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Managing Upstream Risk

Regulatory Reform Review: An Asian perspective

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Contents


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1. Editorial

This edition of Managing Upstream Risk provides updates on the key regulatory developments in Q3 2016.

This quarter has seen several important developments with regards to the AML/CFT landscape for Singapore. FATF has released the results of its mutual evaluation performed on Singapore on 27 Sep 2016. In its report, FATF has found that Singapore has a strong regulatory and supervisory framework for AML/CFT, with reasonable mitigation and assessment of risks. FATF also noted the strong supervision of the financial sector, and the prompt integration of financial intelligence with law enforcement agencies.

However, it noted that there were weaknesses in certain areas as well, for example in enhancing the transparency of information on beneficial ownership of companies, limited liability partnerships and trusts to law enforcement agencies. The supervision of the non-financial sector was also highlighted as an area of improvement.

To these findings, MAS has already signalled its intent to adopt a more intrusive approach in supervising AML/CFT risks and controls, and in taking punitive action to AML/CFT related breaches. In another exercise of the most severe of its disciplinary powers, MAS shut down a private bank in Singapore on 11 October 2016, for serious failures in AML controls and improper conduct by senior management at the Head Office in Switzerland as well as the Singapore Branch. MAS is also imposing financial penalties on a local full bank and the Singapore branch of a foreign bank for breaches of MAS' AML requirements, which were linked to the investigations MAS carried out on 1MDB related fund flows.

Other significant developments include the release of the revised MAS Guidelines on Outsourcing ("Guidelines") in July 2016 following the release of the consultation paper to the Guidelines in September. The guidelines provide expanded guidance to the industry on prudent risk management practices for outsourcing, including cloud services, which have been adopted by a growing number of financial institutions. Financial institutions are required to perform a self-assessment of their outsourcing arrangements within 3 months of the release of the Guidelines, and remediate any identified deficiencies from that self-assessment within one year. MAS will issue the Notice on Outsourcing at a later date.


Regulatory Updates

2. Banking

2.1 AML/CFT

MAS investigates 1MDB related fund flows through Singapore[1]

Singapore, 21 Jul 2016

The AGC, CAD, and MAS announced today in a joint statement that the Singapore authorities have been investigating various 1MDB-related fund flows through Singapore, for possible money laundering, securities fraud, cheating, and other offences committed in Singapore.

Singapore's investigations began in March 2015 and are still in progress. The fund flows being investigated include those connected with Good Star Limited (Seychelles), Aabar Investments PJS Limited (BVI), Aabar Investments PJS Limited (Seychelles), and Tanore Finance Corp. (BVI). The criminal investigations by CAD are targeted at individuals suspected of committing offences in Singapore related to these flows, while MAS has been examining the financial institutions through which the funds flowed for possible regulatory breaches and control lapses.

In the course of the investigations, bank accounts belonging to various individuals have been seized and dealings in properties belonging to some of these individuals have been curtailed. The assets amount in total to S$240 million. Of these bank accounts and properties, about S$120 million belong to Mr Low Taek Jho and his immediate family.

HKMA highlights concerns on overly stringent AML regime affecting financial inclusion[2]

Hong Kong, 8 Sep 2016

The Hong Kong Monetary Authority (HKMA) has reiterated that while it is important to ensure that AML/CFT controls are sufficiently robust and comply with all the relevant regulatory requirements, the HKMA expects Authorised Institutions to adopt a risk-based approach (RBA) and refrain from adopting practices that would result in financial exclusion, particularly in respect of the need for bona fide businesses to have access to basic banking services.

Key amongst their concerns was the fact that financial institutions were adopting customer due diligence (CDD) measures that were not proportionate to the level of risk posed by the client, or adopting a one-size-fits-all approach towards assessing the risks posed by clients. Also, they noted that in certain cases, the CDD processes and documentation requirements of financial institutions were not relevant or pragmatic with respect to customers' background or circumstances, and AML/CFT was being used as grounds to reject customers when it was actually for other considerations.

1 MAS, "Investigations into 1MDB-Related Fund Flows through Singapore", 21 Jul 2016
2 HKMA, "De-risking and Financial Inclusion", 8 Sep 2016

02

FATF publishes results of review on Singapore[3]

Singapore, 27 Sep 2016

The Financial Action Task Force (FATF) has assessed that Singapore has a strong framework for anti-money laundering and countering the financing of terrorism (AML/CFT). This is Singapore's first assessment since the FATF Standards were enhanced in 2012 to counter the increasing threat posed by money laundering and terrorism financing (ML/TF).

However, the FATF also suggested several areas of improvements, most notably in strengthening the risk understanding and controls of financial institutions, which will build on existing efforts by MAS to adopt a more intrusive approach to AML/CFT supervision and take tougher actions against serious breaches.

