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Asia Pacific Regulatory Update
January 2018

Executive Summary

January was a relatively quiet period for several Asia Pacific regulators; the month being a traditional holiday time in some parts of the region. Chinese and Korean supervisors, however, kept an active pace.

Priorities and activities for the years ahead were articulated by regulators in Australia, China, Japan, Korea and Thailand. The region's diversity was reflected in the variety of matters covered by these plans. Progressing implementation of Basel III, reigning in corporate debt and household leverage, executive accountability and corporate governance, new regimes for conglomerates, building financial literacy, and streamlining regulation are some examples of where regulatory attention will be focused going forward.

A common priority for regulators is progressing initiatives that support the growth of **FinTech and innovation** in financial services (e.g. regulatory sandboxes, alternative fundraising). However concerns continue to be expressed about **virtual currencies**, **cryptocurrency trading** and **initial coin offerings** (ICOs). During January, the International Organisation of Securities Commissions formally communicated concern over the risks around ICOs, a cryptocurrency committee was formed in India, Indonesia's central bank said payment system and financial technology operators are prohibited from processing virtual currency transactions, Korea set out new cryptocurrency trading measures for financial institutions, and Malaysia's financial services regulators issued a joint warning on ICOs.

Corporate governance also featured prominently during January. Singapore issued a consultation on proposed amendments to its corporate governance code, Australian regulators identified emerging corporate governance themes following a review of ASX 200 annual general meetings, and improving corporate **disclosure** was the subject of regulatory discussion in Japan. Remuneration, director independence, board diversity, climate change and innovation were some of the topics canvassed.

Thailand announced a new policy on market **conduct**, while Japanese regulators indicated 2018 will involve close monitoring of industry implementation of the **customer oriented** business principles. As a result of firm inspections, Australian regulators released a report on **conflicts of interest** in vertically integrated institutions and supervisors in Hong Kong drew attention to poor practices in the distribution of complex bonds and structured products, particularly relating to compliance with **suitability obligations.**

Regulators in Singapore and China set out proposed **large exposure frameworks**, based on standards from the Basel Committee on Banking Supervision (BCBS).

The BCBS said it is considering whether new **cyber risk** measures are needed to enhance operational resilience. In Thailand, detailed **IT risk management** standards for financial institutions were announced and it was reported that Japanese regulators will be conducting on-site inspections to gauge firms use and management of IT**.**

The following pages provide more detail of these and other significant international and regional regulatory developments during January.

International

Stefan Ingves, Chairman of the Basel Committee on Banking Supervision (**BCBS**), gave a speech on the **finalisation of Basel III**. He noted that while finalisation was an important milestone, work still remains in three key areas: (i) to implement Basel III nationally, (ii) evaluate its effectiveness in reducing the excessive variability of risk-weighted assets, and (iii) continue to monitor and assess emerging risks. The Chairman said that the BCBS should remain open to the possibility of considering whether additional measures, or revisions to existing measures, are required.

The International Association of Insurance Supervisors (**IAIS)** had two major **internal changes** over January. First, a new organisational structure which resulted in the formation of two new committees: the Macroprudential Committee and the Policy Development Committee. Second, the Bank of Russia was welcomed as a new member, bringing the IAIS to now represent 70% of the volume in worldwide premiums.

The International Organisation of Securities Commissions (**IOSCO**) has joined the international scrutiny of the cryptocurrency market this month, formally communicating concern over the risks around **initial coin offerings** (ICOs) to member regulators. Member regulators have since issued formal statements within each jurisdiction, on the risks of ICOs, particularly in regards to their lack of investor protection and high possibility of fraud.

The Financial Stability Board (**FSB**) announced the overarching governance arrangements and implementation plan for the proposed **unique transaction identifier** (UTI), an internationally standardised ID for reporting over the counter (OTC) derivatives transactions. The UTI will promote consistency in the aggregation of transactions by minimising the likelihood of double-counting transactions when reporting to trade repositories (TRs). The International Organisation for Standardisation will be responsible for publishing and maintaining the standard, and the Committee on Payment Market Infrastructure and IOSCO will be charged with governance. The FSB has recommended implementation by end of 2020.

The Bank for International Settlement (**BIS**) Committee on Global Financial Stability has released a detailed report on the **structural changes in the banking industry** between the years 2000-2016. The report outlines common trends and differences across 21 countries. Key findings of the report include the strengthening of capital and liquidity buffers, and funding structures, as an intended result of regulatory reforms. Overall, the return-on-equity in the banking sector has decreased since the 2007/8 financial crisis in-line with a corresponding decrease in their risk profile and appetite, but also due an operating market which has seen sluggish revenue and high costs.

