

Managing Upstream Risk

Regulatory Reform Review:
An Asian perspective

Issue 21
June 2016





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1. Editorial

This edition of *Managing Upstream Risk* provides updates on the key regulatory developments in Q2 2016.

On the local front, MAS has proposed legislative amendments to enhance the resolution regime in Singapore. The consultation, which closed on 30 May 2016, will soon see wide ranging changes to the resolution legislation in Singapore, including a new Notice and Guidelines on recovery and resolution planning for banks. The Notice, which is currently in draft form, covers among others, the need to establish a recovery plan to guide the recovery of a distressed bank, and a resolution plan to facilitate the use of MAS' resolution powers.

This quarter also saw MAS exercise the most severe form of its supervisory powers, in revoking the merchant bank status of BSI Bank Limited. The decision was made due to widespread and persistent control lapses and a pervasive pattern of non-compliance in enforcing anti money-laundering regulations at BSI Bank, with the lapses described by MAS managing director Mr Ravi Menon as the “worst case of control lapses and gross misconduct that we have seen in the Singapore financial sector.” Mr Menon also emphasised the need for banks to take their AML responsibilities seriously by enforcing robust controls, maintaining vigilant surveillance and upholding a management culture that emphasised professional integrity and risk consciousness.

Globally, cybersecurity is increasingly being identified as one of the biggest risks to financial markets worldwide.

Increased scrutiny has been applied to the financial sector on cybersecurity issues after hackers recently stole US\$81 million from Bangladesh Bank in Feb 2016. The large heist highlighted the threat posed by cyber thieves targeting financial institutions worldwide, with transactions carried out using the SWIFT network highlighting how bank thieves were now using SWIFT codes of real banks to make fraudulent transactions look genuine.

On the state of cybersecurity preparedness, the chair of the US Securities and Exchange Commission, Mary Jo White, has stated that many financial institutions still do not have cyber policies in place to match the levels of risk faced.

As part of moves by regulators to try and deal with such risks, the International Organisation of Securities Commission is issuing a study of regulatory approaches and tools to deal with cyber risk, together with the coordination efforts by individual financial regulatory bodies. Locally, Singapore's Minister for Communications and Information Yaacob Ibrahim has also informed Parliament that there will be a new Cybersecurity Bill tabled in 2017, which aims to strengthen laws against online crime.

Regulatory Updates



2. Banking Updates

2.1 Financial Stability

ESAs identifies EU financial system vulnerabilities¹

Europe, 7 Apr 2016

The Joint Committee of the European Supervisory Authorities (ESAs) has published its Spring 2016 report on Risks and Vulnerabilities in the EU Financial System, suggesting a set of policy actions to tackle those risks. The key risks identified are the (1) low profitability of financial institutions in a lowyield environment, (2) the increasing interconnectedness of bank and non-bank entities, and (3) potential contagion from China and other emerging markets, brought about by their slowing economic growth.

EBA discloses first list of O-SIIs in EU²

Europe, 25 Apr 2016

The European Banking Authority (EBA) has disclosed the first list of Other Systematically Important Institutions (O-SIIs) in the EU, which have identified based on criteria provided by the EBA guidelines, which define the size, importance, complexity and interconnectedness of such institutions.

The current list of O-SIIs in the EU is based on 2015 data, and moving forward, updated O-SII lists will be disclosed on an annual basis, along with the definition of CET1 capital buffer requirements, which may need to be set. Any higher capital requirements will become applicable at least one year after the publication of the

O-SII list, to give the institutions time for adaption.

US Agencies propose net stable funding ratio rule³

United States, 3 May 2016

The Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of the Comptroller of the Currency have proposed a net stable funding ratio (NSFR) to strengthen the resilience of large banking organizations. The rule will introduce the requirements for big banks to maintain a minimum level of stable funding relative to the liquidity of their assets, derivatives, and commitments over a one-year period, which will reduce the likelihood that disruptions to sources of funding will compromise the liquidity positions of banks.

The NSFR proposal complements the current rule on the liquidity coverage ratio, which requires banks to hold a minimum amount of high-quality liquid assets that can be easily and quickly converted into cash to meet net cash outflows over a 30-day stress period.

The proposed rule will be tailored according to banks' risk level, with the most stringent requirements applying to the largest firms, such as those with US\$250 billion of more in total consolidated assets.

The NSFR will become effective on 1 January 2018, and consultation on the NSFR will close on 5 August 2016.

