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Managing Upstream Risk

Regulatory Reform Review: An Asian perspective

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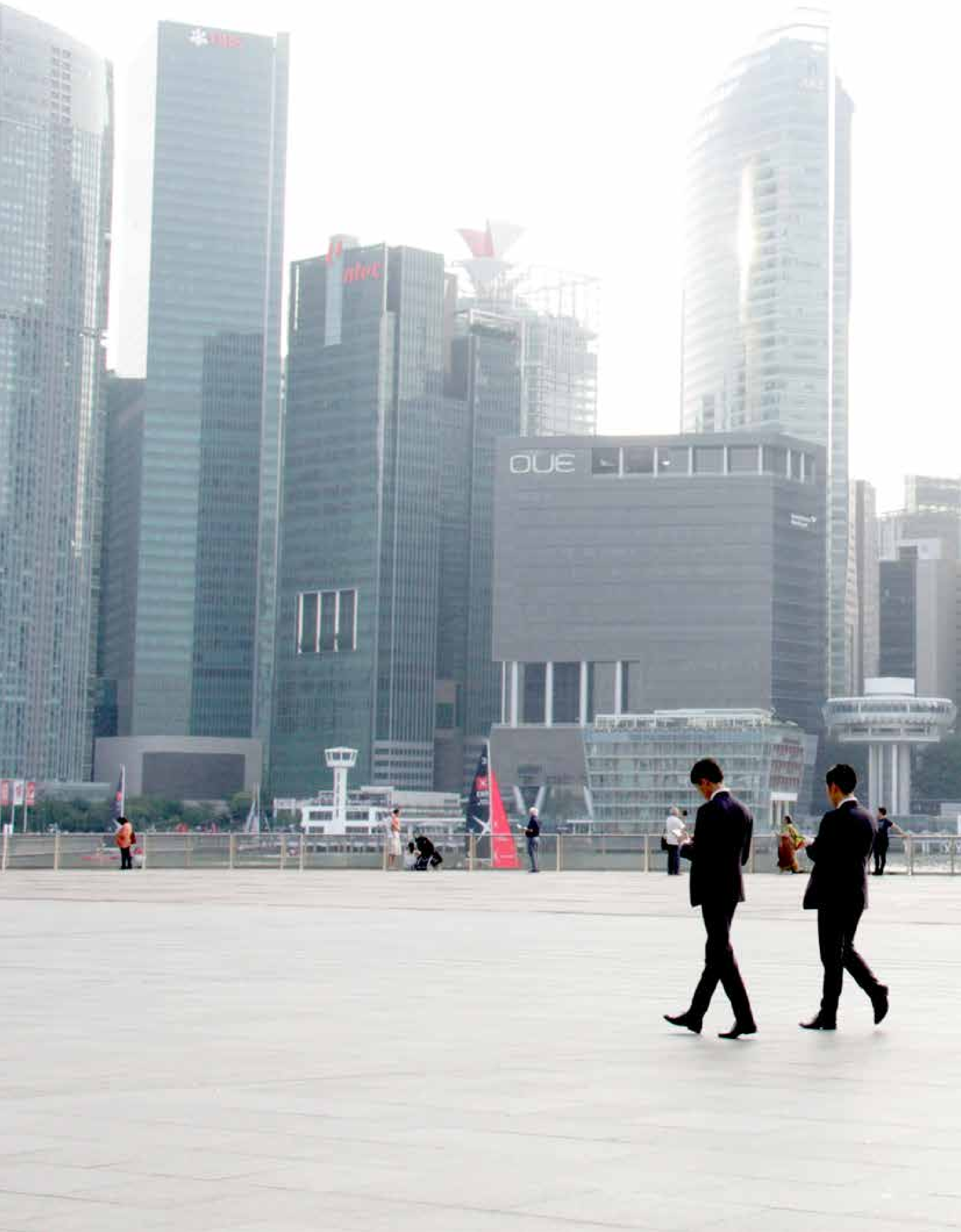
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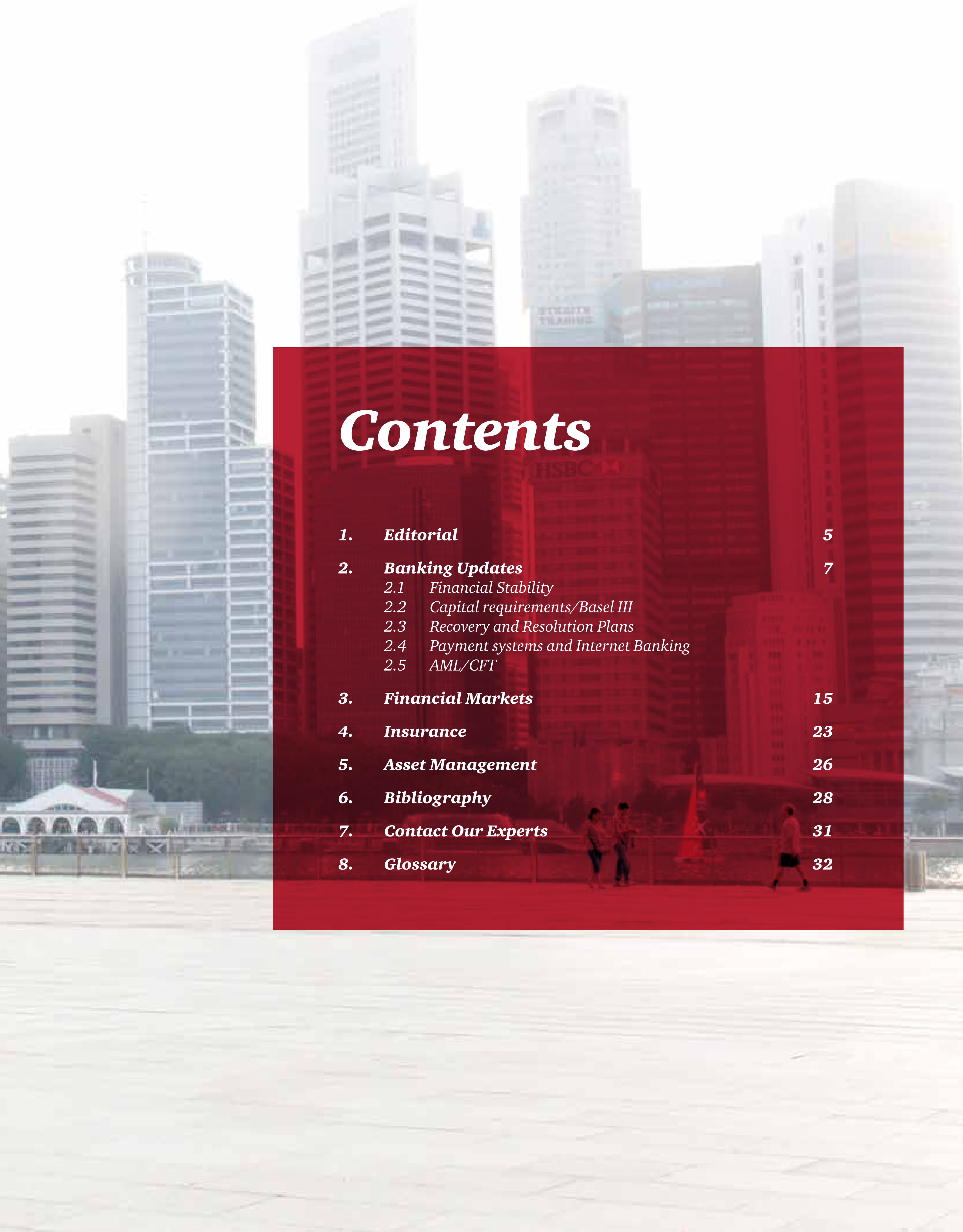


Contents

01

1. Editorial

This edition of Managing Upstream Risk provides updates on the key global regulatory developments in Q3 2015. Key themes we see are revisions in the implementation of Basel III capital requirements for banks and merchant banks in Singapore, driven by the publishing of a Notice prescribing the local implementation of Basel III Liquidity Rules in Singapore for Merchant Banks, and also a consultation paper setting out proposed amendments to MAS Notice 637 for locally incorporated banks.

