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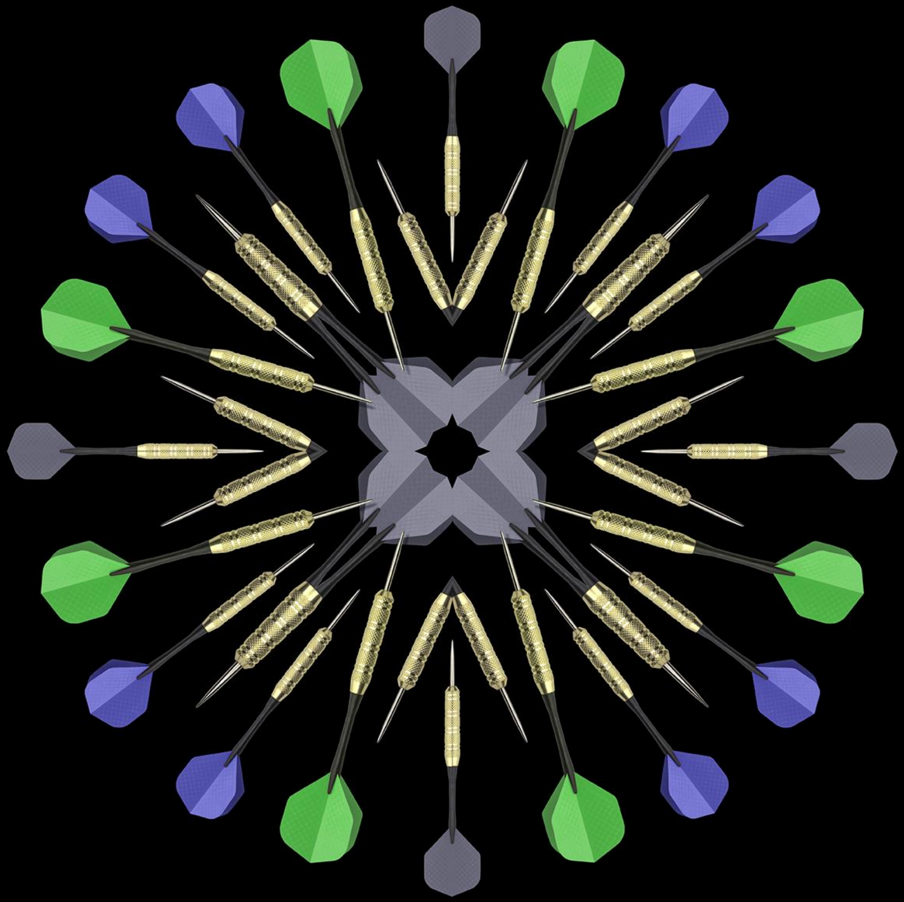


Asia Pacific Financial Regulatory Update

Q4 2019

December, 2019

CENTRE *for*
REGULATORY STRATEGY
ASIA PACIFIC

Introduction

Dear clients and colleagues,

The Deloitte Asia Pacific Centre for Regulatory Strategy is delighted to share with you the key regulatory updates from around our region from Q4 2019.

Technology and data continues to be key focus area for Asia Pacific regulators this quarter. In **Japan**, we saw a development in **cybersecurity** where an industry-wide exercise was conducted to address possible attacks during the 2020 Olympics and Paralympics.

Regulators in both **Hong Kong SAR** and **Singapore** released important guidance on the responsible use of **Artificial Intelligence (AI)**. The Monetary Authority of Singapore built on its previous guidance and issued a framework (Veritas) to help financial institutions evaluate their AI-driven solutions against the principles of fairness, ethics, accountability and transparency (FEAT). The Monetary Authority of Hong Kong (HKMA) some of its first guidance on the use of AI and focused in on areas like senior management responsibilities, customer protection, and auditability.

In **Malaysia**, there was guidance on **outsourcing**. The new requirements also serve to ensure a bank's continued ability to carry out effective supervisory oversight over financial institutions in relation to their outsourced activities. Third-party management is a key aspect of operational resilience and likely to continue to be an important topic in the future.

Both **Australia** and **South Korea** had developments on **conduct**, **consumer protection**, and **governance**. The Australian Securities and Investments Commission released an important report on the oversight of non-financial risks, while a South Korean consumer protection bill was approved by the National Policy Committee.

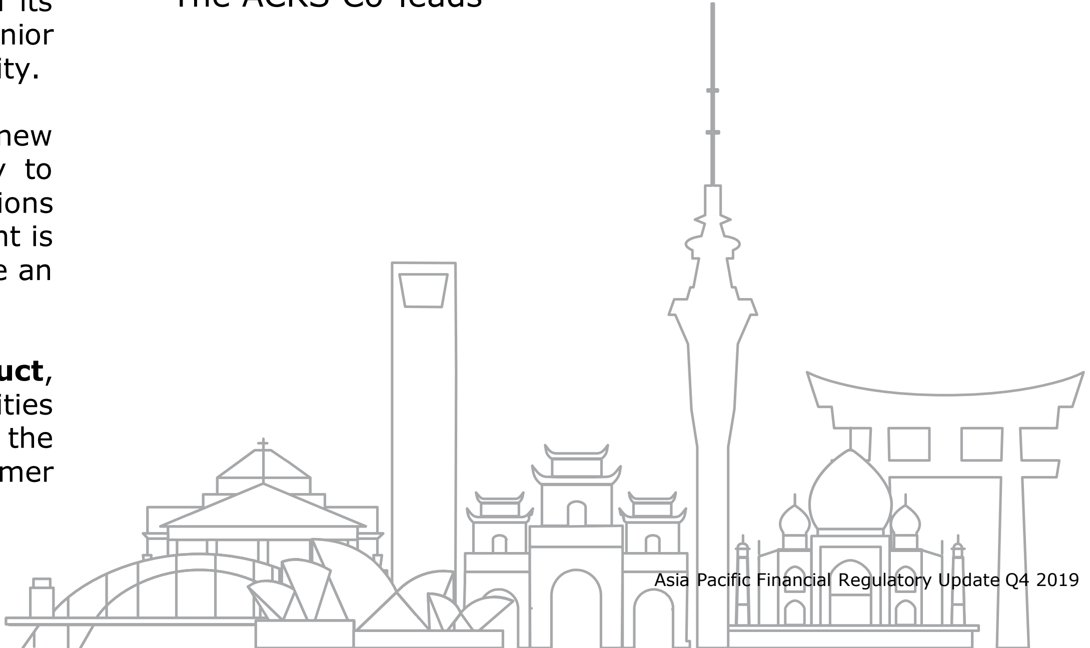
In **India**, the **Personal Data Privacy Bill** passed an important milestone by securing approval from the Union Cabinet for introduction in the current winter session of Parliament. Once the bill is enacted and enforced, protection of personal data and privacy in India will be governed by this new law.

Finally, there were continued developments in **IBOR transition** across the region. Regulators in **Japan** and **Hong Kong SAR** expressed their intention to enhance their monitoring of the financial sector's preparedness for the transition.

For queries or more information on these updates or other regulatory topics, please get in touch.

