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Managing Upstream Risk

Regulatory Reform Review:
An Asian perspective

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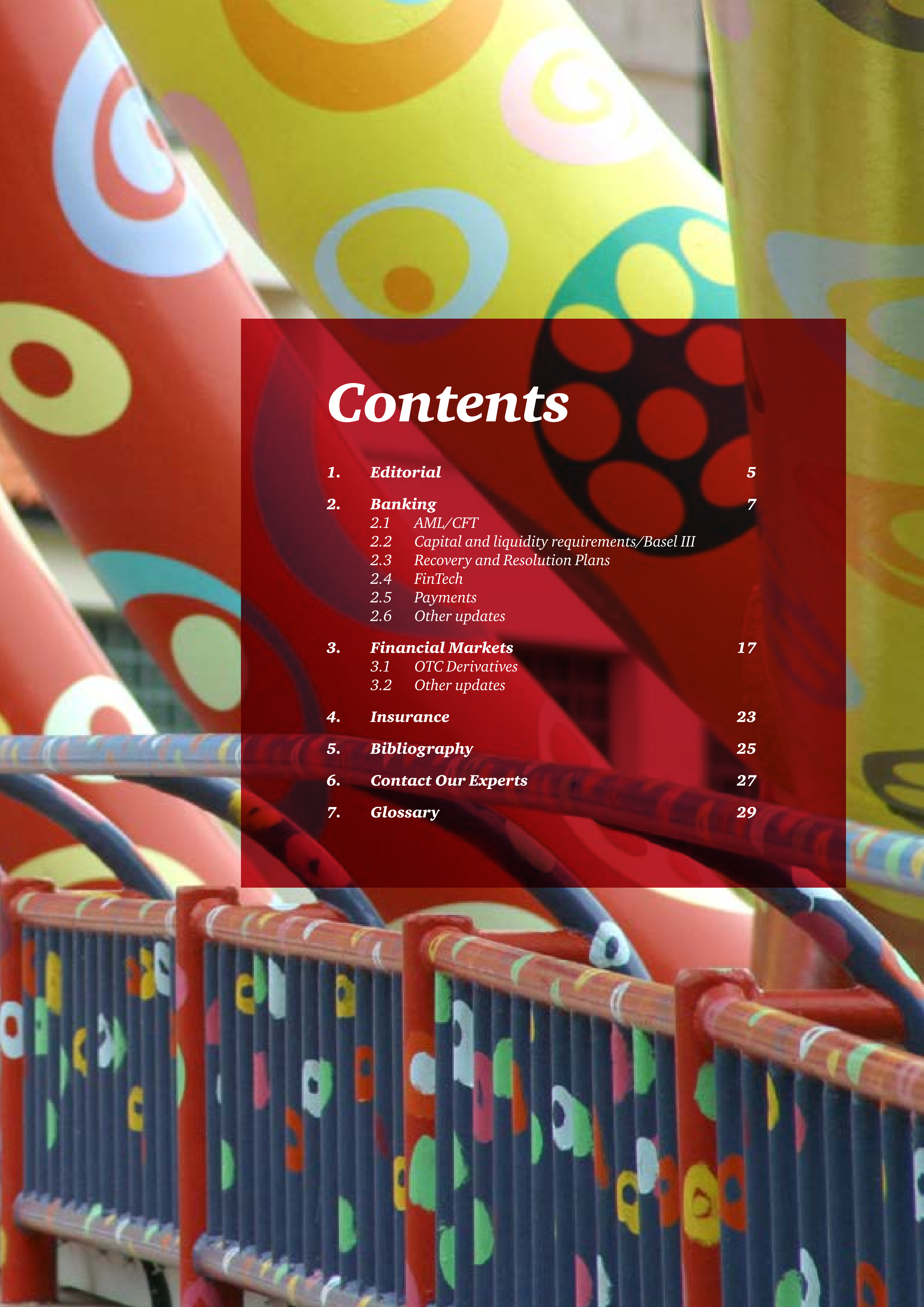


Contents


THE FULLERTON HOTEL

1. Editorial

This edition of Managing Upstream Risk provides updates on the key regulatory developments in Q4 2016.

