www.pwc.com.au

August 2017

# *PwC Regulatory Update*

# 1 Legislative/Government developments

## Government announces further reforms over Superannuation Guarantee compliance

The Government has announced a further package of reforms to give visibility to the Australian Taxation Office (ATO) over compliance with superannuation guarantee (SG) requirements by employers. The package includes:

- Requiring superannuation funds to more frequently report contributions received to the ATO;
- Bringing payroll reporting into the 21st century through the rollout of Single Touch Payroll (STP); and
- Improving the effectiveness of the ATO's recovery powers.

Source: Minister for Revenue and Financial Services

ASFA welcomed Government measures to increase SG compliance.

FSC supported new measures to protect consumers from non-payment of superannuation guarantee.

## Government Review into Open Banking in Australia releases an issues paper

The Review into Open Banking in Australia has released an issues paper, seeking feedback on the best approach for implementing an Open Banking framework for Australian customers.

The Review will examine:

- What data should be shared, and between whom;
- How data should be shared;
- How to ensure shared data is kept secure and privacy is respected;
- The regulatory framework that is needed to give effect to and to administer the regime; and
- Implementation – timelines, roadmaps, costs.

Submissions are due by 22 September 2017.

Source: Treasury

## Asia Region Funds Passport and Corporate Collective Investment Vehicle

The Government is seeking feedback on the proposed legislation to give effect to the Asia Region Funds Passport (passport) and introduce the Corporate Collective Investment Vehicle (CCIV) regime. The Bills will insert two new chapters to the *Corporations Act 2001*.

The proposal will support the Government's work to implement arrangements set out in the Passport's Memorandum of Cooperation between signatories - Australia, Japan, Korea, New Zealand and Thailand. The CCIV regime supports the implementation of the Passport and establishes a new type of investment vehicle which will allow Australian fund managers to offer investments through a company structure.

Submissions are due by 21 September 2017.

Source: Treasury

# 1 *Legislative/Government developments*

## Consequential amendments to Competition and Consumer Regulations (Harper Review)

The Government has released an exposure draft on the *Competition and Consumer Amendment (Competition Policy Review) Regulations 2017* (Regulations) to make consequential amendments to the *Competition and Consumer Regulations 2010* (CCA Regulations) following amendments that will be made to the *Competition and Consumer Act 2010* by the:

- *Competition and Consumer Amendment (Misuse of Market Power) Bill 2017; and*
- *Competition and Consumer Amendment (Competition Policy Review) Bill 2017.*

The amendments will implement reforms to competition law, including:

- Strengthening the prohibition against the misuse of market power;
- Simplifying complex provisions in the Act governing the authorisation process;
- Introducing class exemptions for conduct that the ACCC determines does not raise competition concerns; and
- Broadening the joint venture exemption to cartel prohibitions and strengthening safeguards around this exemption.

Source: Treasury

## Credit cards legislation

The Government has released an exposure draft on the proposed credit card legislation, which aims to improve consumer outcomes and encourage competition. These reforms include:

- Requiring affordability assessments to be based on a consumer's ability to repay the credit limit within a reasonable period;
- Banning unsolicited offers of credit limit increases;
- Simplifying how interest is calculated; and
- Inclusion of online options to cancel cards or to reduce credit limits.

Source: Treasury

# 1 Legislative/Government developments

## Black Economy Taskforce: additional policy ideas

The *Black Economy Taskforce: additional policy ideas* discussion paper outlines 54 additional policy ideas developed from views presented in recent consultations. The paper seeks feedback on the additional ideas. The following are a sample of the ideas found in the paper:

- Know Your Client (KYC) Integrity;
- The abuse of the ABN system; and
- Dealing with criminal elements of the black economy.

The Chair will provide his recommendations and final report to the Government in October 2017.

Source: Treasury

## AFCA transition team reference panel established

The Government has established an expert reference panel to assist the transition team for the Australian Financial Complaints Authority (AFCA). The advisory panel for the team, which will be led by former Reserve Bank of Australia assistant governor Malcolm Edey, consists of:

- Financial Ombudsman Service chief ombudsman Shane Tregillis;
- Superannuation Complaints Tribunal (SCT) chair Helen Davis;
- Director at Self Employed Australia Robin Buckham; and
- SCT Advisory Council consumer member John Berrill.