Best Regards,

The ACRS Co-leads



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Regulatory Hot Topics – Top five most talked about themes this quarter

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Taxonomy

1. Governance & Strategic / Reputational Risk
2. Financial Risk
3. Operational & Conduct Risk
4. Financial Crime
5. Consumer Protection
6. Data & Technology
7. Financial Products, Instruments & Services
8. Financial Market Infrastructure
9. Systemic / Currency Stability
10. Enforcement
11. Supervisory Approach
12. Climate Risk

Australia

1 Remuneration requirements for all APRA-regulated entities

The Australian Prudential Regulation Authority (APRA) is creating a new prudential standard relating to remuneration requirements across all APRA-regulated industries. The new requirements will help regulated entities align remuneration practices with risk, performance and their long-term viability. The standard is pending decision.
Consultation on remuneration requirements for all APRA-regulated entities

2 APRA consults on further amendments to the ADI leverage ratio

APRA has released for consultation in October its proposed amendments to Prudential Standard APS111 Capital Adequacy. The revisions include the introduction of the Total Loss Absorbing Capacity requirements issued by the Basel Committee on Banking Supervision (BCBS) in October 2016 and took effect for G-SIBs in January 2019. Further, APRA is proposing changes to the capital treatment of equity investments by Authorised Deposit-taking Institutions (ADIs) in their banking and insurance subsidiaries by requiring exposures above 10 per cent of CET1 Capital to be deducted from CET1 Capital, as opposed to the current RWA approach which will apply only to exposures up to 10 per cent. This second change will likely have significant effects on Australian banks that maintain significant equity holdings in domestic and international bank and insurance subsidiaries. APRA expects to finalise changes to APS111 Capital Adequacy in early 2020 and the updated Standard will come into force from January 2021.
APRA consults on further amendments to the ADI leverage ratio

3 APRA strengthens approach to supervising GCRA risks

In an information paper, APRA has set out a more intensive regulatory approach to transform standards of governance, culture, remuneration and accountability (GCRA) practices across the prudentially regulated financial sector, in line with a key commitment made in APRA's 2019-2023 Corporate Plan. APRA's intensified approach to GCRA aims to strengthen the resilience of financial institutions, including addressing, and ideally preventing, issues such as poor risk governance, misaligned incentives and misconduct that have undermined public confidence in the financial sector over recent years.
APRA sets out stronger, more transparent approach to regulating and supervising GCRA risks

4 Corporate Governance Taskforce Review

The Australian Securities and Investments Commission (ASIC), as part of its Corporate Governance Taskforce, released a report in early October on the oversight of non-financial risks (NFR) by Directors and Officers. The report found that issues with adequate and efficient information flow between management and the Board; a lack of general understanding in regards to NFR issues; and a predilection towards 'form over substance', as key underlying issues. The report provides a range of better practice principles in relation to three areas: definition, monitoring and reporting of Risk Appetite; the effective and efficient provision of information to the Board and its sub-committees; and the role, responsibility, composition and effectiveness of the Board Risk Committee.
Taskforce Review

5 Mortgage broker best interests duty and remuneration reforms

In response to recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the Australian government announced it would introduce a best interests duty for mortgage brokers and reform mortgage broker remuneration. The Australian treasury subsequently released for consultation an exposure draft for its upcoming best interests duty and mortgage broker remuneration amendments to the National Consumer Credit Protection Act. The purpose of the reforms are to assist in managing potential conflicts of interest arising from the payment of brokers by product owners as opposed to consumers which was given significant coverage in the Financial Services Royal Commission this year. The exposure draft defines several forms of conflicted remuneration including volume-based and campaign-based benefits as well as sets out cases where conflicted remuneration must not be accepted or given.
Mortgage broker best interests duty and remuneration reforms

6 Disclosure as a consumer protection mechanism

A joint report between ASIC and the Dutch Authority for the Financial Markets was published in October, highlighting the limitations of overreliance on disclosure as the default consumer protection mechanism. The report found that disclosure did not necessarily allow consumers to make better informed decisions, due to the inherent complexity in many financial services products; a limited number of consumers actively engage with the disclosures provided to them; and that standardised disclosures can be ineffective due to the different decision-making styles of people. Moving forward, ASIC is taking a more consumer outcome-focused approach to regulation, and this report will likely inform their approach to regulation and supervision, particularly in regards to their Product Intervention Powers.
Disclosure: Why it shouldn't be the default

Mainland China (1/2)

1 Foreign ownership limit in foreign-invested futures companies

With approval from the State Council, the Chinese Securities Regulatory Commission (CSRC) officially released the Administrative Measures for Foreign-invested Futures Companies, according to which the ownership limits of qualified foreign investors in foreign-invested futures companies is relaxed to 51% and will be fully removed in three years.
Foreign ownership limit in foreign-invested futures companies

2 Regulatory Guidelines for Stock Exchange Risk Funds

The Regulatory Guidelines for Stock Exchange Risk Funds will further improve the management mechanism of stock exchange risk funds as well as the efficiency of fund use and management and risk handling of stock exchanges.
Stock Exchange Risk Funds

3 Supervision of Commercial Factoring Enterprises

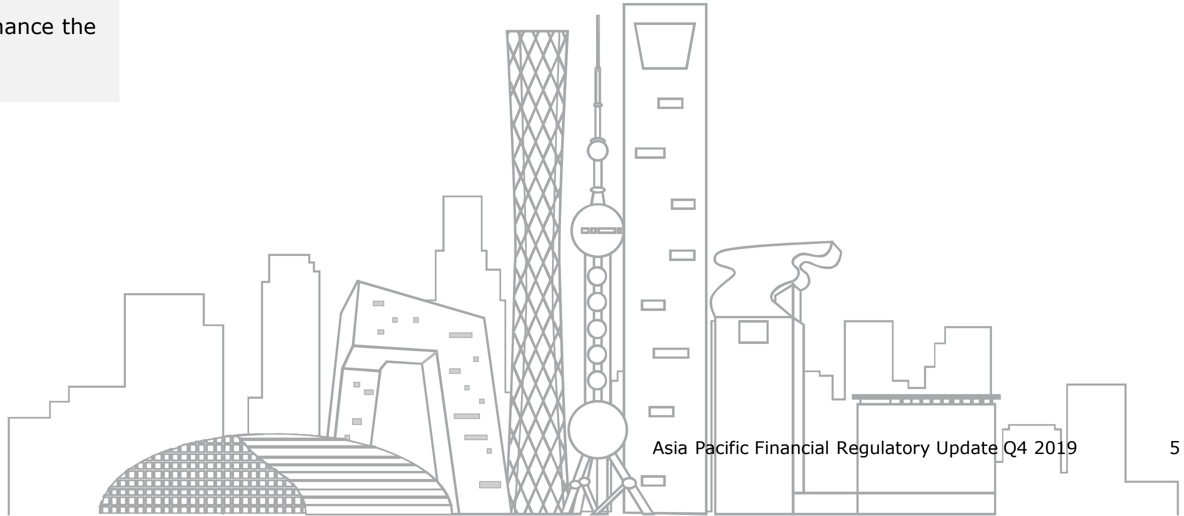
The Notice on Strengthening Supervision and Management of Commercial Factoring Enterprises provides guidance for local authorities to strengthen in-process and ex-post supervision of commercial factoring enterprises in the following six aspects: to operate in compliance with laws and regulations; to strengthen supervision and management; to steadily promote classified disposal; to strictly control market access; to clean up the existing factoring enterprises and strictly control incremental registration of commercial factoring enterprises to ensure the number and qualification of enterprises remains managed by regulators; to strengthen local supervisory responsibilities; and to enhance the business environment.
Commercial Factoring Enterprises