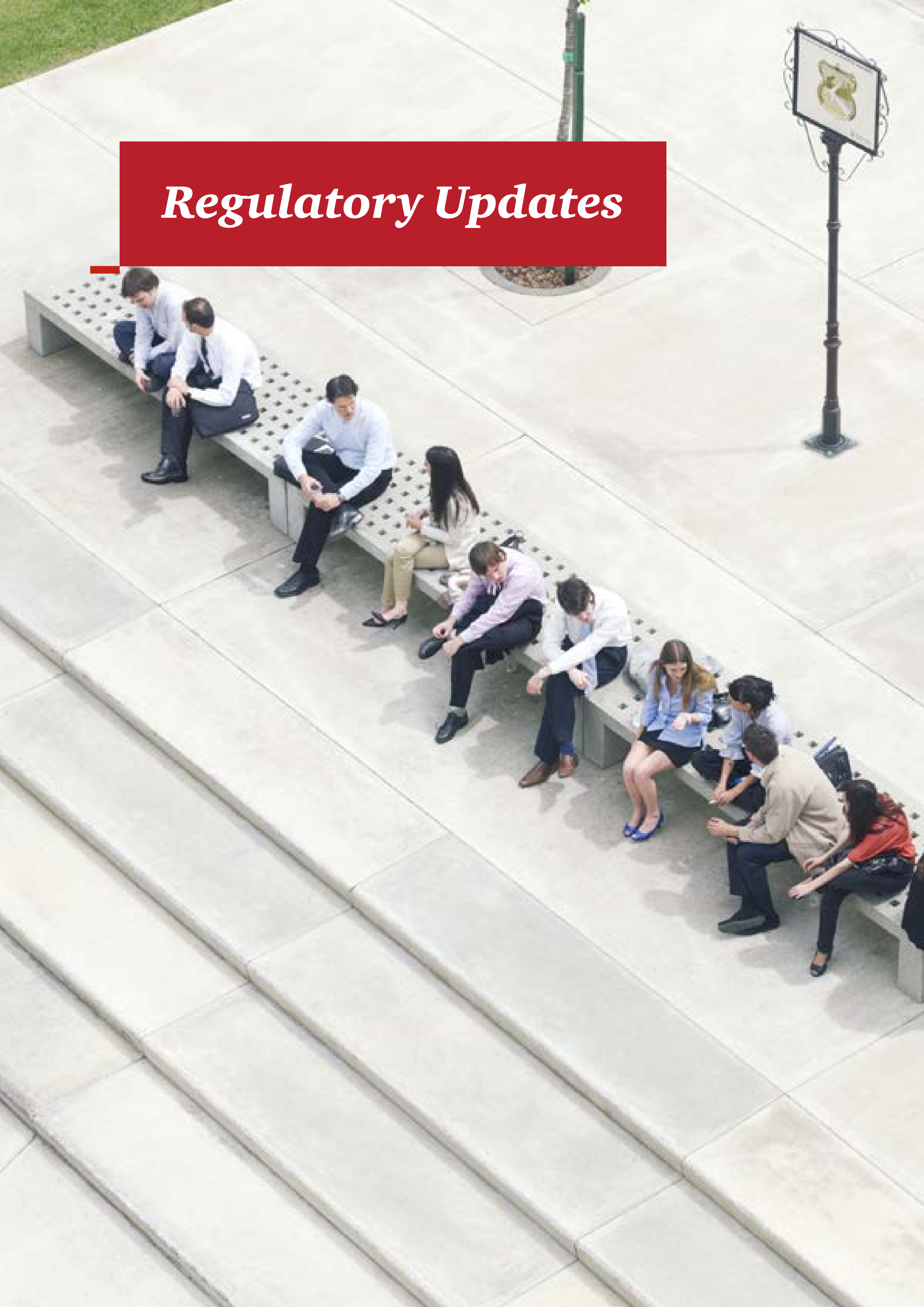
In this quarter, the Basel Committee of Banking Supervision completed its review of the implementation of the risk-based capital framework by Singapore under the Committee's Regulatory Consistency Assessment Programme (RCAP). The RCAP was established in 2012 to examine the consistency and completeness of member jurisdictions' prudential standards. Other jurisdictions where the Basel III Liquidity Coverage Ratio ("LCR") assessments were completed were Japan and Indonesia.

The focus of the assessment was on the consistency and completeness of the Singapore regulations with regard to the Basel minimum requirements, and it relied on the data, information and materiality computations provided by MAS as of 30 September 2016. Overall, LCR regulations in Singapore were assessed as compliant with the Basel LCR framework, which is the highest grade. All graded components of the LCR framework, including the definition of high-quality liquid assets, liquidity inflows, liquidity outflows and disclosure requirements, were assessed as compliant. This compares favourably with Japan and Indonesia, who were also assessed as compliant in these two areas.

However the Assessment Team identified two deviations regarding the scope of application. They noted that the MAS regulations did not make an explicit distinction between internationally active and non-internationally active banks. Instead, MAS applied supervisory judgment to determine if a bank was internationally active and therefore whether or not to subject it to the full LCR requirements. Also, as at the cut-off date MAS had not yet issued the LCR regulations applicable to bank holding companies.

Based on discussions with MAS, the Assessment Team considered the first deviation not material at present, but potentially material in the future subject to further clarification by the Basel Committee regarding the application of the LCR to internationally active subsidiaries. The second deviation was assessed as not material.

