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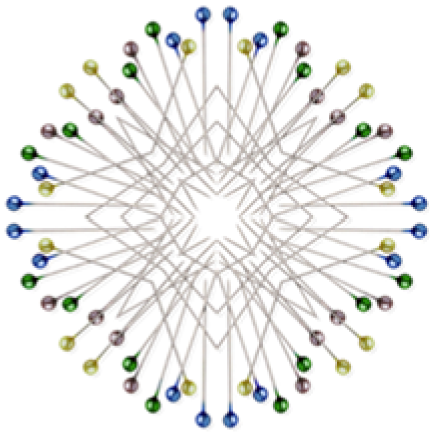

AP Financial Regulatory Update
Q3 2019

CENTRE *for*
REGULATORY STRATEGY
ASIA PACIFIC

Dear All

The Deloitte Asia Pacific Centre for Regulatory Strategy is delighted to share with you the key regulatory updates from around our region from Q3 2019.
In Japan, Japan Financial Services Agency released "Policy Assessment and Strategic Priority in 2019", in August, where they prioritize "Finance Digitalization Strategy", "Financial services to accommodate various needs", and "Financial intermediation stability" as their initiatives. In other area of AP, Technology and cyber resilience (Australia, Malaysia, New Zealand, Singapore), money laundering and terrorist financing risks (Hong Kong SAR, India), as well as culture and conduct (Australia, New Zealand, Taiwan, Japan) continue to be the key focus areas for Asian regulators this quarter.
For queries or more information on these updates or other regulatory topics, please get in touch.

Shiro Katsufuji
SEA ACRS Co-lead

Shiro Katsufuji, SEA ACRS Co-lead

Best Regards,

Australia

The past quarter has seen Australian regulators continue to follow through on the recommendations of the **Royal Commission** and the consequential mandate of **strengthening oversight**. With the federal budget showing a marked increase in funding to support the regulators, each are beginning to strengthen supervision, with **ASIC's new 'why not litigate' approach beginning to be seen**. On the other hand, policy developments have been relatively quiet as the Australian Securities and Investments Commission (ASIC) and Australian Prudential Regulation Authority (APRA) take stock of their Royal Commission actions and shift focus to enforcement, however with several key releases in June.

In June, APRA released its new **Prudential Standard CPS 234 Information Security**, the first consolidated information security standard applicable to the financial services industry. The purpose of CPS234 is **to ensure the resilience and ongoing stability of the financial system as reliance on financial technology continues to accelerate**. Key requirements of the standard include an overarching **information security policy and framework**; the

identification and classification of information assets in regards to criticality; **formal incident response plans**; and the extension of **information security compliance to third-parties**. All APRA regulated entities are required to comply, and APRA has released an updated prudential practice guide to support implementation.

Further in June, APRA released for consultation its **draft Prudential Standard CPS511 Remuneration**, honing in some of the key recommendations of the Royal Commission and aligning with the FSB's Principles and Standards for Sound Compensation. The standard carves out aspects of the existing Prudential Standards CPS/SPS 510 Governance into a stand-alone Prudential Standard to **underline the importance of effective remuneration practices in achieving effective prudential outcomes**. Of particular note is the introduction of the Material Risk Taker concept. The standard will apply to all APRA regulated entities and is intended to be implemented by late 2019 or 2020.

The final report for the **Government's independent capability review of APRA** was released in June, another outcome of the Royal Commission. **The report covers many of the same areas, such as governance and culture, as was requested by APRA** in its industry self-assessment process earlier this year, with similar issues identified at the regulator. Though many of the recommendations reinforce that of the Royal Commission, **particular focus has been on building and reinforcing APRA's financial stability capability** through: **greater transparency** in its macro-prudential intent; **increased preparation for** the effects of **digital transformation** and **cyber**; and **potential additional resourcing** for developing its **resolution capability**. These recommendations may give insight into the points of focus for APRA in the coming years.