Other areas where improvements were recommended were stronger supervision of the non-profit sector, non-financial sectors and precious metals and stones dealers.

HKMA issues FAQs on customer due diligence[4]

Hong Kong, 29 Sep 2016

HKMA has issued an FAQ on customer due diligence, which address some common issues relating to interpretation of HKMA legal and regulatory requirements in relation to CDD over problems encountered upon the establishment and ongoing maintenance of business relationships.

Indonesia's tax amnesty hits 90% of target[5]

Indonesia, 4 Oct 2016

Indonesia's tax amnesty scheme has achieved 90 per cent of its 4,000 trillion rupiah target in just three months since its implementation on 30 June 2016. Taxpayers had declared more than 3,600 trillion rupiah (S$379 billion) in assets, kept both at home and overseas, when the first phase of the nine-month scheme ended on 30 Sep. The full scheme is set to end on 31 March 2017.

According to tax officials, the bulk of offshore wealth that Indonesian taxpayers declared and sent home under the amnesty was from Singapore. Assets include property, gold, land and even account receivables, or debt owed to business owners, the officials added. Of the 952 trillion rupiah in total offshore assets declared under the scheme, 70 per cent was kept in Singapore.

3 FATF, "Singapore's measures to combat money laundering and terrorist financing", 27 Sep 2016
4 HKMA, "Frequently Asked Questions on Customer Due Diligence", 29 Sep 2016
5 The Straits Times, "Indonesia tax amnesty hits 90% of target", 4 Oct 2016

MAS shuts down Falcon Bank in Singapore[6]

Singapore, 11 Oct 2016

The Monetary Authority of Singapore (MAS) has withdrawn the merchant bank status of Falcon Private Bank Ltd, Singapore Branch for serious failures in AML controls and improper conduct by senior management at the Head Office in Switzerland as well as the Singapore Branch.

MAS is also imposing financial penalties on DBS Bank Ltd and UBS AG, Singapore Branch for breaches of MAS' AML requirements.

The actions on the three banks follow supervisory examinations by MAS into 1MDB-related fund flows that took place through these banks from March 2013 to May 2015. MAS' investigations benefitted from close cooperation with various overseas regulatory counterparts, in particular the Swiss Financial Market Supervisory Authority (FINMA).

2.2 Capital and liquidity requirements/Basel III

BCBS publishes revisions to securitization framework[7]

Global, 11 Jul 2016

The Basel Committee has published an updated standard for the regulatory capital treatment of securitisation exposures, including the regulatory capital treatment for "simple, transparent and comparable" (STC) securitisations. This standard amends the Committee's 2014 capital standards for securitisations.

This updated standard builds on the 2015 STC criteria published by the Basel Committee and the International Organization of Securities Commissions, by setting out additional criteria to differentiate the capital treatment of STC securitisations from that of other securitisation transactions. The additional criteria, for example, exclude transactions in which the standardised risk weights for the underlying assets exceed certain levels. This ensures that securitisations with higher-risk underlying exposures do not qualify for the same capital treatment as STC-compliant transactions.

6 MAS, "MAS Directs Falcon Bank to Cease Operations in Singapore", 11 Oct 2016
7 BCBS, "Revisions to the securitisation framework", 11 July 2016

Compliance with the expanded set of STC criteria should provide additional confidence in the performance of the transactions, and thereby warrants a modest reduction in minimum capital requirements for STC securitisations. The Committee consulted in November 2015 on a proposed treatment of STC securitisations. Compared to the consultative version, the final standard has scaled down the risk weights for STC securitisation exposures, and has reduced the risk weight floor for senior exposures from 15% to 10%.

Basel III - The Net Stable Funding Ratio: frequently asked questions[8]

Global, 13 Jul 2016

The Basel Committee on Banking Supervision today issued frequently asked questions (FAQs) and answers on Basel III's Net Stable Funding Ratio (NSFR), having received a number of interpretation questions related to the October 2014 publication of the NSFR. To help ensure consistent global implementation of its standards, the Committee has agreed to periodically review frequently asked questions and publish answers along with any technical elaboration of the standards and interpretative guidance that may be necessary.

BCBS publishes FAQ on revised Pillar 3 disclosure requirements[9]

Global, 12 Aug 2016

The Basel Committee on Banking Supervision has issued frequently asked questions (FAQs) on the Basel framework's Pillar 3 disclosure requirements.

The Committee has received a number of interpretation questions related to the January 2015 publication of the revised Pillar 3 disclosure requirements. To promote consistent global implementation of the requirements, the Committee has agreed to periodically review FAQs and publish answers along with any technical elaboration of the standard and any interpretative guidance that may be necessary. The FAQs published today correspond to the text set out in the standard.