Regulatory Updates



2. Banking

2.1 AML/CFT

Proposals clarify rules on combating money laundering and terrorist financing in correspondent banking[1]

Global, 23 November 2016

The Basel Committee on Banking Supervision ("BCBS") has published a clearer guidance on how to manage risks related to money laundering and the financing of terrorism, to develop the application of the risk-based approach for correspondent banking relationships.

This development reflects growing international concerns that banks are avoiding the risk of correspondent banking relationships by withdrawing from such relationships entirely, affecting the ability to send and receive payments in entire regions.

The proposals follow the publication by the Financial Action Task Force ("FATF") of its Guidance on correspondent banking services in October 2016. The Committee seeks to clarify the expectations of banking supervisors, consistent with the FATF standards and guidance.

MAS Imposes Penalties on Standard Chartered Bank and Coutts for 1MDB-Related AML Breaches[2]

Singapore, 2 December 2016

The Monetary Authority of Singapore (MAS) has imposed financial penalties of S$5.2 million and S$2.4 million respectively on Standard Chartered Bank, Singapore Branch and Coutts & Co Ltd, Singapore Branch for breaches of MAS' anti-money laundering requirements. These breaches occurred in the context of 1MDB-related fund flows through these banks.

MAS has also served notice of its intention to issue a Prohibition Order against Tim Leissner, a former director of Goldman Sachs (Singapore) Pte for making false statements on behalf of Goldman Sachs (Asia) L.L.C., without the latter's knowledge or consent. Mr Leissner had overall responsibility for managing the relationship with 1MDB when Goldman Sachs was engaged by 1MDB to arrange three bond issuances from 2012 to 2013.

MAS is nearing completion of its supervisory examinations of financial institutions in Singapore through which 1MDB-related fund flows took place, and will provide a final update in early 2017.

1 BCBS, "Proposals clarify rules on combating money laundering and terrorist financing in correspondent banking", 23 November 2016
2 MAS, "MAS Imposes Penalties on Standard Chartered Bank and Coutts for 1MDB-Related AML Breaches", 2 December 2016

02

Enhanced Competency Framework on Anti-Money Laundering and Counter-Terrorist Financing[3]

Hong Kong, 13 December 2016

The Hong Kong Monetary Authority ("HKMA") has launched the Enhanced Competency Framework ("ECF") on Anti-Money Laundering and Counter-Terrorist Financing ("AML/CFT"). The ECF on AML/CFT is a collaborative effort of the HKMA and the banking sector in establishing a set of common and transparent competency standards for raising and maintaining the professional competence of relevant practitioners taking charge of the AML/CFT compliance function in Authorised Institutions.

Taking into account the level of experience exhibited in different roles of AML/CFT practitioners in the industry, the ECF on AML/CFT is designed to target at practitioners of two different levels – the Core Level targeting at entry-level practitioners with not more than three years of relevant experience and the Professional Level targeting at practitioners with experience of three years or more in the AML/CFT compliance area.

In view of the more apparent shortage of entry-level staff, the Core Level is first rolled out for use by Authorised Institutions, to be followed by the Professional Level in 2017. The industry will be further consulted on the syllabus coverage of the Professional Level and the mechanism for obtaining accreditation as well as the exemption arrangements in relation to recognised professional qualifications in due course.

FSB publishes workplan to address the decline in correspondent banking[4]

Global, 19 December 2016

The Financial Stability Board ("FSB"), has published its latest progress report on its four-point action plan to assess and address the decline in correspondent banking. The progress report includes a set of deliverables for 2017 to implement the action plan.

The report describes progress in taking forward the four-point action plan published by the FSB in November 2015. The four points are - further examining the dimensions of the problem and its causes and effects; clarifying regulatory expectations, domestic capacity-building in jurisdictions that are home to affected respondent banks; and strengthening tools for due diligence by correspondent banks.

3 HKMA, "Enhanced Competency Framework on Anti-Money Laundering and Counter-Terrorist Financing", 13 December 2016
4 FSB, "FSB action plan to assess and address the decline in correspondent banking", 19 December 2016

2.2 Capital and liquidity requirements/Basel III

MAS consults on Net Stable Funding Ratio (NSFR) and NSFR disclosure[5]

Singapore, 16 November 2016

MAS has proposed to impose the Basel Committee of Banking Supervision's ("BCBS") NSFR and NSFR disclosure requirements, to complement the existing Liquidity Coverage Ratio ("LCR") requirement. This is in line with the BCBS' overall objective of strengthening the global liquidity framework, via its two minimum standards for liquidity and funding.

The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities, thus reducing the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure and potentially lead to broader systemic stress. The BCBS intends for the NSFR to become a minimum standard for internationally active banks by 1 January 2018.

