

March 2016

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*PwC Regulatory Update*



## 1

# Legislative/Government developments

## FOFA amendments pass the Parliament

Parliament has passed the *Corporations Amendment (Financial Advice Measures) Bill*.

The time for advisers to provide renewal opt-in notices and fee disclosure statements to retail clients will be extended from 30 to 60 days after the clients' renewal notice day. After the Bill is enacted, advisers will have this additional time to properly prepare and assure the quality of these documents and for consumers to make a considered decision.

The Bill also includes a number of other elements to improve the operation of FOFA, namely:

- treats basic insurance products and non-cash payments (such as travel money cards) consistently with other simple financial products;
- clarifies the application of the client-pays and intra-fund advice provisions to ensure they operate as intended; and
- broadens the existing 'education and training' provision to include education and training that relates to the carrying on of a financial services business, allowing education and training on a broader range of topics to be provided.

Source: [Minister for Small Business and Assistant Treasurer](#)

## Financial System Resilience Bill

The Government has introduced to Parliament a Bill to make Australia's financial system more resilient and ensure that financial institutions continue to participate in global capital markets.

*The Financial System Legislation Amendment (Resilience and Collateral Protection) Bill 2016* will ensure that Australian businesses will be ready and able to comply with international margin requirements for non-centrally cleared derivatives, due to be phased in from September 2016.

Institutions are required to provide margin (collateral to cover the costs of default on a trade), which will reduce the potential impact of counterparty default on financial institutions and the broader financial system making it more stable and resilient.

The Bill allows institutions to comply with international requirements and any corresponding prudential standards set by the Australian Prudential Regulation Authority (APRA).

Source: [Minister for Small Business and Assistant Treasurer](#)

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# Legislative/Government developments (cont'd)

## Objective of superannuation

In October 2015, the Government agreed as part of its response to the Financial System Inquiry (FSI) to develop and introduce legislation to enshrine the objective of the superannuation system.

The Government has accepted the recommendation of the FSI that the objective of the superannuation system is to provide income in retirement to substitute or supplement the Age Pension.

The Government has released a [discussion paper](#), *The objective of superannuation*, to seek the views of interested parties on the proposed objective of the superannuation system.

Submissions are due by 11 April 2016.

Source: [Treasury](#)

## Improving transparency in the superannuation industry

The Government has introduced to Parliament a Bill to improve transparency in the superannuation industry.

The Transparency Measures Bill will enhance the quality of information available to superannuation fund members and employers so they can make informed decisions when comparing the performance of funds. These changes will result in superannuation funds being required to develop choice product dashboards for their top ten largest choice investment options, by value.

Superannuation funds will also be required to disclose investments made both directly and through associated entities under the revised portfolio holdings disclosure regime.

Source: [Minister for Small Business and Assistant Treasurer](#)

## Government to open competition in share clearance

The Treasurer has announced a reform package that opens the door to competition in the clearing of cash equities, acting on the recommendations of the Council of Financial Regulators' (CFR) *Review of Competition in Clearing Australian Cash Equities*.

The CFR recommended that:

- The Government be open to competition in clearing of equities and implement legislative changes for safe and effective competition.
- The CFR set out regulatory expectations for ASX conduct while it remains a sole provider, and make legislative changes to allow regulators to enforce the expectations where necessary.
- The ACCC be given power to arbitrate disputes about access to ASX clearing and settlement services.

The Treasurer has also announced a relaxing of ownership restrictions on the ASX, acting upon Recommendation 44 of the FSI.

The Government also recognised the potential benefits of the ASX's investment in distributed ledger technology (Blockchain) for the Australian market.

[ASX welcomed certainty on market structure for equities clearing and change in ownership restrictions](#)

Source: [Treasury](#)

## 1

# Legislative/Government developments (cont'd)

## Supporting Australia's FinTech future

The Government has released its [statement](#) on Australia's FinTech future recognising that FinTech is transforming our financial system and our economy. The Government is working closely with its new FinTech advisory group and the FinTech Australia association to develop several new measures to support the FinTech industry.

The Government's actions to support the FinTech industry include:

- ensuring access to concessional tax treatment for venture capital investments in start-up FinTech firms
- commissioning the Productivity Commission to outline options to increase data availability and access to facilitate new products and better consumer outcomes
- taking action to address the 'double GST' treatment of digital currencies.

The Government will work with the FinTech industry on further reforms to:

- allow all companies regardless of assets and turnover to be eligible for Equity Crowdfunding
- remove cooling off periods and allow platforms to use their discretion to cancel an investment for legitimate reasons
- review Australian Market Licence (AML) requirements for crowdfunding intermediaries.

The Government has announced together with ASIC, the release of new guidance notes for 'robo-advice', or digital financial product advice. The Government is also working with ASIC on the development of a 'regulatory sandbox' for Australian FinTech.

Source: [Treasury](#)

## Indonesia-Australia Comprehensive Economic Partnership Agreement

The Government has announced the re-activation of negotiations towards a free trade agreement with Indonesia.

The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) will launch a new era of closer economic engagement between Australia and Indonesia.

Joint [Statement](#) of Intention on IA-CEPA will drive the negotiations forward.

The Government has also announced the re-activation of the Indonesia-Australia Business Partnership Group (IA-BPG) to ramp up business links. The IA-BPG is a forum for business groups to work together to make joint recommendations. It will drive sectoral initiatives and identify fresh ideas to inform our negotiations.

The Chief Negotiators will meet in May and again in June to receive a report from the IA-BPG on their priorities for the negotiations.

Source: [Minister for Trade and Investment](#)

## 2

# What have the regulators been up to?

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### APRA releases consultation package on Net Stable Funding Ratio

APRA has released a [discussion paper](#), *Basel III liquidity - the net stable funding ratio and the liquid assets requirement for foreign ADIs*, seeking feedback on its proposed implementation of the Net Stable Funding Ratio (NSFR). It is proposed that the new standard would come into effect from 1 January 2018, consistent with the international timetable agreed by the Basel Committee on Banking Supervision (BCBS).

APRA's objective in implementing the NSFR in combination with the Liquidity Coverage Ratio (LCR) implemented in 2015, is to strengthen the resilience of ADIs. The NSFR encourages ADIs to fund their activities with more stable sources of funding on an ongoing basis, and thereby promotes greater balance sheet resilience. APRA is proposing that the NSFR will only be applied to larger, more complex ADIs.

The discussion paper also sets out proposals for the future application of a liquid assets requirement for foreign bank branches that are currently subject to a concessionary 40% LCR requirement. APRA is consulting on two options: (i) the continuation of the existing regime or (ii) replacing the existing regime with a simple metric that would require foreign bank branches to hold specified liquid assets equal to at least 9% of external liabilities.

Submissions are due by 31 May 2016.

See [media release](#)

### Speech: Opening statement to the House of Representatives Standing Committee on Economics

Wayne Byres, Chairman of APRA, addressed the House of Representatives Standing Committee on Economics. The speech focused on APRA's agenda for 2016, which is heavily influenced by the recommendations of the Financial System Inquiry (FSI).

He highlighted some pieces of work underway in relation to securitisation and bank funding:

- consulting on proposals for a simpler regulatory framework for securitisation
- commence formal consultation on the implementation of the Net Stable Funding Ratio (NSFR).

He noted that in relation to superannuation, there are three areas that will receive particular emphasis in 2016:

- robustness of strategic and business planning being undertaken by boards
- board appointment, renewal and performance assessment processes to highlight areas of improvement
- conflicts management which identified oversight of related party arrangements as a particular area of weakness in superannuation industry practices.

He also discussed a couple of issues of note in the insurance sector. He concluded his speech discussing about culture. APRA instituted a new standard that introduced an explicit requirement on Boards to form a view about the risk culture of their institutions, assess whether it was consistent with their strategy and risk appetite, and if needed, ensure something was done about it.