BCBS publishes results of latest Basel III monitoring exercise[10]

Global, 13 Sep 2016

The Basel Committee today published the results of its latest Basel III monitoring exercise. The Committee established a rigorous reporting process to regularly review the implications of the Basel III standards for banks and it has published the results of previous exercises since 2012.

8 BCBS, "Basel III - The Net Stable Funding Ratio: frequently asked questions", 13 Jul 2016
9 BCBS, "Frequently asked questions on the revised Pillar 3 disclosure requirements", 12 Aug 2016
10 BCBS, "Basel III Monitoring Report", 13 Sep 2016

Data has been provided from 228 banks, comprising 100 “Group 1 banks” (large internationally active banks with Tier 1 capital of more than €3 billion) and 128 “Group 2 banks” (representative of all other banks).

On a fully phased-in basis, data as of 31 December 2015 show that all Group 1 banks meet the Basel III risk-based capital minimum Common Equity Tier 1 (CET1) requirements as well as the target level of 7.0% (plus the surcharges on global systemically important banks - G-SIBs - as applicable). Between 30 June and 31 December 2015, Group 1 banks continued to reduce their capital shortfalls relative to the higher Tier 1 and Total capital target levels; in particular, the Tier 2 capital shortfall has decreased from €12.8 billion to €5.5 billion.

The monitoring reports also collect bank data on Basel III’s liquidity requirements. Basel III’s Liquidity Coverage Ratio (LCR) was set at 60% in 2015, increased to 70% in 2016 and will continue to rise in equal annual steps to reach 100% in 2019. The weighted average LCR for the Group 1 bank sample was 125.2% on 31 December 2015, slightly up from 123.6% six months earlier.

For Group 2 banks, the weighted average LCR was 148.1%, up from 140.1% six months earlier. Of the banks in the LCR sample, 85.6% of the Group 1 banks and 82.9% of the Group 2 banks reported an LCR that met or exceeded 100%, while all banks except for one bank each in Group 1 and Group 2 reported an LCR at or above the 60% minimum requirement that was in place for 2015.

For the longer-term Basel III structural liquidity standard - the Net Stable Funding Ratio (NSFR), the weighted average NSFR for the Group 1 bank sample was 113.7%, while for Group 2 banks the average NSFR was 115.9%. As of December 2015, 79.6% of the Group 1 banks and 87.0% of the Group 2 banks in the NSFR sample reported a ratio that met or exceeded 100%, while 95.9% of the Group 1 banks and 97.2% of the Group 2 banks reported an NSFR at or above 90%.

Guidance on the application of Core Principles for Effective Banking Supervision released for financial institutions engaged in financial inclusion[11]

Global, 27 Sep 2016

The Basel Committee has released a Guidance on Core Principles for Effective Banking Supervision targeted at financial institutions engaged in serving the financial unserved and underserved.

The Guidance identifies 19 of the total 29 Core Principles where additional guidance is needed, and both Essential Criteria and Additional Criteria which have specific relevance to the financial inclusion context. Recognising that many unserved and underserved customers reside in non-BCBS member countries, the Guidance is intended to be useful to both member and non-member jurisdictions.

BCBS releases FAQ on Global Supervisory Framework for large exposures[12]

Global, 28 Sep 2016

The Basel Committee has issued an FAQ on the global supervisory framework for measuring and controlling large exposures, providing an update on the review conducted on the supervisory framework last released in April 2014.

The review was meant to assess the appropriateness of setting a large exposure limit for exposures to qualifying central counterparties (QCCPs) related to clearing activities and the need for a specific treatment for interbank exposures.

Having completing the observation period, the Committee has decided not to modify the framework. As a result, the framework, which will take effect from 1 January 2019, will:

- Exempt QCCPs relating to central clearing from large exposure limit exposures and
- Apply the large exposure limit to interbank exposures (i.e. no exemption will apply)

CBRC issues comprehensive risk management guidelines for commercial banks[13]

China, 30 Sep 2016

CBRC has developed a variety of prudential supervision rules for commercial banks covering capital management, credit risk, market risk, liquidity risk and various areas of operational risk. By issuing a comprehensive set of risk management guidelines, CBRC hopes to strengthen and standardise the risk management of commercial banks. The guidelines mirror previous efforts in international financial regulation in this area, after taking into consideration the actual situation in the domestic banking sector.

11 BCBS, "Guidance on the application of the Core Principles for Effective Banking Supervision to the regulation and supervision of institutions relevant to financial inclusion", 27 Sep 2016
12 BCBS, "Frequently asked questions on the supervisory framework for measuring and controlling large exposures", 28 Sep 2016
13 CBRC, "The CBRC Issued the Guidelines on Comprehensive Risk Management of Banking Institutions", 30 Sep 2016

2.3 Recovery and Resolution Plans

CPMI publishes a report on the implementation monitoring of the PFMI[14]

Global, 16 Aug 2016

The Committee for Payments and Market Infrastructure and the International Organization of Securities Commissions (CPMI-IOSCO) has released a report reviewing financial risk management and recovery practices in place at a selected set of derivatives central counterparties (CCPs).

