asia (cont'd)

Hong Kong: SFC designates central counterparties for OTC derivative transactions

For the purposes of the mandatory clearing obligation for certain OTC derivative transactions, the Securities and Futures Commission (SFC) has designated one local and three major overseas CCPs. They will provide a variety of choices for market participants who (under Hong Kong law) are subject to mandatory clearing, which will come into effect on 1 September 2016. The four designated CCPs are:

- Chicago Mercantile Exchange Inc.
- Japan Securities Clearing Corporation.
- LCH.Clearnet Limited.
- OTC Clearing Hong Kong Limited.

Each of these designations has been granted subject to conditions, see the SFC's website for full text.

Source: SFC

Japan: FSA exchanges letters on cooperation with APRA in the area of banking supervision

Financial Services Agency (FSA) has exchanged the letters on co-operation in the area of banking supervision with the APRA. The exchange of letters intends to strengthen and facilitate co-operation between both authorities:

- Authorities will endeavor to notify each other of any material supervisory concern and supervisory action.
- Authorities will notify each other of plans to visit the banks in each other's jurisdiction and may inform each other of any material findings arising out of the visit and discuss issues that emerge from such visits.
- Authorities will maintain confidentiality of information exchanged and will not disclose it without prior consent of the other supervisor.
- Supervisory information received should be used by the recipient only for lawful supervisory purposes.

Source: FSA

Singapore: MAS sets up an International Technology Advisory Panel (ITAP)

The Monetary Authority of Singapore (MAS) has set up an ITAP. The ITAP will advise MAS on international developments in FinTech and how Singapore can harness new technologies to enhance the provision of financial services.

MAS has also announced the opening of its FinTech Innovation Lab. The purpose-built facility, known as Looking Glass @ MAS1, is located within the MAS building serves to:

- Allow MAS to experiment FinTech solutions with financial institutions, start-ups, and technology vendors.
- Facilitate consultations for start-ups by industry experts on various areas of interest.

Source: MAS

5 PwC publications

PwC AUS: Response to ASIC's consultation paper 260 - Further measures to facilitate innovation in financial services

PwC Australia welcomed the opportunity to comment on ASIC's consultation paper 260, *Further measures to facilitate innovation in financial services* (CP260).

PwC Australia is supportive of ASIC's efforts to facilitate innovation within the financial services (FS) sector. The proposals outlined by ASIC gives FinTechs two key benefits, time and reduced upfront costs to support their transition to full licensing when they are ready to scale up their operations in the broader market.

Additional measures to facilitate innovation will help develop the Australian FS sector by:

- Enhancing Australia's strong reputation in FS.
- Increasing Australia's ability to compete on a global scale (export FS innovations and talent).
- Creating jobs, attracting talent and fostering inward capital flows.

In preparing their response, PwC Australia engaged clients and other participants in the Australian FinTech Industry, as well as looking to other jurisdictions' proposed and implemented regulatory sandbox models.

ASIC will look to publish the responses to CP260 in due course.

See: consultation paper

PwC: Payments in the wild tech world - digitisation and changing customer expectations

PwC has published a report, *Payments in the Wild Tech World: Digitisation and changing customer expectations*, highlighting that companies in the payments and transaction space have worked towards building an ecosystem that promotes digital payments and reduction in the usage of cash.

Key findings of the report are:

- PwC's *2016 Global FinTech Survey* finds 87 percent of payments companies believe more than a quarter of their operations could be lost to FinTechs by 2020.
- The majority of payments companies have already integrated FinTech into their business models.
- The most critical trend impacting the industry is the development of advanced tools and technologies to protect consumers from security attacks and fraud.

See publication

5 PwC publications (cont'd)

PwC: Global Economic Crime Survey 2016 - Financial Services industry insights

PwC has published a report, *Time to change tack: A need for new thinking by the Financial Services industry,* presents findings from the Global Economic Crime Survey 2016.

