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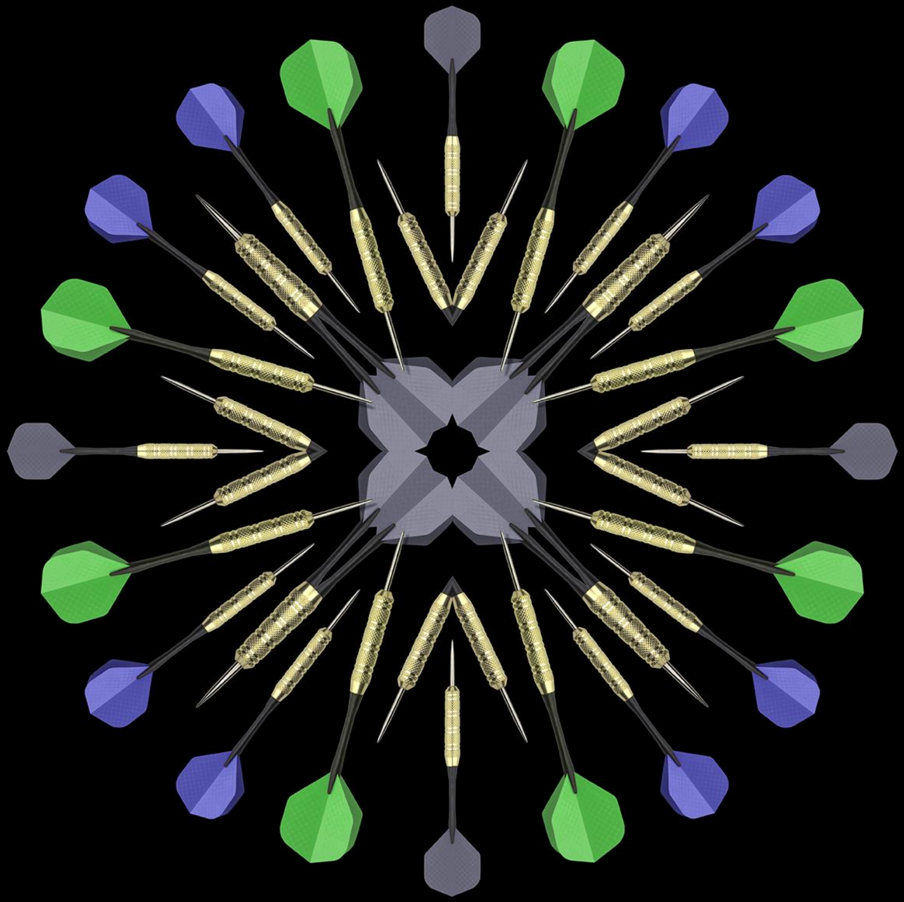

Asia Pacific Financial Regulatory Update

Q4 2020

December 2020

CENTRE *for*
REGULATORY STRATEGY
ASIA PACIFIC

Introduction

Dear clients and colleagues,

The Deloitte Asia Pacific Centre for Regulatory Strategy is pleased to share with you the key regulatory updates from around our region for Q4 2020.

COVID-19 is now entering a second or third wave around the region, with several geographies seeing daily infection cases figures spiking along with lockdowns and restriction on economic and social activities. China mainland and Taiwan are perhaps the exceptions to this pattern and are now seeing robust economic recovery and social activity returning to (a new) normal.

Despite this, **financial systems in Asia Pacific are generally operating smoothly** thanks to the assistance from the temporary relaxation of financial regulations. The first wave of more tactical measures to ensure financial stability has been fully implemented; regulatory and monetary support is continuing, with some adjustment at the margins and representing a significant number of the updates this quarter. However, this does not imply that these measures will continue indefinitely; eventually they will be rolled back.

China mainland is perhaps the best example of how regulators may attempt this. The People's Bank of China (PBOC) noted in their *Q3 2020 Monetary Policy Report* (published in Nov. 2020) that the Bank would "improve the systems of financial risk prevention, early warnings, resolution and accountability", and also look to support banks "to step up efforts to set aside loss provisions for non-performing loans and carry out write-offs". This suggests that the PBOC may begin normalising its financial supervisory policies given China mainland's robust economic recovery. The timing and manner of the exit from the current policy support will vary by geography, but the work being done by the PBOC could serve as an important model for other regulators in the region.

As well, we also saw a number of updates that are connected with emerging risk areas, such as climate change, operational resilience, or non-financial risk management, signaling the importance regulators are giving to these more long-term challenges. Some important examples of this from this quarter include the Hong Kong Monetary Authority (HKMA) officially inviting selected Authorized Institutions (AIs) to take part in the climate risk stress test pilot in 2021 and the Australian Prudential Regulatory Authority (APRA) plan to move to a new supervision risk and intensity (SRI) model, which will see a "greater elevation of non-financial risks whilst preserving the importance of financial resilience".

What has been particularly notable this quarter was the number of announcements made about the use of technology in financial services – perhaps unsurprising given that both the Hong Kong SAR and Singapore fintech weeks were held in November.

An exciting development in this vein was the announcement that that users of Singapore's PayNow and Thailand's PromptPay will be able to send money instantly and securely across the two countries using their phone numbers at competitive rates from mid-2021. Such a linkage of national faster payments systems is the first of its kind in the world.

Not to be outdone, both Hong Kong SAR and Japan announced progress in their activities to investigate, pilot, and develop a central bank digital currency (CBDC). In Hong Kong SAR, a proof of concept has been developed and next steps include exploring business use cases such as cross-border trade settlement and capital market transactions that may involve bringing banks and large corporates into the project to undertake testing using actual trade transactions. The Bank of Japan released its *Approach to Central Bank Digital Currency,* a report that discussed the background of CBDC as well as the preliminary research work the BOJ has undertaken with other central banks in North America and Europe, including the UK.

While Hong Kong SAR and Japan made announcements on CDBC this quarter, more generally it is a rapidly developing area in our region. China mainland is already piloting the technology while Singapore, Hong Kong SAR, Thailand, Cambodia, and Vietnam all following quickly behind in various stages of development.