Source: Minister for Revenue and Financial Services

## Excessive payment surcharge ban

All businesses across Australia will be banned from charging excessive surcharges to their customers for making payments using certain types of EFTPOS, Mastercard, Visa and American Express cards from 1 September.

As a guide, where a charge is imposed, consumers should expect to pay around 0.5-1% for payment by debit card, 1-1.5 % by MasterCard and Visa credit cards and 2-3% for American Express. The matter can be raised with the Australian Competition and Consumer Commission (ACCC) for investigation, in case charges exceed these ranges.

The ACCC has published online guidance material for businesses and consumers.

Source: Treasurer

# 2 What have the regulators been up to?

## APRA
Australian Prudential Regulation Authority

## ASIC
Australian Securities and Investments Commission

## AUSTRAC
Australian Transaction Reports and Analysis Centre

### APRA consults on proposed revisions to its counterparty credit risk framework for ADIs

APRA has released a discussion paper in response to submissions on their discussion paper, *Counterparty credit risk for ADIs*. After consideration of submissions, APRA has modified its position in a number of areas and is seeking feedback on the revised drafts of:

- 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
- New draft reporting standard, *ARS 180.0 - Counterparty Credit Risk*.

The consultation package sets out APRA's proposed implementation of the Basel Committee on Banking Supervision's standardised approach for measuring counterparty credit risk exposures (SA-CCR) and capital requirements for bank exposures to central counterparties. The new prudential and reporting requirements for counterparty credit risk will come into effect after 1 January 2019.

Submissions are due by 29 September 2017.

See media release

### APRA consults on proposed reporting requirements for Financial Claims Scheme

APRA has released a letter to ADIs in relation to draft reporting standard, *ARS 910.0 - Financial Claims Schemes Data Collection*, seeking feedback to collect semi-annual Financial Claims Scheme (FCS) data and information relating to total deposit liabilities from all ADIs.

ARS 910.0 is proposed to be effective from the reporting period 31 December 2018.

Submissions are due by 25 October 2017.

See media release

# 2 What have the regulators been up to?

## APRA
Australian Prudential Regulation Authority

## ASIC
Australian Securities and Investments Commission

## AUSTRAC
Australian Transaction Reports and Analysis Centre

### APRA consults on changes to authorising new entrants to banking industry

APRA has released a consultation paper, seeking feedback on proposed revisions to introduce a phased approach to licensing new entrants to the banking industry, together with the introduction of a restricted ADI licence for certain applicants.

A restricted ADI licence would subject applicants to initial criteria, ongoing requirements including not actively conducting a banking business, and a proposed maximum licence duration of two years before transitioning to an unrestricted ADI licence.

APRA is planning to release the final approach to phased licensing for ADIs in the early part of 2018.

Submissions are due by 30 November 2017.

See media release

The Government welcomed APRA's release of the discussion paper on a phased approach to licensing new entrants to the banking industry.

### APRA releases response to submission - substituted compliance for margin requirements for non-centrally cleared derivatives

APRA has released a letter to all APRA regulated institutions other than private health insurers in response to submissions on substituted compliance for margin requirements for non-centrally cleared derivatives. APRA received three submissions on its proposals. Respondents supported APRA's proposals.

APRA has released the final revised prudential standard, *CPS 226 - Margining and risk mitigation for non-centrally cleared derivatives*, allowing substituted compliance with respect to the margin requirements or provisions of a list of foreign bodies. The revised CPS 226 has been effective from 1 September 2017.

See letter

# 2 What have the regulators been up to?



## ASIC reports on corporate finance regulation – January to June 2017

ASIC has published its seventh report on corporate finance regulation, *ASIC regulation of corporate finance: January to June 2017*, setting out the following information:

- Implementation of the industry funding model for ASIC;
- Relevant guidance about ASIC's regulation of fundraising transactions, mergers and acquisitions, corporate governance issues, related party transactions and financial reporting for the period;
- New regime for crowd-sourced funding by public companies; and
- Regulatory initiatives regarding emerging market issuers, initial public offerings and financial reporting for the year ended 30 June 2017.