Key Updates

- Banking, Insurance, Life Insurance, Health Insurance and Superannuation (prudential standard) determination No. 1 of 2018 : Prudential Standard CPS 234 Information Security

- [Consultation on remuneration requirements for all APRA-regulated entities]
- [Australian Prudential Regulation Authority (APRA) Capability Review]

China

In China this quarter there were two updates of note - Announcement No. 15 and 16 [2019] of the People's Bank of China which make interest rate reforms.

The **Loan Prime Rate (LPR**) was set as the **new benchmark lending rate** in place of the PBOC's benchmark one-year lending rate. This links the LPR with Medium-term Lending Facility (MLF) rate and directly links the loan rate to the market interest rate while also eliminating the large differentiation between the benchmark loan rate and the market interest rate. **The number of quoting banks will be expanded from 10 to 18**. The coverage will include **nationwide, city commercial, rural commercial, foreign-funded banks, and privately owned banks thereby improving the representativeness of the LPR**. In addition to the current one-year LPR, LPR with maturities longer than five years will also be made available in the market, providing a reference for the pricing of interest rates on long-term loans. LPR quoting banks will now submit their quotations monthly instead of daily allowing banks more time to develop quotation thereby improving the quality of LPR quotation.

With the new LPR mechanism as explained above, the **lower bound of the home loan interest rate is clearly defined**. **The new individual home loan interest rate is now determined based on the LPR for the most recent month.** For example – in September the new individual home loan interest rate should not be lower than 4.85% for first-time homebuyers (the corresponding Five-Year LPR on August 20). The loan interest rate for second-time homebuyers in the same timeframe should not be lower than 5.45% (the corresponding Five-Year LPR plus 60 basis points). According to the new policy, **the individual housing loan interest rate can be decided by each province depending on situation of the local real estate market**. Overall, this policy allows for customisation in different cities and it will assist the government to implement more 'city-customised' policies in the future. **The new LPR mechanism mainly focuses on implementing the principle that "houses are for living in, not for speculation", and keeping an individual home loan interest rate steady.**

Key Updates

- Announcement No.15 [2019] of the People's Bank of China (Chinese)
- Announcement No.16 [2019] of the People's Bank of China (Chinese)

Hong Kong SAR

This quarter saw regulators in Hong Kong SAR release a number of **AML/TF** related guidance. They also released the results of their review of the **liquidity framework** for banks, sought consultation on local implementation of the so-called "**market risk**" components of the Basel III standards as well as launching phase one of their plan to promote green finance.

In July, the Hong Kong Monetary Authority (HKMA) released a report on that updates their risk assessment of **money laundering and terrorist financing for the stored value facility (SVF)** sector. Overall, the HKMA notes that the majority of the **SVF sector continues to carry a medium level of ML/TF risk** due to small stored value amounts, limited functionality, predominant use in transport, and low-cost retail transactions. However, the report does also point out that **pockets of higher-risk** (SVF products that allow customers to make overseas cash withdrawals, send/receive cross-border remittances, and peer-to-peer transfers) **could create vulnerabilities that could be exploited**. The report will inform an enhanced framework on SVF account management and amendments to the guidelines for AML/CTF for SVF.

The Securities and Futures Commission (SFC) issued a circular in July covering a **new approach for remote onboarding of overseas individuals**. The SFC notes **that impersonation may be harder to detect with remote client onboarding** and that **technology cannot completely eliminate impersonation risks** – it also notes that identity verification procedures of overseas banks may not satisfy regulatory requirements in Hong Kong SAR. Firms are also reminded that intermediary senior management, including **Managers-in-Charge, "bear the primary responsibility of ensuring that proper processes and technologies are implemented to verify clients' identities."**

The HKMA has updated its **Liquidity Facilities Framework** for Authorized Institutions to include four new facilities **in order to better maintain the integrity and stability of the monetary and financial systems in Hong Kong.** These include (1) settlement facilities (intraday repo and discount window) to facilitate the smooth operation of the interbank payment system; (2) standby liquidity facilities (including term repo and FX swap) to make term liquidity available to banks to help them manage any unexpected liquidity tightness; (3) contingent term facilities to be made available to a bank facing extraordinary liquidity stress that it cannot overcome through other means and which may impact the systemic stability in Hong Kong; and (4) resolution facilities to ensure that a bank which has gone into resolution in Hong Kong has sufficient liquidity to meet its obligations.