Other key themes are the increased regulation surrounding over-the-counter ("OTC") derivatives, as part of global reforms aimed at increasing the safety of trading such financial instruments. Also, there has been greater oversight on alternative payment systems and infrastructure, as such systems gradually become more commonplace and financial regulatory authorities have started to become aware of the potential AML/CFT risks presented by such systems.

Finally, MAS has released guidance on trade finance and correspondent banking, an acknowledgment that there remain AML/CFT risks in these areas that should be subject to more robust controls. In the guidance, MAS has outlined some additional controls that it expects of local banks, to mitigate such risks.

Implementation of Basel III Capital Requirements

Over the past few months, MAS has released several consultation papers for both banks and merchant banks, consulting on various aspects of the implementation of Basel III requirements. The first consultation, released in July 2015, focuses on the implementation of the Minimum Liquid Assets and Liquidity Coverage ratio rules for merchant banks, similar to the current requirements for banks under MAS Notice 649 Minimum Liquid Assets ("MLA") and Liquidity Coverage Ratio ("LCR").

MAS also further released two consultations in

September 2015 paper setting out proposed amendments to MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore, and also a set of disclosure requirements to complement the LCR requirement for banks. These consultations are meant to make requirements for Singapore banks become more in line with the final standards issued by the Basel Committee for Banking Supervision ("BCBS"), especially for Domestic Systemically Important Banks.

Increased regulation for OTC derivatives

Globally, several regulatory bodies have released guidance and consultations with regards to the regulation of OTC derivatives, aimed to mitigate the risks of trading such financial instruments. The FSB has published its 9th progress report on the implementation of OTC derivatives market reforms, outlining the status of such reforms globally. Separately, the CPMI-IOSCO, HK SFC and MAS have each issued consultations as well, on various aspects ranging from the harmonisation of key OTC derivatives data elements, requirements on mandatory clearing and reporting of OTC derivatives, and also margin requirements on non-centrally cleared OTC derivatives.

Greater oversight for payment systems and infrastructure

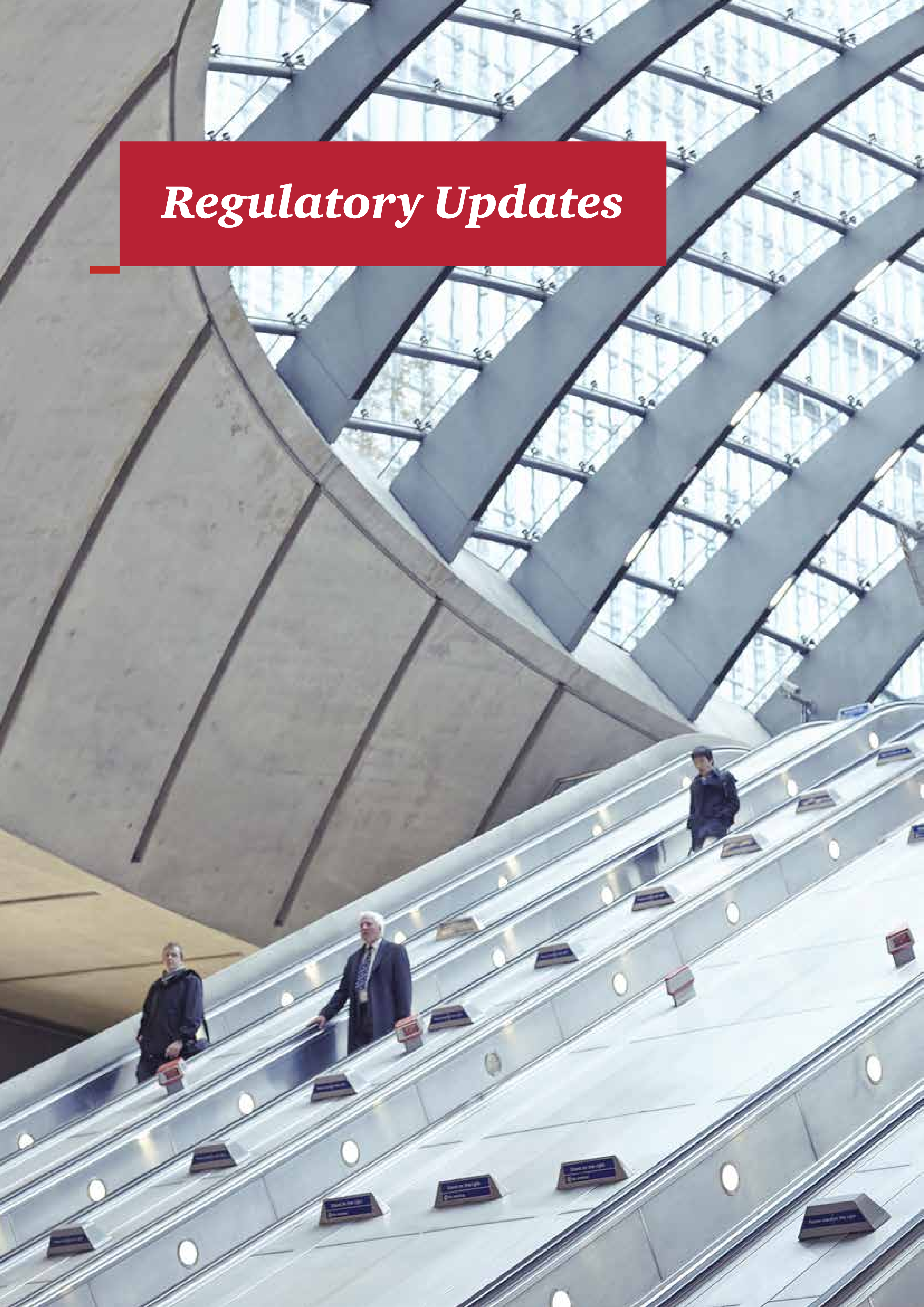
The past months have seen financial authorities step up their regulation of alternative payment systems and infrastructure. China has made moves to regulate non-bank third party payment systems, by issuing a consultation seeking comments on how to better protect against the risks of such systems. There have also been moves to curb the overseas withdrawal of cash using UnionPay cards, due to monitoring activities picking up frequent and large withdrawals being carried out by China UnionPay card holders, an indication of heightened ML/TF risk.

Similarly, MAS is implementing a revised notice to address the evolving stored-value facility ("SVF") landscape, by requiring all SVF holders to comply with a notification regime. Also, customer due diligence requirements will be introduced for occasional transactions as long as such transactions are beyond a certain threshold value, even where a business relation has not been previously established. Such a move will allow MAS to keep pace with ML/TF risks as such systems become more commonplace and potential conduits for ML/TF activities.