The full speech can be found [here](#).

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### Speech: The art of supervision – culture, rugby and regulation

Geoff Summerhayes, member of APRA, addressed the Insurance Council of Australia Annual Forum at Sydney. He started his speech by highlighting the APRA's mandate and approach. APRA uses both regulation and supervision to achieve its objectives.

APRA supervisors seek to ensure that regulatory requirements are met, but they also focus upon whether the regulated entities are operating soundly, that is with a reasonable business strategy, robust governance and risk management arrangements and adequate capital.

He concluded his speech discussing his intended approach to industry engagement. At APRA, there is a huge effort put into the supervisory approach. However, there is room for improvement both in what is done and how it is communicated. One of the stated objectives in the published Corporate Plan is to improve transparency and accountability.

His area of focus will be on leadership capability and culture especially as it relates to the core function of supervision. They need to ensure they continue to question and challenge in a constructive manner that is insightful and relevant to their aligned interests of financial safety and sustainability both now and into the future.

The full speech can be found [here](#).

### Speech: A prudential approach to mortgage lending

Heidi Richards, General Manager of ARPA, addressed the Macquarie University Financial Risk Day at Sydney. She discussed how prudential supervision can potentially affect lending cycle dynamics in the housing market. She also covered some of the work APRA has done specifically on mortgage lending standards.

Since 2008, APRA has collected data on loan-to-valuation ratio (LVR) for new housing loans, and APRA supervisors closely monitor their trends. LVRs are also a parameter used in ADI capital requirements.

The most recent element of their program to intensify supervisory oversight of mortgage lending is a series of deep dives into ADIs' methodologies to calculate the borrower's capacity to repay. APRA is taking a hard look at loans approved outside serviceability policy.

She concluded by stating that APRA's deep dive into lending standards has accompanied a significant change of practice by ADIs throughout 2015. ADIs have made tangible progress in meeting APRA's expectations in this area, although there is still further work to be done.

Debt serviceability assessments are now both more prudent and more consistent across ADIs than they were in recent times. They are now considering how to embed the learnings from this process into APRA's prudential framework, so that they can rely more on lenders to enforce prudent standards even in the face of competitive pressures and the push and pull that characterise lending cycles.

The full speech can be found [here](#).

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### APRA Insight Issue 1 2016

APRA *Insight* provides information on APRA's main policy initiatives and on key developments in the financial industries that APRA supervises. This issue discussed the following topics:

- APRA has intensified its scrutiny of the mortgage lending practices and risk profiles of Australian authorised deposit-taking institutions (ADIs) over the past few years. Over the course of 2015 and into 2016, APRA has been closely monitoring ADI lending portfolios, including against the stated benchmarks.
- The article discussed the industry structure and financial position, financial performance and challenges faced by the private health insurance industry.
- APRA expects to release several policy consultation packages over 2016. These will primarily affect ADIs and the superannuation industry. The consultations will reflect both domestic policy initiatives and, for ADIs, the implementation of internationally-agreed reforms. Insurers will chiefly be impacted by a limited number of cross-industry policy proposals, as well as a review of the role of actuaries.
- RSE licensees that offer MySuper products are expected to promote the financial interests of the members who hold the product, and to determine annually whether those members are disadvantaged in comparison to members who hold MySuper products within other funds. This article focuses on attributes such as return targets, level of investment risk and asset allocation, and how these vary across different MySuper products.

See [Insight Issue](#)

### Letter: Final condition report - actuarial and related matters

APRA has written a letter to Chief Executive Officers and Appointed Actuaries of General Insurers in relation to financial condition report under Prudential Standard GPS 320 Actuarial and Related Matters (GPS 320).

APRA has made changes to the due date of the financial condition report (FCR) required under GPS 320. The change required a general insurer to submit the FCR within three months, rather than four months, of its financial year end.

APRA intends to release a consultation paper during the first half of 2016 on the role of the Appointed Actuary. APRA has extended the commencement of the three months due date until such time as the amendments to GPS 320 are finalised.

This adjustment does not affect or amend any other prudential requirements of insurers.

See [letter](#)

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### Letter: Superannuation reporting information

APRA has written a letter to all RSE licensees in relation to superannuation reporting information. The letter outlines a number of matters to assist RSE licensees report superannuation data to APRA. These are:

- New and amended reporting standards effective 1 July 2016.
- Audited annual returns are due three months after the end of the annual reporting period for reporting periods ending on or after 1 July 2015. For quarterly reporting periods ending on or after 1 July 2017, returns are due 28 days from the end of the reporting period, compared with the current extension to 35 days.
- They are required to report their select investment options (SIOs) in the SRF 001.0 Profile and Structures (Baseline) form (SRF 001.0) due on 28 July 2016.
- An RSE which has ceased business operations may still be required to report to APRA until the wind-up has been completed.
- Australian Accounting Standard AASB 1056 Superannuation Entities supersedes AAS 25 Financial Reporting by Superannuation Plans for annual reporting periods beginning on or after 1 July 2016.
- RSE licensee is to use pre-fill in SRF 520.0 Responsible Persons Information form.
- RSE licensee should advise APRA of any changes to their statistics contacts or prudential contacts.
- APRA publishes frequently asked questions to assist in meeting reporting obligations.

See [letter](#)

### Letter to ADIs: Reporting housing loans data to APRA

APRA has written a letter to ADIs in relation to reporting housing loans data to APRA, providing guidance to assist ADIs to report these data to APRA consistently and accurately.

APRA uses these data for supervision and publication. The data are also used by the RBA and the ABS.

Appendix 1 of this letter provides guidance on reporting investment and owner-occupied housing loans on the following reporting forms:

- ARF 320.0 Statement of Financial Position (banks)
- ARF 323.0 Statement of Financial Position (Credit Unions and Building Societies)
- ARF 320.8 Housing Loan Reconciliation (ADIs)
- ARF 392 series Housing Finance (ADIs)
- ARF 394 series Personal Finance (ADIs)
- ARF 220.0 Impaired Assets (Banks).

See [letter](#)

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### ASIC issues guidance on marketplace lending

ASIC has released guidance to assist providers of marketplace lending products and others providing financial services in connection with these products. The information sheet ([INFO 213](#)) includes:

- what is marketplace lending?
- key risks involved in providing marketplace lending products
- key obligations that may apply to marketplace lending business models and applications for relief
- advertising of marketplace lending products
- good practice examples.

Fintech start-ups looking to provide marketplace lending are encouraged to use this information sheet to help them understand current regulatory requirements. ASIC also encourages fintech start-ups to apply for help from the Innovation Hub, if they meet eligibility criteria.

See [media release](#)

### ASIC consults on proposed guidance about 'robo-advice'

ASIC has released a [consultation paper](#), *Regulating digital financial advice* and a [draft Regulatory Guide](#), *Providing digital financial product advice to retail clients* on regulating digital financial product advice (robo-advice).

The ASIC has developed draft guidance on the provision of digital product advice to retail clients. This guidance follows direct engagement with digital advice providers about their business models.

ASIC's draft regulatory guide brings together some of the issues that persons providing, or intending to provide, digital advice to retail clients need to consider when operating in Australia—from the licensing stage through to the actual provision of advice.

ASIC is seeking feedback on issues that are unique to digital advice businesses, in particular:

- the organisational competence obligation that applies in a digital advice context
- the ways in which digital advice licensees should monitor and test their algorithms.

Submissions are due by 16 May 2016.

See [media release](#)

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### ASIC calls for further improvements from home insurers

ASIC is calling for further improvements across the sector to help consumers make good decisions about their home insurance cover, following a survey of 23 home insurance brands covering 12 insurers.