Overall, CCPs have made important and meaningful progress in implementing arrangements consistent with the financial risk management and recovery standards of the PFMI.

However, some gaps of concern were observed. A number of CCPs have not yet put in place the full set of recovery rules and procedures envisaged in the Principles of Financial Market Infrastructures (PFMI). In the areas of credit and liquidity risk management, some CCPs have also not yet put in place sufficient policies and procedures to ensure that they maintain the required level of financial resources on an ongoing basis. This includes adequate arrangements to ensure a prompt return to the target level of coverage in the event of a breach. Also, some CCPs did not include sufficient liquidity-specific scenarios in their liquidity stress tests.

CPMI publishes further guidance on PFMI[15]

Global, 16 Aug 2016

As CCPs become increasingly critical components of the financial system due in part to the introduction of mandatory central clearing for standardized OTC derivatives in certain jurisdictions, it is vital that CCPs are sufficiently resilient to withstand clearing member failures and other stress events, with a credible recovery plan in place.

CPMI has released a proposed guidance on the PFMI, providing further clarity and granularity on several key aspects of the PFMI to further improve CCP resilience. The key aspects are governance, credit and liquidity stress testing, margin, a CCP's contribution of its financial resources to losses, and its coverage of credit and liquidity resource requirements. The report also proposes guidance that is intended to facilitate a CCP's development of its recovery plan by building on and reiterating certain aspects of the report on the recovery of financial market infrastructures published in October 2014.

14 CPMI-IOSCO, "Implementation monitoring of PFMI: Level 3 assessment - Report on the financial risk management and recovery practices of 10 derivatives CCPs", 16 Aug 2016

15 CPMI, "Recovery of financial market infrastructures - final report", 16 Aug 2016

2.4 FinTech

MAS sets up Fintech advisory panel[16]

Singapore, 2 Aug 2016

MAS has set up an International Technology Advisory Panel (ITAP). The Panel will advise MAS on international developments in FinTech and how Singapore can harness new technologies to enhance the provision of financial services.

The ITAP comprises chief innovation and science officers in major financial institutions, Fintech business leaders, venture capitalists, and thought leaders in technology and innovation.

HKMA sets up Fintech Supervisory Sandbox[17]

Hong Kong, 6 Sep 2016

The HKMA has set up a Fintech Supervisory Sandbox (FSS) to facilitate the pilot trials of Fintech and other technology initiatives of authorized institutions (AIs) before they are launched on a fuller scale. Amidst global Fintech development, the HKMA has observed that more Fintech and innovative technologies are being implemented or explored by the banking industry.

The FSS is a supervisory arrangement with greater flexibility that would enable AIs to conduct more timely live tests of these initiatives before their formal launch. This will enable AIs to gather real-life data and user feedback on their new Fintech products or services more easily in a controlled environment.

16 MAS, "MAS sets up International Technology Advisory Panel", 2 Aug 2016
17 HKMA, "Fintech Supervisory Sandbox", 6 Sep 2016

2.5 Outsourcing

MAS releases new guidelines on Outsourcing Risk Management[18]

Singapore, 27 Jul 2016

MAS has issued new Guidelines on Outsourcing Risk Management to financial institutions following extensive industry and public consultation.

The guidelines provide expanded guidance to the industry on prudent risk management practices for outsourcing, including cloud services, which have been adopted by a growing number of FIs.

Key changes to the Guidelines include:

a) introduction of a new section on cloud computing that sets out MAS' stance on cloud computing;
b) removal of expectation for FIs to pre-notify MAS of material outsourcing arrangements; and
c) revision to the definition of "material outsourcing arrangement" to include, under certain circumstances, an arrangement that involves customer information.

2.6 Payments

MAS proposes new regulatory framework and governance model for payments[19]

Singapore, 25 Aug 2016

With the advent of Fintech and technological advancements, the clear distinctions between payment systems, stored value facilities and remittance businesses are fast becoming blurred. Previously, Singapore's payments and remittance regulatory framework recognised these distinctions by regulating payment systems under two separate pieces of legislation, the Payment Systems (Oversight) Act ("PS(O)A") and the Money-changing and Remittance Businesses Act ("MCRBA"). However, MAS has recognised that a new regulatory approach is now required.

To this end, MAS has released a consultation paper looking at establishing a more calibrated regulatory regime, applied on an activity basis to payment service providers, rather than specific payment systems. MAS is also looking to establish a single governance structure for payments systems via a National Payments Council, to bring improvements to the payments ecosystem. The consultation will close on 31 Oct 2016.