Guidance on trade finance and correspondent banking

In a landmark move, MAS has issued its first guidance on trade finance and correspondent banking activities, in line with increasing recognition amongst global regulatory bodies of the AML/CFT risks posed by such activities. Both trade finance and correspondent banking present AML/CFT risks as there is limited information about the parties involved in transactions when conducting such activities, especially with regard to the nature and purpose of such transactions. However, MAS has identified that steps have to be taken to increase the robustness of controls in banks to detect possible signs of ML/TF activity.

Regulatory Updates



2. Banking Updates

2.1 Financial Stability

MAS proposes removal of the DBU/ ACU divide[1]

Singapore, 31 Aug 2015

MAS released a Consultation Paper on implementation issues with regards to removing the Domestic Banking Unit ("DBU") and Asian Currency Unit ("ACU") divide.

This follows the MAS Announcement in June 2015 at the Association of Banks in Singapore Annual Dinner, where the removal of the DBU/ACU divide was first proposed. Previously, banks were required to segregate their domestic and offshore operations into the DBU and ACU. The DBU of the bank holds domestically-focused operations predominantly denominated in Singapore dollars, while the ACU holds foreign operations which are denominated in foreign currency.

However, the DBU/ACU divide has been losing relevance. Amongst other factors, major global regulatory developments in the last five years have resulted in banks' offshore activities being subject to rules that are broadly similar to those governing the domestic banking business in Singapore.

As such, MAS has proposed to remove the DBU/ACU divide, and is seeking feedback on implementation issues for affected regulations. The consultation will close on 30 Sept 2015.

MAS releases new Notice on Financial Market Infrastructure Standards[2]

Singapore, 31 Aug 2015

MAS has released a new Notice on Financial Market Infrastructure ("FMIs") Standards taking effect immediately. The Notice applies to licensed trade repositories and approved clearing houses, each a FMI.

FMIs play a critical role in fostering financial stability, as they facilitate the clearing, settling, or recording of payments, securities, derivatives or other financial transactions. Due to the concentration of risks in FMI, improperly managed FMIs can become potential sources of financial shocks or channels of contagion in transmitting financial shocks.

Amongst other things, the Notice covers the legal and credit risk management, and governance arrangements of FMIs. It also details a framework for the comprehensive management of risks.

MAS administers the supervision and oversight of trade repositories and clearing houses in accordance with the CPMI-IOSCO Principles for Financial Market Infrastructures, part of a set of key internationally-recognised standards considered essential to strengthen and preserve financial stability.

1 MAS, "Removing the DBU-ACU divide – Implementation issues", 31 Aug 2015
2 MAS, "Notice on Financial Market Infrastructure Standards", 31 Aug 2015

2.2 Capital requirements/ Basel III

BCBS releases final criteria on identifying "simple, transparent and comparable" securitisations[3]

Global, 23 Jul 2015

BCBS and IOSCO have released their final criteria on identifying simple, transparent and comparable securitisations. This follows the list of 14 criteria published for consultation previously in Dec 2014, to assist in the development of simple, transparent and comparable securitization structures for the financial industry.

Certain aspects of the proposed criteria that were considered overly prescriptive have been amended, and clarifications have also been made where respondents had raised doubts about interpretation or implementation.

MAS publishes Proposed Notice on Liquidity Coverage Ratio and Minimum Liquid Assets for Merchant Banks[4]

Singapore, 31 Jul 2015

MAS has published a new Notice prescribing the local implementation of Basel III Liquidity Rules in Singapore for Merchant Banks. Among other things, this includes the implementation of the Liquidity Coverage Ratio ("LCR") rules in Singapore, together with a revision of the Minimum Liquid Assets ("MLA") rules. Also, the framework was revised to expand the scope of liquidity requirements.

Merchant banks will now be subject to the same liquidity requirements as banks that were implemented through the new MAS Notice 649 published in November 2014. The liquidity requirements will take effect from 1 January 2016.

MAS is inviting comments on the draft Notice and reporting forms. The consultation closed on 4 September 2015.

CBRC issues measures on liquidity risk management[5]

China, 22 Sep 2015

CBRC has issued a revised series of measures on liquidity risk management in banks, outlining amongst other things that banks should have an effective liquidity risk management governance structure commensurate with the scale of their operations. The revised measures will become effective from 1 October, 2015.

With the revised measures, CBRC will now require commercial banks to regularly submit liquidity risk stress test reports to the CBRC, including stress testing scenarios, methods, procedures and results. CBRC has also stipulated that commercial banks' liquidity coverage ratio should reach 100 percent by the year of 2018. During the transitional period, CBRC has specified that the liquidity coverage ratio should reach 70 percent by end-2015, 80 percent by end-2016 and 90 percent by end-2017.

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3 BCBS, "Final criteria for identifying "simple, transparent and comparable" securitisations issued by the Basel Committee and IOSCO", 23 Jul 2015
4 MAS, "Proposed Notice on Liquidity Coverage Ratio ("LCR") and Minimum Liquid Assets ("MLA") Requirements for Merchant Banks", 31 Jul 2015
5 CBRC, "中国银监会令2015年第9号", 22 Sep 2015

HKMA issues supervisory manual on Countercylical Capital Buffer[6]

Hong Kong, 25 Sep 2015

HKMA has issued the Supervisory Policy Manual (SPM) CA-B-3 "Countercyclical Capital Buffer (CCyB) – Geographic Allocation of Private Sector Credit Exposures" module as a statutory guideline.

The Banking (Capital) Rules (BCR) provide for regulatory capital requirements in respect of the CCyB. The SPM module CA-B-3 issued provides further guidance to Authorised Institutions (AIs) on how to determine the geographic allocation of private sector credit exposures for the purposes of calculating their "AI-specific CCyB ratio" under the BCR.

This module sets out HKMA's expectations on how an AI should allocate its non-bank private sector credit exposures, and the corresponding risk-weighted amount (RWA), to different jurisdictions on an ultimate risk basis (as required under section 3O(2) of the BCR), in order to determine RWA for the AI's non-bank private sector credit exposures in each jurisdiction.

BCBS issues report on the regulatory consistency of risk-weighted assets for counterparty credit risk[7]

Global, 1 Oct 2015

BCBS has published a report on the regulatory consistency of risk-weighted assets (RWAs) for counterparty credit risk, as part of its wider Regulatory Consistency Assessment Programme (RCAP), to ensure the consistent implementation of the Basel III framework.

The report presents key findings and observed good practices from a hypothetical test portfolio exercise to examine variability in banks' modelling of derivatives, focusing on the internal models method and the advanced credit valuation adjustments (CVA) risk capital charge for over-the-counter (OTC) derivative trades.

The report also highlights areas where banks and supervisors may seek to harmonise practices to reduce variability in outcomes. Additionally, BCBS is considering whether it is necessary to narrow down certain modelling choices for banks and harmonise supervisory practices to enhance consistency in outcomes.

6 HKMA, "Supervisory Policy Manual (SPM) CA-B-3 "Countercyclical Capital Buffer (CCyB) – Geographic Allocation of Private Sector Credit Exposures", 25 Sep 2015

7 BCBS, "Report on the regulatory consistency of risk-weighted assets for counterparty credit risk issued by the Basel Committee", 1 Oct 2015

MAS continues implementation of Basel III capital requirements requirements for banks[8]

Singapore, 9 Oct 2015

MAS has released a consultation paper setting out proposed amendments to MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore ("the Notice").

The amendments are meant to implement requirements for Singapore-incorporated banks consistent with the final standards issued by the BCBS. The proposed amendments to Part VII of the Notice will enhance the risk capture of banks' equity exposures and counterparty credit risk exposures (including exposures to central counterparties). Additionally, the revised Pillar 3 disclosure requirements will enable market participants to better compare banks' disclosures of risk-weighted assets, and improve consistency of disclosures.