ASIC's survey identified that there is scope for insurers to take additional steps. They would like insurers to help consumers select the right insurance cover by:

- explaining that the sum insured amount needs to enable complete replacement of contents or complete rebuilding of their home
- providing guidance about coverage or sum insured amounts, rather than simply referring consumers to the product disclosure statement
- referring to the key facts sheet to assist decision making
- providing information and guidance about natural perils risks and additional rebuilding costs due to natural perils, to better estimate rebuilding costs after a total loss.

See [media release](#)

### ASIC reports on cyber resilience

ASIC has released its first assessment report on the *cyber resilience of ASX and Chi-X* ([REP 468](#)). The report highlighted emerging good practices being implemented by a wider sample of organisations within the financial sector.

The report provides a point-in-time snapshot of the current state of cyber resilience of this wider group and identified some consistent and encouraging practices in the organisations assessed; however, a consistent industry-wide approach is required to address developing cyber threats.

The report calls on the wider financial services sector to recognise the growing threat to cyber security, and to refine systems and processes to prevent and address critical issues.

Key areas identified in the report for organisations to focus on include comprehensive and ongoing board engagement and responsive governance practices that are clearly aligned with an organisation's wider strategy.

The report calls for senior management of organisations to closely manage cyber risk from both internal and third-party sources, establish robust collaboration and information-sharing networks to access the best defensive intelligence and technology, and implement thorough cyber awareness training programs.

The report concludes that ASX and Chi-X have met their statutory obligations to have sufficient resources for the management of cyber resilience.

See [media release](#)

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### ASIC facilitates easier electronic disclosure under the ePayments Code

ASIC has announced changes to the [ePayments Code](#) that will make it easier for businesses to give information to their customers in a digital form. Under the changes, subscribers to the ePayments Code will be able to give information to their customers by making it available electronically and notifying the consumer.

ASIC has also released an updated version of Regulatory Guide 221 *Facilitating digital financial services disclosure* ([RG 221](#)). This is a guide for financial services providers that use (or plan to use) technology, including email and the internet, to deliver financial product and financial services disclosures to clients.

See [media release](#)

### Speech: Culture shock

Greg Medcraft, Chairman of ASIC, addressed the ASIC Annual Forum 2016 at Sydney. The main points of the speech are as follows:

- He started by sharing his thoughts on 'Culture Shock' and what this means to him. He wanted to consider the pace of technological change – the 'shock' factor – and what this means for culture.
- He discussed what innovation and digital disruption mean for ASIC and how ASIC is responding to digital disruption through Innovation Hub, and its work on cyber resilience.
- He also outlined why culture matters for regulators and business, and why it is especially important when we consider the impact of digital disruption.

The full speech can be found [here](#).

### Speech: Regulatory update to general insurance industry 2016

Peter Kell, Commissioner of ASIC, addressed the Insurance Council of Australia Annual Forum 2016 at Sydney. His speech comprised of the following points:

- He discussed recent regulatory and industry developments. The Government released its response to the FSI report. The Government is currently consulting on the introduction of an industry funding model for ASIC, in a similar manner to the model that APRA already operates under.
- He highlighted that ASIC has joined the International Association of Insurance Supervisors (IAIS) and the reason behind joining IAIS.
- He shared ASIC's recent work on general insurance in which he focused on misleading advertising, the sale of inappropriate products, and disclosure improvements.
- He highlighted the work that ASIC is doing on add-on insurance. ASIC has released two reports about ASIC's work in this area focusing on the sale of insurance by car dealers. One report focuses on consumer experiences purchasing add-on insurance. The other is ASIC's review of the sale of life insurance sold through car dealers. This will now be followed by a review of general insurance sold via car dealers.

The full speech can be found [here](#).

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### ASIC remakes class orders on payments and superannuation

ASIC has issued a new legislative instrument, [ASIC Corporations \(Non-cash Payment Facilities\) Instrument 2016/211](#), to temporarily replace seven class orders relating to non-cash payment facilities, due to expire between 1 April 2016 and 1 April 2017. The instrument continues existing exemptions from the normal obligations for the following classes of payment products:

- travellers' cheques
- loyalty schemes and road toll facilities
- prepaid mobile facilities and some non-reloadable gift facilities
- low value payments products.

ASIC has issued two legislative instruments that relate to superannuation:

- [ASIC Corporations \(Superannuation: Accrued Default Amount and Intra-fund Transfers\) Instrument 2016/64](#). This instrument provides relief from the application form and cooling-off requirements to a superannuation trustee for all transfers of an accrued default amount to a MySuper product and intra-fund transfers. The instrument extends the scope of the previous relief to cover all transfers of an accrued default amount to a MySuper product.
- [ASIC Corporations \(Superannuation: Investment Strategies\) Instrument 2016/65](#). This instrument deals with delivery of product disclosure for investment strategies.

See [media release](#) related to remaking of payments class orders and [media release](#) related to remaking of superannuation class orders

### ASIC consults on remaking ASIC class orders on financial services disclosure and trustee company common fund

ASIC has released a [consultation paper](#), *Remaking ASIC class orders on financial services disclosure requirements*, seeking feedback to remake the following class orders relating to specific financial services disclosure requirements, due to expire on 1 April 2017:

- class order [[CO 02/1072](#)] Product Disclosure Statements: Top-up relief for managed investment schemes
- class order [[CO 07/10](#)] Technical disclosure relief for reconstructions and capital reductions (paragraph 9)
- class order [[CO 03/237](#)] Updated information in Product Disclosure Statements
- class order [[CO 03/1092](#)] Further relief for joint Product Disclosure Statements.

Submissions are due by 26 April 2016.

ASIC has released a [consultation paper](#), *Remaking and repealing ASIC class orders on trustee company common funds*, seeking feedback to:

- remake class order [[CO 04/1063](#)] Section 981B money in cash common funds, due to expire on 1 April 2017
- repeal class order [[CO 00/199](#)] Trustee companies' common funds, due to expire on 1 October 2016.

Submissions are due by 27 April 2016.

See [media release](#) related to remaking of financial services disclosure class orders and [media release](#) related to remaking of trustee company common fund class orders

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### ASIC releases consolidated instruments and guidance on fundraising

ASIC has remade fundraising class orders that were due to expire, updated and consolidated its fundraising regulatory guidance, and issued two new legislative instruments aimed at helping reduce business costs, following public consultation ([CP 239](#)):

- ASIC Corporations (Minimum Subscription and Quotation Conditions) Instrument [2016/70](#)
- ASIC Corporations (Regulatory Capital Securities) Instrument [2016/71](#)
- ASIC Corporations (Consents to Statements) Instrument [2016/72](#)
- ASIC Corporations (Disregarding Technical Relief) Instrument [2016/73](#)
- ASIC Corporations (Exposure Period) Instrument [2016/74](#)
- ASIC Corporations (Debenture Prospectuses) Instrument [2016/75](#)
- ASIC Corporations (Offer Information Statements) Instrument [2016/76](#)
- ASIC Corporations (Options: Bonus Issues) Instrument [2016/77](#)
- ASIC Corporations (Substituted Supplementary Disclosure Documents) Instrument [2016/78](#)
- ASIC Corporations (Market Research and Roadshows) Instrument [2016/79](#)
- ASIC Corporations (Sale Offers That Do Not Need Disclosure) Instrument [2016/80](#)
- ASIC Corporations (Sale Offers By Controllers) Instrument [2016/81](#)
- ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument [2016/82](#)
- ASIC Corporations (Offers of Convertibles) Instrument [2016/83](#)
- ASIC Corporations (Non-Traditional Rights Issues) Instrument [2016/84](#)

ASIC has also released *Response to submissions on CP 239 Disclosure documents: Update to ASIC instruments and guidance (Report 473)*.