> "An example of a topical risk of direct relevance for the Basel Committee is cyber-risk. The banking system is increasingly reliant on information technology, which exposes it to a growing and evolving set of operational risks. Banks with operationally resilient systems, staff, processes and technology can better adapt to evolving shocks and maintain the provision of critical financial services. The Committee is reviewing its existing cyber-risk measures and will consider whether additional measures are needed to enhance banks' operational resilience"

Stefan Ingves
BCBS Chairman
29 January 2018

Australia

The Australian Securities and Investments Commission (**ASIC**) released Report 562 Financial advice: Vertically integrated institutions and **conflicts of interest** (REP 562), which examines how Australia's largest financial services institutions manage the conflict of interest that arises when they provide personal advice to retail clients and also manufacture financial products under a vertically integrated business model. REP 562 is part of broader regulatory activity focused on wealth management and financial advice businesses. ASIC found that 68% of clients' funds were invested in in-house products and that in 75% of the advice files reviewed there was a failure to demonstrate compliance with the duty to act in the best interests of clients. Further, 10% of the advice reviewed was likely to leave the customer in a significantly worse financial position. In light of these findings ASIC plans to: •consult on more transparent public reporting on approved product lists, •ensure remediation of all clients identified as receiving non-compliant advice, •discuss with each advice licensee how improvements could be made to their conflicts management processes, and •consider the implications for other vertically integrated advice businesses.

ASIC also published a report on the 2017 annual general meeting season (REP 564), which reviews the voting outcomes of resolutions considered at AGMs held by ASX 200 companies and highlights **emerging corporate governance issues and trends**. The regulator's key observations are that: •shareholders remain engaged and active (e.g. increase in the number of 'close calls' on remuneration strikes, material 'against' votes for the election of directors), proxy advisors continued to scrutinise companies' governance practices and issued a number of 'against' recommendations, •gender diversity and specific environmental, social and governance issues such as climate risk were a focus, and •a relatively high number of companies use a show of hands rather than a poll for resolutions. ASIC makes several recommendations in light of the findings, including that companies should: •adopt incentive structures that are designed to achieve long-term value (which may involve the use of non-financial targets), •early engagement with proxy advisors, •strive for board diversity that achieves optimal board performance and goes beyond gender, and •use of polls for all resolutions.

The Australian Prudential Regulation Authority (**APRA**) published an information paper setting out its **priorities and planned activities for 2018**, as summarised in table A below.

Final Reporting Standard ARS 223.0 **Residential Mortgage Lending** (ARS 223.0) was released by APRA. Amendments made in response to the most recent consultation on ARS 223 include: •excluding compulsory superannuation contributions from the definition of gross income for loan-to-income and debt-to-income ratio reporting, •including loans to self-managed superannuation fund and non-residents in the additional increases in loan item, and •including all family trusts within the definition of private unincorporated businesses. ARS 223.0 will commence from the reporting period ending 31 March 2018 for ADIs that currently report on ARF 320.8 and, for all other ADIs, from the reporting period ending 30 September 2018.

Table A: APRAs 2018 priorities and plans

<table>
<tr><th></th><th></th><th>H1 2018</th><th>H2 2018</th><th>2019</th></tr>
<tr><td rowspan="12">Authorised deposit taking institutions</td><td>Conceptual framework for Basel III capital and other changes</td><td colspan="2">Consult</td><td>Finalise</td></tr>
<tr><td>Counterparty credit risk</td><td>Finalise</td><td></td><td>Implement</td></tr>
<tr><td>Leverage ratio</td><td>Consult</td><td colspan="2">Finalise</td></tr>
<tr><td>Standardised approach to credit risk capital (APS 112)</td><td></td><td>Consult</td><td>Consult and finalise</td></tr>
<tr><td>Advanced approach to credit risk capital (APS 113)</td><td></td><td>Consult</td><td>Consult and finalise</td></tr>
<tr><td>Measurement of capital (APS 111)</td><td colspan="2">Consult</td><td>Finalise</td></tr>
<tr><td>Credit risk management (APS 220)</td><td></td><td colspan="2">Consult</td></tr>
<tr><td>Related party exposures (APS 222)</td><td colspan="2">Consult</td><td>Finalise</td></tr>
<tr><td>Guidance or FAQs on APS 221 Large Exposures</td><td colspan="2">Finalise</td><td></td></tr>
<tr><td>Commercial property lending PPG</td><td colspan="2">Commence development</td><td></td></tr>
<tr><td>APRA’s phased approach to licensing new ADIs</td><td>Finalise</td><td></td><td></td></tr>
<tr><td>Banking executive accountability regime</td><td colspan="2">Implement</td><td></td></tr>
<tr><td rowspan="5">Insurance</td><td>Risk management for PHIs (CPS 220)</td><td>Implement</td><td></td><td></td></tr>
<tr><td>Reinsurance (LPS 230)</td><td colspan="2">Finalise and implement</td><td></td></tr>
<tr><td>Role of the appointed actuary</td><td>Finalise</td><td></td><td>Implement</td></tr>
<tr><td>Offshore reinsurers (LPS 114/117)</td><td colspan="2">Consult</td><td>Finalise</td></tr>
<tr><td>PHI governance, fit and proper, audit</td><td>Consult</td><td>Finalise</td><td>Implement</td></tr>
<tr><td rowspan="2">Super</td><td>Strengthening member outcomes</td><td>Consult</td><td>Finalise</td><td>Implement</td></tr>
<tr><td>Post-implementation review</td><td>Consult</td><td colspan="2">Consult and finalise</td></tr>
<tr><td rowspan="3">Cross industry</td><td>Information security</td><td>Consult</td><td colspan="2">Finalise</td></tr>
<tr><td>Business continuity, outsourcing/ service provision, operational risk</td><td></td><td>Consult</td><td>Finalise</td></tr>
<tr><td>Crisis Management Bill-related amendments</td><td></td><td></td><td>Consult</td></tr>
</table>