18 MAS, "MAS Issues New Guidelines on Outsourcing Risk Management; Introduces Guidance on Cloud Services", 27 Jul 2016

19 MAS, "MAS Proposes New Regulatory Framework and Governance Model for Payments", 25 Aug 2016

02

CPMI establishes task force to review wholesale payments security[20]

Global, 16 Sep 2016

CPMI has established a task force to look into the security of wholesale payments that involve banks, financial market infrastructures and other financial institutions. This move has resulted from the increasing prevalence of cyber fraud affecting such financial institutions. The aim of the task force is to eventually ensure that there are adequate checks and balances at each stage of the payments process.

The task force will look into reviewing current practices in the security of wholesale payments, and based on the input from the review, CPMI will then decide how next to proceed.

2.7 Other updates

MAS finetunes rules on Total Debt Servicing Ratio (TDSR)[21]

Singapore, 1 Sep 2016

MAS has fine-tuned the TDSR rules to allow borrowers more flexibility in managing their debt obligations. This is in response to feedback from some borrowers who are unable to refinance their existing property loans owing to the application of the TDSR threshold of 60 per cent.

The TDSR framework and threshold will continue to apply to new property loans. The refinements being introduced for refinancing of loans will enable borrowers to better manage their existing debts. They do not represent a relaxation of property market cooling measures.

20 CPMI, "Central banks are reviewing wholesale payments security", 16 Sep 2016
21 MAS, "TDSR Rules on Refinancing Fine-tuned", 1 Sep 2016

CBRC to approve 14 private banks[22]

China, 24 Sep 2016

Chinese banking regulators are set to grant additional banking licenses to 14 proposed private banks, as a major part of China's financial system reforms. The China Banking Regulatory Commission (CBRC) said that 14 proposed private banks have finished the procedures needed for approval. China has been pushing for the entry of private capital into the banking sector through various channels, such as allowing private companies to establish privately owned banks.

Korea loosens bank regulatory framework[23]

Korea, 7 Oct 2016

Korea's Financial Service Commission has announced that it will ease restrictions on domestic banks, to help them raise their profitability and global competitiveness.

Some of the restrictions lifted will be on loan loss reserves, which will now be considered part of banks' capital stock, a move which will increase banks' total capital ratio by 0.6 percentage points on average.

Also to be revised is the banking law requiring banks to accumulate more than 10 percent of their net profits as earned surplus reserves. Domestic banks will also be allowed to start new business without the FSC's approval, as "the duty has been overlapping with a similar duty required by the country's financial industry law".

Moreover, overseas banks will no longer be required to report small overseas investments, which will encourage Korean banks to expand their businesses internationally.

22 CCTV, "CBRC: 14 private banks up for approval", 24 Sep 2016
23 Korea Herald, "FSC to eradicate 'excessive' bank regulations", 7 Oct 2016

3. Financial Markets

03

3.1 OTC Derivatives

CPMI-IOSCO publish second consultation on Harmonised Global UPI[24]

Global, 18 Aug 2016

CPMI-IOSCO have published a second consultative report on the Harmonisation of the Unique Product Identifier, whose purpose is to uniquely identify over-the-counter (OTC) derivatives products that authorities require to be reported to trade repositories (TRs), building on the first consultative report released in December 2015.

The UPI system will assign a code to each OTC derivative product that maps to a set of data elements describing the product in a corresponding reference database. The focus of this second consultative report is the format of the UPI code and the content and granularity of the UPI data elements.

HKMA issues guidelines on OTC derivatives enforcement[25]

Hong Kong, 30 Sep 2016

HKMA has issued a new guideline on disciplinary action against breaches of the OTC derivatives regime, covering factors that it would consider relevant to imposing a pecuniary penalty on a financial institution or person contravening reporting, clearing, trading or record keeping obligations under the Securities and Futures Ordinance.

The disciplinary action will take into account whether the conduct of the person subject to disciplinary action was intentional, reckless or negligent, whether the conduct damaged the integrity of the securities and futures market, caused losses to other persons, and whether it resulted in a benefit to the person subject to disciplinary action.

24 CPMI-IOSCO, "Harmonisation of the Unique Product Identifier (UPI) - second consultative report issued by CPMI-IOSCO", 18 Aug 2016

25 HKMA, "Guideline on Exercising Disciplinary Power to Order a Pecuniary Penalty under Section 203C(1) of the Securities and Futures Ordinance", 30 Sep 2016

3.2 Other updates

CPMI publishes report on correspondent banking[26]

Global, 13 Jul 2016

CPMI has published a report on correspondent banking, in which it has observed that banks are cutting back their correspondent relationship in the climate of rising costs and uncertainty on the extent of due diligence required to ensure regulatory compliance. Respondent banks that (i) do not generate sufficient volumes to overcome compliance costs, (ii) are located in higher risk jurisdictions, (iii) provide payment services to customers where information for adequate risk assessment is unavailable, or (iv) offer products/services/customers posing a higher AML/CFT risk have generally seen a cut back in services provided to them.