Technical revisions to Part VI of the Notice are also proposed to clarify the regulatory capital treatment for investments in unconsolidated entities.

The proposed amendments are intended to take effect from 1 January 2017, other than the proposed amendments to Part XI of the Notice. Singapore-incorporated banks are to publish their first standalone Pillar 3 report which complies with the revised disclosure requirements, from the date of publication of their first set of financial statements relating to a balance sheet on or after 31 December 2016.

The consultation closes on 4 Dec 2015.

8 MAS, "Proposed Amendments to MAS Notice 637 to Implement Revisions to the Basel III Capital Framework", 9 Oct 2015

MAS releases consultation on Liquidity Coverage Ratio disclosure requirements[9]

Singapore, 9 Oct 2015

MAS is consulting on a set of proposed disclosure requirements to complement the Liquidity Coverage Ratio ("LCR") requirement for banks. MAS previously issued Notice 649 to introduce the LCR ratio for domestic systematically important banks in Singapore.

The proposed disclosure requirements closely mirror BCBS' requirements for internationally active banks, with a common LCR disclosure template to promote consistency and comparability of liquidity disclosures by banks, and accompanying qualitative disclosures to help users understand the information published by banks.

The consultation also includes guidance on additional qualitative and quantitative disclosures that banks are encouraged to disclose in order to provide market participants with a broader understanding of the reporting bank's liquidity risk profile and management.

The proposed LCR disclosure requirements are intended to take effect from 1 January 2016, with banks being required to comply with these disclosure requirements from the date of the first reporting period after 1 January 2016.

The consultation closed on 9 Nov 2015.

2.3 Recovery and Resolution Plans

Hong Kong regulators issue consultation response to proposals on establishing an effective resolution regime[10]

Hong Kong, 9 Oct 2015

The Government of Hong Kong and the HKMA, HK SFC and the Insurance Authority have released a response to the second stage of public consultation on proposals to establish a cross-sector resolution regime for financial institutions (FIs). The consultation response summarises the respondents' views on the proposals, and sets out the Government's responses along with its refined policy positions on certain aspects of the proposed resolution regime. It is expected that a bill to establish the local resolution regime will be introduced into the Legislative Council by end 2015.

9 MAS, "Consultation Paper on Liquidity Coverage Ratio disclosure requirements", 9 Oct 2015
10 HKMA, "Consultation response on establishment of an effective resolution regime for financial institutions in Hong Kong", 9 Oct 2015

2.4 Payment systems and Internet Banking

People's Bank of China issues consultation on non-bank payment systems[11]

China, 31 Jul 2015

The People's Bank of China, in an attempt to regulate non-bank third party payment systems, has issued a consultation paper seeking comments on how to better protect against the risks of such systems. This follows the move to regulate Internet finance in early July with the issuance of guidelines that called for enhanced supervision of the sector.

The consultation closed on 28 August 2015.

HKMA issues revised supervisory manual on E-Banking practices[12]

Hong Kong, 2 Sep 2015

HKMA has revised its Supervisory Policy Manual for the risk management of e-banking services to provide guidance to authorized institutions.

With the increasing use of technology to deliver services to consumers, the manual seeks to consolidate and update all relevant guidance issued by the HKMA on the sound risk management principles and practices applicable to authorized institutions' e-banking services.

China to curb overseas cash withdrawals[13]

China, 30 Sep 2015

The State Administration of Foreign Exchange (SAFE) in China has moved to curb the overseas withdrawal of cash using UnionPay cards. Recent monitoring by SAFE found frequent and large withdrawals being carried out by China UnionPay card holders. In order to mitigate the money laundering risks presented by such a situation, SAFE issued a document to China UnionPay asking that they put in place stronger measures for managing overseas withdrawals.

Annual cash withdrawals of each UnionPay card outside China will be capped at 100,000 yuan, on top of a daily limit. A 50,000 yuan cap will also be placed for overseas cash withdrawal for a single card user from 1 Oct 2015 to the end of the year. Current rules only set a daily withdrawal limit of 10,000 yuan per card.

11 PBOC, "关于向社会公开征求《非银行支付机构网络支付业务管理办法》意见的公告", 31 Jul 2015
12 HKMA, "Supervisory Policy Manual ("SPM") Revised Module TM-E-1: "Risk Management of E-banking", 2 Sep 2015
13 SAFE, "国家外汇管理局新闻发言人就加强银联人民币卡境外提现管理有关问题答记者问", 30 Sep 2015

MAS increases regulatory requirements for Stored-Value facilities[14]

Singapore, 23 Oct 2015

MAS has released a Consultation on Proposed Amendments to MAS Notice PSOA-N02 on Prevention of Money Laundering and Countering the Financing of Terrorism – Holders of Stored Value Facilities(“SVF”). This consultation aims to address the evolving SVF landscape and enhance MAS’ surveillance of SVFs by requiring all holders to comply with a notification regime.

With the implementation of the new notice, all SVF holders (except for pre-defined classes of SVFs which pose low ML/TF risks) will be required to comply with the Notice. MAS also proposes to introduce customer due diligence (“CDD”) requirements for occasional transactions, as it recognises that future developments may potentially enable SVFs to conduct occasional transactions where a business relation has not been previously established.

The Consultation closed on 3 November 2015.

2.5 AML/CFT

MAS releases Guidance on Trade Finance and Correspondent Banking[15]