4 Supervision of Financing Guarantee Companies

The Notice on Issuing Supplementary Provisions on Supervision of Financing Guarantee Companies helps to further standardise the financing guarantee business, to promote the stable operation of the financing guarantee industry, and to better support the financial development of inclusive finance.
Financing Guarantee Companies

5 Commercial Banks' Structured Deposit Business

The Notice on Further Regulating Commercial Banks' Structured Deposit Business was formulated and issued by the CBIRC in order to further regulate the structured deposit business of commercial banks, effectively prevent risks, and protect the legitimate rights and interests of investors. The notice comes into force as of the date of its promulgation. The notice was issued in response to problems in product management, misleading sales, non-compliant operation and other issues that have arisen in the recent rapid development of the structured deposit business of some commercial banks.
Structured Deposit Business



Mainland China (2/2)

6 Related-party Transactions in Insurance

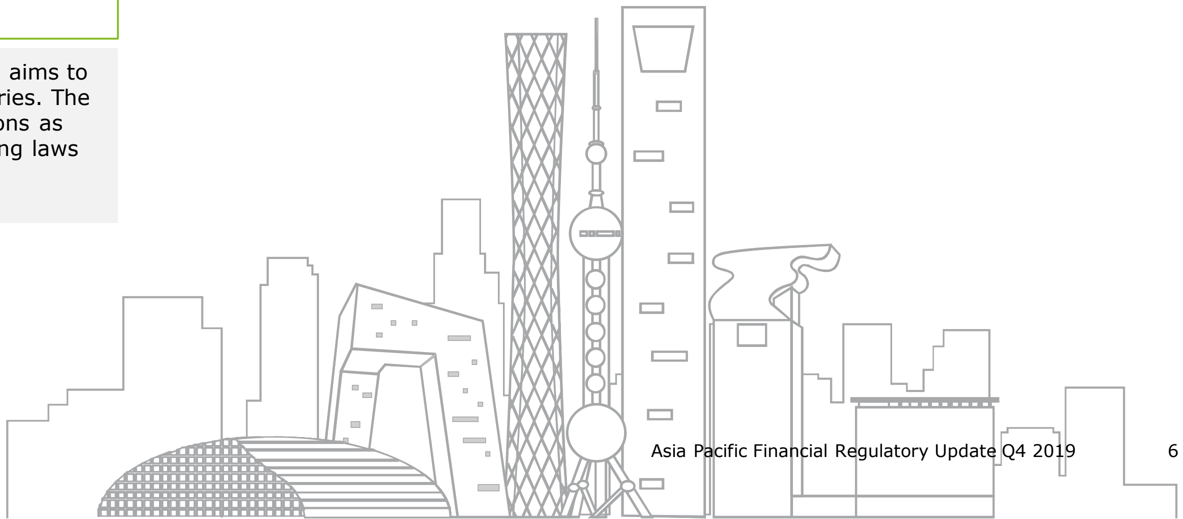
In order to strengthen the supervision of related-party transactions, the CBIRC has issued Rules on Related-party Transactions of Insurance Companies. The seven chapters and 64 articles seek to clarify the principles of strict and penetrating supervision as well as establish a full-process connected transaction review and reporting system. They also focus on monitoring connected transactions and the use of large amounts of funds by institutions with poor corporate governance. The goal of these rules is to see insurance companies improve market competitiveness as well as control the number and scale of related-party transactions. This will help to achieve the regulatory objective to improve the independence of insurance companies' operations and prevent the risk of benefit transmission.
Related-party Transactions in Insurance

7 Systemically-Important Banks Draft Evaluation Measures

The CBIRC has released guidelines indicating the purpose and scope of identifying systemically-important banks (SIBs) in China. The CBRC will identify and publish a list of China's SIBs on an annual basis. This will be followed by differentiated supervision and additional regulatory requirements for identified SIBs, the implementation of macro-prudential management, and the establishment of a special disposal mechanism. The guidelines illustrate the assessment method including a quantitative evaluation index and qualitative information.
SIB Evaluation Measures

8 Draft Net Capital Management Methods

The Commercial bank finance subsidiaries net capital management methods (draft) aims to strengthen the supervision and management of commercial bank financial subsidiaries. The methods promote the operation of commercial banks under safe and stable conditions as well as protect the legal rights and interests of investors based on a series of existing laws and administrative regulations.
Net Capital Management Methods (in Chinese))



Hong Kong SAR

1 Dubious private fund and discretionary account arrangements

On 21 November, the HK SFC released a circular to provide guidance to asset managers on "(i) considering if a proposed private fund and discretionary account arrangement or transaction is dubious and (ii) deciding if they should proceed with a proposed arrangement or transaction that has been considered dubious." This circular was issued as the SFC had identified a number of transactions involving private fund or discretionary accounts under the supervision of asset managers where red flags were present that could have led the supervising asset manager to reasonably suspect that these transactions may not be legitimate or proper. The SFC reminds asset managers they should watch for signs of dubious transactions which may lead to misconduct by their clients or other entities. As well, they emphasise that the senior management of a licensed firm bears the primary responsibility to ensure the appropriate standard of conduct as well as adherence to proper procedures.

Circular to licensed corporations: Dubious private fund and discretionary account arrangements or transactions

2 AI and Big Data Use

In November, the HKMA released two important circulars on the use of Artificial Intelligence (AI) and Big Data Analytics (BDA). In the High-level Principles on Artificial Design the HKMA lays out its guidance to the banking industry on the use of AI applications. For example, the circular emphasises that the Board and senior management are accountable for the outcome of AI applications. It also comments on the need for Authorized Intuitions to have sufficient expertise to design and develop AI applications, should ensure their auditability, use good quality data, effectively manage third-parties, comply with data protection rules and conduct periodic reviews etc.

The HKMA's Consumer Protection in respect of Use of Big Data Analytics and Artificial Intelligence by Authorized Institutions used both feedback from the banking industry as well as OECD guiding principles to develop an approach to consumer protection. The HKMA lays out four areas where Authorized Institutions should pay particular attention: Governance and accountability; Fairness; Transparency and disclosure; and Data privacy and protection to ensure customer protection. The HKMA also welcomes the industry to develop worked examples on the application of the principles in the circular.