MAS will adopt BCBS' recommended implementation timeline for both the NSFR and the NSFR disclosure requirements, with details of the proposed local implementation of the NSFR standard and its disclosure requirements in Singapore to be set out in the consultation paper.

The consultation closed on 15 December 2016.

FSB publishes 2016 G-SIB list[6]

Global, 21 November 2016

The FSB, in consultation with the Basel Committee on Banking Supervision ("BCBS") and national authorities, has published the 2016 list of global systemically important banks ("G-SIBs").

The 2016 list comprises the same 30 banks as the 2015 list. Four banks moved to a higher bucket, and three banks moved to a lower bucket. The changes in the allocation across buckets of the institutions on the list reflect the combined effects of data quality improvements, changes in underlying activity, and the use of supervisory judgement.

5 MAS, "Consultation Paper on Local Implementation of Basel III Liquidity Rules – Net Stable Funding Ratio ("NSFR") and NSFR Disclosure", 16 November 2016
6 FSB, "FSB publishes 2016 G-SIB list", 21 November 2016

02

HKMA issues Supervisory Policy Manual (SPM): LM-2 Sound Systems and Controls for Liquidity Risk Management[7]

Hong Kong, 25 November 2016

The HKMA has issued a revised version of the SPM module LM-2 "Sound Systems and Controls for Liquidity Risk Management" as a statutory guideline under section 7(3) of the Banking Ordinance.

The revisions to this module are consequential to the implementation of the Liquidity Coverage Ratio ("LCR") and Liquidity Maintenance Ratio ("LMR") from 2015 and the recent revision of the related SPM module LM-1 "Regulatory Framework for Supervision of Liquidity Risk" in July 2016.

Authorised Institutions are given two months from the issuance of the module to align their internal processes.

Basel Committee completes reviews of Singapore's risk-based capital framework[8]

Global, 9 December 2016

The BCBS has completed its review of the implementation of the risk-based capital framework by Singapore. The assessment was conducted under the Committee's Regulatory Consistency Assessment Programme (RCAP), established in 2012 to examine the consistency and completeness of member jurisdictions' prudential standards.

The focus of the assessment was on the consistency and completeness of the Singapore regulations with regard to the Basel minimum requirements. Issues relating to prudential outcomes, the liquidity position of individual banks or MAS's supervisory effectiveness did not fall within the scope of this RCAP assessment exercise. The assessment relied on the data, information and materiality computations provided by MAS as of 30 September 2016.

Overall, LCR regulations in Singapore are assessed as compliant with the Basel LCR framework, which is the highest grade. All graded components of the LCR framework, including the definition of high-quality liquid assets, liquidity inflows, liquidity outflows and disclosure requirements, are assessed as compliant.

7 HKMA, "Supervisory Policy Manual (SPM): LM-2 "Sound Systems and Controls for Liquidity Risk Management", 25 November 2016
8 BCBS, "Basel Committee completes reviews of all its members' risk-based capital frameworks", 9 December 2016

2.3 Recovery and Resolution Plans

FSB issues two consultations on implementation of resolution standards[9]

Global, 16 December 2016

The FSB has issued two consultation papers on the implementation of its resolution standards, the Consultation on Guiding Principles on the Internal Total Loss-Absorbing Capacity of G-SIBs ("Internal TLAC") and the Consultation on Guidance on Continuity of Access to Financial Market Infrastructures ("FMIs") for a Firm in Resolution.

The TLAC standard defines a minimum requirement for the instruments and liabilities that should be held by global systemically important banks (G-SIBs) and readily available for bail-in during a bank resolution. It also requires a certain amount of those loss-absorbing resources to be committed to subsidiaries or sub-groups that are located in host jurisdictions and deemed material for the resolution of the G-SIB as a whole ('internal TLAC'). The consultative document proposes a set of guiding principles to support the implementation of the internal TLAC requirement.

The proposed guidance on FMIs seeks to address the risk of a bank in resolution being unable to maintain access to the clearing, payment, settlement and custody services provided by FMIs that are necessary to continue the provision of a firm's critical functions in resolution. It builds on the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions, which deals with the resolution of FMI participants, and sets out arrangements to support continuity of access to FMIs for a firm in resolution that apply at the level of the providers of FMI services, at the level of FMI participants and at the level of the relevant resolution and FMI authorities.

The consultations will close on 10 February 2017.

9 FSB, "FSB consults on proposed guidance to support resolution planning and promote resolvability, 16 December 2016

02

2.4 FinTech

MAS launches first set of data APIs[10]

Singapore, 11 November 2016

MAS has published 12 sets of data from its Monthly Statistical Bulletin as Application Programming Interfaces (APIs) on the MAS website. These include frequently accessed datasets on exchange rates and interest rates.