1 ESMA, "ESAs identify vulnerabilities affecting the EU financial system and suggest actions to address the main risks", 7 Apr 2016

2 EBA, "EBA discloses first list of O-SIIs in the EU", 25 Apr 2016

3 FRB, "Agencies propose net stable funding ratio rule", 3 May 2016

US regulatory agencies move to discourage inappropriate risk taking linked to incentive-based compensation⁴

United States, 16 May 2016

Six US federal agencies have invited public comments on a proposed rule that discourages inappropriate risk at covered financial institutions by prohibiting incentive-based compensation arrangements, having deemed such compensation packages as one of the contributing factors of the 2007 financial crisis.

The proposed rules would apply to covered financial institutions with total assets of \$1 billion or more, with requirements tailored into three categories:

- Level 1: institutions with assets of \$250 billion and above;
- Level 2: institutions with assets of \$50 billion to \$250 billion; and
- Level 3: institutions with assets of \$1 billion to \$50 billion.

Institutions that are covered by the proposed rule will be required to document the structure of incentive-

based compensation arrangements annually, and retain the relevant records for seven years. The boards of these institutions will be required to maintain oversight of such arrangements.

The rule will mainly address requirements for senior executive officers and employees of Level 1 and 2 institutions who are significant risk-takers. The consultation will close on 22 July 2016.

FXWG of Bank for International Settlements publishes first phase of code of conduct for global currency markets⁵

Global, 26 May 2016

The Foreign Exchange Working Group (FXWG) has published the first phase of the Global Code of Conduct for FX markets, a development that recognizes the vital role that the foreign exchange market plays in the global financial markets.

The complete Code and adherence mechanisms will be released in May 2017. The Code, when completed, will aim to promote the integrity and effective functioning of FX markets.

4 FRB, "Agencies invite comment on proposed rule to prohibit incentive-based pay that encourages inappropriate risk-taking in financial institutions", 16 May 2016

5 FXWG, "First phase of a global code of conduct for currency markets published", 26 May 2016

2.2 Capital and liquidity requirements/Basel III

Federal Reserve Board finalises rule on high-quality liquid assets⁶

United States, 1 Apr 2016

The Federal Reserve Board (FRB) has finalised a rule adding certain investment grade state and local municipal bonds to the types of high-quality liquid assets (HQLA) that US big banks may hold to meet liquidity needs during times of financial stress. This comes as subsequent analysis by the FRB determined that the municipal securities had liquidity characteristics similar to other HQLA classes, such as corporate debt securities.

The rule will apply on 1 July 2016.

BCBS releases report on Analysis of risk-weighted assets for credit risk in the banking book⁷

Global, 1 Apr 2016

The Basel Committee on Banking Supervision (BCBS) has released a report analysing variation in risk-weighted assets in banks, by using internal ratings-based models to calculate credit risk capital requirements.

Two types of risk estimates are evaluated in the study. First, the study considers risk estimates used for exposures to retail customers and small and medium-sized enterprises. Second, it explores how banks evaluate the likely exposure at default across all asset classes.

The report also describes sound practices observed in banks' independent model validation functions, including the governance of the validation process, the methodology and scope of banks' validation functions and the role of the validation function across different phases of model development and implementation.

BCBS publishes third set of frequently asked questions on the Basel III leverage ratio framework⁸

Global, 6 Apr 2016

BCBS has published the third set of FAQs relating to the Basel III leverage ratio framework. This is part of an ongoing periodic initiative to review frequently asked questions relating to the framework and its implementation. The answers from the latest FAQ are grouped together with the answers published earlier in the first and second sets of FAQs, and are grouped according to the following themes:

- (i) on-balance sheet exposures;
- (ii) derivative exposures;
- (iii) specific treatment for written credit derivatives;
- (iv) securities financing transaction (SFT) exposures;
- (v) cross-product netting agreements for derivative exposures and SFTs;
- (vi) treatment of long settlement transactions and failed trades;
- (vii) off-balance sheet items; and
- (viii) scope of consolidation and disclosure.

6 FRB, "Federal Reserve finalizes rule adding certain investment grade general obligation state and local municipal bonds to types of assets big banks may hold to meet liquidity needs during time of financial stress", 1 Apr 2016

7 BCBS, Regulatory consistency assessment programme (RCAP) - Analysis of risk-weighted assets for credit risk in the banking book' 1 Apr 2016

8 BCBS, "Frequently asked questions on the Basel III leverage ratio framework", 6 Apr 2016

EBA updates its risk dashboard⁹

Europe, 6 Apr 2016

The European Banking Authority (EBA) has published a periodic update of its Risk Dashboard outlined the main risks and vulnerabilities in the banking sector. The update shows a further increase in EU banks' capital ratios, driven by an increase of capital and a decline of risk-weighted assets. Profitability remains low and Non-Performing Loan (NPL) ratios are still high.