In view of this, CPMI has published 5 recommendations for correspondent banking in their final report, in the areas of the use of KYC utilities, the promotion of Business Identifer Code to Legal Entity Identifier (BIC-to-LEI) mapping facilities, information-sharing initiatives, payment messages, and the use of the LEI as additional information in payment messages.

SGX to transfer regulatory functions to subsidiary unit with separate Board[27]

Singapore, 18 Jul 2016

Singapore Exchange (SGX) will establish a separate subsidiary company (RegCo) by the second half of 2017 to undertake all the front-line regulatory functions it currently performs. The move aims to further enhance the governance of SGX as a self-regulatory organisation (SRO) by making more explicit the segregation of its regulatory functions from its commercial and operating activities.

RegCo will be governed by a Board of directors separate from that of SGX. The Chairman of RegCo's Board and a majority of its directors will be independent of SGX and its regulated subsidiaries. All directors of RegCo will also be independent of any other corporation listed on SGX. RegCo will be responsible for discharging all of SGX's market regulatory and supervisory functions and will report to its own Board in this respect. The Chief Regulatory Officer of SGX will be the CEO of RegCo and report directly to RegCo's Board.

The establishment of RegCo will not add to the requirements of the current IPO listing process. This is consistent with ongoing efforts to rationalise regulatory functions performed by MAS and SGX.

MAS will continue to directly regulate SGX in terms of its obligations as a listed company and market operator, as well as maintain oversight of SGX's regulatory responsibilities as performed by RegCo.

HK SFC consults on revisions to position limit regime[28]

Hong Kong, 20 Sep 2016

In light of changes in market dynamics and the growth of market activities, the HK Securities and Futures Commission (HK SFC) has proposed to make various

26 CPMI, "Correspondent banking – final report", 13 Jul 2016
27 SGX, "SGX to transfer Regulation unit to subsidiary company with separate Board", 18 Jul 2016
28 HK SFC, "Consultation on Proposed Enhancements to the Position Limit Regime and the Associated Amendments to the Securities and Futures (Contracts Limits and Reportable Positions) Rules and Guidance Note on Position Limits and Large Open Position Reporting Requirements", 20 Sep 2016

changes to the position limit regime to ensure that it remains relevant to the needs of the Hong Kong financial market. The consultation will close on 21 Nov 2016.

The position limit regime was first introduced in 1999 in the wake of the Asian Financial Crisis, and it empowers the HK SFC to prescribe position limits and large open position reporting requirements for futures and options contracts. These measures have been put in place to prevent and discourage the buildup of positions that may affect the orderly functioning and stability of the Hong Kong financial market.

SGX working with firms to deter market misconduct[29]

Singapore, 29 Sep 2016

SGX has launched a trade surveillance handbook on market misconduct to help brokerages detect and stop market rigging. The handbook demonstrates malpractices such as spoofing and "marking the close", which will enable member firms to join forces with SGX as gatekeepers to take the fight to detect and stop market misconduct even further upstream.

SGX is also launching a brokerage surveillance dashboard, which is a report that contains information on activities that can be related to market misconduct. The data includes the number of alerts triggered in SGX's surveillance system by the brokerage, detailing the time the alerts are triggered, the security counter or futures contract triggering the alert, and the code of the trader involved. The first dashboard will be released to brokers within the week, covering alerts from April to August 2016, and subsequent dashboards will be released quarterly from Jan 2017.

Vietnam to launch new stock index[30]

Vietnam, 30 Sep 2016

Vietnam will launch a major new stock index, the VNX Allshare index on 24 Oct 2016. The move aims to include shares listed on the Ho Chi Minh Stock Exchange and the Hanoi Stock Exchamge, as the existence of two stock indexes built on different criteria has hindered investors seeking to have a good overview of Vietnam's stock markets. It is also hoped that the new VNX Allshare index will facilitate the development of derivatives and exchange-traded funds.

HK SFC plans specialist probe teams[31]

Hong Kong, 6 Oct 2016

The HK SFC has made plans to speed up its probes and create investigation teams addressing specific areas of wrongdoing, such as market manipulation.

According to a client note by law firm Ashurst LLP, the executive director and head of enforcement at the HK SFC Thomas Atkinson wants to accelerate inquiries by setting up teams for manipulation, corporate fraud and brokerage misconduct. Also in the plans are the upgrading of surveillance systems and the encouragement of cooperation with local firms and global regulators.