ASIC has updated the following regulatory guides:

- [Regulatory Guide 254](#): This guide is for issuers who are required to prepare and lodge a disclosure document under Chapter 6D of the *Corporations Act 2001 (Act)*.
- [Regulatory Guide 55](#): This guide explains how ASIC administers the requirement under s716(2) and 1013K(1) of the Act for an issuer to obtain consent before citing a person in a disclosure document or PDS.
- [Regulatory Guide 173](#): It outlines the circumstances in which relief will be provided from the disclosure requirements under the Act for the on-sale of securities and other financial products.
- [Regulatory Guide 189](#): This is a guide for listed companies and managed investment schemes (and their advisers) about rights issues and the disclosure exemption in s708AA and 1012DAA of the Act.
- [Regulatory Guide 228](#): This guide is for issuers and advisers on how to word and present prospectuses and other documents in a 'clear, concise and effective' manner.

See [media release](#)

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### Report: Culture, conduct and conflicts of interest in vertically integrated businesses in the funds-management industry

ASIC has released a report, *Culture, conduct and conflicts of interest in vertically integrated businesses in the funds-management industry* ([REP 474](#)).

In 2014 and 2015, ASIC conducted a review of the management of conflicts of interest in a number of diverse funds-management businesses that may be characterised as ‘vertically integrated’ covering the period from 1 July 2013 to 30 September 2015. By ‘vertically integrated’ ASIC means businesses whose operations include at least two of the following functions: investment management; acting as a responsible entity or wholesale trustee; acting as a trustee of a registrable superannuation entity; operating a platform (e.g. investor directed portfolio services (IDPS) or IDPS-like structure; and acting as custodian, which may also include an investment administration (back-office) function.

ASIC’s review found that in general, financial services organisations demonstrated a commitment to maintaining and reviewing policies and information barriers, with some focus on training. However, ASIC found that on matters of outsourcing, product selection, remuneration and board membership, there may be areas where financial services organisations could better demonstrate a commitment to managing and where appropriate, avoiding conflicts of interest.

See [media release](#)

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### ASX consults on ETO cancellation policy

ASX has released a [consultation paper](#), *ETO Cancellation Policy*, seeking feedback from all Exchange Traded Options (ETO) users on time limits participants have to notify ASX of errors and the possible introduction of a significant size threshold for an error to be considered as extreme.

Submissions are due by 29 April 2016.

See [media release](#)

### ASX consults on settlement non-business days

ASX has released a [consultation paper](#), *ASX Settlement Non-Business Days*, seeking feedback in relation to the method used to determine ASX Settlement 'non-business' days whereby ASX is inclined to align its methodology with the RBA's Reserve Bank Information and Transfer System (RITS) availability. The practical impact of such a change would see a small reduction in the number of ASX Settlement Non-Business days.

ASX considers that changing the basis for determining ASX settlement non-business days will provide a higher standard of settlement availability, alignment with other payment systems and greater flexibility to ASX participants and financial institutions when making decisions on funding liquidity and risk management.

See [media release](#)

### T+2 settlement begins in Australia

Share market trades conducted from 7 March 2016 in Australia settled one business day earlier – two days after the trading day, known as T+2.

Reducing the settlement period from T+3 creates capital and margin savings for industry, and a faster settlement of transactions for investors, meaning they receive their cash or securities sooner. It also lowers systemic risk for the market as a whole by reducing counterparty risk for individual investors, participants and the clearing house. The move to T+2 keeps Australia aligned with global best practice.

The Australian Financial Markets Association (AFMA) moved to T+2 settlement for Australian fixed income products on 7 March 2016, creating consistency between the cash and debt markets.

See [media release](#)

## 2

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

## APRA

Australian Prudential  
Regulation Authority

## ASIC

Australian Securities and  
Investments Commission

## ASX

Australian Securities  
Exchange

## AUSTRAC

Australian Transaction  
Reports and Analysis  
Centre

## CFR

Council of Financial  
Regulators

## RBA

Reserve Bank of Australia

### AUSTRAC releases new guidance for Remittance Network Providers on the renewal of affiliates

AUSTRAC has released new [guidance](#) for Remittance Network Providers (RNPs) on the renewal of affiliates. This guide shows the step-by-step process needed to renew RNP's affiliates in the AUSTRAC Online system.

Remittance Sector Register registrations are valid for three years from the date of registration unless they are removed, suspended or cancelled.

RNPs can apply up to 90 days before the expiry date of the affiliate's registration. As long as an application for renewal of the affiliate's registration is submitted before the expiry date, the affiliate's registration will continue until the AUSTRAC CEO decides to renew or refuse to renew.

If an RNP does not submit an application for an affiliate's renewal before the expiry date:

- the affiliate's registration will cease on the expiry date
- the affiliate will be removed from the Remittance Sector Register
- the affiliate will not be permitted to continue to provide remittance services.

See [media release](#)

### AUSTRAC consults on margining and risk mitigation requirements for non-centrally cleared derivatives

AUSTRAC has released draft [amendments](#) to Chapter 38 of the AML/CTF Rules (Sale of shares for charitable purposes), increasing the threshold for the disposal of parcels of shares from \$500 to \$10,000. It is considered that this threshold will encourage donations of higher monetary value while not increasing money-laundering and terrorism-financing risk.

See [media release](#)

## 2

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

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Reports and Analysis  
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## CFR

Council of Financial  
Regulators

## RBA

Reserve Bank of Australia

### CFR consults on financial benchmarks regulatory reform

CFR has released a [consultation paper](#), *Financial Benchmarks Regulatory Reform*, seeking feedback on regulatory reform proposals relating to the administration of significant financial benchmarks (benchmarks), submission to significant benchmarks, and offences applying to benchmark misconduct.

Benchmarks are indices or indicators used as reference prices for financial instruments or contracts, or to measure the performance of investment funds.

The proposals are guided by the IOSCO Principles for Financial Benchmarks and by the recommendations of the Financial Stability Board with regards to FX benchmarks and interest rate benchmarks. They are also informed by reforms proposed or implemented in foreign jurisdictions.

Submissions are due by 29 April 2016.

See [media release](#)

## 2

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

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## RBA

Reserve Bank of Australia

### Speech: Remarks to ASIC Annual Forum 2016

Glenn Stevens, Governor of RBA addressed the ASIC Annual Forum 2016. He started the speech by asking a high-level question 'how do we withstand shocks?'. He then breaks this down into two parts for consideration: 'what shocks are we grappling with at present?'; and 'how do we assess our capacity to cope with those, or worse?'.

The speech notes several recent developments. The first is the decline in commodity prices. The speech then notes the reduced global growth outlook for 2016. A third theme is a degree of policy uncertainty on several fronts as policymakers seek to generate sustainable growth in difficult circumstances.

Moving on to the question of resilience, the speech notes that banking systems are better capitalised and more liquid, and hence more resilient. They are less likely to be an amplifier of shocks than they were in the past.

The speech points to evidence that the Australian economy was picking up during 2015, a good starting point for any future shock. It indicates that macroeconomic policy would have scope to respond to significant negative events, should they occur.

The speech emphasises that banks have been improving asset quality, adding capital and strengthening their funding structures. It notes that all this has been supported by coordinated action by the financial regulators. The speech highlights one potential point of caution, in relation to the recent rapid expansion of foreign banks in the Australian business lending market.

The full speech can be found [here](#)

### Speech: Booms, Busts, Cycles and Risk Appetite

Luci Ellis, Head of Financial Stability Department of RBA addressed the Financial Risk Day 2016 Conference at Sydney. She made some observations about the risk appetite of society, and the environment that creates those risks. She stated that it seemed that Australia, as a society, chooses more safety than the average industrialised country does across a wide range of domains.

The Australian (and Canadian) experience does suggest that policy and institutional settings can make the episodes of distress less frequent and less painful. That experience sits against some of the assumptions about and implicit models of financial boom–bust dynamics that shape the international debate on financial stability policy.