Federal Reserve Board proposes technical amendments to risk-based capital requirements for G-SIBs¹⁰

Global, 7 Apr 2016

The Federal Reserve Board (FRB) has proposed technical amendments to its rule requiring global systemically important bank holding companies (GSIBs) to hold additional amounts of risk-based capital. The proposal will not materially change the underlying rule finalized by the Board in July 2015.

According to the proposed amendments, GSIBs must continue to calculate their surcharges using year-end data, while their related surcharge data will be reported on a quarterly basis. The computation of surcharge scores will also be done using billions of dollars. Further amendments include additional information on how GSIBs should calculate their short-term wholesale funding scores during the rule's transition period. The consultation closed on 13 May 2016.

HKMA publishes revised version of SPM Manual "Supervisory Review Process"¹¹

Hong Kong, 8 Apr 2016

The Hong Kong Monetary Authority (HKMA) has published a revised Supervisory Policy Manual on the "Supervisory Review Process". The revised SPM module contains updates on the implementation of the Basel III capital buffers, particularly a refined explanation of the interaction between the Pillar 2 capital requirements derived from the Pillar 2 supervisory review process, and the Pillar 1 buffer level prescribed under the Banking (Capital) Rules.

Also, the revised module references the sound practices identified in "A Sound Capital Planning Process: Fundamental Elements" issued by the Basel Committee on Banking Supervision in January 2014, by incorporating some new provisions relating to capital planning for financial institutions. These relate primarily to the responsibilities of the board and senior management, and the integration of capital planning with the overall capital adequacy assessment process.

BCBS publishes its tenth progress report on adoption of Basel III standards¹²

Global, 11 Apr 2016

The Basel Committee on Banking Supervision (BCBS) has published its tenth progress report on adoption of

9 EBA, "EBA updated Risk Dashboard shows EU banks have further increased their capital ratios in Q4 2015", 6 Apr 2016

10 FRB, "Federal Reserve Board proposes technical amendments to rule requiring global systemically important bank holding companies to hold additional amounts of risk-based capital", 7 Apr 2016

11 HKMA, "Supervisory Policy Manual (SPM): CA-G-5 Supervisory Review Process", 8 Apr 2016

the Basel III standards, an update on previous progress reports which have been published on a semiannual basis since October 2011. The report monitors the status of adoption for all Basel III standards, which will become effective by 2019.

As of March 2016, all 27 BCBS member jurisdictions have final risk-based capital rules, LCR regulations and capital conservation buffers in force. Further, 24 member jurisdictions have issued final rules for the countercyclical capital buffer and 23 have issued final or draft rules for their domestic SIBs framework. With regard to the global SIBs framework, all BCBS members that are home jurisdictions to G-SIBs have the final framework in force. Member jurisdictions are now turning to the implementation of other Basel III standards, including the leverage ratio and the net stable funding ratio.

BCBS consults on the prudential treatment of problem assets¹³

Global, 14 Apr 2016

BCBS has issued a consultation document “Prudential treatment of problem assets - definitions of non-performing exposures and forbearance” for public comment. The consultation aims to promote harmonisation in the measurement and application of non-performing exposures and forbearance, and thereby foster consistency in supervisory reporting and disclosures by banks.

The consultation will close on 15 July 2016.

BCBS issues updated standards on interest rate risks in the banking book¹⁴

Global, 21 Apr 2016

BCBS has issued revised standards for Interest Rate Risk in the Banking Book (IRRBB), updating the 2004 Principles for the management and supervision of interest rate risk.

The key enhancements include:

- More extensive guidance on banks’ IRRBB management process in areas such as the development of shock and stress scenarios and key behavioural and modelling assumptions to be considered by banks in their measurement of IRRBB;
- Enhanced disclosure requirements to promote greater consistency, transparency and comparability in the measurement and management of IRRBB.
- Updates to the standardised framework for adoption by banks
- Stricter outlier threshold for banks, which is now reduced from 20% of a bank’s total capital to 15% of a bank’s Tier 1 capital. Interest rate risk exposure is also now measured by the maximum change in the economic value of equity under the prescribed interest rate shock scenarios.

The revised standards are expected to be implemented by 2018.

12 BCBS, “Tenth progress report on adoption of the Basel regulatory framework”, 11 Apr 2016

13 BCBS, “Definitions and disclosure of non-performing exposures and forbearance proposed by the Basel Committee”, 14 Apr 2016

14 BCBS, “Standards for interest rate risk in the banking book issued by the Basel Committee”, 21 Apr 2016

BCBS publishes a consultative document on revisions to the Basel III leverage ratio framework¹⁵

Global, 25 Apr 2016

BCBS has published a consultation setting out their proposed revisions to the design and calibration of the Basel III leverage ratio framework.