High-level Principles on Artificial Intelligence

Consumer Protection in respect of Use of Big Data Analytics and Artificial Intelligence by Authorized Institutions

3 Reform of Interest Rate Benchmarks

In the 23 October Reform of interest rate benchmarks, the HKMA gives the latest international developments in benchmark reforms as well as stated their intention to monitor Authorized Institutions' progress in the transition from interbank offered rates (IBORs) to alternative reference rates (ARRs). The Hong Kong Dollar Overnight Index Average (HONIA) has been identified as the ARR to the Hong Kong Interbank Offered Rate (HIBOR) (though there is no plan to discontinue HIBOR). In order to better monitor this transition, the HKMA also announced they would conduct a regular survey to collect information on the exposures that reference IBORs.

Reform of Interest Rate Benchmarks

Key Market Events

The HKMA released its inaugural Regtech Watch newsletter in November. The newsletter will be a forum for the HKMA to promote the use of regtech in the Hong Kong SAR banking industry. In particular, Regtech Watch looks to collect actual and potential use cases from Hong Kong SAR and abroad of regtech to help Authorized Institutions adopt innovative technology to enhance their risk management and regulatory compliance. The HKMA also welcomes feedback or suggestions to help the newsletter serve its purpose.

The first newsletter looked at three uses cases:

Behavioural biometric techniques: Techniques to analyse a user's behavioural patterns such as typing speed, finger position, pressure level when typing, how a user holds their device etc. as a way to build a unique identity profile that evolves with the customer. As this profile is extremely difficult to replicate, it can assist in user authentication and fraud detection while also limiting credit stuffing – when passwords and user names are stolen from one system and used on another.

Analytics of activity logs: The use of artificial intelligence to continuously comprehend what normal system or user activities look like. This technology would be able to account for changes in an ever-evolving system/business and be able to find potentially abnormal patterns. Current activity log analysis is often rules-based, with these rules being written based on previous cyber attacks and often lacking the capability to detect never before seen emerging threats.

Automation of cybersecurity routine tasks: The use of software robots to learn from user behaviours to automate business processes intelligently and at a low cost. This reduces human error on the part of staff and frees up their time to tackle more challenging cybersecurity issues.

The HKMA AML Division, supported by Deloitte, also hosted its inaugural Regtech Forum from 22-25 November 2019. This event brought together Authorized Institutions in Hong Kong SAR, peer regulators, technologists, and other members of Hong Kong SAR's AML/CFT ecosystem to explore how technology can be applied to make a meaningful impact on our individual and collective AML/CFT efforts. The event included presentations, expert panels, and interactive workshops aimed at supporting Authorized Institutions at all levels of regtech adoption.

India

1 Personal Data Privacy Bill

In a landmark judgment, the Supreme Court of India in 2017 announced privacy as a fundamental right under Articles 14, 19, and 21 of the Constitution of India. Subsequently, the Government of India formed a committee to propose the "Personal Data Privacy Bill" (PDPB) for India. The committee released a draft version of the PDPB in August of 2018, which went through a number of public consultations. The objective of the PDPB is to ensure protection and regulation of the collection, usage, transfer, and disclosure of the personal data of the data principal.*

On 4 December 2019, the PDPB achieved another milestone by securing approval from the Union Cabinet for introduction in the current winter session of Parliament. This means that once the bill is enacted and enforced, protection of personal data and privacy in India will be governed by this new law.

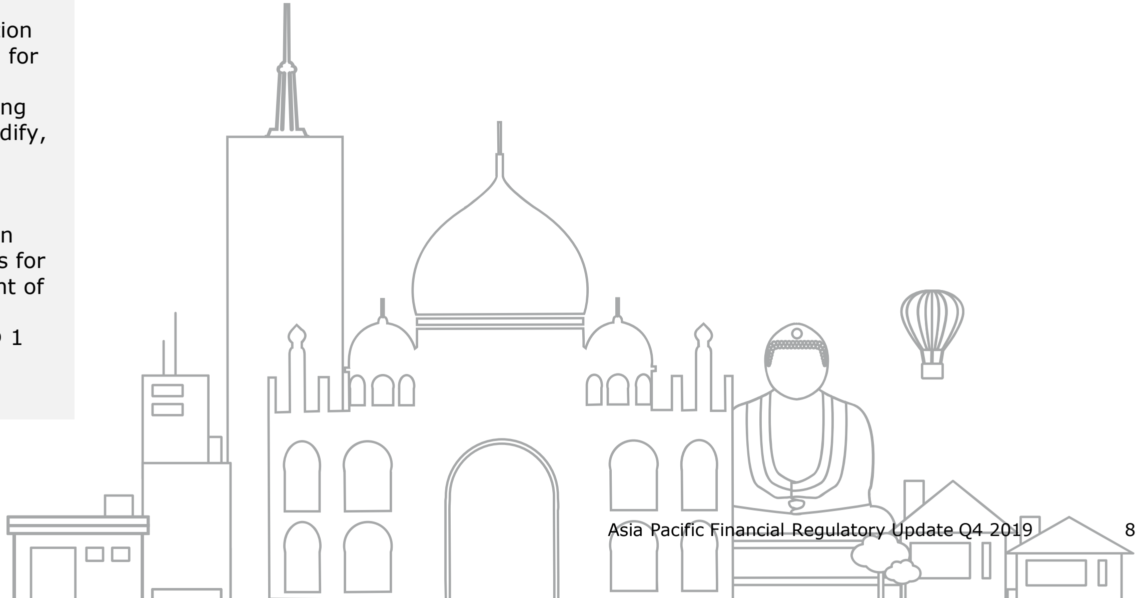
Unlike the India Information Technology Act (IT Act), which is applicable to only 'body corporates', the draft PDPB is applicable to processing of personal data by the state, by any Indian citizen or any person or body of persons incorporated or created under Indian law. In addition, the draft PDPB is not only applicable to organisations operating from India but also is applicable to organisations (data processors**) not present within India if the processing includes offering of goods or services or profiling of individuals within the territory of India.

In a number of ways, the proposed bill is similar to the European Union's General Data Protection Regulation (GDPR) bill, which is considered a 'Gold Standard' of data protection in the world. The key requirements of the bill include: obtaining an individual's consent for the collection and processing of personal data, providing a Privacy Notice/Statement, appointing a Data Protection Officer (DPO), implementing security safeguards, conducting Data Protection Impact Assessments (DPIA), providing individuals' rights to access, modify, delete, or port their data, reporting of breaches, and conditions for cross-border data transfer.

The PDPB also includes a provision to issue penalties on a two-tier system depending on the type of violation and the history of prior violations. Under one tier system, penalties for a data fiduciary*** may extend up to INR 15 Crore (roughly USD 3 million) or 4 percent of its total worldwide turnover of the preceding financial year, whichever is higher. Under another tier-system, a data fiduciary may be penalised up to INR 4 Crore (roughly USD 1 million), or 2% of its total worldwide turnover of the preceding financial year, which is higher.

* "Data principal" means the natural person to whom the personal data is referred.
** "Data processor" means any person, including the State, a company, any juristic entity, or any individual who processes personal data on behalf of a data fiduciary, but does not include an employee of the data fiduciary.
*** "Data fiduciary" means any person, including the State, a company, any juristic entity, or any individual who alone or in conjunction with others determines the purpose and means of processing personal data.