For queries or more information on these updates or other regulatory topics, please get in touch. In the meantime, we wish everyone safe and peaceful holidays, and the very best for 2021.

Best Regards,

The ACRS Co-leads

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Australia (1/2)

1 Regulatory response to COVID-19

In November 2020, APRA published new FAQs to provide authorised deposit-taking institutions (ADIs) with an updated guidance relating to loans covered by the 'Coronavirus SME (small-medium enterprises) Guarantee'. In the FAQs, APRA confirmed that both phases of the 'Coronavirus SME Guarantee' scheme may be regarded as an eligible guarantee by the Australian Government for risk-weighting purposes. Further, for both secured and unsecured lending, the uncovered portion of the exposure must be risk-weighted according to the risk weight applicable to the original counterparty.

FAQ for ADIs on loans covered by the Coronavirus SME Guarantee Scheme
Banking COVID-19 frequently asked questions

2 Updated guidance on capital management for ADIs and insurers

On 15 December 2020, APRA provided updated capital management guidance to ADIs and insurers, replacing its recommendation in July this year for banks to retain at least half of their earnings. From the start of 2021, APRA will no longer hold banks to a minimum level of earnings retention. In issuing the updated guidance, APRA reiterated their expectation that ADIs and insurers remain vigilant, regularly assess their financial resilience through stress testing, and undertake a rigorous approach to recovery planning. The onus remains on boards to moderate dividend payout ratios to ensure they are sustainable, taking into account the outlook for profitability, capital and the broader environment.

APRA updates capital management guidance and releases ADI stress test results

3 Interim change to capital treatment of new or additional equity investments in banking and insurance subsidiaries

In November 2020, APRA released a letter to advise of an interim change to the capital treatment of new or additional equity investments in banking and insurance subsidiaries. APRA will require any new or additional equity investments in banking and insurance subsidiaries, where the amount of the investment takes the aggregate value of the investment above 10 per cent of an ADI's Common Tier 1 capital, to be fully funded by equity capital at the ADI parent company level, noting this will only apply to the proportion of the new or additional investment that is above of the ADI's Common Tier 1 capital.

Letter to ADIs on interim capital treatment of new or additional equity investments in banking and insurance subsidiaries
Interim capital treatment of new or additional equity investments in banking and insurance subsidiaries

4 APRA roll-out of new Supervision Risk and Intensity Model

In October 2020, APRA announced it has commenced the rollout of a new model for assessing risks faced by banks, insurers and superannuation licensees, known as the *Supervision Risk and Intensity Model* (SRI Model), and expects the new system to be fully implemented by June 2021. The SRI Model will replace the Probability and Impact Rating System (PAIRS) and the Supervisory Oversight and Response System (SOARS) systems that APRA has used since 2002. The new SRI Model places greater emphasis of non-financial risks, whilst preserving the importance of financial resilience. It also introduces recovery and resolution considerations, and more systematically factors in the impact of the external environment of the entity's risk profile. For regulated entities, the move to the SRI Model could lead to a change in the intensity of supervision that APRA applies. APRA encourages all regulated entities to familiarise themselves with how the new SRI Model works, noting that entities will be advised of the outcome of their SRI rating by June 2021, once the implementation and risk assessment period has been completed.

APRA begins roll-out of new Supervision Risk and Intensity Model
Transition to APRA's new Supervision Risk and Intensity (SRI) Model

5 Regulator guidance relating to LIBOR transition

During the quarter, APRA and the Australian Securities and Investments Commission (ASIC) released several letters and guidance notes to industry in preparation for the upcoming transition away from LIBOR, including:

- In October 2020, the corporate regulator (ASIC) and the prudential regulator (APRA) both wrote to industry encouraging Australian institutions to review and adhere to the 2020 IBOR Fallbacks Protocol and associated Supplement released by the International Swaps and Derivatives Association (ISDA) on 23 October, noting the protocol will come into effect from 25 January 2021
- In November 2020: Publication of *ASIC Information Sheet 252: Managing conduct risk during LIBOR transition* (IS 252), providing practical guidance Australian entities can adopt to manage conduct risk during the LIBOR transition. IS 252 provides guidance on treating clients fairly, performance of products and services, client communication, risk management framework, buy-side entities' responsibilities

Regulators urge Australian institutions to adhere to the ISDA IBOR Fallbacks Protocol and Supplement
20-240MR Regulators urge Australian institutions to adhere to the ISDA IBOR Fallbacks Protocol and Supplement
Managing conduct risk during LIBOR transition
20-304MR ASIC issues information sheet on managing conduct risk during LIBOR transition

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Australia (2/2)

6 Regulator guidance relating to superannuation member outcomes and product design and distribution obligations

On 11 December 2020, ASIC released the final version of *Regulatory Guide 274: Product Design & Distribution Obligations* (RG 274), outlining the corporate regulator's interpretation of the Design & Distribution Obligations (DDO), expectations for compliance, and general approach to administering the obligations. Issuers and distributors of financial products that must comply with the incoming DDO regime must do so by the commencement date of 5 October 2021.

Recognising the complementary nature of superannuation member outcomes regime and the forthcoming DDO regime, on 15 December 2020, APRA and ASIC issued a joint letter to superannuation trustees to assist them to better understand how member outcomes and DDO interact. At a high level, regulators note that both regimes require trustees to:

- identify the needs of members;
- determine whether their decisions about choice products and broader business operations are delivering quality outcomes for members; and,
- make decisions that are evidence-based and to monitor and review their product offerings and operations on an ongoing basis.

APRA and ASIC will continue to engage with the industry over the coming months on the interaction between the two regimes. Prior to commencement of the DDO regime on 5 October 2021, product issuers (including superannuation trustees) should assess their product governance framework to ensure it is aligned to ASIC's expectations (as outlined in RG 274), and if applicable, consider how DDO may impact obligations under the executive accountability regimes (BEAR/FAR) for the end-to-end management of a product or product group (e.g. a cohort of MySuper members).