The HKMA has released a **consultation paper** in June seeking feedback **to refine their proposal** for revising current regulations on the **market risk capital charges in the Banking Capital Rules (BCR)**. This consultation paper **follows on from the January 2019 Basel Committee on Banking Supervision (BCBS) revision** of its Minimum capital requirements for market risk, more commonly known as **Fundamental Review of the Trading Book (FRTB)**. **This is the first comprehensive consultation paper since 2016** and covers "the new Standardised Approach, the new Internal Models Approach, the Simplified Standardised Approach, requirements related to the boundary between the trading book and banking book, as well as details on the qualifying criteria for using de-minimis exemptions."

Finally, the HKMA unveiled the first phase in a long-term project to promote the development of **green finance in Hong Kong SAR**. Phase One includes measures to assess the "**Greenness Baseline**" of individual banks. This includes **collaboration** by the HKMA **with international bodies** and **providing technical support** to Hong Kong SAR banks "to better understand the green principles and methodology in undertaking the baseline assessment." The HKMA also adopted the principle (as the manager of the Exchange fund) that **priority can be given to Green and ESG investments** if "the long term return is comparable to other investments on a risk-adjusted basis." As well, the HKMA **established the Centre for Green Finance** within the HKMA Infrastructure Financing Facilitation Office to serve as a place to share experience about developments in green finance and banking in Hong Kong SAR as well as a platform for technical support.

Key Updates

- Stored Value Facility Sector: Money Laundering and Terrorist Financing Risk Assessment Report
- Circular to intermediaries Remote onboarding of overseas individual clients
- HKMA Liquidity Facilities Framework
- Consultation Paper: Market Risk
- Phase-one measures to promote green and sustainable banking

India

In India this quarter there were key updates to **KYC norms**, a consolidation of regulations for **Non-Banking Financial Companies (NBFCs)** and the disclosure requirements for **asset classification** and provisioning divergences were tweaked.

"Proof of possession of Aadhaar number" has been added to the list of Officially Valid Documents meaning that **Indian banks can now use a customer's Aadhaar number** (a voluntary 12-digit unique identity number for Indian residents based on their biometric and demographic data) **to verify an individual's identity for services like opening bank accounts.** Banks should also obtain a customer's Aadhaar number and can carry out e-KYC authorization to allow a customer to receive a benefit or subsidy under the Aadhaar benefits scheme. **When collecting Aadhaar numbers, banks must ensure customer due diligence and mask the Aadhaar numbers**, as suggested by the Unique Identification Authority of India. Masking of the Aadhaar number has been implemented to improve security and protect customer data.

NBFCs are a diverse group of non-bank lending companies that make up a growing percentage of total lending in India. 265 NBFCs **with assets exceeding the 5 billion rupee threshold were designated systematically important.** The recent consolidation of regulation for both systemically and non-systemically important NBFCs brings together a number of different items to form a single directive for the respective types of NBFCs. The consolidated version of the directive has made all prior directions/circulars as mentioned in the appendix of the circular null and void.

Following on to an April notification from the Reserve Bank of India, the Indian markets regulator Securities and Exchange Board of India (SEBI) has **updated the threshold for mandatory disclosure to the stock exchanges if there is divergence in asset classification and provisioning** should "the additional provision for NPAs assessed by RBI [exceed] 10% of the reported profit before provisions and contingencies for the reference period." The previous threshold was 15% and the newly revised threshold has eased the reporting burden. Previously, banks were required to disclose divergences should they experience low or negative net profit after tax (even where the additional provisioning assessed by RBI was small) which was contrary to the regulatory intent that only material divergences should be disclosed.