Among the areas subject to proposed revision in this consultative document are:

- measurement of derivative exposures;
- treatment of regular-way purchases and sales of financial assets;
- treatment of provisions;
- credit conversion factors for off-balance sheet items; and
- additional requirements for global systemically important banks.

The final design and calibration of the proposals will be informed by a comprehensive quantitative impact study. The consultation will close on 6 July 2016.

EBA consults on Liquidity Coverage Ratio disclosure¹⁶

Europe, 11 May 2016

EBA has launched a consultation on its draft Liquidity Coverage Ratio (LCR) disclosure, which will provide uniform requirements and specify both the qualitative and quantitative information that European Union (EU) financial institutions will be required to disclose on liquidity and the LCR. The guidelines will also specify the key figures and metrics in the context of liquidity risk. The consultation will close on 11 August 2016, and the application of these Guidelines is expected to take place after 30 June 2017.

BCBS issues statement on capital arbitrage transactions¹⁷

Global, 2 June 2016

Since the publication of Basel III in 2010, Basel Committee members have received numerous requests to review or approve transactions that seek to alter the form or substance of items subject to regulatory adjustments, which are outlined in paragraphs 66 to 90 of the Basel III standard.

Transactions that are designed to offset regulatory adjustments employ a variety of strategies. For example, these may include: (1) the issuance of senior or subordinated securities with or without contingent write off mechanisms; (2) sales contracts that transfer insufficient risk to be deemed sales for accounting purposes; (3) fully-collateralised derivative contracts; and (4) guarantees or insurance policies. These types of transactions pose a number of risks. They can be complex, artificial and opaque. They can include legal risk and be untested in their ability to fully address the underlying rationale for the regulatory adjustment. Furthermore, they can have the effect of overestimating eligible capital or reducing capital requirements, without commensurately reducing the risk in the financial system, thus undermining the calibration of minimum regulatory capital requirements.

Banks should therefore not engage in transactions that have the aim of offsetting regulatory adjustments. Any such transactions will be subject to careful supervisory scrutiny in the evaluation of risk transfer and the assessment of capital adequacy.

¹⁵ BCBS, "Revisions to the Basel III leverage ratio framework – consultative document", 25 April 2016

¹⁶ EBA, "EBA consults on LCR disclosure", 11 May 2016

¹⁷ BCBS, "Statement on capital arbitrage transactions", 2 June 2016

2.3 Recovery and Resolution Plans

EBA publishes final guidelines on disclosure of confidential information under the BRRD¹⁸

Europe, 19 April 2016

EBA has published its final Guidelines on the disclosure of confidential information under the Bank Recovery and Resolution Directive (BRRD). The guidelines aim to strike a balance between the need to achieve an appropriate level of convergence regarding the disclosure of confidential information, and the need to ensure flexibility, considering the varying circumstances and situations, as well as the types of confidential information that may need to be disclosed.

MAS proposes legislative amendments to enhance the resolution regime¹⁹

Singapore, 29 Apr 2016

The Monetary Authority of Singapore (MAS) has reached out to stakeholders and industry participants for comments on draft legislative amendments to effect policy proposals set out in its June 2015 consultation on enhancements to the resolution regime for financial institutions in Singapore.

The legislative amendments include changes to the Monetary Authority of Singapore (Control and Resolution of Financial Institutions) Regulations 2013 and a draft Notice, as well as Guidelines, on recovery and resolution planning for banks. The amendments will also affect Parts IVA and IVB of the MAS Act, which will give MAS the powers to impose recovery and resolution planning requirements on pertinent financial institutions and insurers that have been notified by MAS.

The consultation closed on 30 May 2016. MAS has also published its response to the comments received on the previous June 2015 consultation paper, which clarified topics ranging from the financial institutions that would be subject to recovery and resolution planning requirements based on its systemic importance, to the circumstances under which MAS would require a financial institution to take recovery measures or trigger resolution.

¹⁸ EBA, “EBA publishes final Guidelines for disclosing confidential information under the BRRD”, 19 Apr 2016

¹⁹ MAS, “Proposed Legislative Amendments to Enhance the Resolution Regime for Financial Institutions in Singapore”, 29 Apr 2016

Federal Reserve Board proposes rule to enhance resolvability of large financial firms²⁰

United States, 3 May 2016

The Fed has introduced a proposal that would require the amendment of contracts for common financial transactions to prevent their immediate cancellation, in the event the financial institution enters bankruptcy or a resolution process. This would apply to US G-SIBs and the US operations of foreign GSIBs.

The proposed change will reduce the risk of runs on the solvent subsidiaries of failed G-SIBs caused by a large termination of financial contracts from firms in the event of bankruptcy.

The proposal will be open for comments until 5 Aug 2016.