[Personal Data Protection Bill, 2018]



Indonesia

1 Electronic Licensing in the Financial Services Sector

In order to increase the effectiveness of integrated licensing implementation in the financial services sector, a reliable and transparent licensing system that encompasses the entirety of the licensing process in the financial services sector in needed. Issued on 24 October, the law is known in Indonesia as *Perizinan Secara Elektronik di Sektor Jasa Keuangan.*
Electronic Licensing in the Financial Services Sector

2 Administration of Electronic Systems and Transactions

The rapid development of information technology encourages the growth of the digital economy and necessitates measures to uphold the country's sovereignty over electronic information in the territory of the Republic of Indonesia. Therefore, it is necessary to thoroughly regulate the use of information technology and electronic transactions. Government Regulation Number 82 of 2012 concerning this issue is no longer in accordance with the development of the jurisdiction's legal needs and therefore it needs to be revoked. Issued on 10 October 2019, the law is known locally as *Penyelenggaraan system dan transaksi elektronik.*
Administration of electronic system and transaction

3 Systematic Internalisers

A Systematic Internaliser is a bank that provides certain facilities that are used in performing transactions in money markets and/or foreign exchange markets under their own account with users. As the provider of electronic-based transactions system facilities, Systematic Internalisers are obliged to have good governance and risk management. This is expected to encourage the establishment of money markets and foreign exchange markets that operate with integrity, fairness, orderliness, transparency, liquidity, and efficiency. In this regard, Bank Indonesia issued a technical regulation for Systematic Internalisers on 31 October 2019.
Systematic Internalisers

4 FinTech Research Platform

Electronic Trading Platform (ETP) providers are business entities established specifically to provide certain facilities that are used to undertake interactions and/or transactions in money markets and/or foreign exchange markets. As the provider of electronic-based transactions system facility, ETP providers are obliged to have good governance and risk management. This is expected to encourage the establishment of money markets and foreign exchange markets with integrity, fairness, due order, transparency, liquidity, and efficiency. In this regard, Bank Indonesia issued a technical regulation for ETP Providers on 31 October 2019.
Electronic Trading Platform Providers

Key Market Events

Indonesia's investment alert task force, Satgas Waspada Investasi (SWI), released an alert on 7 October stating that it is looking into 133 fintech peer-to-peer lenders, 22 private-public organisations, and 27 investment supply entities currently operating without a licence.

The SWI, along with the 13 ministries / institutions which constitute its membership, continue to carry out massive education efforts directed towards the public as the large number of unofficial peer lending companies from peer to peer lending companies can cause harm to society at large.

The SWI has also stopped 27 businesses that are suspected of carrying out business activities without the permission of the authority and therefore could potentially harm the greater community. Offering these kinds of services without a licence is considered to be very dangerous for the community at large because it preys upon consumers' lack of understanding in order to deceive potential customers using the lure of high and unreasonable returns.

Japan

1 LIBOR Transition

The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks (with the Bank of Japan acting as secretariat) released the "Final Report on the Results of the Public Consultation on the Appropriate Choice & Usage of Japanese Yen Interest Rate Benchmarks" on Nov 29. The report analyses the results of public consultation based on the consultation paper released in July 2019. The public comments generally support the Risk Free Rate (RFR) term rate as the alternative rate to JPY LIBOR. However, given the expectation that the development of RFR term rate will take a certain amount of time, the temporary use of other options was also supported. There are a range of views as to these temporary options. The banking sector tends to prefer TIBOR, while some other sectors support overnight compounding in areas. Overall, the results of the public comments are still fragmented (particularly on temporary options before the RFR term rate is released and gains sufficient liquidity). Further discussion and initiatives may be required so that the market participants obtain clearer direction for the transition.
Final Report on the Results of the Public Consultation on the Appropriate Choice & Usage of Japanese Yen Interest Rate Benchmarks

2 Cybersecurity

The Japanese Financial Services Agency (JFSA) conducted the fourth financial industry-wide cybersecurity exercise (Delta Wall IV) in October 2019. Cybersecurity has been one of the top strategic priorities for the JFSA in recent years. Particularly, to address possible cyberattacks during the Tokyo 2020 Olympic and Paralympic Games, there is a surfacing need for practical exercises involving financial industry participants. Participants conducted a desktop exercise for information sharing and procedure drills based on scenarios including a broad range of DDoS attacks and IT incidents. The exercise focused on assessing participants' actions and decision making, involving a wider range of participants than the three exercises carried out previously.
Financial Industry-wide Cybersecurity Exercise (Delta Wall IV)

3 Anti-Money Laundering

The JFSA released a report on current status and issues related to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) in September 2019. In the report, the JFSA made updates on efforts by the JFSA and other parties, and on remaining AML/CFT issues.
Anti-Money Laundering and Combating the Financing of Terrorism Report September 2019

4 Supervision

The JFSA released draft amendments to the "Comprehensive guidelines for Supervision of Major Banks". The JFSA is now initiating changes in its supervisory approaches, from checklists with engagement, to risk-based approaches. In accordance with the planned abolishment of JFSA's "Inspection Manual", in the amendment the JFSA indicated basic guidance on the recognition of non-performing loans, which has been described in the Manual. The abolishment of the "Inspection Manual" is one of the JFSA's initiatives to promote risk-based approaches in its supervision and inspections.
Comprehensive Guidelines for Supervision of Major Banks, etc.

5 Regional Banks

The JFSA released draft amendments to their Pillar 1 capital adequacy requirements so as to allow an exemption for the so-called double-gearing restriction (restriction on the bank's investments in other banks). The proposal mainly intends to revise the capital adequacy regulation on double-gearing, which exempts banks' investments contributing to fulfill effectiveness of regional banks' financial intermediary function. This exemption treatment intends to promote the sustainable growth of regional banks within the Japanese financial system.
Draft amendments to the regulatory notices pertaining to Pillar 1 requirements of capital adequacy

Key Market Events

JFSA and BoJ are now closely collaborating in monitoring and preparation for the LIBOR transition.

In October 2019, BoJ and JFSA jointly distributed a survey to the major banks on their status and plan of LIBOR transition. Prior to the survey, Mr. Morita, Vice Commissioner for Policy Coordination of JFSA delivered a speech at the "Benchmark Reform Forum" held by the Committee on Japanese Yen Interest Rate Benchmarks in August.

It is expected that the banks and market participants will accelerate their preparation, which will also be prompted by the release of the Final Report on the JPY benchmarks.