See media release

## Updates from ASIC

ASIC has extended the time for expressions of interest from financial services and consumer credit industry participants, who are interested in becoming members of the new ASIC Financial Services and Credit Panel, from 31 August 2017 to 14 September 2017.

ASIC has extended its partnership with Australian software company Nuix to expand its analytics and e-discovery platforms. ASIC is investing around $60 million on data analytics, IT systems as well as its surveillance and enforcement capabilities to become a data-driven and intelligent law enforcement agency.

ASIC has established the Consumer Credit Insurance (CCI) Working Group to improve outcomes for consumer credit insurance. The CCI Working Group will work on a range of reforms and identify improvements to be made to banks' sales practices for CCI on credit cards sold online.

There will be changes to the way superannuation and managed investment funds disclose the fees and charges from 30 September, after ASIC identified a significant amount of under-reporting of fees and inconsistency in the way fees and charges are disclosed by funds.

See media release

2

# What have the regulators been up to?

APRA
Australian Prudential Regulation Authority

ASIC
Australian Securities and Investments Commission

AUSTRAC
Australian Transaction Reports and Analysis Centre

## Professional indemnity insurance review completed

ASIC conducted a review of 56 Australian financial services (AFS) licensees to determine whether they complied with the defence costs and fraud and dishonesty requirements in regulatory guide: *RG 126 - Compensation and insurance arrangements for AFS licensees*. The key findings are as below:

- AFS licensees do not always fully understand their Professional Indemnity (PI) insurance cover as the policies are complex and their terms may be subject to different interpretations.
- There are inconsistencies in the approaches AFS licensees take to document their annual review of their PI policies.

See media release

## ASIC remakes class order on disclosure relief for an offer to a director or secretary

Following consultation, ASIC has remade a class order, *Definition of 'senior manager'—modification*, into a new legislative instrument, *ASIC Corporations (Disclosure Relief—Offers to Associates) Instrument 2017/737*, by continuing to provide disclosure relief for an offer of securities to a director or secretary.

See media release

## Australia's NPO sector risk assessment

The AUSTRAC and the Australian Charities and Not-for-profits Commission (ACNC) has released a joint report, assessing money laundering and terrorism financing risks affecting Australian non-profit organisations (NPOs). This report identifies the main criminal, money laundering and terrorism financing threats currently facing NPOs. It highlights key vulnerabilities that are exploited for criminal misuse, or to support or promote terrorism and its financing.

The report revealed that:

- The overall money laundering risk for the NPO sector is assessed as medium.
- The key threats facing the NPO sector are fraud and theft of resources, with a low level of money laundering and tax evasion also detected.
- Between 2012 and 2016, 28 suspicious matter reports (SMRs) linked or related to NPOs were submitted, with a total value of $5.6 million (and average value of over $200,000 per SMR).
- NPOs will continue to be attractive to financiers of terrorism because they have the capacity to raise and camouflage the movement of large amounts of funds.

See media release

# 3 Industry bodies

ABA
Australian Bankers' Association

APN
Australian Payments Fraud Data

FPA
Financial Planning Association of Australia

## The ABA releases report measuring community trust and confidence in banks

The ABA has released a report, highlighting the research conducted by international firm Edelman Intelligence to measure community trust and confidence in banks and assess the impact of the reform agenda currently underway across the sector.

Key findings from the report include:

- Each initiative in making banking better scored an importance rating between 62% and 75%.
- The initiatives expected to have the greatest impact on trust are strengthening the Code of Banking Practice and changing the way bank staff are paid.
- Respondents are most aware of actions their main bank has taken in relation to the removal of individuals from the industry for poor conduct (53%), followed by a strengthening of commitment to the Code of Banking Practice (51%).
- Based on the 2017 Edelman Global Trust Barometer, Australians' trust in the financial services sector has increased slightly, but is still four points behind the global average.