EBA publishes final guidelines on stress tests for deposit guarantee schemes²¹

Europe, 24 May 2016

EBA has published its final Guidelines on stress tests for deposit guarantee schemes (DGSs), which provide a systematic methodology for planning, running and reporting stress tests conducted by DGSs to assess their resilience in response to banking stress scenarios. The Guidelines will promote the quality and consistency of these stress tests, while facilitating future peer reviews by the EBA. The first stress test will take place by 3 July 2017. Additionally, the Guidelines also establish a small core of harmonized priority tests to be run by DGSs and reported to the EBA. DGSs will be required to report their results on these priority tests by 3 July 2019.



20 FRB, “Federal Reserve Board proposes rule to support U.S. financial stability by enhancing the resolvability of very large and complex financial firms”, 3 May 2016

21 EBA, “EBA publishes final Guidelines on stress tests for deposit guarantee schemes”, 24 May 2016

2.4 Cybersecurity

IOSCO issues study on approaches to deal with Cyber Risk²²

Spain, 6 April 2016

The International Organization of Securities Commissions (IOSCO) has published a report detailing insights and perspectives from its policy and stakeholder committees on cyber resilience, having identified cyber risk as a growing and significant risk to the integrity, soundness and efficiency of global financial markets. Cyber risk has been described in the report as not just another risk, but a unique, highly complex and rapidly evolving phenomenon, requiring swift and sustained attention from regulators and market participants.

The report details different regulatory approaches related to cyber security and the potential tools available to regulators to respond to the cyber risk. It also describes some of the practices adopted by market participants.

Singapore Parliament to introduce a new cybersecurity bill in 2017²³

Singapore, 11 Apr 2016

Singapore's Minister for Communications and Information Yaacob Ibrahim has informed Parliament that there will be a new Cybersecurity Bill tabled in 2017, which aims to strengthen laws against online crime. The proposed law will include measures to ensure that operators of critical information structure in Singapore take active steps to improve the security of such systems, while establishing guidelines for the reporting of incidents.

The new Bill will also empower the Cybersecurity Agency to manage cyber incidents and raise the standards of cyber security providers here. This move comes amidst similar moves by regulators in other countries, like Germany, which passed a new law in 2015 to raise cybersecurity standards and mandate the reporting of significant cybersecurity incidents.

²² IOSCO, "IOSCO Issues Study of Regulatory Approaches and Tools to Deal with Cyber Risk", 6 April 2016

²³ The Straits Times, "Parliament: New Cybersecurity Bill to be tabled next year to strengthen Singapore's online defences", 11 Apr 2016

2.5 Bond offerings

MAS makes it easier for retail investors to buy corporate bonds²⁴

Singapore, 19 May 2016

The Monetary Authority of Singapore (MAS) has introduced two regulations to facilitate corporate bond offerings to retail investors, with two new frameworks allowing the issuing of plain vanilla bonds to retail investors by corporate bond offerors, the (1) bond seasoning framework and the (2) exempt bond issuer framework.

The bond seasoning framework will allow wholesale bonds issued by issuers meeting SGX eligibility criteria to be offered to retail investors after the bonds have been listed for 6 months. All these bonds will be considered “seasoned”, and they can be re-dominated into smaller lot sizes and offered to retail investors on the secondary market.

For the exempt bond issuer framework, issuers satisfying thresholds higher than the eligibility criteria of the Bond Seasoning framework will be allowed to offer bonds directly to retail investors without a prospectus.

As an additional incentive for eligible issuers under the two frameworks, there will also be tax deductions for up to two times on issuance costs for retail bonds offered for qualifying retail bonds. The tax concession will be available for five years.

2.6 Payment systems

CPMI of Bank for International Settlements publishes report on financial inclusion²⁵

Global, 5 Apr 2016

The Committee on Payments and Market Infrastructures (CPMI) and the World Bank Group have released a report containing seven guiding principles to help countries increase financial inclusion. The report seeks to tackle barriers to the adoption and usage of transaction accounts in retail payments, also suggesting other key actions to further advance financial inclusion, such as providing low cost basic accounts and stepping up efforts to increase financial literacy.



²⁴ MAS, “MAS Makes It Easier For Retail Investors to Buy Corporate Bonds”, 19 May 2016

²⁵ CPMI, “Seven essential guiding principles to boost financial inclusion laid out in new report”, 5 Apr 2016

2.7 Other updates

HKMA publishes observations and feedback from reviews of the selling of investment products²⁶

Hong Kong, 8 Apr 2016

The HKMA has published its observations from its review of financial institutions' (FIs) sales of investment products, and highlighted several issues and good practices in a circular published on their website.

Some issues observed involved the product risk rating methodology, where the methodology of some

FIs did not appear to have given due consideration to some key features and risks of certain investment products, and there were instances of assigning product risk rating without proper justification. Other weaknesses included how customers were simply asked to make declarations to assess their level of knowledge to trade in derivatives, instead of an assessment being performed.