She discussed where the boom–bust come from and how we can choose more safety. She concluded her speech by stating that Australia chooses more financial safety than some other countries. This has implications not only for how policy should be designed and conducted together, but for how we conduct ourselves. We will never eliminate risk, nor would we want to, but we can get the balance between risk and safety by making the right choices on a range of fronts and at different levels, from individual to national.

The full speech can be found [here](#).

## 2

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

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## RBA

Reserve Bank of Australia

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

Guy Debelle, Assistant Governor (Financial Markets) of RBA addressed the FX Week Australia conference. He talked about the Global Code of Conduct for the Foreign exchange market, RBA's motivation behind the work being done, updates on where RBA is at with the process and outlined the way forward.

The work to develop the Global Code commenced in May last year, when the Bank for International Settlements (BIS) Governors commissioned a working group of the Markets Committee of the BIS to facilitate the establishment of a single global code of conduct for the wholesale FX market and to come up with mechanisms to promote greater adherence to the code.

The second draft of phase one of the Code was circulated in March via the various FX C including the Australian FXC (and central banks in those countries on the Working Group without FXC). The intention is to release the complete Code following the Global Foreign Exchange Committee meeting in London in May 2017.

He concluded his speech by stating that the work to date has reflected a very constructive and cooperative effort between the central banks and market participants. Everyone recognise the need to restore the public's faith in the foreign exchange market and the value of the Global Code in assisting that process and also in helping improve market functioning and confidence in how the market functions. He expected that cooperative relationship will continue as this process concludes in May next year.

The full speech can be found [here](#)

### Bilateral Local Currency Swap Agreement with the Bank of Japan

RBA has signed a bilateral local currency swap agreement with the Bank of Japan, effective from 18 March 2016. This agreement is designed to enhance the financial stability of the two countries, allowing for the exchange of local currencies between the two central banks of up to AUD 20 billion or JPY 1.6 trillion. The effective period of the facility will be until 17 March 2019.

See [media release](#)

### Article: Developments in Banks' Funding Costs and Lending Rates

RBA has released an article "Developments in Banks' Funding Costs and Lending Rates" as part of its March Quarter 2016 bulletin. This article updates previous Reserve Bank research on how developments in the composition and pricing of banks' funding have affected their overall cost of funds and influenced lending rates. Major banks' outstanding funding costs fell notably in 2015, following two reductions in the cash rate.

The spread between the major banks' outstanding funding costs and the cash rate also narrowed over 2015. This was due to lower costs of deposits and a more favourable mix of deposit funding, as well as lower wholesale funding costs. Lending rates declined in the first half of 2015, reflecting changes in the cash rate and competition for lending, before lending rates increased for housing in the second half of the year; business lending rates are at historically low levels.

See [article](#)

# 3

## *Industry bodies*

### AFMA

Australian Financial  
Markets Association .

### ARCA

Australian Retail Credit  
Association

### ASFA

Association of  
Superannuation Funds  
of Australia

### COBA

Customer Owned Banking  
Association

### FSC

Financial Services Council

#### **AFMA responds to announcement on competition in cash equities clearing**

AFMA welcomed the Government's announcement on competition in cash equities clearing. Government policy for competition in cash equities clearing must promote secure and effective markets for all participants, so they are competitive, efficient and reasonably priced for users.

According to AFMA, this will enable competition to occur in the future and will provide regulatory mechanisms to ensure the broader market interests are protected while there is an effective monopoly in clearing.

See [media release](#)

# 3

## *Industry bodies (cont'd)*

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#### **Industry supports Federal Government's approach that CCR is a vital part of Australia's economic infrastructure**

The Federal Government has acknowledged that Comprehensive Credit Reporting (CCR) is a vital part of Australia's economic infrastructure. More comprehensive information sharing will increase the availability and affordability of credit to borrowers and allows lenders to make better credit risk decisions.

The Productivity Commission has been tasked with providing recommendations to encourage the utilisation of CCR.

The industry developed framework for CCR is called the Principles of Reciprocity and Data Exchange (PRDE). The PRDE is a set of principles that create the framework for the reciprocal sharing of comprehensive credit data.

Industry has spent over a year developing the data sharing framework and an additional year working through an Australian Competition and Consumer Commission (ACCC) authorisation process. The ACCC authorised the PRDE for operation on 25 December 2015. Since authorisation, a number of organisations have become signatories and several more are working through the final stages of preparing to become a signatory.

See [media release](#)

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#### **Government to enshrine the objectives of superannuation**

ASFA has welcomed the release by the government of a discussion paper and consultation process to enshrine the objectives of the superannuation system in legislation.

Pauline Vamos, ASFA's CEO said that the government's commitment to defining the objectives of superannuation and enshrining this in legislation will provide an enduring reference point to guide future decision making by all policy makers. Agreeing and adhering to objectives will increase confidence, lead to greater levels of equity, and improve retirement outcomes for all Australians by reducing the politics in policy making.

According to ASFA, the purpose of the system as outlined by the government in its discussion paper —to provide income in retirement to substitute or supplement the Age Pension—is a worthy objective. ASFA believes the system is already well on its way to meeting this purpose as well as many of the supporting principles. The current tax concessions supporting the system are sustainable, and superannuation takes substantial pressure off the Age Pension. ASFA estimates that government expenditure on the Age Pension will remain under 3% of the gross domestic product for the foreseeable future.

See [media release](#)

# 3

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Financial Services Council

#### **Report underlines need for co-operative approach**

According to COBA, the Senate Economics References Committee report into co-operatives, mutuals and member owned firms has delivered a blueprint for policymakers to embrace a business model where customer interests are not in conflict with shareholder interests.

COBA particularly welcomed the report's recommendations on regulatory capital for customer-owned banking institutions and for the customer-owned model to be explicitly considered in Regulatory Impact Statements on new policies.

The report provides a valuable snapshot of the sector, identifies barriers to growth, innovation and competition, and focuses on the key issue of access to capital.

The Committee has recommended a list of measures to raise the profile of the sector and to increase awareness by policymakers and other stakeholders about the need to accommodate the model.

See [media release](#)

# 3

## Industry bodies (cont'd)

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Financial Services Council

#### FSC Life Insurance Conference

Sally Loane, CEO of the FSC, addressed the FSC Life Insurance Conference. She started her speech by highlighting that the industry has undergone unprecedented change and also a lot of scrutiny. She provided details on the package of reforms:

- The *Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016* considerably reduces high up-front commissions. It seeks to improve the quality of advice consumers receive by regulating conflicted remuneration while at the same time recognising the value of advice and the important role of advisers and life insurance advice.
- In a Bill expected to be introduced this year, financial advisers will be required to hold a degree, undertake a professional year, pass an exam, undertake continuous professional development and comply with a Code of Ethics. These are positive reforms which will raise the standards required of financial advisers and support quality of advice outcomes.
- The industry is currently undertaking work to widen Approved Product Lists through the development of a new industry standard.
- ASIC will also be undertaking a review of Statements of Advice with a focus on life insurance in the second half of 2016, to make disclosure simpler and more effective for consumers.
- The FSC is committed to having a Life Insurance Code of Practice in place by 1 July 2016. The Code contains binding obligations that life insurers owe to consumers. It aims to commit insurers to high standards of customer service, and to improve trust and confidence in the industry.

The full speech can be found [here](#)

#### Life Insurance Code of Practice is well underway

The life insurance industry's response to the 2015 Trowbridge review of the sector included a commitment by the FSC to having a Life Insurance Code of Practice in place by 1 July 2016. The Code will commit life insurers to strong standards of customer service, and will enhance consumer protections in the key areas of underwriting and claims.

The development of industry self-regulation is common across financial services, with the general insurance, banking, customer-owned banking and insurance broking industries all operating similar processes to develop their own codes of practice

The Code will be supported by an independent governance framework ensuring effective Code compliance, which is common practice.