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29 Straits Times, "SGX working with firms to deter market rigging", 29 Sep 2016
30 Wall Street Journal, "Vietnam to Launch New Benchmark Stock Index in October", 30 Sep 2016
31 Bloomberg, "Hong Kong Financial Regulator Plans Specialist Probe Teams", 6 Oct 2016

4. Insurance

MAS proposes further changes to RBC framework for insurers[32]

Singapore, 15 Jul 2016

MAS has published its third consultation on proposed revisions to the Risk-Based Capital (RBC) framework for insurers, taking into account feedback from the industry. It will also conduct a second quantitative study to assess the impact of the revised proposals.

The latest consultation paper sets out the revised proposals after taking into account the feedback received from the previous consultation in 2014. Some of the key revisions are as follows:

- Capital requirements for equity investment, credit spread, counterparty default and operational risk have been re-calibrated downwards to more accurately reflect the risks they pose to insurers.
- The discounting of life insurance liabilities has been adjusted to reduce the impact of short-term volatility on insurers' capital adequacy. This will enable insurers to continue providing sustainable long-term insurance solutions to policyholders.

The revised RBC framework will create a more conducive environment for insurers to invest in equities and long-dated bonds and offer long-term insurance products for policyholders. Policyholders will benefit from better product pricing and asset allocation decisions made by insurers.

The consultation will close on 20 Oct 2016.

IRDAI mulls similar disclosure rules for listed and unlisted insurers[33]

India, 11 Aug 2016

The Insurance Regulatory & Development Authority of India (IRDAI) plans to introduce uniform disclosure norms for both listed and unlisted insurance companies. IRDAI has proposed that non-life insurance companies, having completed eight years of operations and life insurers, having operated for 10 years, are required to be publicly listed.

Insurers that have already exceeded the number of years of operations should take steps to be listed within three years from the date of issue of directions under IRDAI guidelines. The consultation closed on 1 Sep 2016.

Insurance product self-registration platform introduced[34]

China, 12 Aug 2016

The China Insurance Regulatory Commission (CIRC) has introduced insurance product self-registration system for non-life insurers. This aims to improve product management, strengthen product innovation capabilities and increase product supervision efficiency in order to protect the interests of consumers. The products can be marketed as soon as they are filed online.

A major objective of the new system is to deter the sale of fake insurance products. Details available to the online customers include the terms and conditions of the insurance product and premium rates. The consumers can also provide feedback on the products via the website.

32 MAS, "MAS Proposes Further Revisions to Risk Based Capital Framework for Insurers", 15 Jul 2016
33 IRDAI, "Discussion Paper on "Listing of Indian Insurance Companies" 11 Aug 2016
34 CIRC, "中国保监会正式启用财产保险公司备案产品自主注册平台", 12 Aug 2016

CIRC promotes listings on OTC market for insurers[35]

China, 15 Aug 2016

CIRC will encourage insurance companies to list on the country's National Equities Exchange and Quotations (NEEQ) board. The new policy will also permit individuals as distinct from enterprises and institutional investors, to invest in insurance companies listed on NEEQ. This policy will clear the growing backlog of companies waiting for approval from the China Securities Regulatory Commission, to approve their application to go public. A listing on NEEQ is much easier because of lower requirements for profitability. CIRC released the new policy months after sounding out the insurance industry on the prospect of listing on the third board.

IRDAI issues draft outsourcing rules for insurers[36]

India, 18 Aug 2016

IRDAI, has proposed rules for the outsourcing of activities by insurance companies. The objective is to ensure that insurers follow prudent practices in the management of risks arising out of outsourcing with a view to prevent negative systemic impact and to protect the interests of policyholders.

According to the draft regulations, insurers shall adopt a sound and responsive management framework which would include a board-approved comprehensive outsourcing policy.

Core activities such as under-writing; product design; actuarial functions; reinsurance; investment related functions; fund management including NAV calculations; settlement or repudiation of claims; policyholder grievances redressal; approval of advertisements; appointment of surveyors and loss assessors and compliance with anti-money laundering regulations and know-your-customer standards are prohibited from being outsourced. Insurers are also barred from outsourcing policy servicing and its related activities.

The consultation closed on 2 Sep 2016.

Most insurance policies to be in electronic form from 1 Oct 2016[37]

India, 19 August 2016

Almost all insurance policies, including motor insurance and overseas travel insurance policies will be issued in electronic form with effect from 1 October this year. The insurance buyers are required to have an e-insurance account (eIA) to buy or renew policies.

This would enable the entire process of buying insurance to become paperless soon. Maintaining and managing policy documents or records across multiple companies will also be done away with, as the policyholder will have access to a single-view platform.

35 CIRC, "中国保监会发布《关于保险公司在全国中小企业股份转让系统挂牌有关事项的通知》", 15 Aug 2016
36 IRDAI, "IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2016", 18 Aug 2016 37
37 The Economic Times, "Come October, you won't be able to buy most insurance policies without an e-account", 19 Aug 2016

IRDAI issues new equity investment rules[38]

India, 24 Aug 2016

IRDAI has tightened equity investment rules for insurers by prescribing that they invest in the equity of listed companies that have paid out at least 10% dividends for at least two consecutive years under the approved investment category.