Singapore, 22 Oct 2015

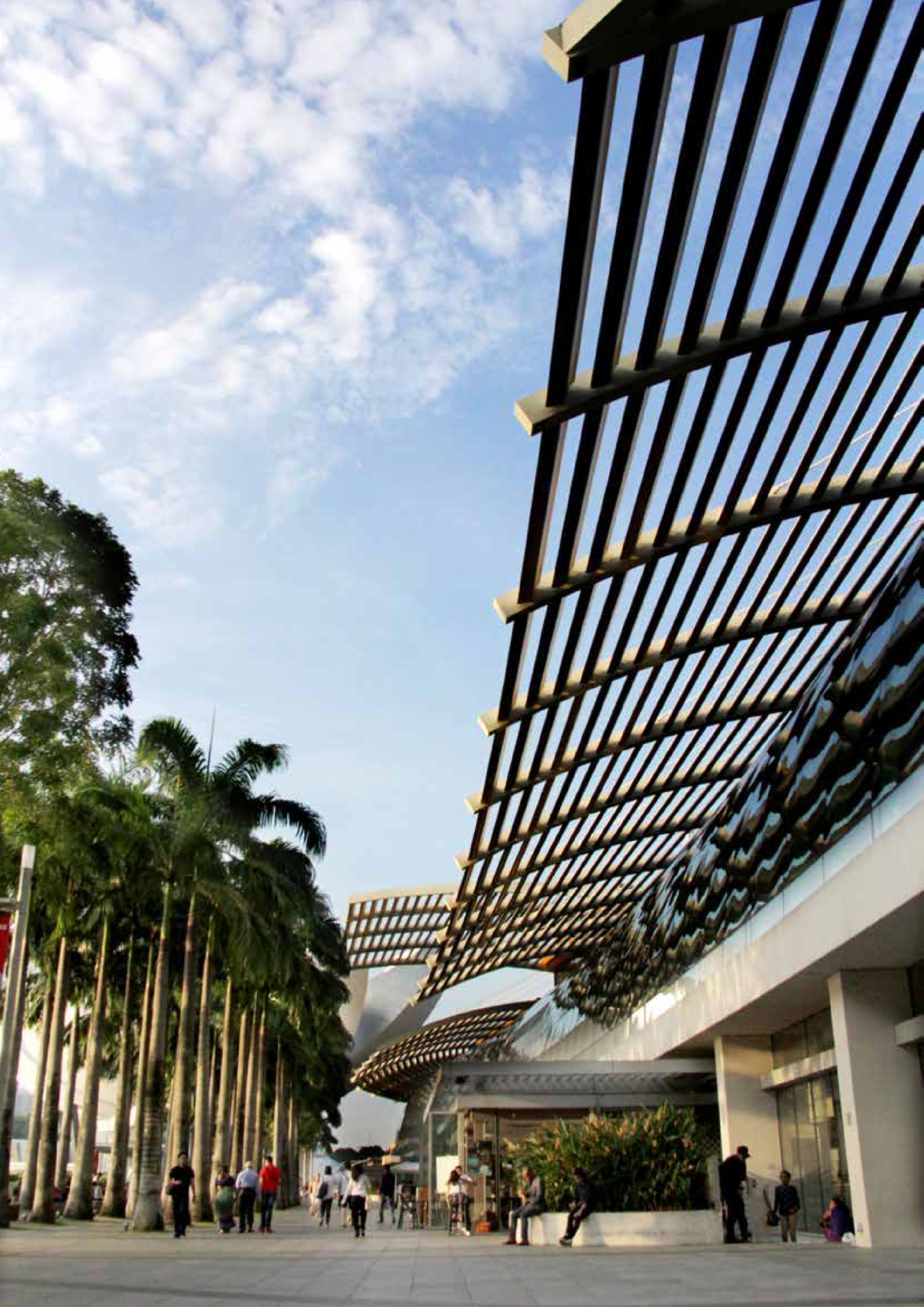
In January 2014, MAS published the National Risk Assessment Report, where it was identified that trade finance and correspondent banking were areas where AML/CFT controls could be more robust, to detect the risks arising from trade-based money laundering, proliferation financing activities and sanctions related compliance issues.

MAS has hence released a Guidance on Trade Finance and Correspondent Banking, to help banks strengthen their controls and risk management in these areas, based on observations made during on-site visits to local banks.

Some of the proposed measures include the requirement to perform a comprehensive risk assessment of the trade finance business, and also additional due diligence information requirements for trade finance transactions. Also addressed are increased guidance on screening and transactions monitoring for both trade finance and correspondent banking, as well as red flag indicators of suspicious activity.

14 MAS, “Consultation on Proposed Amendments to MAS Notice PSOA-N02 on Prevention of Money Laundering and Countering the Financing of Terrorism – Holders of Stored Value Facilities”, 23 Oct 2015

15 MAS, “Guidance on Anti-Money Laundering and Countering the Financing of Terrorism Controls In Trade Finance and Correspondent Banking”, 22 Oct 2015



3. Financial Markets

3.1 OTC Derivatives

HK SFC proposes changes to Financial Resources Rules[16]

Hong Kong, 17 Jul 2015

HK SFC has released a consultation on proposed changes to the Securities and Futures (Financial Resources) Rules (FRR) relating to capital, as well as other prudential requirements for licensed corporations engaged in OTC derivatives activity. The consultation further proposes changes to non OTC-derivatives-related FRR requirements.

The proposals aim to ensure that licensed corporations maintain capital and liquidity levels commensurate with the risks they undertake with regards to derivative businesses, and also to encourage them to adopt more advanced risk management standards. The proposed FRR treatments can be calibrated to permit different capital approaches for different levels of OTC derivatives activity.

The consultation closed on 16 October 2015.

FSB publishes ninth report on implementing OTC derivatives market reforms[17]

Global, 24 Jul 2015

In its 9th progress report on implementing OTC derivatives market reforms, the FSB has found most FSB member jurisdictions have the foundational authority needed to give effect to the full range of OTC derivatives market reforms.

Other main findings include that implementation of reforms are most advanced for trade reporting and for higher capital requirements for non-centrally cleared derivatives, and that most jurisdictions are only in the early phases of implementing the BCBS–IOSCO framework for margin requirements for non-centrally cleared derivatives

CPMI-IOSCO publish consultative report for harmonisation of key OTC derivatives data elements[18]

Global, 2 Sep 2015

CPMI-IOSCO has published a consultative report entitled "Harmonisation of a first batch of key OTC derivatives data elements (other than Unique Transaction Identifier, UTI, and Unique Product Identifier, UPI)."

Following a 2014 feasibility study on approaches to aggregate OTC derivatives data, the FSB asked the CPMI and the IOSCO to develop global guidance on the harmonisation of data elements reported to trade repositories and important for the aggregation of data by authorities.

This consultation focuses on a first batch of key data elements (other than UTI and UPI) that are considered important for consistent and meaningful aggregation on a global basis. The consultation closed on 9 Oct 2015.

16 HK SFC, "Consultation Paper on Proposed Changes to the Securities and Futures (Financial Resources) Rules", 17 Jul 2015
17 FSB, "Progress in Implementing OTC Derivatives Market Reforms", 24 Jul 2015
18 CPMI-IOSCO, "Harmonisation of key OTC derivatives data elements (other than UTI and UPI) – first batch, consultative report issued by CPMI-IOSCO", 2 Sep 2015

HKMA and HK SFC release joint consultation on mandatory clearing and reporting of OTC derivatives[19]

Hong Kong, 30 Sep 2015

The Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) today jointly issued a consultation on introducing the first phase of mandatory clearing and the second phase of mandatory reporting under the new over-the-counter (OTC) derivatives regime

This is the latest of developments reflecting the efforts of the HKMA and SFC to develop a regulatory regime for OTC derivatives, in line with global efforts. Previously, the Securities and Futures (Amendment) Ordinance 2014 was passed in March 2014, which introduced mandatory reporting, clearing, and trading and record keeping obligations in respect of OTC derivative transactions.

Two subsequent consultation exercises were carried out (in July 2014 and November 2014) on the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules, which came into effect on 10 July 2015.

The consultation closed on 31 Oct 2015, with an extension to 31 Nov 2015 for matters related to identifying the specific data fields to be completed under the expanded mandatory reporting regime.

MAS introduces margin requirements for non-centrally cleared OTC derivatives[20]

Singapore, 01 Oct 2015

MAS has issued proposals to implement margin requirements for non-centrally cleared OTC derivative trades, also known as uncleared derivatives. Such a move will reduce counterparty credit risks from uncleared derivatives, as part of the broader global reforms aimed at increasing the safety of trading such financial instruments.

The margin requirements will be imposed on OTC derivatives that are not cleared by a qualifying central counterparty, with the exception of physically-settled foreign-exchange forwards and swaps. The margin requirements will be implemented in phases, starting with banks, which have the largest exposures to uncleared derivatives. This new move complements MAS' earlier proposal to mandate the central clearing of specified OTC derivative contracts.

The consultation closed on 1 Nov 2015.

19 HKMA, "Joint HKMA-SFC consultation on mandatory clearing and reporting for OTC derivatives market", 30 Sep 2015
20 MAS, "MAS Consults on Margin Requirements for Non-Centrally Cleared OTC Derivatives", 01 Oct 2015

3.2 Other updates

Singapore Securities Council consults on amendments to the Code on Take-Overs and Mergers[21]

Singapore, 6 Jul 2015

The Securities Industry Council has issued a consultation on proposed amendments to the Singapore Code on Take-overs and Mergers.