Malaysia

1 Statutory Reserve Requirement

The Statutory Reserve Requirement (SRR) is a monetary policy instrument available to Bank Negara Malaysia (BNM) for the purposes of liquidity management. Effectively, banking institutions are required to maintain balances in their Statutory Reserve Accounts (SRA) equivalent to a certain proportion of their eligible liabilities (EL), this proportion being the SRR rate. Effective 16 November 2019, the SRR rate for banking institutions is 3.0% of EL.
Statutory Reserve Requirement

2 Outsourcing

Supersedes the policy document on Outsourcing issued on 28 December 2018. This policy document sets out the scope of arrangements relevant to the outsourcing policy, and the requirements and expectations on financial institutions to maintain appropriate internal governance and outsourcing risk frameworks, including those relevant to the protection of data confidentiality. The requirements also serve to ensure the Bank's continued ability to carry out effective supervisory oversight over financial institutions in relation to their outsourced activities. A financial institution must ensure that all outsourcing arrangements entered into prior to 28 December 2018, including those approved by the Bank for a specified time period, comply with the requirements in this policy document no later than 1 July 2022.
Outsourcing

3 Credit Risk

Supersedes the policy document on Credit Risk issued on 22 January 2018. This policy document seeks to ensure that credit risk management practices of financial institutions remain effective moving forward, amid the increased size and diversity of product offerings by financial institutions, greater internationalisation of the financial system, and the growing role of domestic capital markets. These expectations and requirements complement Risk Governance which sets out the overarching principles for sound risk management. This policy document comes into effect on 1 October 2019 for all financial institutions except for licensed insurers, licensed takaful operators and financial holding companies of financial groups engaged predominantly in insurance/takaful activities on 1 January 2021.
Credit Risk

4 Repurchase Agreement Transactions

Supersedes the Policy Document on Repurchase Agreement Transactions issued on 31 July 2015. This policy document on repurchase agreement (Repo) transactions seeks to - (a) set out the scope of Repo transactions that can be conducted by licensed banks and licensed investment banks; (b) set out regulatory requirements and the Bank's expectations in relation to Repo transactions; and (c) promote sound risk management practices by licensed banks and licensed investment banks for the conduct of Repo transactions.
Repurchase Agreement Transactions

5 Fair Treatment of Financial Consumers

This policy document aims to foster high standards of responsible and professional conduct in a financial service provider (FSP), promote a culture where the interests of financial consumers are an integral part of a FSP's business strategies and operations, set expectations for a FSP to effectively manage conduct risk and provide financial consumers with the confidence that a FSP acts fairly in its dealings with financial consumers.
Fair Treatment of Financial Consumers

Key Market Events

The International Conference on Financial Crime and Terrorism Financing (IFCTF 2019), held on 5–6 November 2019, provided a timely and important platform for the financial community in Malaysia to share insights and discuss issues and solutions to today's most pressing financial crime and terrorism financing challenges while strengthening their global network and collaboration.

Themed "Building Trust and Transparency: Collaborate, Accelerate, Strengthen", it brought together global thought leaders and top experts, who shared insights on the exigency of financial crime and potential solutions to this global epidemic. The event also highlighted the need for fundamentally stronger ethics and integrity as the first line of defense.

IFCTF 2019 was organised by the Asian Institute of Chartered Bankers (AICB) and drew more than 1,300 delegates from the public and private sector, including regulators and banking and financial practitioners.

New Zealand

1 Capital adequacy framework for locally incorporated registered banks

The Reserve Bank of New Zealand (RBNZ) published three External Experts Reports reviewing the Reserve Bank's analysis and advice underpinning the Capital Review proposals.

All three reports conclude that the RBNZ's analysis and advice between bank capital and financial system soundness and efficiency is balanced and unbiased.

On 5 December 2019 the RBNZ released its final decision following its review of capital frameworks for banks. Key decisions, which take effect from 1 July 2020, include banks' total capital increasing from a minimum of 10.5% to 18% for the four large banks and 16% for the remaining smaller banks.
Review of the capital adequacy framework for registered banks
Summary of External Experts Reports for Capital Review
RBNZ Capital Review Decisions 2019

2 Insurers Conduct and Culture Reviews

The RBNZ and the Financial Market Authority (FMA) indicated significant work is required to address issues of weak governance and ineffective management of conduct risk.

Some of the new issues identified in the systematic review of insurance policyholders and products include:

- Overcharging premiums and benefits not being updated due to systemic and human errors.
- Poor customer conversations overlooking eligibility criteria and poor post sale communications.
- Identification of poor value products where premiums charged were not of fair value.

The RBNZ and FMA have committed to report back on staff incentives and commissions following reports reflecting concerns with conflicted conduct associated with high up-front commissions and other forms of incentives, paid to advisers.
In their annual report the FMA looked to review parts of the financial services it does not currently regulate - banking and insurance. Subject to parliamentary approval, the Government has set out its intentions to regulate and licence conduct in the banking and insurance sectors.
FMA and RBNZ disappointed with insurers' response to conduct and culture review
FMA publishes 2019 annual report
Financial Markets Authority Annual Report 2018/19

3 New AML/CFT Audit Guidelines Released

The FMA have released updated guidelines in October 2019. This guidance is to help reporting entities understand the AML/CFT audit requirements in terms of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, and undertake an effective and credible audit of their risk assessment and AML/CFT programme.
AML/CFT Audit Guideline for risk assessment and AML/CFT programme

4 FMA highlights expectations of directors and auditors of the financial statements

The FMA has seen an improvement in audit quality since their last review. However inconsistencies in how auditors apply standards continues to persist. Greater emphasis must be placed on applying professional skepticism throughout the audit.
Directors are expected to provide high quality information to auditors as well as sufficient resources and time to aid auditors in completing their job effectively. Additionally Directors must improve communication to investors regarding the audit process and how the quality of an audit is assessed.
Audit Quality Monitoring Report
FMA Audit Quality Monitoring Report 2019

Key Market Events

Following their quarterly meeting the Council of Financial Regulators (CoFR) has announced its work priorities for the coming year as follows:

- Climate change to facilitate a smooth transition to a low carbon and climate resilient economy.
- Financial inclusion and consumer engagement to improve consumers access to and understanding of financial services.
- Conduct and governance to develop coordination and joint action on governance and conduct issues, and to ensure that banks and insurers maintain progress in these areas.
- FinTech to ensure regulatory systems facilitate innovation.
- Residential Property insurance to support resilience, affordability and consumer information in the residential insurance market.
- Credit Unions.
- Review of the Regulatory System Charter.

Overall the CoFR aims to identify and monitor important issues, risks and gaps in the financial system.

Singapore

1 Business and Operational Resilience against Cyber Threats

MAS and the Association of Banks in Singapore (ABS) jointly conducted a cyber-themed business continuity exercise to strengthen the financial sector's resilience to cyber attacks and operational disruptions. Scenarios included banking and payment service disruptions, trading disorders, data theft and the spreading of rumors and falsehoods on social media. The exercise also included participation of the Financial Services Information Sharing and Analysis Center (FS-ISAC) and the HKMA.
Singapore's Financial Sector Wraps Up Two-day Exercise to Strengthen Business and Operational Resilience against Cyber Threats

2 Cryptocurrency and Blockchain

MAS has proposed a regulatory approach under the Securities and Futures Act for derivatives contracts that reference payments tokens (e.g. Bitcoin) as underlying assets. The referenced payment tokens are limited to those offered by Approved Exchanges, with whom MAS is working to set appropriate standards, with heightened safeguards for retail investors.