Letter to RSE licensees on Member Outcomes and Design and Distribution Obligations
Letter to superannuation trustees on Member Outcomes obligations and Product design and distribution obligations
20-320MR ASIC releases regulatory guide on product design and distribution obligations

7 Proposed revisions to the credit risk management framework for authorised deposit-taking institutions

In October 2020, APRA released a draft *Reporting Standard ARS 220.0 Credit Risk Management* (ARS 220.0) for consultation. APRA has proposed updating the standard to align it with the final version *APS 220 Credit Risk Management* (released in 2019). On 10 December, APRA issued a consultation letter inviting submissions on potential revisions. Once finalised, ARS 220.0 will replace the current ADI reporting standards (Reporting standard *ARS 220.0 Impaired Facilities*; *ARS 220.3 Prescribed Provisioning*; and *ARS 220.5 Movements in Provisions for Impairment*). The framework includes a risk-based approach based on the complexity of the ADI, meaning less sophisticated ADIs have reduced reporting requirements.

Proposed revisions to the credit risk management framework for authorised deposit-taking institutions

8 Regulator consultation – APRA Prudential Standard CPS 511

On 12 November 2020, APRA released for consultation a revised remuneration prudential standard designed to strengthen market practice, underpin sound remuneration practices and enhance accountability in the institutions it regulates. The draft standard, *CPS 511 – Remuneration* (CPS 511) has moved to a more principles-based approach that is designed to be risk based and proportionate, with more comprehensive requirements for larger, more complex regulated entities (Significant Financial Institutions (SFIs)). Comments on the revised CPS 511 will close on 12 February 2021, with the final version of CPS 511 scheduled to be finalised in mid-2021, and come into effect in three stages: from 1 January 2023 for ADIs that are SFIs, from 1 July 2023 for insurance and superannuation SFIs, and from 1 January 2024 for all non-SFIs.

APRA releases revised remuneration standard for consultation

9 Regulator consultation – ASIC Regulatory Guide 256

On 3 December 2020, ASIC released *Consultation Paper 335 Consumer Remediation: Update to RG 256* (CP 335), outlining proposed updates to *Regulatory Guide 256: Client review and remediation conducted by advice licensees* (RG 256). The proposed changes to RG 256 outlined in CP 335 includes clarification on how RG 256 applies all financial services licensees, credit licensees and superannuation trustees. As part of the consultation process, ASIC encourages industry and stakeholders the opportunity to provide feedback about the challenges they face in designing and executing remediations. Submissions on CP 335 are due by 26 February 2021.

20-308MR ASIC consults on consumer remediation guidance

China mainland

1 Evaluating systemically important banks

The PBOC and the China Banking and Insurance Regulatory Commission (CBIRC) have jointly developed a regulatory framework to identify and evaluate systematically important banks.

The main content of the *Measures* includes:

- **Clarification of the assessment purpose** – to identify systemically important banks in China mainland (to be published as a list annually) in order to conduct differentiated supervision to effectively maintain financial stability;
- **Set the evaluation method** – Lay out the quantitative indicators that will be used to calculate the systemic importance of participating banks as well as any other information that will be used to inform supervisory judgements; and,
- **Clarify the evaluation process** - The scope of participating banks will be determined annually and the data of participating banks will then be collected and analysed. The initial list of systemically important banks will be proposed and then released publicly after confirmation by the Financial Stability and Development Committee of the State Council.

The People's Bank of China and the China Banking and Insurance Regulatory Commission issue the Measures for the Evaluation of Systemically Important Banks
Notice of the People's Bank of China and China Banking and Insurance Regulatory Commission on Issuing the Measures for the Evaluation of Systemically Important Banks

2 Strengthening the supervision of online micro-credit companies

The PBOC and the CBIRC released a consultation paper *Interim Measures for the Management of Online Small Loan Business* order to better regulate online micro-credit companies, mitigate online micro-credit business risks, protect the legitimate rights and interests of micro-credit companies and customers, as well as promote the healthy development of online micro-credit business.

The draft, which closed for public comment on 2 December, set a new requirement for online micro-credit companies to provide at least 30% of any loan they fund in conjunction with a banking institution. As well, a RMB 5 billion registered capital threshold was set for micro-credit companies that offer products across multiple provinces within China mainland. While the current threshold varies between provinces, in general it is now well below RMB 1 billion.

Interim Measures for the Management of Online Small Loan Business

3 Data privacy

On 21 October 2020, the National People's Congress published the *Draft Personal Data Protection Law* for public consultation (closed 19 November 2020). Once the draft becomes law, this will be the first comprehensive personal data protection law in China mainland.

Three key aspects of the law are:

- **Extraterritoriality** – the draft law is applicable to foreign companies that process the data of individuals physically located in China mainland in order to provide them with goods and services. Similarly, the law applies if a foreign company processes data to analyse the behaviour of customers located physically within China mainland. The law applies even if analysis takes place outside of China mainland;
- **Cross-border transfers** – the draft law continues to limit data transfer, requiring that all personal information collected within China mainland be stored there. Cross-border transfer is allowed in such cases where security assessments can be obtained from the cybersecurity authorities; and,
- **Lawful basis** – Rather than relying on consent of the data subject, the lawful basis to process data rests in areas like the performance of a contract to which the data-subject is a party; fulfilling legal duties or obligations; responding to a public health crisis; protecting the life, health or property of an individual under emergency circumstances; or any processing considered necessary for protecting the public interest.