See [media release](#)

#### Life Insurance Code of Practice will be strengthened

The FSC has taken action to ensure consumer protections in life insurance will be significantly strengthened in light of recent industry issues.

The FSC has added a Steering Group to the Code development process which will include consumer representatives, the Financial Rights Legal Centre and the Consumer Action Law Centre, as well as senior life insurance executives. The consumer representatives will work closely with members to identify where there is a need to strengthening consumer protections in the Code.

See [media release](#)

# 3

## *Industry bodies (cont'd)*

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Association

### FSC

Financial Services Council

#### **FSC welcomes commitment to enshrine objective of super in legislation**

The FSC welcomed the Government's commitment to enshrine the objective of superannuation in legislation as recommended by the FSI.

Sally Loane, CEO of the FSC, said that a clearly defined objective for superannuation would strengthen confidence in stable, long-term settings for inter-generational public policy.

In conjunction with the FSI's recommendations to raise standards of governance and promote competition in the superannuation system, defining the objective of the system is central to developing a mature superannuation sector that delivers the best outcomes for consumers.

See [media release](#)

#### **Choice of super fund currently before the parliament**

The Government has introduced the *Superannuation Legislation Amendment (Choice of Fund) Bill 2016*, which gives effect to the FSI's recommendation to remove the closed shop arrangements where enterprise agreements prevent an estimated two million employees from choosing their own fund.

These reforms are an important step to allow all APRA approved MySuper funds to compete on a level playing field for superannuation consumers.

See [media release](#)

## 4

# Overseas developments – Global

## BCBS: Consults on revisions to the Pillar 3 disclosure framework

The Basel Committee on Banking Supervision (BCBS) has released a [consultation paper](#), *Pillar 3 disclosure requirements - consolidated and enhanced framework*. Pillar 3 of the Basel framework seeks to promote market discipline through regulatory disclosure requirements. The proposed enhancements include:

- the addition of a "dashboard" of key metrics
- a draft disclosure requirement of hypothetical risk-weighted assets calculated based on the Basel framework's standardised approaches
- enhanced granularity for disclosure of prudent valuation adjustments.

The proposal also incorporate additions to the Pillar 3 framework to reflect ongoing reforms to the regulatory framework.

Submissions are due by 10 June 2016.

Source: [BIS](#)

## BCBS: Issues proposed revisions to the operational risk capital framework

BCBS has released an updated [consultation paper](#), *Standardised Measurement Approach (SMA) for operational risk*, seeking feedback on proposed revisions to the operational risk capital framework. The SMA addresses a number of weaknesses in the current framework. In particular:

- The SMA will replace the three existing standardised approaches for calculating operational risk capital.
- The revised methodology combines a financial statement-based measure of operational risk - the "Business Indicator" (BI) - with an individual firm's past operational losses.
- The option to use an internal model-based approach for measuring operational risk - the "Advanced Measurement Approaches" (AMA) - has been removed from the operational risk framework.

Submissions are due by 3 June 2016.

Source: [BIS](#)

- – 26 –

## BCBS: Proposes measures to reduce the variation in credit risk-weighted assets

BCBS has published a [consultation paper](#), *Reducing variation in credit risk-weighted assets - constraints on the use of internal model approaches*, setting out the proposed changes to the Basel framework's advanced internal ratings-based approach and the foundation internal ratings-based approach. The Basel Committee proposes to:

- remove the option to use the IRB approaches for certain exposures, where it is judged that the model parameters cannot be estimated sufficiently reliably for regulatory capital purposes
- adopt exposure-level, model-parameter floors to ensure a minimum level of conservatism for portfolios where the IRB approaches remain available
- provide greater specification of parameter estimation practices to reduce variability in risk-weighted assets (RWA) for portfolios where the IRB approaches remain available.

Submissions are due by 24 June 2016.

Source: [BIS](#)

## 4

# Overseas developments – Global (cont'd)

## BCBS: Published handbook for RCAP jurisdictional assessments

BCBS has published the [Handbook for Jurisdictional Assessments](#), describing the guidance, principles and processes for assessing compliance with Basel standards under the [Regulatory Consistency Assessment Programme \(RCAP\)](#).

The RCAP assesses the consistency and completeness of a jurisdiction's capital and liquidity rules against the globally agreed Basel standards and describes the significance of any deviations. The RCAP Handbook presents a general framework as well as specific processes and procedures for assessing a jurisdiction's regulatory framework for (i) risk-based capital standards, (ii) the Liquidity Coverage Ratio (LCR) and (iii) global systemically important banks (G-SIBs).

BCBS has published RCAP Questionnaires that cover, in addition to the [risk-based capital standards](#), [LCR](#) and the [Revised Pillar 3 disclosure requirements](#). The questionnaires help to check and improve the alignment of their domestic regulations with the corresponding Basel standards.

Source: [BIS](#)

## FSB: Publishes second thematic peer review on resolution regimes

The Financial Stability Board (FSB) has published the [second thematic review on resolution regimes](#), examining bank resolution powers, as well as any requirements for recovery and resolution planning and resolvability assessments for domestically incorporated banks, in FSB jurisdictions. The report forms part of a series of peer reviews to support timely and consistent implementation of the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes).

The review makes a number of findings and recommendations to FSB jurisdictions to address the identified gaps so as to fully implement the Key Attributes.

By December 2016, jurisdictions will report to the FSB what actions they have taken, or plan to take (including implementation time frames), in order to address the gaps. The FSB will provide additional clarification and guidance in certain areas to assist jurisdictions in effective and consistent implementation of the Key Attributes.

Source: [FSB](#)

## 4

# Overseas developments – Europe

## EBA: Issues amended standards on supervisory reporting for institutions

The European Banking Authority (EBA) has published its final [draft Implementing Technical Standards \(ITS\) amending the Commission's Implementing Regulation \(EU\) No 680/2014 on supervisory reporting](#).

These final draft ITS include minor changes to templates and instructions which the EBA deemed necessary in order to reflect some of the answers published in its Single Rulebook Q&A, to align with disclosure requirements for capital buffers as well as to correct legal references and other clerical errors. The amendments are expected to be applicable for reporting as of December 2016.

The EBA has also published a version of the [Annexes](#) of this final ITS in track-changes. In addition, validation rules, data point model (DPM) and XBRL taxonomies reflecting the amended templates, collectively known as 'framework release 03/2016', have also been published.

Source: [EBA](#)

## EBA: Consults on draft guidelines on corrections to modified duration for debt instruments

The EBA has launched a [consultation paper, Guidelines on corrections to modified duration for debt instruments under Article 340\(3\) of Regulation \(EU\) 575/2013](#), aiming to establish what type of adjustments to the modified duration (MD), as defined according to the formulas in the Capital Requirements Regulation (CRR), have to be performed in order to appropriately reflect the effect of the prepayment risk.

The CRR establishes two standardised methods to compute capital requirements for general interest rate risk: maturity-based calculation for general interest risk and duration-based calculation of general risk. The first approach treats the instrument with embedded optionality as if it were a combination of a plain vanilla bond and an option whilst the second approach proposes to calculate directly the change in value of the whole instrument subject to prepayment risk.

Submissions are due by 22 June 2016.

Source: [EBA](#)

## ESA: Publishes final draft RTS on margin requirements for non-centrally cleared OTC derivatives

The European Supervisory Authorities (ESAs) (EBA, European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA)) have published the final draft Regulatory Technical Standards ([RTS](#)) outlining the framework of the European Market Infrastructure Regulation (EMIR).

These RTS cover the risk mitigation techniques related to the exchange of collateral to cover exposures arising from non-centrally cleared over-the-counter (OTC) derivatives. They specify the criteria concerning intragroup exemptions and the definitions of practical and legal impediments to the prompt transfer of funds between counterparties. These standards aim at increasing the safety of the OTC derivatives markets in the EU.

The RTS will be applied in a proportionate manner to allow counterparties to phase in the requirements.