Key findings of the report are:

- 46 percent respondents in the Financial Services (FS) industry were reported victims of economic crime in the last 24 months, an increase from 45 percent in 2014.
- 16 percent of those that reported experiencing economic crime had suffered more than 100 incidents, with 6 percent suffering more than 1,000. The direct losses from these incidents are higher than in other sectors, but in the regulated world, it is the costs of remediation and compliance that are staggering.
- 53 percent of respondents reported that spending on fighting economic crime was increasing.

See publication

PwC Hong Kong: Cyber Fortification Initiative (CFI)

In May 2016, the Hong Kong Monetary Authority (HKMA) announced the launch of the 'Cyber Fortification Initiative' (CFI) aiming to raise the level of cybersecurity of banks in Hong Kong.

PwC Hong Kong has published, *Cyber Fortification Initiative (CFI) - The new framework initiated by the HKMA: Are You Ready?*, providing a clear picture of the CFI requirements and how banks can expedite the preparation process to incorporate these requirements into their business operations.

See publication

PwC US: AML outsourcing - you're still on the hook

US regulators have been increasing their focus on modernising and sharpening AML regulations in recent years. As a result, many financial institutions have outsourced aspects of their AML programs to third parties or affiliate firms.

However, the Financial Industry Regulatory Authority (FINRA) has recently issued its largest ever penalty for AML violations, fining an introducing broker for unreasonably relying on an affiliated clearing firm to fulfill certain AML responsibilities. Financial institutions that outsource aspects of their AML program should perform ongoing due diligence on the AML service provider, enter into a written contractual agreement with the service provider, and ensure that the service provider dedicates sufficient AML resources.

PwC US has published a report, *Financial crimes observer, AML outsourcing: You're still on the hook,* analysing lessons learned from FINRA's enforcement action, and provides advice on what financial institutions should be doing now.

See publication

5 PwC publications (cont'd)

PwC Hong Kong: ATM fraud

PwC Hong Kong has published a report, *ATM Fraud: Do you know if your customer's card data has been compromised?*. The main points of the publication are:

- Attacks have reached new levels of sophistication and frequency.
- ATM attacks can now steal without compromising customers' card or data.
- Banks minimise such cyber–attacks using Key Breach Indicators and data analytics.

See publication

PwC: Chain reaction - how blockchain technology might transform wholesale insurance

PwC has published a research report, *Chain reaction: How blockchain technology might transform wholesale insurance,* based on 50+ interviews conducted by Z/Yen, with brokers, insurers, reinsurers, regulators and trade bodies from across the global wholesale insurance market.

Building on a recent PwC survey suggesting that 56 percent of insurers recognise the importance of blockchain, but 57 percent conceded they did not yet know how to respond.

The findings of this report highlight enthusiasm within the wholesale insurance industry to work together and implement blockchain solutions. The report identifies key practical examples of the use of blockchain in wholesale insurance and is complimented by a technical Proof of Concept developed by the PwC Blockchain team in Belfast, illustrating how blockchain technology can be applied to solve business problems.

See publication

PwC US: Recovery and resolution - uneven bars for CCPs and banks

The CFTC has issued extensive new recovery and resolution planning guidance for CCPs. While banks and insurance companies recently received relief with respect to their resolution plans, the CFTC's guidance significantly raises the bar on the depth and breadth of analysis expected for CCPs.

The CFTC's guidance is expected to have an impact throughout the industry since CCPs' increased compliance costs are likely to trickle down to their clearing members.

PwC US has published a report, *Regulatory brief,* analysing the key ways in which the CFTC has raised expectations for CCPs' recovery and resolution plans, and provides their view of next steps.

See publication

5 PwC publications (cont'd)

PwC US: AML monitoring - New York regulator gets prescriptive

FINRA has adopted a regulation requiring that US-registered broker dealers collect margin on To-Be-Announced transactions (FINRA Rule 4210). The first compliance deadline is 15 December 2016, by when broker dealers must have assigned credit risk limits to each counterparty. The second deadline, 15 December 2017, applies the regulation's margin and other requirements and presents several operational challenges to broker dealers.

PwC US has published a report, *Regulatory brief, Broker dealers: TBA margin clarity, but not simplicity*, providing an analysis of the regulation and advice on what firms should be doing now.

See publication

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