MAS' APIs provide financial institutions and application service providers more opportunities to serve their customers better. For example, financial institutions that use MAS' data to benchmark themselves against the industry, can use these APIs to minimise costly manual data entry; application service providers can create applications to compute exchange rates to help companies file tax returns. Users can also automate the extraction of MAS' data and illustrate trends easily and quickly with these APIs.

There will also be no compliance issues resulting from the use of these data, as these data are already available to the public via PDFs or excel spreadsheets. The APIs represent a more efficient way to utilize existing publicly available data for third party applications and financial institutions.

MAS Issues "Regulatory Sandbox" Guidelines[11]

Singapore, 16 November 2016

MAS has published its "regulatory sandbox" guidelines to encourage and enable experimentation of innovative technology solutions to deliver financial products or services. The guidelines incorporate feedback from the public consultation as well as learning points from actual sandbox applications.

The guidelines will provide further clarify on MAS' expectations on the sandbox, and they have also been further refined to allow greater flexibility for firms looking to enter the sandbox. MAS will also work closely with sandbox applicants in the evaluation and experimentation process.

10 MAS, "MAS launches first set of data APIs", 11 November 2016
11 MAS, "MAS Issues "Regulatory Sandbox" Guidelines for FinTech Experiments", 16 November 2016

2.5 Payments

Central banks monitoring the rise of fast payment systems[12]

Global, 8 November 2016

The Committee on Payments and Market Infrastructures ("CPMI") has released a new report focusing on the development and increasing importance of fast payment systems.

Fast payment services are services that make funds immediately available to payees round the clock. While the provision of such services has been growing steadily, providing more options for time sensitive payments, they create challenges for payment systems and may have implications for central banks and other stakeholders.

The report sets out key characteristics of fast payments, takes stock of different initiatives in CPMI jurisdictions, analyses supply and demand factors that may foster or hinder their development and sets out their benefits and risks.

2.6 Other updates

HKMA enhances standards on engagement of intermediaries by authorized institutions[13]

Hong Kong, 30 November 2016

HKMA has implemented enhanced standards on the engagement of intermediaries by authorized institutions. This development comes as the HKMA has noted that around one third of enquiries received by the public from banks' hotlines to verify identities were suspected bogus calls, which was a sign that the risk of bank customers falling prey to fraudsters impersonating bank staff remained high. Also, there were still reported cases where members of the public were induced by intermediaries, through fraudulent practices, to engage them for arranging loans with financial institutions.

In light of the developments, the HKMA has set out several measures to further enhance customer protection as well as address potential reputation risks to AIs in the loan application processes for retail customers and small and medium-sized enterprises (SMEs).

12 CPMI, "Central banks are monitoring and fostering the development of fast payment services – CPMI", 8 November 2016
13 HKMA, "Engagement of Intermediaries by Authorized Institutions (AIs)", 30 November 2016

The new measures require AIs to proceed with a loan application referred by a third party only if it is appointed by the AI concerned, and that the prospective borrowers are not charged any loan-related fees by that third party in general. AIs are also expected to join efforts in educating the public about responsible borrowing.

Authorised institutions are expected to implement these measures as soon as practicable and no later than 31 March 2017.

HKMA releases clarifications on details for cybersecurity fortification initiative[14]

Hong Kong, 21 December 2016

The HKMA has clarified several details for the implementation of its Cybersecurity Fortification Initiative ("CFI") undertaken by the HKMA in May 2016.

The CFI consists of three pillars, namely (i) the Cyber Resilience Assessment Framework (C-RAF); (ii) the Professional Development Programme (PDP); and (iii) the Cyber Intelligence Sharing Platform (CISP).

The C-RAF is an assessment tool to help AIs evaluate their cyber resilience. Following industry feedback on the lack of qualified assessors to undertake the C-RAF, the HKMA has decided to adopt a phased approach to implementation. The first phase will cover around 30 Authorised Institutions ("AIs") including all major retail banks, selected global banks and a few smaller AIs, and the second phase will cover all the remaining AIs.

The HKMA also provided updates on the other two pillars, which have also been rolled out in December. The PDP seeks to provide a local certification scheme and training programme for cybersecurity professionals, and the CISP is now ready for access by banks.

14 HKMA, "Cybersecurity Fortification Initiative", 21 December 2016

PBOC reins in wealth management products[15]

China, 20 December 2016

The People's Bank of China ("PBOC") has introduced new measures to reduce the risk posed by the growing number off-balance-sheet wealth management products ("WMPs"), although this comes at a time when the interbank market is experiencing tightened liquidity.

In the first quarter of 2017, the PBOC will include off-balance-sheet WMPs in its Macro Prudential Assessment system, a points-based framework adopted by the central bank at the start of 2016 to gauge risks in bank-credit exposure. This is as the PBOC is of the view that the rapid growth of WMPs contributes to financial risks and impedes the PBOC's goal of reducing financial leverage.