See media release

## New sales practices announced for Consumer Credit Insurance (CCI)

The ABA will incorporate the new sales practices for CCI into the revised Code of Banking Practice and will accelerate their introduction so that they commence in the first half of 2018 and well before the new code is fully in place.

The new Code of Banking Practice will include:

- A new deferred sales model for CCI on credit cards sold through bank branches or call centres to allow customers some time to make a decision about the product and aren't at risk of misunderstanding that CCI is part of the credit card.
- New approaches to sales of CCI on credit cards through online and digital channels to ensure customers are provided with interactive information to help them through the process.
- New disclosure for CCI on credit cards and loans to ensure that customers are presented with targeted information in order to help them better understand this type of insurance.
- New consent processes so that all customers are fully aware of the conditions and costs of CCI.

See media release

# 3 Industry bodies

**ABA**
Australian Bankers' Association

**APN**
Australian Payments Fraud Data

**FPA**
Financial Planning Association of Australia

## Update on mortgage industry progress on ASIC proposals

Representatives from the mortgage industry have agreed upon - and are making good progress with - developing the industry's response to ASIC's report on mortgage broker remuneration.

Six new working groups will focus on issues such as commission models, enhanced governance and greater transparency. These groups will meet regularly to work through options for the industry response and report back to the forum on a monthly basis with the objective of providing an initial response to Treasury, ASIC and the industry in November 2017.

See media release

The Government welcomed the mortgage industry's creation of a forum to develop an industry led response to the ASIC 's Review of mortgage broker remuneration and will take the forum's process into account when finalising the Government's response to ASIC's report.

## APN releases 2016 Australian Payments Fraud Data

The Australian Payments Network (APN) has released an annual fraud report, concluding that card fraud is increasing as Australians are spending more than ever on their cards.

Key findings of the report:

- The rate of fraud across all Australian cheques and cards has increased from 20.8 cents in 2014 to 24.5 cents in 2015. Card and cheque fraud accounted for under 0.03% of the $1,869 billion total transacted.
- As Australian merchants and consumers continue to embrace online platforms, there is a correlating increase in card-not-present (CNP) fraud. CNP fraud increased to $417.6 million, accounting for 78% of total card fraud in 2016.
- Australian card fraud rates compare favourably to the UK and US, reflecting strong industry responses and the efficiency of anti-fraud tools.
- Merchants should work with their existing providers, whether they are acquiring banks, payment gateway providers, and/or website developers, etc. to implement solutions that can detect and stop fraudulent payments.

See media release

# 3 Industry bodies

ABA
Australian Bankers' Association

APN
Australian Payments Fraud Data

FPA
Financial Planning Association of Australia

## The FPA recommends further amendments to ASIC's new example SOA

The FPA has submitted recommendations to ASIC to further amend the new Statement of Advice (SoA) for the financial planning industry, recommending to:

- Make it digitally accessible by incorporating graphics, audio and video to engage customers;
- Increase the use of technology to improve customer experience;
- Encourage the digital delivery of advice using mobile technology;
- Demonstrate the value of the advice being provided to the client, then outline the costs and what the adviser is paid;
- Avoid beginning the document with fees and remuneration disclosures; and
- Demonstrate the professional diagnosis process a professional financial planner undertakes to help achieve a better financial position through an implemented financial plan.

See media release

# 4 Overseas developments – Global

## BIS: Recent announcements

The Financial Stability Institute (FSI) has launched a new publication series, *FSI Insights on policy implementation*. The first two papers launched in this publication are:

- A paper on proportionality which explores how best to tailor regulatory requirements for different types of banks by comparing the approaches followed in six jurisdictions.
- A paper on cyber-risk which explores regulatory and supervisory initiatives in some leading jurisdictions.

The Basel Committee on Banking Supervision has released a consultation paper, *Sound Practices: Implications of fintech developments for banks and bank supervisors*, combining historical research, analysis of current media and industry periodicals, fintech product analysis, surveys on BCBS members' activities, and scenario analysis. The paper aims to provide a forward-looking perspective on fintech and how it may potentially impact the banking industry.

Submissions are due by 31 October 2017.