MAS has led the development of a Blockchain-based prototype that enables payments in different currencies on the same network.
Consultation Paper on Proposed Regulatory Approach for Derivatives Contracts on Payment Tokens
MAS Helps Develop Blockchain-based Prototype for Multi-Currency Payments

3 Responsible Use of AI

MAS announced partnership with financial industry partners to create a framework for financial institutions to promote the responsible adoption of Artificial Intelligence and Data Analytics (AIDA). This framework, known as Veritas, will enable financial institutions to evaluate their AIDA-driven solutions against the principles of fairness, ethics, accountability and transparency (FEAT) that MAS co-created with the financial industry last year to strengthen internal governance around the application of AI and the management and use of data.
MAS Partners Financial Industry to Create Framework for Responsible Use of AI

4 Fintech Research Platform

MAS, Deloitte, and S&P Global Market Intelligence have collaborated to develop a prototype for an industry-wide *FinTech Research Platform* to help investors and financial institutions connect with fintech start-ups that they can partner with or invest in. The platform is designed to help increase transparency, enhance investor confidence and accelerate decision-making.
New industry-wide research platform to support FinTech investments

5 Green Finance

Singapore has articulated its goal and action plan to be a leading centre for Green Finance, to promote sustainable development, in Asia and globally. The plan focuses on building financial system resilience to environmental risks, developing green finance solutions and markets, and leveraging innovation and technology. Further, MAS has set up a US$2 billion green investments programme (GIP) to invest in public market investment strategies that have a strong green focus.
New US$2 billion Investments Programme to Support Growth of Green Finance in Singapore
"Green Finance for a Sustainable World" - Keynote Speech by Ong Ye Kung, Minister for Education and MAS Board Member

Key Market Events

Singapore hosted the Singapore FinTech Festival (SFF) and the Singapore Week of Innovation and TeCHnology (SWITCH) from Nov 11th – 15th, which attracted more than 60,000 participants from 140 countries visiting 569 speakers, close to 1,000 exhibitors, and 41 international pavilions.

The festival provided a platform to unveil next steps around the regulatory priorities of sustainability and climate change, and the responsible use of Artificial Intelligence and Data Analytics (AIDA), and underscore partnerships with foreign regulators and industry.

Overall, the Monetary Authority of Singapore (MAS) continues to foster innovation within the current financial sector and new entrants through a prudent risk-based approach.

South Korea

1 Investor Protections Strengthened for High-Risk Products

Following recent cases of derivatives-linked funds (DLFs) mis-selling, the Financial Services Commission (FSC) and Financial Supervisory Service (FSS) released a consultation on 15 November 2019 on a series of measures designed to enhance consumer protection and maintain financial stability while preserving the supply of venture capital from private equity funds. Among other measures, the plan tightens standards for deciding a public offering fund, strengthens the regulatory regime for complex products, clarifies management accountability, and increases penalties for mis-selling.
Measures to Strengthen Investor Protection with High-Risk Investment Products

2 Financial Policy Agenda

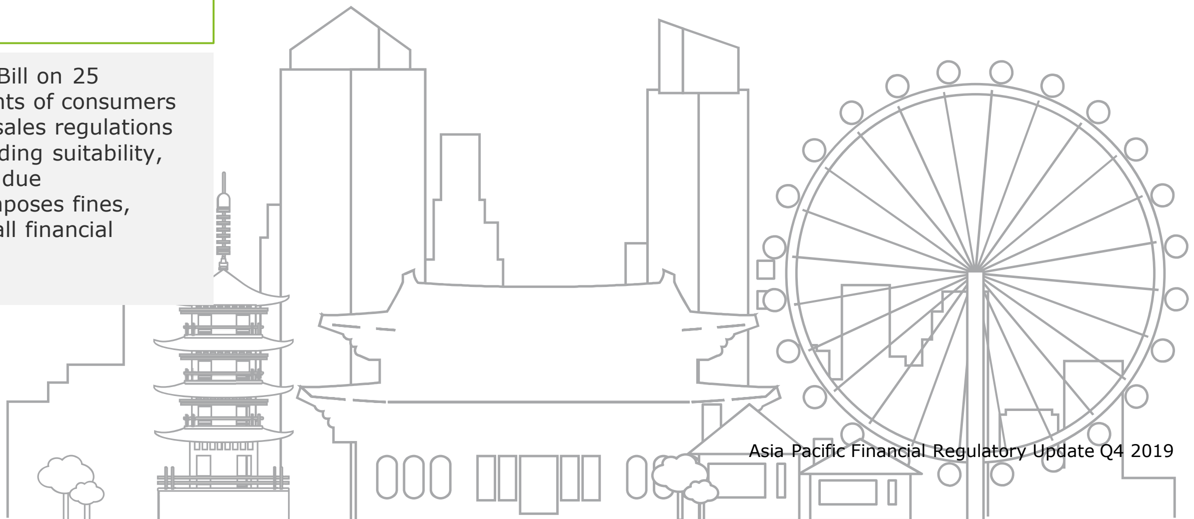
In September 2019, the FSC announced four key priorities for the coming years, including: (I) Financing innovation-led growth engines, (II) Expanding financial inclusion, (III) Accelerating financial innovation, and (IV) ensuring financial stability. The FSC announced key strategies it would leverage to support each of these policy priorities, such as expanding the provision of micro-loans and affordable loans for low-income borrowers, offering a debt restructuring scheme, and introducing a comprehensive bill on financial consumer protection to support the second priority, expanding financial inclusion.
Financial Policy Agenda

3 Progress on New Bill on Financial Consumer Protection

The National Policy Committee approved a Financial Consumer Protection Bill on 25 November to be brought before government, designed to enhance the rights of consumers and improve trust in the financial services industry. The bill will apply six sales regulations currently applied to select financial products to all financial products, including suitability, adequacy, duty to explain, prohibition of unfair practices, prohibition of undue recommendations, and prohibition of false advertisements. The bill also imposes fines, offers remediation to consumers, and enhances access to information for all financial products, and is expected to become effective one year after it passes.
Financial Consumer Protection Bill

4 Revisions to AML Requirements on Crypto Assets

On 25 November, the National Policy Committee of the National Assembly approved a revision bill imposing AML requirements on crypto-asset business operators. Such businesses are required to report transactions to the Korea Financial Intelligence Unit (KoFIU), while financial institutions will be required to conduct due diligence on any business relationships. The KoFIU will be responsible for supervision when the law comes into effect, while the Financial Supervisory Service may handle inspections.
Bill to introduce AML requirements on Crypto Assets



Taiwan

1 Outstanding SME Loans by Domestic Banks as of October 2019

The Taiwan Financial Supervisory Commission (FSC) released data about loans extended to Small-Medium Enterprises (SMEs) by domestic banks. Loans to SMEs by domestic banks totaled NT$6,745 billion for the end of October 2019. This is an increase of NT$61.81 billion as compared to the amount at the end of September 2019 (up 0.04 percentage points). October 2019 domestic bank lending to SMEs accounted for 61.54% of all loans extended to all categories of enterprises; domestic bank lending to SMEs accounted for 64.36% of total loans to total private companies (same percentage as September 2019). The October 2019 Non-Performing Loan ratio for SME loans was 0.39% (same as September 2019).