MAS releases standards of conduct for marketing and distribution activities[16]

Singapore, 23 December 2016

MAS has issued the Guidelines on Standards of Conduct for Marketing and Distribution Activities, which emphasises their expectations for financial institutions and representatives to conduct their marketing and distribution activities in a responsible and professional manner. The Guidelines set out safeguards aimed at addressing market conduct risks arising from marketing and distribution arrangements at retailers and public places.

15 Caixin, "PBOC Reins in Wealth Management Products", 20 December 2016
16 MAS, "Guidelines on Standards of Conduct for Marketing and Distribution Activities", 23 December 2016

3. Financial Markets

03

3.1 OTC Derivatives

Implementation of margin and risk-mitigation standards for non-centrally cleared OTC derivatives[17]

Hong Kong, 6 December 2016

The HKMA has announced its intention of beginning both the phase-in of initial margin (IM) requirements for phase 1 institutions and the exchange of variation margin (VM) for all covered entities (as defined in paragraph 1.1.1 of the SPM module CR-G-14 "Non-centrally Cleared OTC Derivatives Transactions – Margin and Other Risk Mitigation Standards") from 1 March 2017. This is following consultation with the banking industry and taking into account the proposed implementation schedules of other jurisdictions.

There will be a 6-month transitional period (from 1 March to 31 August 2017 inclusive) during which authorized institutions will be expected to begin exchanging margin as soon as practicable and in any event to make reasonable and continuous progress towards the required margin exchange. Progress during this period will be closely monitored by the HKMA but there will be no retrospective application of margining requirements in respect of transactions entered into during the transitional period.

IOSCO identifies risks to retail investors of OTC leveraged products[18]

Global, 21 December 2016

IOSCO has issued the IOSCO Survey on Retail OTC Leveraged Products, which identifies various risks related to the marketing and sale of complex OTC leveraged products to retail investors. This report describes how some regulators are responding to the challenges these products present, and analyses offers of rolling-spot forex contracts, contracts for differences and binary options to retail investors.

One area of concern to survey respondents was the cross-border offering of OTC leveraged products. It was noted that many firms used on-line advertising, social media, expert blogs and other cross-border marketing techniques to attract investors, but some of the cross-border promotional campaigns were often aggressive or misleading in some jurisdictions. Several jurisdictions were also particularly concerned about the cross-border business of firms located in countries that ban the sale of these products to domestic investors but take no regulatory action if the investors are foreign.

17 HKMA, "Implementation of margin and risk-mitigation standards for non-centrally cleared OTC derivatives", 6 December 2016
18 IOSCO, "IOSCO identifies risks to retail investors of OTC leveraged products", 21 December 2016

In some cross-border cases, regulators have struggled to identify or track unlicensed foreign firms, with some providing false addresses or using anonymous domain registrations for their websites. The survey results indicate that many unlicensed firms are scams and regulators in several jurisdictions have taken enforcement actions against unregistered firms.

The report describes a variety of possible regulatory approaches and standards for mitigating the risks that OTC leverage products pose to retail investors. A small number of reporting jurisdictions have severely restricted or in some cases banned the sale of these products to retail investors. In all the reporting jurisdictions where such retail sales are allowed, only authorised or registered firms can legally make such sales to the general public, or such authorisation/ registration is expected to become a requirement in the near future.

3.2 Other updates

Securities Commission of Malaysia announces six peer -to-peer financing operators[19]

Malaysia, 3 November 2016

The Securities Commission Malaysia ("SC") has introduced six registered Peer-to-Peer ("P2P") financing platform operators in Malaysia to widen funding avenues for small and medium enterprises ("SMEs").

The six registered operators are B2B FinPAL, Ethis Kapital, FundedByMe Malaysia, ManagePay Services, Modalku Ventures and Peoplender. They are expected to be fully operational in 2017. As of October 2016, 11 Malaysian SMEs have raised a total of RM8 million via the six ECF platforms.

SC introduced ECF in 2015 to provide early-stage financing for start-up entrepreneurs while the P2P financing framework, introduced in April this year, aims to address funding needs of SMEs to raise working capital or capital for growth.

19 SC, "SC Announces Six Peer-to-Peer Financing Operators", 3 November 2016

MAS proposes changes to Code on Collective Investment Schemes[20]

Singapore, 10 November 2016

MAS is proposing to amend the Code on Collective Investment Schemes ("CIS Code") to effect the policy proposals set out in the response paper to the proposal to give retail investors access to collective investment schemes investing solely in gold, silver and platinum (precious metal funds).

Additionally, MAS is also proposing to amend the CIS code as part of ongoing efforts to enhance and refine the regulatory framework for CIS in three key areas, (i) enhance transparency and market discipline; (ii) improve operational effectiveness and (iii) provide greater clarity to market practitioners. These proposals will apply to investment-linked policies sub-funds issued by issuers under MAS Notice 307 as well, to safeguard the interests of policyholders of such policies.