Key Updates

- Master Direction – Priority Sector Lending – Small Finance Banks – Targets and Classification
- Disclosure of divergence in the asset classification and provisioning by banks
- Master Direction - Know Your Customer (KYC) Direction, 2016 (Updated on August 09, 2019)
- Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 (Updated on August 02, 2019)
- Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

Indonesia

The government of Indonesia has taken initiatives to **strengthen the financial sector to enhance its role in the development in the economy**. Bank Indonesia (BI) and Otoritas Jasa Keuangan (OJK) proposed new regulations and several amendments this quarter. Some of the specific goals as regards the contributive role of the financial sector include the **strengthening of the role of the Shariah financial services sector** and **Smallholder Financing Bank** ("Rural Banks") to **encourage more involvement of Islamic and rural banks** to **support financial inclusion and stability**.

One of the key changes in regulation relating to this objective is PADG Number 21/5 / PADG / 2019, which was issued as a new regulation related to Macroprudential Intermediation Ratio (RIM) and Macroprudential Liquidity Support (PLM), that is expected to **encourage credit growth or economic**

financing, while still **maintaining financial system stability**. This new regulation was implemented by Conventional Commercial Banks (BUK), Sharia Commercial Banks (BUS), and Sharia Business Units (UUS) as of 1 July 2019.

Key Updates

- Macroprudential Intermediation Ratio and Macroprudential Liquidity Support for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units (Third amendment of PADG on RIM and PLM)

Japan

This quarter, there were several developments in the regulatory landscape in Japan. Last year, the Japan Financial Services Agency (JFSA) undertook a material organisation change. This development is in line with **JFSA's recent supervisory direction, moving from a "checkbox" type inspection model towards more effective supervision based on dialogue with financial institutions**. This August, the JSFA released their Policy Assessment and Strategic Priorities 2019. The document is annual report by the JFSA that includes their strategic plan for financial industry supervision for the coming year – Japanese companies always pay close attention to its contents. In the 2019 document, the JFSA emphasises three initiatives, "**digitalization**", "**customer oriented business conduct**", and **financial stability**. For the third priority, they refer to the "conversion of credit cycles", where the JFSA plans to focus on several points including monitoring of CLOs, leveraged loans, and the use of stress testing.

In **LIBOR transition**, there have been some remarkable promotion by regulators to **improve the private sectors' preparation for the transition**. The Bank of Japan (BoJ) and the JFSA are increasingly active in promoting the actions by the market participants to prepare for the possible discontinuation of LIBOR.

The BoJ's Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks released **consultation on the JPY LIBOR transition**. The consultation period is until the end of September, and the Committee plans to finalize the document sometime this autumn. This will **accelerate the preparation for LIBOR transition by Japanese firms**. Mr. Morita, Director-General of the Strategy Development and Management Bureau at the JFSA, appeared at the Benchmark Reform Forum by BoJ, and **emphasized the necessity of actions by the market participants.**

Though there is uncertainty as to what would be the alternative rate for JPY LIBOR (as Japan advocates a "multiple rate approach" as adopted by the other AP jurisdictions) as the preparation is expected to be accelerated in collaboration amongst the public sector and private sector.

Key Updates

- Publication of summary points from JFSA policy assessment and strategic priorities 2019
- Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks
- Interest Rate Benchmark Reform Forum "Main Points of the Public Consultation and Overview of Deliberations on Interest Rate Benchmark Reform in Japan and Abroad"

Malaysia

The regulatory landscape has been relatively benign this quarter in Malaysia, with mostly revisions on existing guidelines issued. These revisions include **further liberalisation of the foreign exchange administration (FEA)** policy, for the purpose of providing greater flexibility and efficiency for businesses to better manage FX risk, as well as general revisions and updates to guidelines in regards to Sukuk issuances. In addition, BNM in this quarter issued the highly anticipated **Basel III Net Stable Funding Ratio guideline**, outlining the minimum requirements for banking institutions to comply in regards to maintaining a stable funding profile to support their assets and off-balance sheet activities, which will be effective 1 July 2020.