Key proposals in the paper include clarifications to provide greater certainty on applicable procedures and timelines where there are competing offers, guidance on board conduct during an offer, and requirements on prompt disclosure of any material change to information previously published in an offer.

The consultation closed on 6 Aug 2015.

MAS Enhances Safeguards for the Sale of Financial Products at Retailers and Public Places[22]

Singapore, 23 Jul 2015

MAS is seeking comments on Market Conduct Rules for Marketing and Distribution Arrangements of Financial Institutions (FIs) at Retailers and Public Places. These measures have been introduced due to the increasing prevalence of marketing and distribution arrangements (e.g. roadshows) from financial institutions promoting various financial products. MAS is proposing market conduct safeguards to mitigate the potential market conduct risks posed to consumers arising from such arrangements.

Some of the proposed safeguards are the issuance of Market Conduct Guidelines that outline the safeguards FIs will be required to implement when conducting marketing and distribution activities at retailers and public places. Also, there is a new requirement for FIs to notify MAS of such marketing and distribution activities.

The consultation closed on 24 Aug 2015.

21 MAS, "Securities Industry Council consults on Amendments to the Singapore Code on Take-Overs and Mergers", 6 Jul 2015
22 MAS, "MAS Enhances Safeguards for the Sale of Financial Products at Retailers and Public Places", 23 Jul 2015

MAS establishes Financial Centre Advisory Panel (FCAP)[23]

Singapore, 28 Jul 2015

MAS has formed the FCAP comprising 26 leaders from the banking, insurance and asset management industries, with the aim of strengthening dialogue and partnerships between MAS and the financial industry to drive the growth and development of Singapore as a financial centre.

The FCAP will provide advice on the development of various segments of the financial sector, and deliberate on the SkillsFuture and FinTech initiatives, to build deep skills and harness technology in the sector.

Singapore's Association of Banks releases Penetration Testing Guidelines[24]

Singapore, 31 Jul 2015

The Association of Banks (ABS) has set of guidelines for penetration testing to ascertain the effectiveness of the security controls put in place to preserve the confidentiality, integrity and availability of online systems.

The document covers the penetration testing of online systems that are publicly accessible from the Internet. However, it also states that financial institutions have the option of adopting the methodology detailed for non-Internet facing services within their own organisations.

The document is to be read in conjunction with the Guidelines for Technology Risk Management released by MAS, to understand the expectations set out by the regulator.

MAS strengthens enforcement regime on market misconduct[25]

Singapore, 24 Aug 2015

MAS is consulting on proposed legislative amendments to Part XII and Section 324 of the Securities and Futures Act to strengthen MAS' enforcement regime in dealing with market misconduct. Among the key changes are new clarifications on what will be considered a false or misleading disclosure.

Also, there has been a revision of the civil penalty ceiling to address a previous loophole, where an offender under Section 232(2) of the SFA could only be fined the higher of 3 times the amount of benefit obtained or $50,000 if he had obtained a small benefit from his behaviour, even if his behaviour was particularly egregious. In contrast, if the offender had not received a benefit, he could be fined between $50,000 or $2 million.

The consultation closed on 23 Sep 2015.

23 MAS, "MAS establishes Financial Centre Advisory Panel", 28 Jul 2015
24 ABS, "Penetration Testing Guidelines for the Financial Industry in Singapore", 31 Jul 2015
25 MAS, "Consultation paper on Proposed Amendments to the Securities and Futures Act (Part XII & Section 324)", 24 Aug 2015

India initiates FATCA reforms[26]

India, 10 Sep 2015

India has issued a series of rules and amended legislation aimed at ensuring compliance with the requirements of FATCA. India joined the Multilateral Competent Authority Agreement (MCAA) on automatic exchange of Financial Account Information on 3 June 2015, and further signed an Agreement with the United States on 9 July 2015 to implement FATCA in India.

To further assist stock exchanges and depositories, SEBI has further issued a Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)-Guidance Note, which provides guidance on the implementation of FATCA under existing Income Tax rules.

HKMA issues circular on cyber security risk management[27]

Hong Kong, 15 Sep 2015

The HKMA has released a circular to reflect the growing importance of proper cyber security risk management and provide some general guidance. It expects the board and senior management of financial institutions to put in place risk ownership and accountability for cyber security risks, as well as periodic evaluations and monitoring of cyber security controls, with proper justifications for material gaps identified, if any.

Also, the HKMA has highlighted the importance of industry collaboration and contingency planning, since cyber security attacks could easily strike several FIs at once, as well as the need for regular independent assessment and checks to increase the robustness and resilience of FIs' cyber security systems.

MAS proposes changes to the SFA, FAA and TCA to enhance supervisory powers[28]

Singapore, 18 Sep 2015

MAS has released a Consultation Paper on Proposed Amendments to the Securities and Futures Act ("SFA"), Financial Advisers Act ("FAA") and Trust Companies Act ("TCA").

This follows a review by MAS which identified areas where its supervisory powers should be further enhanced, and also areas where business conduct requirements were to be further strengthened.

Among the main changes are greatly increased requirements for locally incorporated market infrastructure entities, enhancing their regulatory requirements to be more in line with that of other FIs. Also of note are the penalties now proposed for the submission of inaccurate information to the MAS, even if such information is non-material.

The consultation closed on 16 October 2015.

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26 SEBI, "Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting
27 HKMA, "Cyber Security Risk Management", 15 Sep 2015
28 MAS, "Public Consultation on Proposed Amendments to the Securities and Futures Act, Financial Advisers Act and Trust Companies Act", 18 Sep 2015

MAS enhances regulatory safeguards for investors[29]

Singapore, 22 Sep 2015

MAS will make enhancements to its regulatory framework for safeguarding investors' interests, with key changes in two areas. Firstly, retail investors in certain non-conventional investment products will be accorded the same regulatory safeguards as investors in capital markets products.

Also, investors who meet prescribed wealth or income thresholds to qualify as accredited investors will have the option to benefit from the full range of regulatory safeguards that are applicable for retail investors. Previously, all such investors were automatically classified as accredited investors, and hence exempt from such regulatory safeguards.

The Securities and Futures Act will be amended to implement these changes, with the changes to be tabled in Parliament in 2016.

Thailand's SEC to boost access to capital markets via financial innovation[30]

Thailand, 25 Sep 2015

Thailand's SEC aims to provide more access to the capital market for fund mobilizers and investors through the use of technology, including through crowdfunding and automated investment advice services.

With the introduction of new platform and services putting pressure on traditional business operators to compete with a new wave of financial service competitors, the SEC now closely monitors trends in international markets to ensure that the Thai capital market regulatory framework does not impede new developments.

Some of these new developments include the equity-based crowdfunding framework launched in May 2015, which is now gaining interest from various parties. The SEC is also looking at offering automated portfolio management advice or "robo-advisor" services to investors next year, as it offers investors the ability to obtain lower cost investment advice without the use of a human financial planner.

29 MAS, "MAS enhances regulatory safeguards for investors", 22 Sep 2015
30 SEC, "Thai capital market embraces financial innovation to promote fund mobilization and investment", 25 Sep 2015

SEBI aligns risk management frameworks for national commodity derivatives exchanges[31]

India, 01 Oct 2015

SEBI has issued a circular to align and streamline the risk management frameworks across national commodity derivatives exchanges. The comprehensive risk management framework has been finalised after a due consultative process with the exchanges. National commodity derivatives exchanges will be required to implement the provisions of the circular by 1 Jan 2016.