Also, the regulations require every insurer to have a separate fund manager for debt and equity up to a fund size of INR100 billion (US$1.49 billion). When a fund exceeds INR100 billion, it will need to have a separate fund manager for life, pension, annuity and group fund and unit-linked segregated funds. No fund manager can be common between the different funds.

CIRC mulls tougher action on risky short-term products[39]

China, 24 Aug 2016

CIRC will clamp down on high-yield, short-term policies that compete with wealth management products, in a bid to reduce risk created by the high liquidity needs of such products. On CIRC's target would be insurance policies positioned as alternatives to wealth management products sold by banks and other financial firms. Such products offer a certain amount of insurance coverage, allowing them to be classified as insurance. But they are more appealing as short-term investment products because they also offer high return rates even if buyers cancel them before they mature.

IRDAI to bar incentives to banks for selling insurance[40]

India, 29 Aug 2016

IRDAI proposes to ban insurance companies from giving incentives and junkets to bank staff for selling insurance policies. The objective is to curb mis-selling of insurance by banks. The insurance regulator will devise different commission structures for insurance agencies and banks, with incentives to be cut for banks selling insurance.

CIRC to tighten up on insurers' equity acquisitions[41]

China, 31 Aug 2016

CIRC will limit the funding avenues for insurers which take stakes in other companies, in an effort to crack down on aggressive acquisitions. The insurers will now need to report any large stakes they hold in other companies and apply for permission before undertaking any significant market transactions which may lead to a takeover of a listed company. Chinese Insurers are currently allowed to invest 30% of their total assets in securities, including listed-company equity.

38 The Economic Times, "IRDA tightens equity investment norms for insurers", 24 Aug 2016
39 Caixin, "Insurance Regulator Eyes Crackdown on Short-Term Policies", 24 Aug 2016
40 The Economic Times, "To curb misselling, Irda may ban incentives to bank staff", 29 Aug 2016
41 Caixin, "China clamps down on free-spending insurance companies", 31 Aug 2016

CIRC to tighten controls over insurance products[42]

China, 06 Sep 2016

CIRC will exercise greater control over actuarial practices and impose strict controls over product supervision. If the insurance products are found to be non-compliant with regulations, management and actuaries of the insurance company in question will be held accountable. The proposed regulations are aimed at resolving the supply-side problems of life insurance.

Philippines Insurance regulator wants insurers to devise anti-fraud plans[43]

Philippines, 06 Sep 2016

All life and non-life insurance companies in Philippines would now be required to formulate and maintain procedures for the monitoring and early detection of insurance fraud. The companies have to file their respective anti-fraud plans with the regulator within one year.

The "Guidelines in the Development of Anti-Fraud Plan for Insurance Companies" only provide for the minimum requirements for insurance companies in the preparation of a new or revised anti-fraud plan in order to provide flexibility for each company to adopt an anti-fraud plan suitable to its own circumstance.

SEBI seeks to tighten investment adviser rules[44]

India, 7 Oct 2016

The Securities and Exchange Board of India (SEBI) has proposed to revise the investment advisers regulations that will change the way mutual fund schemes are sold by these intermediaries. It is proposing that distributors or agents of mutual fund products register either as an advisor, or as a distributor. Investment advisors would be subject to a fee-based advisory model, while distributors would only get a fee from the sale of mutual fund products, but will not be able to provide basic or incidental advice on such products, or recommend any particular products.

SEBI has also proposed that banks set up separate subsidiaries for investment advice and establish these within the next three years, to address conflict of interest concerns.

The consultation ends on 4 November.

HK Office of the Commissioner of Insurance issues revised Guidance Note[45]

Hong Kong, 7 Oct 2016

The Office of the Commissioner of Insurance (OCI) has issued a revised GN10 in light of the recent development in the Hong Kong insurance industry, taking into account the best practices adopted in other jurisdictions.

GN 10 (Guidance Note on the Corporate Governance of Authorised Insurers) aims to strengthen corporate governance within the Hong Kong insurance industry.

42 CIRC, "中国保监会有关部门负责人就进一步完善万能险等人身保险产品精算制度有关事项答", 06 Sep 2016
43 IC, "INSURANCE COMMISSION SETS ANTI-FRAUD STANDARD FOR INSURERS", 06 Sep 2016
44 SEBI, "Consultation Paper on Amendments/Clarifications to the SEBI (Investment Advisers) Regulations, 2013", 7 Oct 2016
45 OCI, "Guidance Note on the Corporate Governance of Authorised Insurers", 7 Oct 2016

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6. 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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