The Taiwan FSC continues to encourage domestic banks to lend to SMEs while ensuring that risk control and management are in place. The Taiwan FSC states that it will endeavor to foster a favorable banking environment for SMEs.
Outstanding SME Loans by Domestic Banks as of October 2019

2 Outsourcing in Cloud Services

The Taiwan FSC drafted an amendment to regulations regarding the use of cloud computing technology by financial institutions. This was done to better facilitate the use of cloud computing, to better consider the service quality of financial institutions, and to strengthen the protection of consumer rights. The FSC drafted this amendment by referring to the regulations of other competent authorities.
The key points of the amendments are:

1. Financial institutions shall ensure the control of operational risks
2. Financial institutions shall ensure the FSC, the Central Bank, and they themselves obtain information related to entrusted/outsourced operations and have the right to execute on-site examinations
3. Financial institutions shall ensure that protection measures such as encryption or encoding will be taken for the transmission and storage of customers' data protection
4. Financial institutions shall effectively evaluate the relative risks of cloud computing and establish an inclusive internal control system and execution plan
5. The financial institutions shall develop appropriate contingency plans in case of emergency.

In order to improve efficiency and to simplify the application process, financial institutions should assess whether the operations that would be entrusted to cloud service providers are material outsourcing. If material, the application process for material outsourcing should be undertaken for approval. If not material, the required application process will be simplified.
Amendments to the Regulations Governing Internal Operating Systems and Procedures for the Outsourcing of Financial Institution Operation

3 Fintech Space

FinTechSpace, founded by the Taiwan FSC and co-funded by its private-sector wing, the Taiwan Financial Service Roundtable (TFSR), is the first fintech-focused co-working space in Taiwan.

With support from domestic and international governments, financial & fintech industries, as well as academia sectors, FinTechSpace gathers together the whole of the Taiwanese fintech ecosystem in one location. FinTechSpace aims to foster innovation and grow domestic financial institutions. It will act as a bridge between the Taiwanese fintech industry to the larger world, attracting talent from post-secondary campuses and technology start-ups from all around the globe.

FinTechSpace offers:
1. A Fintech Accelerator Program
2. Regulation Clinics
3. A Digital Sandbox
4. Global Connections

FinTechSpace

Key Market Events

"FinTech Taipei 2019" was held from 29-30 November 2019. With the participation of more than 240 institutions, startups from 13 countries (including five unicorns from the US and the UK), 30 keynote speakers and 155 demo shows, it attracted more than 48,000 visits to the exhibition.

Thailand

1 Bank of Thailand (BOT) Notifications/Circulars

The Bank of Thailand released a circular regarding short-term Bank of Thailand Bonds.
Short-term BOT Bonds

2 SEC Hearing on Paperless Filing of Mutual Funds

The Thai SEC held a public hearing on approval for a draft amendment to a regulation which relates to approval of paperless filing for establishment and management of mutual funds. The revision is intended to facilitate the reduction of carbon footprint and impacts on climate change in the business sector and enhance competitiveness of the Thai capital markets through business sustainability.
SEC public hearing on draft amendment to approval for paperless filing of mutual funds

3 SEC Hearing on Single Form for Securities Transactions

The Thai SEC has asked for public comments on its proposal to use a single form in order to standardise the entry and ongoing forms for securities transactions across the financial services industry. The Thai SEC notes that currently the repetitive filing of different forms required when investors use the services of different intermediaries may contribute to higher costs, is a significant inconvenience, and may affect the ability of investors to select products and services that match their needs. The aim of this form standardisation initiative is to improve information exchange between investors and intermediaries, reduce the burden of repetitive filing, and allow intermediaries to better mange customer profiles.
SEC public hearing on proposed use of single form for securities transactions to facilitate investors' information filing

4 SEC Hearing on Proposed Amendments to e-KYC Guidelines

The Thai SEC is seeking public comments on the proposed amendments to the Guidelines on Electronic Know Your Customer (e-KYC). The amendments would push back the deadline for licenced companies to subscribe to the National Digital ID (NDID) platform (which would bring them into compliance with current e-KYC guidelines) to 1 January 2021. This is one year from the effective date of the e-KYC guidelines and should increase flexibility in implementation and allow subscribers of the NDID platform ample time to develop compatible systems. This hearing on e-KYC across securities and investment management businesses is part of the activities by the Thai government to better use new technologies through their Thailand 4.0 policy.
SEC Hearing on e-KYC Guidelines Amendments

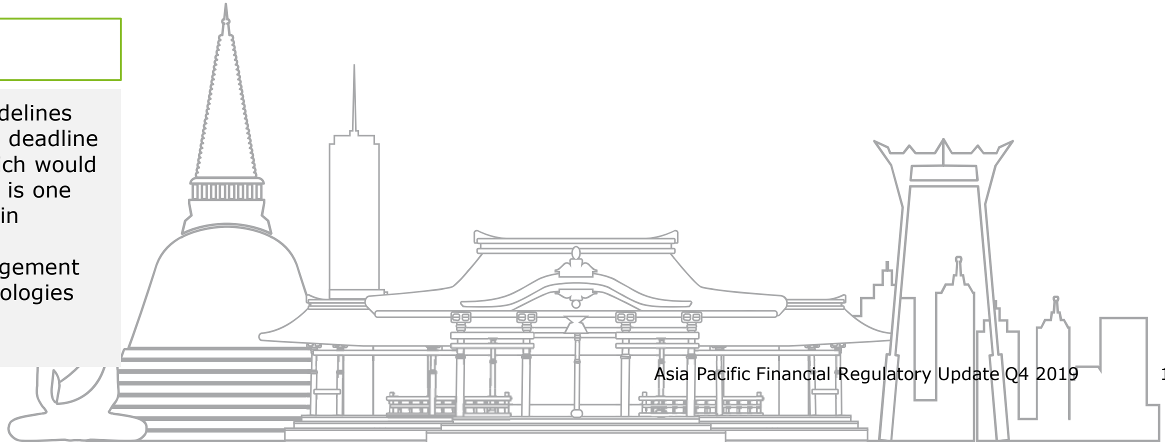
Key Market Events

Investing in Thailand's future: Transforming the securities markets infrastructure with Blockchain

As part of the mission to prepare its people for disruptive technologies, Bank of Thailand (BOT) has begun to look into the benefits of distributed ledger technology (DLT) and Blockchain technology. BOT expects Blockchain technology to enable all stakeholders to have access to the same information, increasing efficiency and transparency. BOT has selected the savings bond sales processes as its first use case. Bonds-related processes are complex, with many parties participating in the ecosystem, including selling agents, BOT and the Thailand Securities Depository, amongst others.

The DLT Scriptless Bond project benefits all stakeholders. Investors will be able to receive their bonds faster – it takes 15 days now, and will be only 2 days in the future. They will also be able to purchase bonds up to their full allocation rights from any bank. Selling agents, TSD and BOT will also be able to reduce processing time and workloads. Bond issuers will also be able to manage bond issues faster and stimulate increased competition between selling agents.

Overall, the system will lead to reduced operating costs across the entire value chain with greater security.



Introduction
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