Source: [EBA](#)

## 4

# Overseas developments – UK

## PRA: Consults on implementation of MiFID II

The Prudential Regulatory Authority (PRA) has released a consultation paper, *Implementation of MiFID II: Part 1 (CP9/16)*, setting out its proposals for rules to transpose the Markets in Financial Instruments Directive (MiFID II) legislative package, comprising the Directive, MiFID II (2014/65/EU), and the Markets in Financial Instruments Regulation (2014/600/EU) (MiFIR).

This CP is relevant to banks, building societies, PRA-designated investment firms and their qualifying parent undertakings, comprising of financial holding companies and mixed financial holding companies, as well as credit institutions, investment firms and financial institutions that are subsidiaries of these firms.

The PRA intends to publish a further CP in due course to cover other areas of MiFID II for which PRA Rulebook amendments are required.

Submissions are due by 27 May 2016.

Source: [Bank of England](#)

## PRA: Consults on the contractual recognition of bail-in - amendments to rules

The PRA has released a consultation paper, *The contractual recognition of bail-in: amendments to Prudential Regulation Authority rules (CP8/16)*, seeking feedback on proposals to amend the Contractual Recognition of Bail-In Part of the PRA Rulebook, along with a draft supervisory statement reflecting the PRA's expectations.

The PRA proposes to amend its rules to disapply the contractual recognition requirement for 'phase 2' liabilities (those liabilities other than unsecured debt instruments) where the inclusion of such language is impracticable.

The PRA also proposes three technical amendments to PRA rules to ensure consistency between the rules and the final draft EBA RTS on the contractual recognition of bail-in due to be adopted shortly by the European Commission.

Submissions are due by 16 May 2016. The PRA proposes that the amended rules apply from 1 July 2016.

Source: [Bank of England](#)

## PRA: Approach documents

The PRA approach documents set out how the PRA carries out its role in practice. They are designed to help regulated firms and the market understand how the PRA supervises these institutions, and to aid accountability to the public and Parliament.

- [The PRA's approach to banking supervision – March 2016](#)
- [Approach to insurance supervision – The PRA's approach to insurance supervision – March 2016](#)

Source: [Bank of England](#)

## 4

# Overseas developments – UK (cont'd)

## PRA: New accountability regime for banks and insurers comes into force

The Senior Managers Regime (SMR) for the banking sector and the Senior Insurance Managers Regime both came into force on 7 March 2016. The new regimes will hold individuals working at all levels within relevant firms to appropriate standards of conduct and ensure that senior managers are held to account for misconduct that falls within their area of responsibility.

The [PRA](#) and Financial Conduct Authority ([FCA](#)) will apply key principles of the SMR to senior members of staff in both regulators. The PRA and FCA have published an explanation of how they will be applying the regime internally. This includes a description of the core responsibilities of those carrying out senior management functions.

As a subsidiary of the FCA, the Payment Systems Regulator ([PSR](#)), has also applied the Senior Managers Regime internally.

Source: [Bank of England](#)

## 4

# Overseas developments – US

## CFTC: Removes reporting and recordkeeping requirements for trade option counterparties

The U.S. Commodity Futures Trading Commission (CFTC) has approved a final [rule](#) that removes reporting and recordkeeping requirements for trade option counterparties that are neither swap dealers nor major swap participants (Non-SD/MSPs), including commercial end-users that transact in trade options in connection with their businesses.

With respect to reporting, the CFTC has eliminated the Form TO annual notice reporting requirement for otherwise unreported trade options in CFTC regulation 32.3(b). Additionally, they will not be subject to part 45 reporting requirements in connection with their trade options.

With respect to recordkeeping, the CFTC has eliminated the swap-related recordkeeping requirements for Non-SD/MSPs in connection with their trade option activities, although Non-SD/MSPs transacting in trade options with SDs or MSPs must obtain a legal entity identifier and provide it to their SD/MSP counterparties.

Source: [CFTC](#)

## FDIC: Adopts final rule to increase deposit insurance fund to statutorily required level

The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) has approved a [final rule](#) to increase the Deposit Insurance Fund (DIF) to the statutorily required minimum level of 1.35%

The final rule approved will impose on banks with at least \$10 billion in assets a surcharge of 4.5 cents per \$100 of their assessment base, after making certain adjustments. The FDIC expects the reserve ratio will likely reach 1.35% after approximately two years of payments of the surcharges.

The final rule will become effective on 1 July. If the reserve ratio reaches 1.15% before that date, surcharges will begin 1 July. If the reserve ratio has not reached 1.15% by that date, surcharges will begin the first quarter after the reserve ratio reaches 1.15%.

Source: [FDIC](#)

## FDIC: Publishes a bank customer's guide to cybersecurity

The FDIC has produced a special edition of the agency's quarterly FDIC Consumer News (Winter 2016) entitled "*A Bank Customer's Guide to Cybersecurity*." The special edition covered:

- safety precautions to take before connecting to the Internet with a personal computer, laptop, smartphone or tablet
- tips on how to avoid identity theft online
- what to know about the roles that banks and the government play in protecting customers
- additional resources from the FDIC that can help educate consumers.

Source: [FDIC](#)

## 4

# Overseas developments – US (cont'd)

## FRB: Proposes rule to address risk associated with excessive credit exposures

The Federal Reserve Board (FRB) has proposed a [rule](#) to address the risk associated with excessive credit exposures of large banking organisations to a single counterparty.

The proposal would apply single-counterparty credit limits to bank holding companies with total consolidated assets of \$50 billion or more. The proposed limits are tailored to increase in stringency as the systemic footprint of a firm increases.

Similar tailored requirements would also be established for foreign banks operating in the United States.

The FRB has also released a [white paper](#) explaining the analytical and quantitative reasoning for the proposed rule's tighter 15% limit for credit exposures between systemically important financial institutions

Source: [FRB](#)

## OCC: Proposes rule changes to reduce regulatory burden

The Office of the Comptroller of the Currency (OCC) has proposed to remove outdated or unnecessary provisions of certain rules to reduce regulatory burden on national banks and federal savings associations.

The proposal is part of the agency's decennial review of its rules required by the *Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) of 1996* and follows three Federal Register notices and six outreach meetings conducted across the country since late 2014, which solicited comment from bankers, consumer and community groups, and other interested parties. While federal financial regulatory agencies are conducting the EGRPRA review jointly, this proposal affects rules exclusive to the OCC and its supervision of national banks and federal savings associations. Rather than delaying proposed changes until the completion of the EGRPRA review at the end of the year, the OCC is seeking to reduce undue burden sooner where possible.

Source: [OCC](#)

## OCC: Comptroller discusses cybersecurity and money laundering risks

Thomas J. Curry, Comptroller of the Currency, discussed global financial regulation during his remarks at the Institute of International Bankers' Annual Conference.

He highlighted the importance of international cooperation as well as efforts in the United States to improve cybersecurity and fight against money laundering.

Comptroller Curry also reiterated the agency's expectations and role in banks' process of reevaluating risk.

The full speech can be found [here](#).

## 4

# Overseas developments – Asia

## Hong Kong: SFC concludes consultation on changes to ATS guidelines

The Securities and Futures Commission (SFC) has published [conclusions](#) to the consultation on *proposed amendments to the Guidelines for the Regulation of Automated Trading Services (ATS)*.

The SFC intends to implement the revised ATS Guidelines with effect from the date when mandatory clearing of over-the-counter (OTC) derivative transactions is also implemented. This is expected to be on 1 September 2016.

Central Counterparties (CCPs) wishing to provide mandatory clearing services for OTC derivative transactions from that day should ensure that their applications for ATS authorisation and CCP designation, with full and complete information and documentation, reach the SFC on or before 29 April 2016.