In respect of the control weaknesses mentioned, the FIs concerned have been required to undertake remedial actions, with cases of potential breaches of regulatory requirements subject to further inquiry and follow-up.



²⁶ HKMA, "Feedback from recent reviews of the selling of investment products", 8 Apr 2016

Indonesia's OJK to increase ratio of bank assets to GDP²⁷

Indonesia, 8 Apr 2016

Indonesia's OJK is seeking to increase the ratio of bank assets to GDP, in a move to further push financing for the country's development. Currently, the ratio is only at 55%, which is low compared to Indonesia's neighbours, whose ratios are above 100%. The target is to increase the ratio by 5% annually through the expansion of the financial markets, till it reaches 75% within the next 5 years.

To support this effort, Bank Indonesia will create securities of various tenors and derivatives like repurchase agreement transactions.

MAS directs BSI bank to shutdown in Singapore²⁸

Singapore, 24 May 2016

MAS has revoked its approval for BSI bank's merchant bank status, due to serious breaches of anti-money laundering requirements, poor management oversight of the bank's operations, and gross misconduct by some of the bank's staff.

This is the first time MAS has used the most severe of its supervisory powers since 1984, when Jardine Fleming (Singapore) Pte Ltd was shut down for serious lapses in its advisory work. An MAS inspection conducted on BSI bank in 2015 revealed widespread control failures which led to numerous serious breaches of various anti-money laundering regulations, poor and ineffective oversight by the senior management of BSI Bank, an unacceptable risk culture, with blatant disregard for compliance and control requirements as well as MAS' regulations, as well as numerous acts of gross misconduct by certain staff.

Due to gross dereliction of duty and the failure to discharge oversight responsibilities on the part of BSI Bank's senior management, MAS has also referred six members of BSI's senior management to the Public Prosecutor to evaluate whether they have committed criminal offences.

²⁷ Jakarta Post, "OJK wants bank assets to GDP ratio at 75% within 5 years", 8 Apr 2016

²⁸ MAS, "MAS directs BSI bank to shutdown in Singapore", 24 May 2016

FSB publishes thematic peer review on implementation of shadow banking policy framework²⁹

Global, 25 May 2016

The Financial Stability Board (FSB) has published a thematic peer review on the implementation of its Policy Framework for strengthening and oversight and regulation of shadow banking entities, which sets forth principles that authorities should adhere to in their oversight of non-bank financial entities posing financial stability risks from shadow banking.

These principles involve: defining and updating the regulatory perimeter; collecting information and assessing shadow banking risks (i.e. maturity/liquidity transformation, imperfect credit risk transfer and/or leverage); enhancing public disclosure to help market participants understand these risks; adopting appropriate policy tools to mitigate identified risks; and participating in an information-sharing exercise within the FSB on assessments and tools.

The peer review concluded that the implementation of the Policy Framework remains at a relatively early stage, with more work required to ensure that jurisdictions can comprehensively assess and respond to potential shadow banking risks posed by non-bank financial entities.

MAS eases rules on motor vehicle financing³⁰

Singapore, 26 May 2016

MAS has announced an easing of rules on motor vehicle financing. The adjustments follow the sustained moderation in Certificate of Entitlement (COE) premiums and resulting inflationary pressures over the last three years.

These are the first changes to the maximum loan to value (LTV) ratios and loan tenures since the restrictions to motor vehicle loans in 2013. The 2013 restrictions were proposed to moderate car demand, alleviate inflationary pressures, and to encourage financial prudence among car buyers.

With effect from 27 May 2016, the motor vehicles with open market values (OMV) of less than \$20,000 will have an increase in LTV maximum to 70%, and motor vehicles with OMV above \$20,000 will see their LTV maximum go up to 60%. The maximum loan tenure will also increase to 7 years, from 5 years previously.

The Ministry of Trade and Industry will apply the revised financing restrictions to non-MAS regulated entities which extend motor vehicle financing on a hire-purchase basis. The Ministry of Law will also require licensed moneylenders to comply with the revised financing restrictions.

²⁹ FSB, "FSB publishes Thematic Review on the Implementation of the FSB Policy Framework for Shadow Banking Entities", 25 May 2016

³⁰ MAS, "MAS eases rules on motor vehicle financing", 26 May 2016



3. Financial Markets

3.1 OTC Derivatives

ESMA decides not to temporarily exclude exchange-traded derivatives from open access to trading venues and central counterparties³¹

Europe, 4 April 2016

The European Securities and Markets Authority (ESMA) will not exclude exchange-traded derivatives (ETDs) from non-discriminatory access to central counterparties (CCPs) and trading venues, as their analysis has found that open access to ETDs does not create undue risks to the overall stability and orderly functioning of European financial markets.