Source: BIS

## IOSCO: Recent announcements

The Board of the International Organisation of Securities Commissions (IOSCO) has released a consultation paper, *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets*, seeking feedback on its proposed recommendations to increase transparency and the information on secondary corporate bond markets available to both regulators and the public.

Submissions are due by 16 October 2017.

Source: IOSCO

# 4 Overseas developments – Europe

## EBA: Recent announcements

The European Banking Authority (EBA) has released draft guidelines on reporting requirements on fraud statistical data under the revised Payment Services Directive (PSD2) to increase the security of retail payments in the EU.

Submissions are due by 3 November 2017.

The EBA has released a discussion paper, seeking feedback on the EBA's assessment on the comprehensiveness and viability of the possible future work in the areas identified related to FinTech:

- Authorisation and sandboxing regimes;
- The impact on prudential and operational risks for financial institutions and its impact on their business models;
- Consumer protection and retail conduct of business issues; and
- The impact of FinTech on the resolution of financial firms, anti-money laundering and countering the financing of terrorism.

Submissions are due by 6 November 2017.

Source: EBA

## ESMA: Recent announcements

The European Securities and Markets Authority (ESMA) has published updated guidelines on transaction reporting, order record keeping and clock synchronisation under the Markets in Financial Instruments Directive (MiFID II), correcting some unintended factual mistakes, typos and inconsistencies in the technical sections of the guidelines.

The ESMA has issued final guidelines on data portability between Trade Repositories (TRs) authorised under the European Market Infrastructure Regulation (EMIR), required for data quality, competition between TRs and for risk monitoring by authorities.

The PDF version of the report, *Guidelines on transfer of data between Trade Repositories* can be accessed through the following link.

Source: ESMA

## ESRB: Recent announcements

The European Systemic Risk Board (ESRB) has published two reports on macroprudential aspects of insurance to strengthen the prudential framework for insurers:

- *Recovery and resolution for the EU insurance sector: a macroprudential perspective* (report), proposing a harmonised recovery and resolution framework for insurers across the EU.
- *Regulatory risk-free yield curve properties and macroprudential consequences* (report), proposing changes to the derivation of the risk-free yield curves used to determine the value of insurers' liabilities under Solvency II.

Source: ESRB

# 4 Overseas developments – UK

## Bank of England: Recent consultations

The Bank of England has released a consultation paper, setting out its proposed policy on the valuation capabilities firms should have in place to support resolvability.

This policy includes principles for the data, information, models, processes, and governance arrangements for which firms are expected to establish, maintain, and demonstrate.

Submissions are due by 17 November 2017.

Source: Bank of England

## PRA: Recent consultations

The Prudential Regulatory Authority (PRA) has released a consultation paper, seeking feedback on its proposals relating to periodic fees for designated investment firms (DIFs), periodic fees and Financial Services Compensation Scheme (FSCS) levies for insurers, and fees in relation to models.

Submissions are due by 24 November 2017.

Source: PRA

4

# Overseas developments – US

## FDIC: Agencies extend the resolution plan filing deadline

The Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC) have extended the resolution plan filing deadline for 19 foreign banking organisations and two large domestic bank holding companies until 31 December 2018. This is to allow an additional year to the firms to address any supervisory guidance in their next plan submissions.

Source: FDIC

## FRB: Recent announcements

The Federal Reserve Board (FRB) is seeking feedback on corporate governance proposal to enhance the effectiveness of boards of directors, in order to ensure that:

- It identifies the attributes of an effective board of directors;
- It clarifies that for all supervised firms, most supervisory findings should be communicated to the firm's senior management for corrective action, rather than to its board of directors; and
- It identifies existing supervisory expectations for boards of directors that could be eliminated or revised.

The FRB has adopted a final rule to enhance financial stability by requiring US global systemically important banking institutions (GSIBs) and the US operations of foreign GSIBs to amend qualified financial contracts to prevent their immediate cancellation or termination when the firm enters bankruptcy or a resolution process.

Source: FRB

## OCC: Recent announcements

The Office of the Comptroller of Currency (OCC) and the FDIC have issued a notice of proposed rulemaking to shorten the standard settlement cycle for securities purchased or sold by national banks, federal savings associations, and FDIC-supervised institutions from “T+3” to “T+2”.