The consultation closed on 12 December 2016.

HK SFC proposes to enhance asset management regulation and point-of-sale transparency[21]

Hong Kong, 23 November 2016

The Hong Kong Securities and Futures Commission ("HK SFC") has launched a three-month consultation on proposals to enhance the regulation of the asset management industry in Hong Kong to better protect investors' interests and ensure market integrity.

The proposed changes will be made to the HK SFC's Fund Manager Code of Conduct and the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

The consultation will close on 22 February 2017.

Launch of Shenzhen-Hong Kong Stock Connect[22]

Hong Kong, 25 Nov 2016

The HK SFC and the China Securities Regulatory Commission ("CSRC") have approved the launch of Shenzhen-Hong Kong Stock Connect after finalising all necessary regulatory approvals and arrangements required for its commencement. Trading through the Shenzhen-Hong Kong Stock Connect will commence on 5 December 2016 (Note 2).

20 MAS, "Consultation Paper on Proposed Amendments to the Code on Collective Investment Schemes", 10 November 2016
21 HK SFC, "SFC proposes to enhance asset management regulation and point-of-sale transparency", 23 November 2016
22 HK SFC, "Launch of Shenzhen-Hong Kong Stock Connect", 25 November 2016

The regulatory arrangements for Shenzhen-Hong Kong Stock Connect include an expansion of cross-boundary regulatory cooperation to facilitate real-time surveillance by the HK SFC and the CSRC of activity in their respective markets under the programme.

MAS proposes regulations to enhance transparency on short selling[23]

Singapore, 14 December 2016

In line with the report released by the International Organization of Securities Commissions ("IOSCO") on the "Regulation of Short Selling", MAS is proposing to introduce regulatory requirements to enhance transparency on the level of short selling in securities listed on Singapore's approved exchanges.

As part of the Securities and Futures (Amendment) Bill 2016, market participants will be required to (i) specifically mark short sell orders to the relevant exchange; and (ii) report short positions above specified thresholds to MAS. Aggregate information on short sell orders and short positions will be published. The detailed regulatory requirements are set out in the Annexes to the consultation paper.

The consultation closes on 27 January 2017.

IOSCO consults on order routing incentives in ongoing effort to protect investors[24]

Global, 21 December 2016

IOSCO has published a Report on Order Routing Incentives for public consultation. The report details the practices used by market regulators regarding incentives for order routing that may influence how intermediaries treat their clients.

It also examines the regulatory conduct requirements for brokers or firms to manage conflicts of interest associated with routing orders and obtaining best execution. It assesses how these requirements interact with market practices in different jurisdictions to shape order routing incentives and how these incentives influence the behavior of intermediaries towards their clients. Such incentives may include, for example, discounts or rebates designed to direct order flow to one particular venue or to channel payments from one intermediary to another to receive their order flow.

The consultation on the report closes on 21 February 2017.

23 MAS, "Consultation Paper on Regulations for Short Selling", 14 December 2016
24 IOSCO, "IOSCO consults on order routing incentives in ongoing effort to protect investors", 21 December 2016

IOSCO monitors growing use of automated advice tools[25]

Global, 21 December 2016

The market for automated investment advice tools and services by intermediaries and retail investors has grown rapidly in the last few years. The use of automated advice tools is expanding as intermediaries seek to provide advice in a more efficient and cost-effective manner. Retail investors have been increasingly using these services to manage their own portfolios as well, whether by preference or because they consider the services of traditional intermediaries too expensive or extensive for their needs. Also fuelling this trend is the fact that the functionalities and analytics provided by automated advice tools are growing in range and sophistication.

The Update to the Report on the IOSCO Automated Advice Tools Survey concludes that the continued development of automated investment advice tools requires ongoing monitoring to help regulators understand its impact on the provision of investment advice to retail clients. Given the rapid growth and evolution of the market, IOSCO conducted a second survey of its members in 2016 on questions regarding the growth, use, regulation, and supervision of automated investment tools. The update report includes a summary of responses to the survey questions and an overview of the regulatory measures and guidance adopted by some survey respondents.

HK SFC issues further guidance on suitability obligations[26]

Hong Kong, 23 Dec 2016

The HK SFC has issued further guidance in the form of two circulars on the existing suitability obligations of licensed or registered persons when recommending or soliciting investments.

The Frequently Asked Questions (FAQs) on Triggering of Suitability Obligations seeks to clarify what may trigger the suitability obligations. It also provides examples of when the suitability obligations may be triggered and provides guidance on how they are discharged when providing discretionary account services. The other circular, the Frequently Asked Questions on Compliance with Suitability Obligations, updates guidance on complying with the suitability obligations and clarifies that the suitability obligations are relevant to all licensed or registered persons making a recommendation or solicitation. It also provides, among others, guidance on product due diligence as well as the documentation of investment recommendations which are to be maintained in audio or written form.