Source: [SFC](#)

## Hong Kong: SFC establishes Fintech Contact Point

The SFC has established a Fintech Contact Point as a dedicated channel to encourage businesses involved in the development and application of financial technology in Hong Kong to engage with the SFC.

The SFC has also established a Fintech Advisory Group which will focus on the opportunities, risks and regulatory implications of developments related to Fintech.

A variety of Fintech activities are relevant to the SFC's regulatory work such as automated trading systems; financial product investment and distribution platforms, including robo-advisors; financing platforms, including peer-to-peer lending and equity crowdfunding platforms; and distributed ledger technology.

Other Fintech activities relevant to the SFC's work include big data, data analytics and artificial intelligence to support front and back office operations of licensed intermediaries, etc.

Source: [SFC](#)

## Japan: Speech - How can regulators do better the next time?"

Masamichi Kono, Vice Minister for International Affairs, Financial Services Agency (FSA) addressed the CFTC International Regulators' Meeting at Boca Raton.

He shared his thoughts in relation to progress made so far in regulatory reform concerning OTC derivatives and the challenge ahead together with reform around financial markets and FMIs.

He outlined some recent progress in reconciling differences in the rules of jurisdictions as they apply to cross-border transactions and activities.

He also discussed how regulators should deal with developments in technologies, and what opportunities as well as risks those technologies would bring.

He concluded by stating that they have made a lot of progress in designing the new regulatory framework, however with some significant problems.

The full speech can be found [here](#).

## 4

# Overseas developments – Asia (cont'd)

## Japan: Speech - A new strategy for growth finance in Asia

Masamichi Kono, Vice Minister for International Affairs, FSA addressed the OECD-ADBI Roundtable on Capital Markets and Financial Reform in Asia.

Governments in Asia are struggling with the recent market turmoil and looking for ways to secure stable flows of funds necessary for financing their growth and development.

There is a need for a new regional strategy for financing growth and long-term investment.

He discussed the kind of regional strategy for growth finance he is looking for in Asia.

Asia can do much better in leading the global quest for building financial systems and markets that will support sustainable growth and development.

Mutual support amongst regional partners in developing financial infrastructures and markets need to be further strengthened.

The full speech can be found [here](#).

## Korea: Plan to stimulate financial advisory services

The Financial Services Commission (FSC) outlined its plan to stimulate financial advisory services in response to growing demand of financial consumers for more accessible and more tailored financial advisory services. The plan is as follows:

- create a new registration category for financial advisers who offer advisory services only in a restricted range of financial products and lower capital requirement for them to KRW100 million
- enable robo-advisors that meet certain requirements to provide direct front-office services to customers
- introduce Independent Financial Advisers (IFAs) to provide 'independent' advice, free from product providers
- establish best practice guidelines for financial advisers to provide detailed rules for fiduciary duty to make sure financial advisers put their clients' interest first.

Source: [FSC](#)

## Singapore: Cross-border Renminbi flows between Singapore and Chongqing

The Monetary Authority of Singapore (MAS) welcomed the directive by the People's Bank of China Chongqing Operations Office (PBC Chongqing), allowing:

- corporates in Chongqing to issue RMB bonds in Singapore and repatriate the funds raised in full. In addition to Chongqing, the funds raised can be used outside of the municipality for the development of economic activities and infrastructure in China's western region
- equity investment funds in Chongqing to make direct investments outside of China, including Singapore and the ASEAN region
- individuals in Chongqing to make RMB remittances to Singapore to settle current account transactions.

The initiative will strengthen financial connectivity between Chongqing and Singapore.

Source: [MAS](#)

## 4

# Overseas developments – Asia (cont'd)

## Singapore: Renews bilateral currency swap arrangement with PBC

The People's Bank of China (PBC) and MAS have announced the renewal of the existing bilateral currency swap arrangement (BCSA) for a further term of three years. The original arrangement was established in 2010 and first renewed in 2013. The new arrangement is effective as of 7 March 2016.

The BCSA is a key pillar of co-operation between PBC and MAS to strengthen regional economic resilience and financial stability.

The BCSA is a key pillar of co-operation between PBC and MAS to strengthen regional economic resilience and stability.

Under the arrangement, up to CNY300 billion in Chinese Yuan liquidity will be available to eligible financial institutions operating in Singapore.

Source: [MAS](#)

## 5

## PwC publications

### PwC AUS: Aligning growth and risk

PwC Australia has published a report *Aligning growth and risk: How enterprise resilience can help drive growth in financial services*. The report presents findings from a roundtable of executives and thought leaders, including PwC's Global Leader of Risk Consulting, Dennis Chesley, which explores what resilience could offer Australia's financial services sector.

PwC believes that enterprise resilience is the most important capability business needs today. Enterprise resilience is not traditional risk management, it's an organisational capacity to anticipate and react to change – not only to survive, but also to grow.

See [publication](#)

### PwC: Blurred lines - how FinTech is shaping financial services

PwC has published a report, *Blurred lines - How FinTech is shaping Financial Services*. The insights shared in this report are based on a unique and comprehensive global survey of over 500 senior FS and FinTech executives from 46 countries, looking at the current and emerging trends in FinTech. The key messages from the report are:

- FinTech is shaping FS from the outside in.
- Where traditional financial institutions have failed, Fintechs are succeeding.
- Disintermediation: FinTech's most powerful weapon.
- Time to get over the bench: over 20% of FS business at risk to FinTechs.
- Blockchain: an untapped technology is rewriting the FS rulebook.
- Heading for bargain basement FS? Fintech is slashing costs.
- The free lunch is over: FS must leverage the FinTech ecosystem.

See [publication](#)

### PwC: Transforming asset management operations

PwC has published a report, *Transforming asset management operations*. The report presents insights from PwC's 2015 Global Operations Survey.

Key findings from the survey:

- Asset management chief operating officers see untapped value in data management and customer analytics.
- Asset managers rate changing direction and managing complexity as their top challenges for operations.
- Complexity puts cost and performance management disciplines in high demand.
- From strategy to execution, the approach to managing operations is changing.
- Staff feel the burden of regulation.
- COOs recognise the need to build cross-functional capabilities.

See [publication](#)

## 5

## PwC publications (cont'd)

### PwC: ETFs - A roadmap to growth

PwC has published a report, *ETFs: A roadmap to growth*, presenting perspectives on how the ETF industry will evolve over the next five years.

The views are based on insights gained from discussions with senior management from the ETF industry in addition to the 2015 Global ETF Survey of more than 60 asset management firms and service providers (representing more than 80% of global ETF assets under management).

When PwC examined the global ETF landscape in last year's ETF 2020 report, PwC projected that assets under management would rise to more than \$5 trillion by 2020. Based on PwC's 2015 Global ETF survey, more than 42% of survey respondents predict global ETF assets will reach at least \$7 trillion assets under management by 2021.

See [publication](#)

### PwC HK/China: Risk bites – March 2016

*Risk Bites* is a monthly house view on what's hot in Risk & Regulation in Hong Kong and Mainland China. Risk Bites will touch on 3 areas including Regulatory, Market Themes and Sectors, providing an update on any major external events or new developments in the market.

The March 2016 issue looks at:

- Regulatory developments in China will lead to industry-wide improvements for online lenders
- Fintech development in Hong Kong

See [publication](#)

### PwC US: Top insurance industry issues in 2016

PwC US has published a report, *Top insurance industry issues in 2016*. The report discusses how insurers are continuing to face marked changes in what customers expect in terms of products and service, how they obtain and utilise the information that informs business decisions, and their underlying business and operating models.

Top insurance industry issues in 2016 include:

- creating an effective strategy, including taking advantage of the opportunities arising from InsurTech and artificial intelligence, and ensuring that business models are fit for growth
- market segment challenges and opportunities, including in cyber-insurance, commercial lines, and group
- managing risk and regulatory complexity
- process and systems improvement
- tax.

See [publication](#)

# 6

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