The OCC is seeking feedback on revising the final implementing regulation to better accomplish section 619 of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 (commonly known as the Volcker Rule).

The OCC is seeking feedback to extend the existing transitional capital treatment for certain regulatory capital deductions and risk weights. The extension would apply to banking organisations which are not subject to the advanced approaches to capital rules.

Source: OCC

# 4 Overseas developments – Asia

## Hong Kong: SFC enters into FinTech agreement with DFSA

The Securities and Futures Commission (SFC) and the Dubai Financial Services Authority (DFSA) have signed a FinTech co-operation agreement, aiming to help FinTech companies in Hong Kong and Dubai to expand into each other's markets.

The SFC and the DFSA will cooperate for information sharing and potential innovation projects to establish a framework of mutual assistance.

Source: SFC

## Singapore: Recent announcements

The Monetary Authority of Singapore (MAS) has released a consultation paper, seeking feedback on its proposals to increase the Deposit Insurance (DI) coverage which insures Singapore dollar deposits held at a full bank or finance company in Singapore. The proposed increase is from S$50,000 to S$75,000 per depositor.

The MAS will establish a Payments Council, comprising 20 leaders from banks, payment service providers, businesses, and trade associations for 2 years term to realise the vision of an e-payments society in Singapore. This includes:

- Facilitating the development of seamless payments solutions like PayNow;
- Supporting the introduction and rollout of unified point-of-sale terminals at merchants; and
- Introducing new payments legislation to facilitate innovative payment solutions and safeguard consumer interests .

Source: MAS

# 5 PwC publications

## PwC Australia: 2017 Risk and Compliance Benchmarking Survey

PwC Australia has published a report, summarising the results of the 10th annual survey of what is shaping the Risk and Compliance landscape in Australia. PwC surveyed 52 Australian-based Superannuation Funds and Asset and Wealth Managers as well as numerous executive and non-executive directors and compliance committee members to bring an additional perspective to the survey.

Key findings:

- 40% of CEOs were concerned that the rapidly changing regulatory environment is increasing the risk of their organisation not complying with relevant laws and regulations.
- 1/3 respondents believe the current Australian regulatory model restricts their competitiveness globally.
- 27% of respondents indicated the three lines as defence model to manage risk within their organisations are highly defined.

See publication

## PwC Australia: Banking Matters June quarter snapshot – Steady as she goes?

PwC Australia has released a report summarising the quarterly results and commentary from major banks, showing slow but consistent progress as major banks worked hard to maintain momentum, and offers perspective on how to best implement the Banking Executive Accountability Regime (BEAR).

The BEAR, modelled on the UK's Senior Manager Regime (SMR), aims to provide a greater level of transparency, accountability and hands-on control that will benefit all stakeholders. The six key elements of BEAR include:

- Executive Registration;
- Accountability mapping;
- Review of remuneration;
- Deferral remuneration;
- Sanction for accountable executives; and
- Civil penalties for ADIs.

See publication

## PwC Hong Kong: Asset & wealth management tax highlights – Asia Pacific

PwC Hong Kong provides a roundup of key regulatory activities around the region in the past few months:

- Australia: 2017-2018 Budget announcements; Corporate tax rate reduction passed; Corporate Limited Partnership.
- China: Clarification brought by Circular 56 on the Value Added Tax (VAT) treatment for asset management sector.
- Hong Kong: Hong Kong's AEOI agreements; Updated AEOI guidance for financial institutions on the Inland Revenue Department's website; The Ordinance on tax regime for aircraft leasing gazette.
- Thailand: Thailand has joined the BEPS Inclusive Framework; Clarification on the revocation of exemption from indirect taxes for property funds.

See publication

# 5 PwC publications

## PwC Hong Kong: Navigating the New Margin Requirements HKMA CR-G-14

The Non Cleared derivatives margin rules which were based on the BCBS/IOSCO framework went live for the biggest financial institutions as of September 2016, requiring them to exchange both variation and initial margin collateral for their OTC derivative exposures.