Draft Personal Data Protection Law

2 Improving investment management at insurance firms

The CBIRC released a *Circular on Matters concerning the Optimization of Regulation of the Investment Management Capacity of Insurance Institutions*. The circular looked to improve operations at insurance firms in five areas:

- Optimise and integrate investment management capacity
- Clarify the regulatory requirements for investment activities (ex. investment in stocks, bonds, equity, real estate etc.)
- Intensify the supervision of in-process and ex-post investment activities
- Help insurance firms build capacity in investment management
- Refine disclosure requirements

Notice of the China Banking and Insurance Regulatory Commission on Matters concerning the Supervision of Optimizing the Investment Management Capability of Insurance Institutions

Hong Kong SAR (1/2)

1 Climate change

On 17 December, the Green and Sustainable Cross-Agency Steering Group (financial regulators and relevant government agencies) announced its green and sustainable strategy for Hong Kong SAR. The plan has five action points:

- **Climate-related disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD)** recommendations will be mandatory across relevant sectors no later than 2025
- Adoption of a **green taxonomy** to classify investments as 'green' or not
- Work towards creation of **uniform sustainability standards**
- Promote **climate-focused scenario analysis**
- Establish a platform to encourage **knowledge sharing** for government agencies, regulators and industry stakeholders

On 4 December 2020, the HKMA formally invited Authorized Institutions (AIs) to participate in the pilot exercise on climate risk stress testing in 2021. The main objectives of the exercise are to assess the climate resilience of the banking sector as a whole and to increase capability building of participating banks for measuring climate risks. To facilitate this exercise, the HKMA has released physical and transition risk scenarios that are based on the scenarios created by the Network for Greening the Financial System. The HKMA encouraged participating AIs to explore new methodologies for measuring climate risk and share insights back to the regulator.

On 29 October 2020, the Securities and Futures Commission (HK SFC) published a consultation on proposed requirements for fund managers to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures to meet investors' growing demands for climate risk information and combat greenwashing. Reponses will be accepted until January 2021.

Cross-Agency Steering Group Launches its Strategic Plan to Strengthen Hong Kong's Financial Ecosystem to Support a Greener and More Sustainable Future
Climate risk stress test
Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers

2 Cybersecurity

On 3 November 2020, the Hong Kong Monetary Authority (HKMA) introduced the *Cybersecurity Fortification Initiative 2.0* and the associated implementation timeline. The initiative is underpinned by three pillars:

- (i) Cyber Resilience Assessment Framework;
- (ii) Professional Development Programme; and,
- (iii) Cyber Intelligence Sharing Platform.

Key changes were made to the original fortification efforts to reflect the latest developments in overseas cyber practices include an enhanced version of cyber incident response and recovery, threat intelligence changes, attack simulations.

Cybersecurity Fortification Initiative 2.0

3 Benchmark rate reforms

The HKMA issued guidance on benchmark rate reforms. The first asked AIs to take early action to adhere to the *IBOR Fallbacks Protocol* published by the International Swaps and Derivatives Association in October 2020.

As well, the HKMA released guidance about the identification of alternative reference rates (ARR). The Treasury Markets Association identified the Hong Kong Dollar Overnight Index Average (HONIA) as the ARR which serves as a fallback for the Hong Kong Interbank Offered Rate (HIBOR). The HKMA also noted that there is no plan to discontinue HIBOR.

Finally, the HKMA reminded AIs to make early preparations for the transitions to the ARRs, and to keep abreast of both international and local developments of the reform of interest rate benchmarks and take them into account in their preparation for the transition. The HKMA emphasised the importance of upholding customer protection principles as well as effective customer communication and education throughout the processes of the reform and transition of interest rate benchmarks.

Reform of interest rate benchmarks
Customer Protection in respect of Reform of Interest Rate Benchmarks

Hong Kong SAR (2/2)

4 Financial crime

On 3 November 2020, the Financial Services and the Treasury Bureau (FSTB) opened a three-month public consultation on its legislative proposals to enhance the anti-money laundering and counter-terrorist financing regulation in Hong Kong SAR. Proposals in the consultation paper include introducing:

- A licensing regime for virtual asset services providers;
- A registration regime for dealers in precious metals and stones; and,
- Miscellaneous technical amendments under the Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) Ordinance (Cap. 615).

The HK SFC also issued a circular that shared key observations identified from their routine and thematic inspections of their AML/CFT policies, procedures, and controls carried out in 2019 and 2020. Some insights included:

- Implementing adequate internal controls for AML/CFT
- Inadequate ML/TF risks when conducting institutional or customer risk assessments
- Failure to assess fund deposits by clients to ascertain if they originate from third parties
- Inadequate measures to establish the source of wealth/funds
- Failure to perform customer screening

Public Consultation on Legislative Proposals to Enhance Anti-Money Laundering and Counter-Terrorist Financing Regulation in Hong Kong
Anti-Money Laundering / Counter-Financing of Terrorism (AML/CFT) Findings from inspections of AML/CFT controls and compliance practices

5 Consultation Paper CP 20.02 *Implementation of the Basel III Final Reform Package*

In November 2020, the HKMA issued a consultation paper on the proposed approach to implementing the Basel III final reform package. This paper focuses on credit risk, operational risk, and the output floor as other parts of the Basel III package of reforms (such as market risk) have been consulted on previously.

Implementation of the Basel III Final Reform Package

6 Group-wide supervision for AI

The HKMA issued a letter on 1 Dec 2020 to consult the banking industry on the proposed revisions to the SPM module CS-1 *Group-wide Approach to Supervision of Locally Incorporated Authorized Institutions*.

Group-wide Approach to Supervision of Locally Incorporated Authorized Institutions

Key Market Events

Hong Kong Fintech Week was held in early November 2020. Throughout the week, hot topics including the development of central bank digital currencies (CBDC), virtual asset regulation, virtual banking and addressing algorithmic bias in artificial intelligence to enable more inclusive fintech applications. As well, the HKMA spoke about important initiatives such as the Commercial Data Interchange (CDI) and using CBDC for cross-border payments.

The CDI would establish a consent-based common standard for data owners to share their digital footprint with banks through data providers. On the CDI, each bank and data provider would have a single connection to the interoperable platform, which would make data sharing more efficient and scalable.