SEBI Directs Exchanges & Clearing Corps to Boost Capacity[32]

India, 08 Oct 2015

SEBI has directed stock exchanges and clearing corporations to increase their installed capacity for trading, clearing and settlement to 1.5 times the projected peak load.

Being critical infrastructure of the securities market, SEBI has deemed it imperative for such institutions to continuously assess and monitor system capacities. Stock exchanges and clearing corporations will be expected to implement suitable mechanisms, including generation of appropriate alerts, to monitor capacity utilisation on a real-time basis and shall proactively address issues pertaining to their capacity needs.

Stock exchanges and clearing corporations will be required to put in place necessary systems for implementation of the circular within three months.

Thailand Securities and Exchange Commission (SEC) seeking comments on crowdfunding rules[33]

Thailand, 12 Oct 2015

Thailand's SEC is seeking public comments on the proposed revision to the crowdfunding rules, which have been effective since May 2015.

The revision aims to meet the following objectives:

- To specify that only limited companies and non-listed public companies are eligible for the crowdfunding model;
- To grant oversubscription upon meeting certain requirements;
- To increase the types of escrow agents permissible for crowdfunding portals; and
- To allow non-retail investors and crowdfunding portals to form a mutual agreement on selection of escrow agent.

The consultation closed on 30 Oct 2015.

31 SEBI, "Comprehensive Risk Management Framework for National Commodity Derivatives Exchanges", 01 Oct 2015
32 SEBI, "Review of the capacity planning framework of stock exchanges and clearing corporations", 08 Oct 2015
33 SEC, "Public hearing on proposed revision to crowdfunding rules", 12 Oct 2015

4. Insurance

CIRC relaxes interest rates for life insurers[34]

China, 28 Sep 2015

The China Insurance Regulatory Commission (CIRC) has issued a Notice to promote reform of the insurance sector. Starting from 1 Oct 2015, life insurers will be given freedom to decide on the interest rates of dividend-paying life insurance. Also, life insurers developing participating life insurance products with interest rates lower than 3.5% will only be required to submit a record to the CIRC, although products with higher interest rates will still require CIRC approval.

These measures are aimed at promoting more market-driven competition in the insurance industry, by returning pricing power to insurers. The CIRC has also previously relaxed interest rates for term and universal life products.

IAIS develops Higher Loss Absorbency (HLA) requirement for Global Systemically Important Insurers (G-SIIs)[35]

Global, 5 Oct 2015

The International Association of Insurance Supervisors (IAIS) has concluded initial development of the HLA requirement for G-SIIs. The HLA has also been endorsed by the Financial Stability Board.

This follows the development of the Base Capital Requirement as a foundation for the HLA in Oct 2014, which applies to all group activities, including non-insurance activities, of G-SIIs. From 2019, G-SIIs will be expected to hold qualifying regulatory capital that is not less than the sum of the required capital amounts from the BCR and HLA.

The HLA and BCA together will form a sound capital and solvency framework for the insurance sector, which will support the financial stability of G-SIIs.

Beginning in 2016, the HLA will be reported on a confidential basis to group-wide supervisors and be shared with the IAIS for purposes of improving the HLA. The development of the HLA is the second step of a long-term project to develop risk-based, group-wide global insurance capital standards. The first step was the development of BCR requirements in 2014. The third step is the development of a risk-based group-wide global Insurance Capital Standard (ICS), due to be adopted by the end of 2019.

34 CIRC, "中国保监会关于推进分红型人身保险费率政策改革有关事项的通知", 28 Sep 2015
35 IAIS, "IAIS develops Higher Loss Absorbency (HLA) requirement for Global Systemically Important Insurers (G-SIIs)", 5 Oct 2015

Malaysia liberalises life and general insurance sector[36]

Malaysia, 07 Oct 2015

During a keynote address at the 5th Malaysia Insurance Summit, the Deputy Governor of Bank Negara Malaysia Dato' Muhammad Bin Ibrahim announced two major developments, the introduction of the Life Insurance and Family Takaful Framework and the liberalisation of the Fire and Motor Tariffs.

These initiatives are aimed are promoting innovation by giving the insurance industry greater operational flexibility. For the life insurance and family takaful sector, it is hoped that the penetration level will be increased from 56% currently to 75% by 2020, with product innovation particularly in the micro-insurance and micro-takaful spaces viewed as key to reach underserved segments of society.

Also, for the general insurance space, a more market-driven pricing structure will be introduced for motor and fire insurance, to encourage the development of products that are more responsive to consumer and business needs.

36 BNM, "Deputy Governor's Keynote Address at the 5th Malaysia Insurance Summit", 7 Oct 2015

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5. Asset Management

Singapore asset management industry experiences robust growth[37]

Singapore, 20 Aug 2015

According to MAS' annual survey on the asset management industry, Singapore's asset management industry posted robust growth in 2014, with more fund inflows derived largely from positive asset inflows arising from Asia's growth dynamism and Singapore's position as a pan-Asian asset management hub.

The total AUM Singapore-based asset managers grew by 30 per cent to S$2.4 trillion as at end-2014, compared to S$1.8 trillion as at end-2013. Over the last five years, the industry AUM has expanded at a 14 per cent compound annual growth rate (CAGR).

The number of licensed fund managers also increased by 38 last year, bringing the total number of fund managers registered and licensed with MAS to 591. There were also more fund inflows from abroad, with 81 per cent of total AUM last year sourced from outside Singapore, compared to 77 per cent of total AUM in 2013. Of this, 54 per cent was sourced from the Asia-Pacific, 19 per cent from Europe and 18 per cent from North America.

Increased ease of cross border capital raising in ASEAN[38]