March 2017 saw other derivative users in US, EU and Japan implementing the variation margin requirements whilst most of the Asian regulators, including Hong Kong and Singapore, have allowed for a 6 month roll out period until September 2017.

PwC has issued a report, demonstrating how PwC can help in successfully implementing those regulatory requirements and advise on the future operating model, legal agreement planning, model development and validation and integration with third party providers.

See publication

## PwC Hong Kong: How MiFID II impacts APAC operations

The Markets in Financial Instruments Directive (MiFID II) is a European Union (EU) legislation for investment firms that provide certain services linked to “financial instruments” to improve the functioning of financial markets and strengthen investor protection.

Non-European Economic Area (EEA) institutions will be impacted both, directly by virtue of having a licensed branch in the EEA, and indirectly through dealing with EEA parties, products and trading venues.

The branches of EEA firms operating in non-EEA countries will have to comply with certain MiFID II requirements. It is therefore critical for firms to understand the new rules and implement the necessary changes in time for the 3 January 2018 deadline.

PwC has issued a report, detailing what impact MiFID II will have on APAC operations.

See publication

## PwC Hong Kong: SWIFT Customer Security Program

The Society for Worldwide Interbank Financial Telecommunication (“SWIFT”) has introduced the Customer Security Program (“CSP”), in response to a number of high profile security incidents. The CSP consists of a common set of security controls, in order to foster a more secure financial ecosystem for its SWIFT customers.

SWIFT customers are required to implement all of the mandatory security controls, and complete self-attestation by 1 January 2018 and thereafter on an annual basis.

PwC has issued a report, *SWIFT Customer Security Program*, detailing the key requirements for compliance with SWIFT CSP.

See publication

# 5 PwC publications

## PwC US: Fed's new rating system for large financial institutions

The Federal Reserve (Fed) is seeking feedback on the proposed new supervisory rating system to assess the soundness and safety of Large Financial Institutions (LFIs). Since the financial crisis, this will be the first change to the Fed's supervisory rating system. It aims to simplify and clarify the existing five-component supervisory assessment process by assigning ratings across three pillars: capital, liquidity, and the effectiveness of governance and controls.

PwC US has published a report, bringing out the five key points from the Fed's new rating system for large financial institutions which include

- Doubling down on capital and liquidity;
- All in on governance;
- Simpler rating system, same expectations;
- Reliance on the primary supervisor for depository institutions; and
- Resolution plans on deck.

See publication

## PwC US: Fed's new board expectations guidance

The Fed was seeking feedback on the proposed supervisory guidance for boards of directors of Fed-supervised institutions (i.e., Board Effectiveness (BE) guidance) to consolidate and replace existing board supervisory expectations from 27 SR Letters, which include 170 supervisory expectations for boards, with 33 expectations of effective boards.

PwC US has released a report, highlighting the five key points from the Fed's new board expectations guidance:

- Realigning board expectations;
- Spotlight on board governance;
- Senior management must step up;
- Getting in line with the OCC; and
- Expectations uncertain for foreign banks.

See publication

## PwC US: Sales practices - third-party risk management matters too

Sales practices in the financial services industry have come under increased scrutiny from both regulators and financial institutions since 2016. However, the scope is broadening to include third parties, which have been used over the last decade to help institutions grow revenues, cut costs, and improve the customer experience.

The failure to effectively manage third-party relationships can lead to financial penalties and long-lasting reputational damage. As a result, institutions should take action to enhance their third-party risk management (TPRM) programs to ensure they are effectively managing the unique risks associated with third parties that interact directly with consumers on their behalf in the sales process.

PwC US has published a regulatory brief providing its perspective on (a) key sales practices risk associated with third parties and (b) what institutions should do now.

See publication

# 6 Contacts


## Nicole Salimbeni

Partner
nicole.salimbeni@pwc.com
(02) 8266 1729

## Edwina Star

Partner
edwina.star@pwc.com
(02) 8266 4940

## Sarah Hofman

Partner
sarah.hofman@pwc.com
(02) 8266 2231

## Craig Stafford

Partner
craig.stafford@pwc.com
(02) 8266 3725

**www.pwc.com.au**