The HKMA is also collaborating with the Bank of Thailand to explore the potential of a Blockchain-based CBDC network, with a view towards more efficient cross-border payments. A proof of concept has been developed, with the next steps including exploring business use cases such as cross-border trade settlement and capital market transactions that may involve bringing banks and large corporates into the project to undertake testing using actual trade transactions. The work is being done as part of the larger goals of the Bank for International Settlements to study to the applications of this technology.

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Indonesia

1 Business plan for information technology-based lending and borrowing services

POJK number 24/POJK.05/2020 further regulates the business plan of technology-based lending and borrowing services. This newly issues rule looks at the following: the scope of the business plan, the form and structure of the business plan implementation report, the form and structure of the business plan supervision report, as well as the procedures for making adjustment to and submitting plans.

POJK number 24/POJK.05/2020

2 Financial conglomerates

Regulation regarding financial conglomerates was adjusted to ensure a healthy and highly competitive financial services industry as well as to increase efficiency and monitor risk controls.

PJOK number 45 /POJK.03/2020 lays out: additional criteria for groups categorised as ‘financial conglomerate’ (called LJK in Indonesia), namely that an LJK is defined as a single group company, a number of companies that, due to linkages in ownership and/or control of total assets, could be considered a group, or groups with greater than or equal to IDR 100 trillion and have business activities in more than one type of LJK.

PJOK number 45 /POJK.03/2020

3 Pension fund soundness assessment

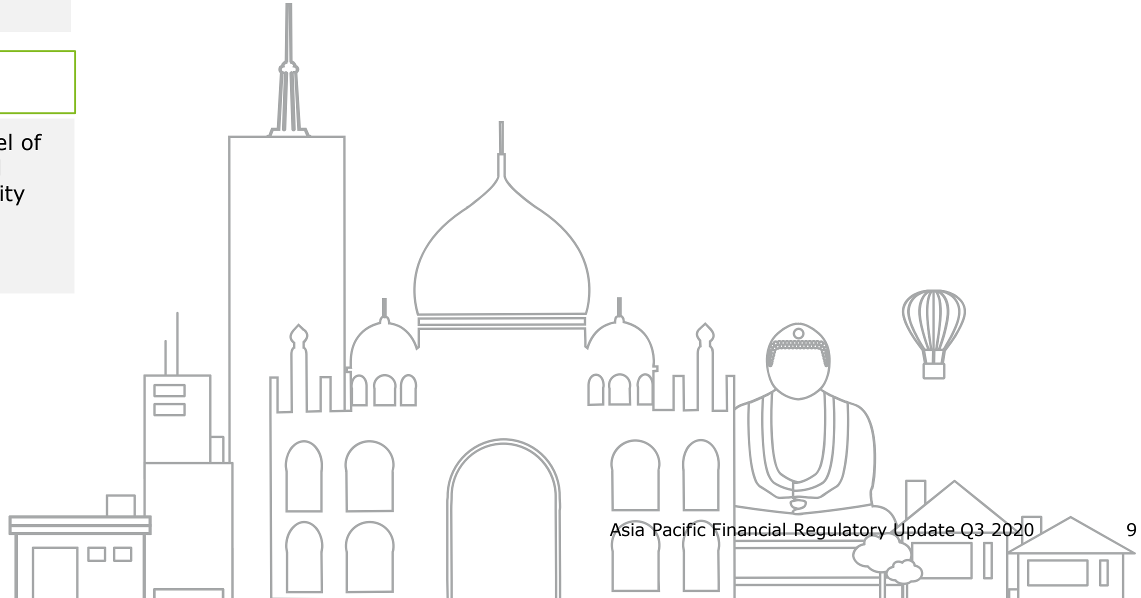
POJK number 28/POJK.05/2020 further regulates the assessment of the soundness level of pension funds. This regulation looks at the following: general principles of risk-oriented assessment of the soundness level of pension funds, proportionality as well as materiality and significance of funds.

POJK number 28/POJK.05/2020

4 Macroprudential intermediary ratio and macroprudential liquidity buffer for conventional commercial banks, sharia commercial banks, and sharia business units

This regulation enhances the provisions related to technical matters of the macroprudential liquidity buffer regulations in the Bank Indonesia Regulation concerning the macroprudential intermediation ratio and the macroprudential liquidity buffer for conventional commercial banks, sharia commercial banks and sharia business units.

POJK number 19 /SEOJK.05/2020



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Japan

1 JFSA *Working Group on Japanese Banking System documents* of the Financial System Council

The Japan Financial Services Agency (JFSA) published the agenda and materials from the recent series of meetings of the "Working Group on Japanese Banking System" (The WG) of the Financial System Council. The WG is tasked to review the restrictiveness of regulations in the Japan banking system and to suggest possible improvement areas in order to promote sustainable economic growth and financial stability such as:

- Boundaries between the banking business and other financial businesses
- Restrictions on voting rights by banking entities for non-banking corporations (5%/15% rules)
- Shareholding of banking entities by non-financial corporations

The meetings were held in October and November, with the following agenda:

- Contribution of the banking industry to the local socio-economy and the further enhancement of banking businesses
- Incidental businesses run by banks and any subsidiaries of group companies
- Measures to maintain the financial functioning of local economies
- Regulations on the scope of business undertaken by insurance companies and the maintenance of other required regulations etc.

In the second session, the JFSA discussed the contribution of the banking industry to the local socio-economy. Enhancements to the banking industry, regional business revitalization, restrictions on voting rights, exceptions in relation to business succession, and venture business support etc. were also discussed.

In addition, in the second and third sessions, the JFSA discussed regulations on incidental business activities by banks and their subsidiaries/group companies, regulations on the scope of business that can be undertaken by foreign subsidiaries/foreign group companies with a view to strengthening their international competitiveness, and regulations on banks held by non-banking corporations.

Finally, measures to maintain the financial function of local economies for the fourth meeting, regulations on insurance business and the other maintenance of regulations were discussed for the fifth meeting.