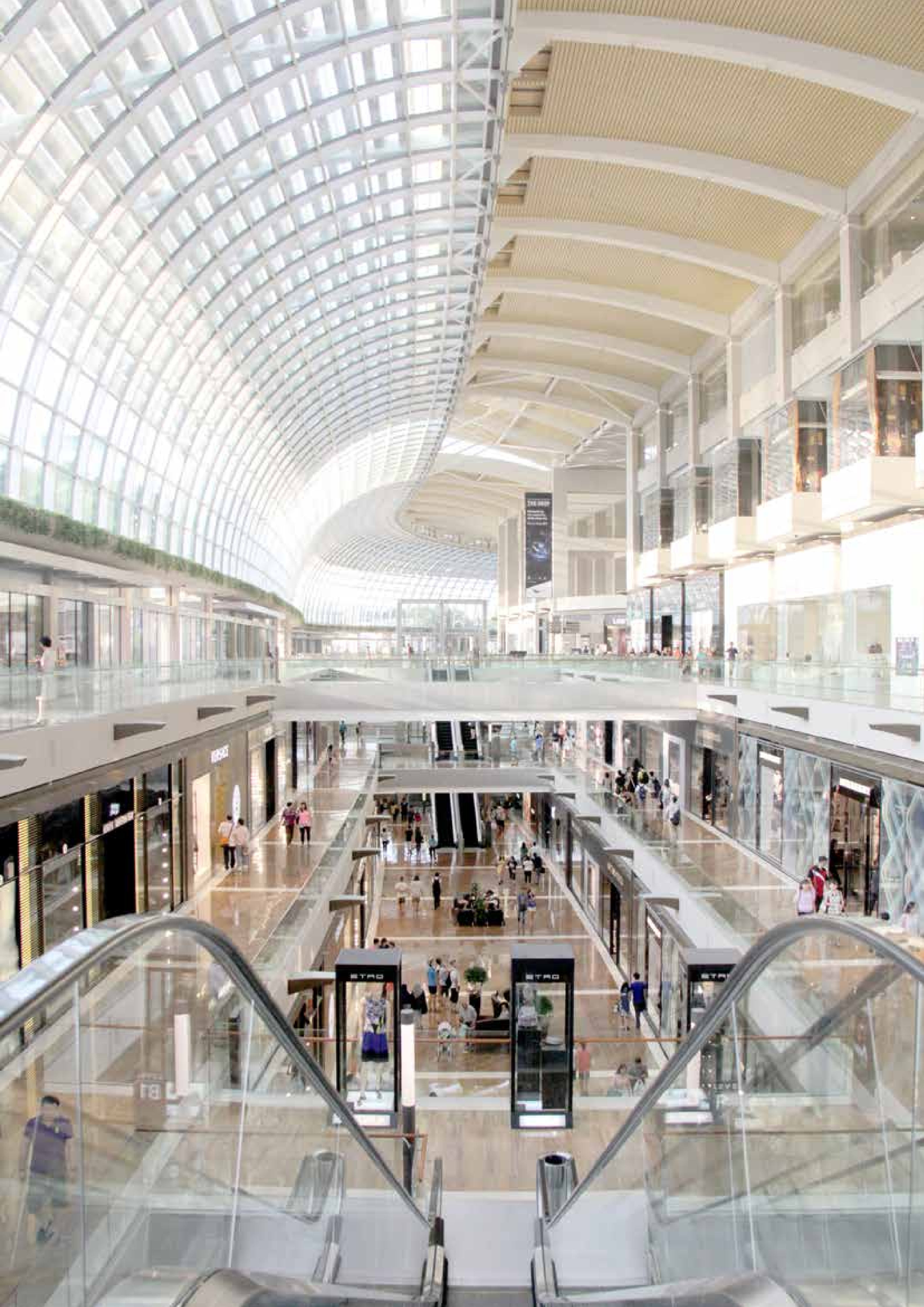
Singapore, 4 Sep 2015

The Monetary Authority of Singapore ("MAS") and Singapore Exchange ("SGX"), together with the Securities Commission Malaysia ("SC") and the Securities and Exchange Commission, Thailand ("SEC"), have jointly released the Handbook to implement the Streamlined Review Framework ("Framework") for the ASEAN Common Prospectus.

This follows the signing of the Memorandum of Understanding by the MAS, SC, SEC and SGX to establish a Framework for the ASEAN Common Prospectus on 3 March 2015. ASEAN issuers planning a multi-jurisdictional offering of equity or plain debt securities can expect a shorter time-to-market, and faster access to capital across the region.

The Handbook has been published to give industry practitioners an understanding of the various administrative and procedural matters relating to the Framework

37 MAS, "2014 Singapore Asset Management Survey", 20 Aug 2015
38 MAS, "Cross Border Capital Raising in ASEAN made easier", 4 Sep 2015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7. Contact Our Experts

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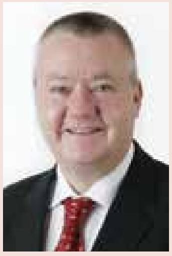

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08

8. Glossary

ABS	Association of Banks in Singapore
ACGA	Asian Corporate Governance Association
ACGS	ASEAN Corporate Governance Scorecard
ADI	Authorised deposit-taking Institutions
AEOI	Automatic Exchange of Information
AI	Authorised Institutions
AIFMD	Alternative Investment Fund Manager's Directive
AML	Anti-Money Laundering
AML/CTF	Anti-Money Laundering/Counter-Terrorism Financing
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATS	Alternative Trading Systems
BCBS	Basel Committee on Banking Supervision
BIR	Bureau of Internal Revenue
BIS	Bank for International Settlements
BNM	Bank Negara Malaysia
BSP	Bangko Sentral ng Pilipinas
CCP	Central Clearing Party
CDD	Customer Due Diligence
CET 1	Common Equity Tier 1
CIS	Collective Investment Schemes
CMDTF	Capital Markets Development Taskforce
CPSS	Committee on Payment and Settlement Systems
CRDIV	Capital Requirements Directive IV
CROs	Chief Risk Officers
CVA	Credit Valuation Adjustment
DDP	Designated Depository Participants
DIM	Dim Sum Bonds
DNC	Do Not Call
EBA	European Banking Authority
EC	European Commission
EDP	Excessive Deficit Procedure
EIBOR	Emirates Interbank Offered Rate
EMC	Emerging Markets Committee
EMIR	European Market Infrastructure Regulation
EOI	Exchange of Tax Information
ESMA	European Securities and Markets Authority
EU	European Union
FA	Financial Advisor
FAIR	Financial Advisory Industry Review
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FBOs	Foreign Banking Organizations
FCA	Financial Conduct Authority
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FII	Foreign Institutional Investor
FinCen	Financial Crimes Enforcement Network
FINRA	Financial Industry Regulatory Authority
FIs	Financial Institutions
FMA	Financial Markets Authority
FMCB	Financial Markets Conduct Bill
FMIs	Financial Market Infrastructures
FPC	Financial Policy Committee
FPI	Foreign Portfolio Investor
FSA	Financial Services Authority
FSB	Financial Stability Board

FSTB	Financial Services and Treasury Bureau
FTT	Foreign Transaction Tax
GSEs	Government-Sponsored Enterprise
HFT	High Frequency Trades
HMRC	HM Revenue & Customs
HQA	High Quality Assests
ICBC	Industrial and Commercial Bank of China
ICD	Institute of Corporate Directors
IIF	Institute of International Finance
IDB	Inter-Dealer Broker
IFSB	Islamic Financial Services Board
IGA	Inter-Governmental Agreements
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IRS	Internal Revenue Service
IRDA	Insurance Regulatory and Development Authority
ISDA	International Swaps and Derivatives Association
ITS	Implementing Technical Standards
JFSA	Japan Financial Services Authority
KRX	Korea Exchange
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LDP	Low-Default Portfolios
LFTR	Licensed Foreign Trade Repository
LIBOR	London Interbank Offered Rate
LTR	Licensed Trade Repository
MAS	Monetary Authority of Singapore
MiFID II/ MiFIR	Markets in Financial Instrument Directive
MMF	Money Market Funds
MOU	Memorandum of Understanding
NAV	Net Asset Value
NFC	Non-Financial Company
NFFE	National Federation of Federal Employees
NFSP	Non-Financial specified person
NOFHC	Non-Operative Financial Holding Company
OECD	Organisation for Economic Co-operation and Development
OFT	Office of Fair Trading
OTC	Over-the-Counter
OTF	Organised Trading Facility
PBC	People's Bank of China
PDPA	Personal Data Protection Act
PDPC	Personal Data Protection Commission
PEPs	Politically Exposed Persons
PLC	Public Listed Company
POS	Point of Sale
PRA	Prudential Regulatory Authority
QFI	Qualified Foreign Investor
RBI	Reserve Bank of India
RFMC	Regime for Fund Management Companies
RMB	Renminbi
RWAs	Risk Weighted Assets
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SEHK	Hong Kong Exchanges and Clearing Limited
SFC	Securities & Futures Commission of Hong Kong
SFTs	Securities Financing Transactions
SGX	Singapore Stock Exchange
SIDD	Separately Identifiable Department or Division
TRC	Tax Residency Certificate
TRM	Technology Risk Management
UK	United Kingdom
UN	United Nations
US	United States
WFE	World Federation Exchange
WMS	Wealth Management Services

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