ESMA has proposed to the European Parliament and Council not to introduce an ETD specific phase-in regarding the access provisions of Markets in Financial Instruments Directive (MiFID) II, as potential risks relating to open access are already addressed by the legislative frameworks of MiFID II, Regulation on Markets in Financial Instruments (MiFIR) and European Market Infrastructure Regulation (EMIR).

HKEX Rolls Out Risk Management System for its Derivatives Market³²

Hong Kong, 25 Apr 2016

Hong Kong Exchanges and Clearing Limited (HKEX) has announced the successful launch of its Pre-Trade Risk Management (PTRM) system, which offers tools to help derivatives market participants meet their needs for pre-trade controls while complementing their in-house risk controls.

The PTRM system helps market participants prevent the unintended build-up of excessive positions by letting them set real-time limits to manage their risk exposure, with all orders submitted to the derivatives market checked against the limits. Any breaches of the limits will trigger order rejections. The system also offers a “kill switch” that enables Participants to withdraw all their orders at once and prevent further trading in emergency situations.

The new risk management system was introduced in the market on 11 April 2016 and the two-week stabilisation period ended after the close of the regular trading session on 22 April 2016.

31 ESMA, “ESMA not to exempt ETD under MiFID II”, 4 Apr 2016

32 HKEX, “HKEX Rolls Out Risk Management System for its Derivatives Market”, 25 Apr 2016

SGX introduces half-yearly update on long suspended companies³³

Singapore, 12 May 2016

The Singapore Exchange (SGX) is introducing a new half-yearly report to update shareholders on companies with shares suspended for 12 months or more. This initiative is one of several that SGX is planning to improve the regulation of listed companies' continuing obligations, and also listing admission obligations.

The current edition of this report covers 20 companies, shedding light on their developments especially if they have not made company disclosures over an extended period. In the report, SGX provides information on actions taken, and on engagements with the companies, directors, auditors and other parties.

The report covers 20 companies and sheds light on their developments, particularly if they have not made company disclosures for some time. In the report, SGX provides information on actions it has taken, and its engagement with the companies, directors, special auditors, judicial managers and/or liquidators.

ESMA issues technical standards on indirect clients³⁴

Europe, 26 May 2016

ESMA has issued two final draft regulatory technical standards (RTS) on indirect clearing under MiFIR and EMIR. The draft RTS helps to clarify provisions of indirect clearing arrangements for OTC and exchange-traded derivatives, and ensure that consistency and an appropriate level of protection for indirect clients exists.

The draft RTS provides provisions on the following key points:

- **Default management:** in order to take into account that there can be a conflict of law between EU regulation and certain national insolvency regimes, the draft RTS proposes an obligation of means, i.e. relying on having appropriate default procedures and committing to trigger them;
- **Choice of account structures** to be offered to indirect clients: the draft RTS provides a choice of possible account structures that reflect the current practice in the OTC derivative and the exchange traded derivative markets in terms of level of segregation. Furthermore, the number of accounts required has been simplified to minimise the operational burden for market participants; and
- **Long chains:** the draft RTS, under certain conditions, allow indirect clearing chains that are longer than the standard chains of four entities.

³³ SGX, "SGX introduces half-yearly update on long-suspended companies", 12 May 2016

³⁴ ESMA, "ESMA issues technical standards on indirect clients", 26 May 2016

3.2 Other updates

CSRC revises rules for securities firms³⁵

China, 8 April 2016

The China Securities Regulatory Commission (CSRC) is seeking to revise its approach on the management of securities risk control indicators to improve their relevance and effectiveness. In its draft plans, it has outlined how it plans to change the way it calculates the net capital and risk capital requirement of securities firms. The CSRC also plans to adjust the indicators for leverage and liquidity regulation of the industry.

The revised calculations will increase net capital in the securities industry by approximately 20 percent, while increasing risk reserve capital by 200 percent. Other readjustments include lowering the ratios of net capital to liabilities and net capital to net assets.

These controls come as the CSRC has deemed the current mechanism of controls increasingly unable to deliver proper controls, due to the increasing complexity of securities firms and products, which brings with them increasingly complicated risks.

The consultation closed on 8 May.

ESMA publishes results of EU central counterparties stress test³⁶

Europe, 29 April 2016

ESMA has published the results of its first EU-wide stress test exercise for central counterparties (CCPs), which was aimed at assessing the resilience and safety of the European CCP sector and identify possible vulnerabilities.