Working group notes – session 2
Working group notes – session 3
Working group notes – session 4
Working group notes – session 5

2 BOJ *The Bank of Japan's Approach to Central Bank Digital Currency*

The Bank of Japan (BOJ) released *The Bank of Japan's Approach to Central Bank Digital Currency* in October 2020. As well, the BOJ collaborated with the Bank of Canada and the European Central Bank on a report setting out common foundational principles and core features of a CBDC.

While BOJ has no plans to issue a CBDC, the BOJ considers it important to prepare thoroughly to respond to changes in circumstances in an appropriate manner from the viewpoint of ensuring the stability and efficiency of the overall payment and settlement systems. Therefore, BOJ showed its approach to a "general purpose" for a CBDC, which would be intended for a wide range of end users including individuals and firms.

This BOJ's approach mentioned the five key contents: 1) Expected functions and role of a CBDC, 2) Core features required for CBDC, 3) Points to be considered, and 4) Next steps.

The Bank of Japan's Approach to Central Bank Digital Currency (for English, see here)

3 JFSA improvement orders for the JPX and TSE

The JFSA issued improvement orders to the Japan Exchange Group, Inc. (JPX) and its subsidiary the Tokyo Stock Exchange, Inc. (TSE) due to the system failure occurred in October 2020.

The improvement order to the JPX was based on the *Financial Instruments and Exchange Act*. The JPX is required to promptly create a plan to implement prevention measures to mitigate a reoccurrence of issues as well as the progress against this plan. In addition, the TSE and the Osaka Exchange, Inc. etc. were ordered undertake the following three matters:

- In the event of a system failure, conduct a comprehensive inspection of the system and training for early recovery
- Establish rules for trade restart including market participants
- Review the basic concept of system development and maintenance to improve resilience against disruptions

Also, the TSE was requested to clarify its responsibility for managing its subsidiaries.

Improvement order for the TSE and JPX (For English, see here)

Malaysia

1 Capital adequacy framework

The Capital Adequacy Framework for Islamic and non-Islamic banks sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which a financial institution is required to operate. The framework has been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision.

Banks: Capital Adequacy Framework
Islamic banks: Capital Adequacy Framework

2 Transitional arrangements for regulatory capital treatment of accounting provisions for development financial institutions

Prescribed development financial institutions (DFIs) that elect to apply the transitional arrangements published by the BNM are allowed to add back a portion of the Stage 1 and Stage 2 provisions for expected credit losses (ECL) to Tier 1 capital over a four year period from financial year beginning 2020 or a three-year period from financial year beginning 2021. The transitional arrangements are consistent with the guidance issued by the Basel Committee on Banking Supervision.

Transitional arrangements for regulatory capital treatment of accounting provisions for development financial institutions

3 Measures to support SMEs and individuals affected by COVID-19

The BNM has announced a number of measures to support individuals and SMEs impacted by COVID-19. These measures are part of continuous efforts by the financial industry to support economic recovery, while also safeguarding the livelihoods of Malaysians. They include (among others):

- RM2 billion Targeted Relief and Recovery Facility (TRRF)
- RM500 million High Tech Facility (HTF)
- RM110 million increase in allocation for the Micro Enterprises Facility (MEF)
- Enhancements to the Targeted Repayment Assistance (TRA)

Budget measures to assist individuals and SMEs affected by COVID-19
New and enhanced financing facilities for SMEs affected by COVID-19

4 Targeted repayment assistance

BNM assured borrowers that repayment assistance will remain available for borrowers whose incomes have been affected by the pandemic. Depending on their circumstances, borrowers facing challenges have generally requested for reductions in monthly repayment instalments or an extension of the moratorium. Borrowers who declined repayment assistance for now would still be able to apply for targeted assistance throughout 2020 and into 2021 if their financial circumstances change in the future. Assistance continues to be offered to borrowers across a range of income groups, with special consideration given to households in the bottom 40% of income, micro businesses, and borrowers affected by movement restrictions.

Targeted Repayment Assistance better serves borrowers' needs

5 Financial stability review for the first half of 2020

This Financial Stability Review – First Half 2020 provides Bank Negara Malaysia's assessment on current and potential risks to financial stability and the resilience of the Malaysian financial system to sustain its financial intermediation role in the economy. It also reports on any actions that have been taken to manage risks to financial stability as well as a deep dive on the measures that have been taken in Malaysia to mitigate the impact of COVID-19.

Bank Negara Malaysia Financial Stability Review for First Half 2020

Key Market Events

Regulators in Malaysia have shifted their focus to maintaining the welfare of financial consumers by implementing measures to allow the financial system to support the economic recovery. This was seen through the implementation of two funds, i.e. the Targeted Relief and Recovery Facility (TRRF) and the Micro Enterprises Facility (MEF) to assist eligible SMEs in the services sector as well as improve access to credit for micro enterprises (including self-employed individuals), gig workers on digital platforms, and participants of the iTEKAD programme. In addition, revisions have been made to the *Regulatory Capital Treatments of Accounting Provisions* for banking institutions (including financial holding companies) and development financial institutions to ease the regulatory capital requirement for these institutions due to the impact of COVID-19.

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New Zealand

1 Credit Contracts and Consumer Finance Act (CCCFA) amendment regulations 2020

The *Credit Contracts Legislation Amendment Act* (CCFA) became law on 19 December 2019. It introduces changes that will impact all lenders providing credit in New Zealand. The amendments to the CCCFA include stricter requirements for affordability and suitability tests, as well as the requirement to maintain records of this.

Additionally, the regulation will now include personal obligations for directors and senior managers of a creditor under a consumer credit contract. They must apply due diligence to ensure the creditor abides by the CCCFA, and meets "fit and proper person" requirements. Other changes include new advertising standards and the calculation method credit and default fees have been calculated to improve transparency.

Amendments to Credit Contracts and Consumer Finance Act 2003

2 Funding for Lending Programme (FLP)

The *Funding for Lending Programme* will begin implementation in December 2020. The programme aims to increase investment and consumption by lending to businesses and households at lower interest rates to support the economic recovery of New Zealand following COVID-19.