The SFC plans to launch a consultation in the first quarter of 2017 on proposed guidelines on online distribution and advisory platforms which aim to provide more tailored guidance to the industry in complying with the applicable conduct and other regulatory requirements, including the suitability obligations.

25 IOSCO, “IOSCO monitors growing use of automated advice tools to protect investors”, 21 December 2016
26 HK SFC, “SFC issues further guidance on suitability obligations”, 23 December 2016

4. Insurance

MAS releases consultation on review of Insurer's Appointment of Custodians and Fund Managers[27]

Singapore, 09 November 2016

MAS has proposed to review MAS Notice 105, which sets out the mandatory requirements and non-mandatory best practice standards for insurers' appointment of overseas custodians and fund managers. This development is a follow up to the MAS consultation paper issued in July 2016, on Enhancements to Regulatory Requirements on Protection of Customer's Moneys and Assets to be applied on capital market licensees in Singapore.

MAS is now proposing to enhance the requirements for safeguarding assets of insurance funds when insurers appoint custodians and sub-custodians to hold such assets, with the revised scope of MAS 105 to be broadened to cover all custodians and subcustodians, local and overseas.

MAS also intends to refine and streamline the information collected on custodian arrangements. The proposals are set out to be effected via revisions to MAS 105 and MAS 122 Notice Asset & Liability Exposures for Insurers when finalised.

The consultation closed on 9 December 2016.

FSB publishes list of G-SIIs[28]

Global, 21 November 2016

The FSB, in consultation with the International Association of Insurance Supervisors ("IAIS") and national authorities, has identified nine insurers as Global Systematically Important Insurers ("G-SIIs") as part of its annual identification process of global Systematically Important Financial Institutions ("S-IFIs"). The 2016 G-SII list is based on a recommendation made by the IAIS using end-2015 data. The insurers on the 2016 G-SII list remain the same as those on the 2015 list.

Hong Kong insurance regulator releases guidance note on corporate governance[29]

Hong Kong, 10 December 2016

The Office of the Commissioner of Insurance ("OCI") has introduced a Guidance Note on the Corporate Governance of Authorised Insurers ("GN-10"), which introduces new requirements for the corporate governance arrangements of insurers in line with internationally adopted standards.

Among the highlights of GN-10 are enhanced requirements for independent non-executive directors ("INED"), with up to one third of the board required to be INED for larger insurers with more than 5 board members. GN-10 also introduces requires the roles of Chairman and Chief Executive to be separated, and key persons to be appointed for control functions, including actuarial, financial control, internal audit, compliance, risk management and intermediary management.

27 MAS, "Consultation Paper on Review of MAS 105 on Insurers' Appointment of Custodians and Fund Managers", 09 November 2016
28 FSB, "FSB publishes list of G-SIIs", 21 November 2016
29 OCI, "GN-10, Guidance Note on the Corporate Governance of Authorised insurers", 10 December 2016

MAS reviews competency requirements for representatives conducting regulated activities under the Securities and Futures Act ("SFA") and Financial Advisers Act ("FAA")[30]

Singapore, 12 December 2016

The minimum entry and examination requirements for appointed representatives under the SFA and FAA will be revised, following the changes in the regulatory landscape for capital markets and financial advisory industries.

Among the proposed changes are the enhancement of the current Capital Markets and Financial Advisory Services Examination ("CMFAS") modules by introducing ethics and skills contents into the rules and regulations curriculum, customising the examination modules according to a representative's job role; and aligning Continuing Professional Development ("CPD") training requirements for Capital Markets Services ("CMS") appointed representatives with FAA appointed representatives.

The consultation closed on 13 January 2017.

CIRC revamps equity management approach for insurers[31]

China, 29 December 2016

The China Insurance Regulatory Commission has introduced for consultation a new measure to raise the threshold of access to shareholders of insurance companies. This is as the CIRC looks to get insurers back to the basics and focusing on their main business of insurance, rather than engaging in short term speculative trading on the stock markets.

Among the new rules that the CIRC plans to roll out is the reduction in the proportion of insurance funds allowed to invest in stocks. It also seeks to reduce how much a single shareholder can own in an insurer. The management of equity in insurance companies will also be further improved to ensure comprehensive supervision over the firms' shareholding structure. In addition, the regulator will strictly examine capital flows into the sector.

30 MAS, "Review of Competency Requirements for Representatives Conducting Regulated Activities under the Securities and Futures Act and Financial Advisers Act", 12 December 2016
31 CIRC, "保监会将全面修订《保险公司股权管理办法》 严格股权监管 确保保险姓保", 29 December 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

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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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