The results have shown that the EU CCP system is on overall resilient to the stress scenarios that are modelled on extreme though plausible market development. The stress test was solely focused on the counterparty credit risks that would be faced by CCPs as a result of multiple clearing member defaults and simultaneous market price shocks. The results have also shown that the CCPs' resources were sufficient to cover losses resulting from the default of the top-2 EU-wide clearing member groups combined with historical and hypothetical market stress scenarios.

ESMA amends MiFID II standards on non-equity transparency and position limits³⁷

Europe, 2 May 2016

ESMA has issued proposals to revise the RTS on non-equity transparency (including requirements in respect of bonds, structured finance products, emission allowances and derivatives), and the RTS on the methodology for the calculation and application of position limits for commodity derivatives. The proposals were produced in response to proposed amendments by the European Commission to these draft RTSs.

35 CSRC, “关于就修订《证券公司风险控制指标管理办法》及配套规则公开征求意见的通知”, 8 Apr 2016

36 ESMA, “ESMA publishes results of EU central counterparties stress test,” 29 Apr 2016

37 ESMA, “ESMA amends MIFID II standards on non-equity transparency and position limits”, 2 May 2016



4. Insurance

*CIRC raises compliance standards for insurance companies*³⁸

China, 12 May 2016

The China Insurance Regulatory Commission (CIRC) has released a regulatory document stipulating that insurance and insurance asset management companies are now required to hire compliance officers who are required to have at least 5 years of related experience in compliance functions. Such a move is targeted at increasing the standards of compliance among insurance companies in China, and to improve the compliance culture among insurance companies in the country. Insurance companies will also be required to submit materials to the CIRC to prove the competence of such compliance professionals before hiring them. The requirement came into force on 1 Jun 2016.

*IRDAI revises corporate governance guidelines for insurers*³⁹

India, 18 May 2016

The Insurance Regulatory and Development Authority of India (IRDAI) has revised its corporate governance guidelines for insurers in view of the extensive changes brought about by the Companies Act, 2013. The revised guidelines take into account the consultation with industry representatives and other stakeholders and professionals, and combine the stipulations regarding Corporate Governance practices, appointment of senior management and the appointment of statutory auditors. The guidelines will be applicable from the 2016/2017 financial year onwards.

*IRDAI to revise IPO guidelines for insurers*⁴⁰

India, 20 May 2016

IRDAI's chairman T.S. Vijayan has announced that there will soon be revised IPO Guidelines for insurers. This development comes after amendments were made to the Insurance Laws Bill last year to raise the foreign investment cap in the sector from 26% to 49%. As a direct result of the amendment, total foreign investment in India's insurance sector has reached Rs150 billion (\$3.0 bn). However, IRDAI did not disclose any further details about the new guidelines.

38 CIRC, "中国保监会关于进一步加强保险公司合规管理工作有关问题的通知", 12 May 2016

39 IRDAI, "Guidelines for Corporate Governance for insurers in India", 18 May 2016

40 The Economic Times, "Revised IPO guidelines soon for insurance firms: IRDAI", 20 May 2016



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5. Asset Management

ASEAN capital market regulators roll out initiatives under ACMF's new 5-year roadmap⁴¹

Thailand, 11 Apr 2016

The ASEAN Capital Markets Forum (ACMF) has approved the ACMF Annual Implementation Plan 2016, which sets out ACMF's immediate priorities for the year. The Plan will drive the ACMF's objective of achieving an inter-connected, inclusive and resilient ASEAN capital market, to help deepen economic integration in ASEAN over the next ten years.

Among other initiatives, the Action Plan facilitates capacity building for members, undertaking needs analyses to guide the development of capacity building programmes for members.

Progress has also been made on the framework for cross-border offering of ASEAN collective investment schemes, with 13 funds recognised by their home jurisdictions as Qualifying ASEAN Collective Investment Schemes to date, five of which have been successfully approved and launched in a host jurisdiction.

HK SFC to enhance fund authorisation process⁴²

Hong Kong, 22 Apr 2016

The HK Securities and Futures Commission (HK SFC) has announced that it will formally adopt initiatives to enhance the authorization process for new fund applications and for new Mandatory Provident Funds and Pooled Retirement Fund products.

Following a successful six-month pilot period ending on 8 May 2016, the HK SFC today announced that it will proceed to formally adopt its initiatives to enhance the authorization process for new fund applications and for new Mandatory Provident Funds and Pooled Retirement Fund products. The Revamped Process will also be extended to applications made by Mainland Funds seeking authorization under the mutual recognition of funds arrangement between the Mainland and Hong Kong.

41 SEC, "ASEAN capital market regulators roll out initiatives under ACMF's new 5-year roadmap", 11 Apr 2016

42 HK SFC, "SFC formally adopts initiatives to enhance fund authorization process after pilot-run" 22 Apr 2016

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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
FMI	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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