The programme intends to provide long-term funding (three years, with a floating interest rate) at low-cost, secured against high-quality collateral. Similar schemes have been implemented in Australia, UK and Europe.

Funding for lending programme

3 FMA Disclosure framework for integrated financial products

The Financial Markets Authority (FMA) released a disclosure framework for issuers of financial products that incorporate non-financial factors, e.g. green bonds. The guidance outlines how the FMA interprets the law, when and how they will exercise their powers under legislation, describes the principles outlining their approach, and gives practical examples on how to meet obligations.

Disclosure framework for integrated financial products

4 Infrastructure Funding and Financing Act 2020

The *Infrastructure Funding and Financing Act* aims to provide a funding and financing model for the provision of infrastructure for housing and urban development. The *Act* will help New Zealanders purchase houses they can afford as councils will be able to fund the necessary infrastructure to support housing development in high-growth areas.

This is likely to impact the loan sector of the financial services industry, and may have repercussions on the viability of high home lending rates as well as the housing market.

Infrastructure Funding and Financing Act 2020

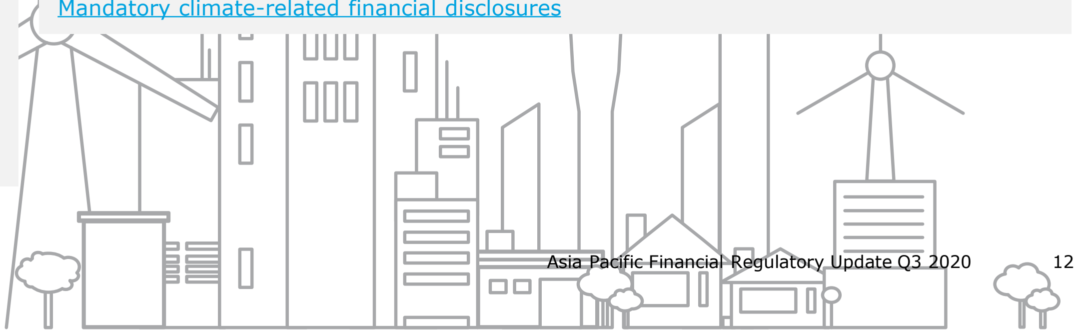
5 TCFD aligned disclosures

The New Zealand government plans to make climate-related financial disclosures in line with the TCFD mandatory for some organisations:

- All registered banks, credit unions, and building societies with total assets of more than NZD 1 billion
- All managers of registered investment schemes with greater than $1 billion in total assets under management
- All licensed insurers with greater than NZD 1 billion in total assets under management or annual premium income greater than NZD 250 million
- All equity and debt issuers listed on the New Zealand Stock Exchange
- Crown financial institutions with greater than NZD 1 billion in total assets under management
- Their framework focuses on four main areas: governance, strategy, risk management, and metrics and targets

If approved by the New Zealand parliament, financial entities could be required to make disclosures in 2023 at the earliest.

Mandatory climate-related financial disclosures



Singapore

1 Developments on Environmental Risk Management

MAS has published guidelines to enhance the sector's resilience to and management of environmental risk.

Guidelines on Environmental Risk Management for Asset Managers
Guidelines on Environmental Risk Management for Insurers
Guidelines on Environmental Risk Management for Banks

MAS has launched the Green and Sustainability-Linked Loan Grant Scheme (GSLS). The first of its kind globally, the GSLS will enhance corporates' ability to obtain green and sustainability-linked loans as well as encourage banks to develop frameworks for green and sustainability-linked loans.

MAS Launches World's First Grant Scheme to Support Green and Sustainability-Linked Loans

2 Non-Bank Financial Institutions to have access to FAST and PayNow

MAS announced that eligible non-bank financial institutions (NFIs) will have direct access to the banking system's retail payments infrastructure from February 2021. NFIs that are licenced as major payment institutions under the Payment Services Act will be allowed to connect directly to Fast and Secure Transfers (FAST) and PayNow.

Non-Bank Financial Institutions to have Access to FAST and PayNow

3 Enforcement Against Market Abuse and Financial Misconduct

MAS published its *Enforcement Report*, covering the period January 2019 to June 2020. The report detailed various enforcement actions taken against financial institutions and individuals for breaches of MAS regulations and requirements, including market abuse, financial misconduct, and control breaches related to money laundering.

MAS steps up enforcement actions against market abuse and financial misconduct

Key market events

MAS announced that users of Singapore's PayNow and Thailand's PromptPay will be able to send money instantly and securely across the two countries using their phone numbers at competitive rates from mid-2021. Such a linkage of national faster payments systems is the first of its kind in the world.

"FinTech for an Inclusive Society and a Sustainable Planet" - Remarks by Mr Ravi Menon, Managing Director, Monetary Authority of Singapore, at Singapore FinTech Festival 2020 on 8 December 2020

Numerous FinTech-related developments were announced during the Singapore FinTech Festival (SFF), including MAS and the Smart Nation and Digital Government Group launching the Singapore Financial Data Exchange (SGFinDex), which will enable Singaporeans to consolidate their financial information for more effective financial planning.

Digital Infrastructure to Enable More Effective Financial Planning by Singaporeans

MAS announced four successful digital bank applicants, one short of the limit of five. Two Digital Full Bank (DFB) and two Digital Wholesale Bank (DWB) licences have been awarded.

MAS Announces Successful Applicants of Licences to Operate New Digital Banks in Singapore

MAS announced that the mandate of the Steering Committee for Singapore Overnight Rate (SOR) Transition to SORA (Committee) will be expanded to enable it to oversee the interest rate benchmark transition from SIBOR to SORA as well.

MAS Expands Mandate of Industry Steering Committee to Drive SIBOR Transition

South Korea

1 Routine inspection of personal data protection at financial institutions

The Korean Financial Services Commission (FSC) announced its plans to introduce a routine inspection of personal data protection at financial institutions to ensure consistency in data protection and improve accountability.