In line with the **increasing use of technology** in the financial services industry arising from the **introduction of e-payment channels such as e-wallets and mobile banking**, BNM has issued a policy on **Risk Management in Technology (RMIT)**, which sets out baseline standards for financial institutions, and **addresses key fundamentals of technology resilience** including **governance**, **cybersecurity risk management** as well as **capacity-building**. The increase in use of technology introduces new risks in the financial system due to the increased interlinkages, and **FIs are required to future-proof themselves by enhancing operational resilience**, including **cyber resilience**, in a rapidly evolving risk and threat landscape.

Key Updates

- Net Stable Funding Ratio Guidelines
- Risk Management in Technology Policy
- Liberalisation Of Foreign Exchange Administration Policies
- Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors
- Guidelines on Seasoned Corporate Bonds and Sukuk

New Zealand

In New Zealand, regulators are making changes to current regulations and **setting a higher standard** in terms of what's **expected from the firms in their remit**. A higher standard will impact companies as there will be enhanced expectations to mature their practices (e.g. **liquidity management and conduct & culture**). There will also be an **increase in obligations and complexity** in terms of what's needed to comply with regulations.

Key updates from this quarter dig into this idea of enhanced expectations. First is FMA and RBNZ **Response to Conduct and Culture Review** - both bodies have indicated their **disappointment with the responses from Life Insurance companies**. Significant work is still needed to address the issues of weak governance and ineffective management of conduct risk. 16 Life Insurers were asked to **provide work plans outlining the steps they will take to improve their existing processes and address the regulators' findings and recommendations** - some key issues identified involve the overcharging of premiums and poor customer conversations overlooking eligibility criteria.

Another is the findings from the FMA's **thematic review of cyber-resilience in financial services**. Some key recommendations focus around organizations making use of **Computer Emergency Response Team (CERT);** a publically funded organization **with a mandate to improve cyber security** in New Zealand. Additional recommendations include **cyber security as part of a company's risk assessment program** and **governance arrangements that include board and senior management ownership of cyber risk and resiliency**.

Finally, the **Financial Services Legislation Amendment Act 2019** (FSLAA) will introduce a **new regulatory regime for financial advice starting in June, 2020**. The requirements in the new regime will apply to every person (including an entity) who gives regulated financial advice. **Any person or entity will be subject to new licensing, code of conduct and disclosure requirements.**

Key Updates

- Cyber-resilience in FMA-regulated financial services
- Consultation: New financial advice regime exemptions

- [FMA and RBNZ Response to Conduct and Culture Review]
- [Reserve Bank Submissions on Capital Review]

Singapore

This quarter, the Monetary Authority of Singapore (MAS) has continued to take steps to enhance Singapore's position as a regional financial hub. Specifically, MAS is consulting the market to provide more flexibility for **REITs** (real estate investment trusts), similar to its work on **VCCs** (variable capital companies) earlier in the year, and has opened a path to **Digital Bank licences**. These market development efforts are complemented by strengthening risk controls on **cyber hygiene, individual accountability** and **market conduct**.

MAS released a notice to set out **cyber security requirements** for financial institutions, including **securing administrative accounts**, **applying security patching**, **establishing baseline security standards**, **deploying network security devices**, **implementing anti-malware measures** and **strengthening user authentication**.

Guidelines to provide greater clarity on what constitutes the provision of financial advisory service under the Financial Advisers Act by setting out a two-stage test. The first stage involves determining whether the activity in question amounts to providing financial advice. The second stage involves determining whether the person is carrying on a business in such activity.

MAS also held to **important consultations** this quarter – one (closed 1 Aug 19), to set out the proposed amendments to the **Code on Collective Investment Schemes** to provide Singapore's **REITs with more flexibility to manage their capital structure** and to **streamline the fundraising process for REITs**. Another (closed 22 Jul 19), to set out the proposed expanded scope of the proposed **Guidelines on Individual Accountability and**

Conduct to a **wider scope** of financial institutions (FIs) regulated by MAS, with a calibrated approach for smaller FIs.

Key Updates

- Notice on Cyber Hygiene
- Consultation Paper on Requirements on Controls Against Market Abuse
- Guidelines on Provision of Financial Advisory Service
- Consultation Paper on Proposed Payment Services Notices and Guidelines
- Consultation Paper on Proposed Amendments to the Requirements for REITs
- Consultation Paper on the Proposed Scope of Application of the IAC Guidelines

South Korea

The key regulatory update from the last quarter was the announcement of a 2nd amendment of the **K-Insurance Capital Standard (K-ICS)**, South Korea's version of Solvency II. The Financial Supervisory Service (FSS) is currently conducting a **Quantitative Impact Study (QIS)**, which will be completed by the end of October 2019. The Korean FSS plans to release a 3rd amendment based on the results of the QIS.

The second amendment was issued to clarify items which were unclear in the first draft. For example:

- The 2nd amendment provides more details, new templates, and scenarios for the QIS
- In the previous QIS, the Korean FSS provided scenarios and some financial data. The second amendment however states that the regulator will only provide the deterministic discount rate.

This second point is very interesting as it means that **insurance companies in Korea will need to create stochastic models (or scenarios) using their own Economic Scenario Generator** or some other tool with specific models. These new requirements come in addition to the work many insurance firms in Korea have already been working on building capacity for IFRS 17.

Key Updates

- K-Insurance Capital Standard (K-ICS)

Taiwan

In Taiwan this quarter regulatory activity was relatively low. Amendments to the Securities and Exchange Act, Regulations Governing Futures Clearing Houses, Rules Governing the Administration of Electronic Payment Business, Rules Governing the Application of Banks Concurrently Conduct the Underwriting and Trading of Bonds, Beneficiary Securities were all released.

In Taiwan, there is particular anticipation for amendments to the **Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies**, Regulations Governing the Capital Adequacy and Capital Category of Banks, Regulations Governing Internal Operating Systems and Procedures for the Outsourcing of Financial Institution Operation, and Offshore Banking Act Enforcement Rules.

Hot topics in the Taiwan market continue to centre on **AML, STO,** the use of **cloud computing**, **risk based audit**, and **Basel III implementation**.

Key Updates

- Securities and Exchange Act
- Regulations Governing Futures Clearing Houses
- Rules Governing the Administration of Electronic Payment Business
- Rules Governing the Application of Banks Concurrently Conduct the Underwriting and Trading of Bonds, Beneficiary Securities

Thailand

This past quarter in Thailand saw a number of public hearings conducted by the Securities Exchange Commission (SEC) and Bank of Thailand regarding **capital market products to encourage investors and businesses to leverage these products**. The **Thai government has been promoting the expansion of capital markets** and encouraging the increase of products offered in Thailand to develop them as a secondary source of funding. These hearings come after an announcement by the Thai SEC in April of this year about the establishment of the **Capital Market Development Fund to promote market development.**

Key Updates

- SEC Thailand's public hearing on draft regulations relating to the capital requirement for trust managers and trustee of REITs or infrastructure trusts and investment management companies of property funds or infrastructure funds
- Proposed amendments to the rules on maintaining liquidity for mutual fund with a focus on fixed income investment
- SEC Thailand's Public Hearing on Regulatory and Supervision of New Digital Asset Businesses
- SEC Thailand's Public Hearing on Term Fund Regulation