The plans include establishing specific inspection standards according to the data lifecycle, providing feedbacks on a regular basis through Financial Security Institute and setting up self-inspection guidelines for financial institutions. The routine inspection on the performance of data protection is scheduled to go into effect on February 4, 2021.

The specific inspection criteria will be established with 9 overall categories and 143 subcategories. The authorities will develop guidelines and provide the routine inspection assistance process to help financial institutions to conduct self-inspections on their own.

[Routine inspection of personal data protection at financial institutions]

2 Preventing economic shocks and managing financial market risks

The FSC will decide in December 2020 whether to extend the operation of the SPV (The low-rated corporate bond and commercial paper purchase program), and will work to ensure an effective management of household debt and closely monitor the flow of capital into high-risk assets.

[Preventing economic shocks and managing financial market risks]

3 FSC to work on COVID-19 recovery, cultivating innovative firms and ensuring market stability

FSC officials discussed the progress in implementing the COVID-19 financial support including the small merchant support program and market stabilisation measures. In addition, the FSC will work to implement the 'Korea New Deal Fund'. The Korean government held events relating to the 'Digital New Deal' on 6 November 2020 to raise public awareness and look for new investment opportunities.

[Korea 'New Deal']

Key Market Events

South Korea has established a credit information management platform called 'MyData'. This platform allows financial firms and fintechs to offer financial advice using customer data and has therefore made the proper handling of said customer data all the more important. Firms will need to comply with newly tightened regulations on the handling of customer data in South Korea.

Another key event was the announcement of the 'Korean New Deal' (K-New Deal), a KRW 160 trillion+ investment scheme. The K-New Deal has three key objectives – (a) creating jobs in both traditional and newly emerging digital and green sectors, (b) building necessary infrastructures that will facilitate a transition to a digital and green economy and (c) transforming the Korean economy from a 'fast follower' to a 'first mover' economy in the post-COVID-19 era.

The K-New Deal consists of the Digital New Deal, Green New Deal and stronger safety net. The Digital New Deal focuses on building digital infrastructures in DNA (data, network and artificial intelligence) sectors while promoting a digital transformation in education infrastructure and other industries. The Green New Deal aims to shift the Korean economy from a carbon-intensive to a green economy by promoting the use of low-carbon and decentralised energy and making infrastructures more eco-friendly and energy-efficient. At the same time, the K-New Deal also seeks to provide stronger employment and social safety net and boost investment in human capital. The government estimates that the K-New Deal projects will cost approximately KRW160 trillion until 2025 and create about 1.9 million new jobs.

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Taiwan

1 Insurance trust fund

The Taiwan Financial Services Commission (FSC) released an amendment to the application process to undertake insurance trust fund business. The amendment dealt with required capital ratios as well as fines.

[Measures for the review and management of insurance trust fund]

2 Disclosures for insurance

The FSC released an amendment to the required disclosures for insurance companies undertaking personal/life insurance business. The amendment dealt with disclosure requirements such as organisational structure and corporate governance (including ownership share or relationships with affiliates etc.).

[Administration of information disclosure in the personal insurance industry]

3 Insurance product sales procedures

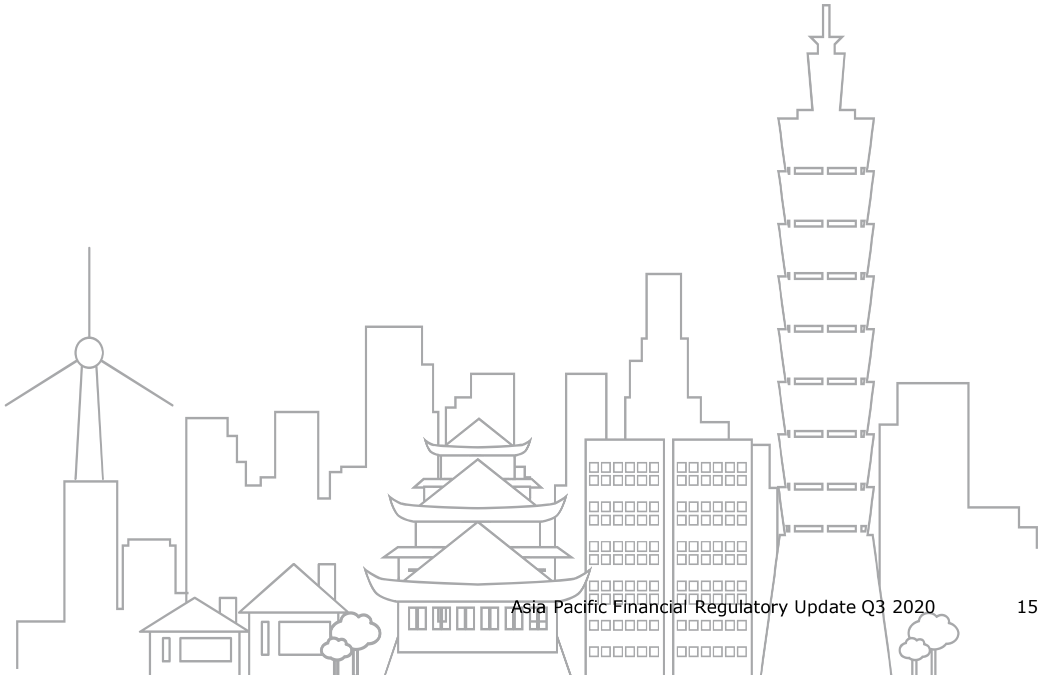
The FSC released an amendment to the requirements for the sale of insurance products. The updates included information on premiums as well as new products like micro insurance.

[Procedures for sale of insurance products]

4 Fit and proper requirements

The FSC released an amendment to the fit and proper requirements for senior leadership in banks (both domestic and foreign) and financial holding companies. The amendments focused on correct skills/background to hold the position (ex. the requisite IT skills).

Banks - [Fit and proper requirements]
Financial holding companies - [Fit and proper requirements]



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