Mainland China

Reporting on the National Banking Supervision and Management Conference, the China Banking Regulatory Commission (**CBRC**) identified **regulatory priorities** going forward to include: •reducing high corporate debt and household leverage, •restricting interbank investment, •developing regulation of financial holding companies, •orderly resolution of high-risk institutions, •curbing potential real estate bubbles, and •cracking down on illegal real estate financing. The CBRC further said it would scrutinise remittance, wealth management, off-balance sheet businesses, and shadow banking. Consumer protection, in particular improper sales and charges, as well as corporate governance will also be on the CBRC's radar.

The CBRC issued a consultation on commercial bank's management of **large exposures**. The proposals are informed by BCBS standards and define the regulatory requirements for large-scale risk exposures, stipulate the scope and methods for risk exposure calculation, and set requirements for strengthening large-scale risk management in (e.g. management and information systems).

The CBRC released a circular to control commercial banks **counterparty risk for derivative trading activities**, which will take effect from 1 January 2019. The circular draws on the BCBS' standardised approach for counterparty credit (SA-CCR) and requires credit risk of counterparties to be incorporated into risk management frameworks, as well as stronger data collection and storage capabilities. Methodologies and formulas for calculating exposure to risk are set out in an annexure.

Measures were issued by the CBRC on commercial banks **entrusted loan business** (whereby banks act as intermediaries for loans between companies). Among other things, the measures provide that commercial banks may not accept funds if source of cannot be proven and strengthened entrusted loan risk management.

Measures for the regulation of commercial bank **shareholder behaviour** were also announced by the CBRC. The measures have a particular focus on major shareholders and matters covered include clarification of the key shareholder and financial product definition, strengthened related party transaction management, and enhanced regulatory responsibilities.

The China Insurance Regulatory Commission (**CIRC**) outlined its **regulatory priorities** for the next three years. These include: •managing the risk of corporate governance failures, •control risks associated with inappropriate use of funds and insufficient capital, •monitor impacts of new insurance business models and innovative technologies, •crack down on illegal investments and trading, •improve systems for market access (e.g. a negative list system), and •formulate supervisory system for domestic systemically important insurance institutions.

CIRC released rules to strengthen supervision over the **use of insurance funds**. Among other things, the rules restrict insurance fund investments (e.g. bank deposits, trading in securities), require fund managers to have robust corporate governance and risk management (e.g. separate front, middle and back office), require insurance companies to select qualified commercial banks and other specialised firms to carry out third party custody and supervision of the use of insurance funds, and develop strong reporting and management information systems. The rules come into effect on 1 April 2018.

CIRC announced adjustments to **reporting requirements** for six types of insurance regulatory statistics (involving 1,000 detailed indicators). The amendments take effect for the January 2018 monthly report.

Reuters reported that CIRC and the Ministry of Finance issued a notice requiring insurance companies to provide legal opinions on investment compliance for any **debt financing related to local government**.

The People's Bank of China (PBOC), the China Securities Regulatory Commission (CSRC), CBRC and CIRC released new requirements for **bond trading** by market participants. The requirements cover: •internal control mechanisms (e.g. segregation of duties), •risk control indicators, •prohibited conduct (e.g., insider trading, market manipulation), and •leverage ratio requirements (e.g. regulator to be notified if exceeds certain level). A transitional period of one year applies, during which market participants will be expected "to enhance their internal-control/risk-control mechanisms, regulate their bond trading behaviours, and effectively constrain leverage ratios in bond trading".

Mainland China (cont.)

The PBOC released guidelines on optimising **corporate account opening services**, which seek to encourage both efficiency improvements and risk prevention. Among other things, firms are encouraged to adopt new technologies (e.g. face recognition), share information with industrial and commercial authorities, and diversify business identity verification technologies. On-site supervision for all banking institutions will be carried out by the end of May 2018.

The PBOC issued a notice to **facilitate cross-border RMB business**. Under the notice, all cross-border business that is allowed to be settled with foreign exchange, can also be settled with RMB. The notice also proposes specific rules for cross-border RMB settlement on carbon emission trading by overseas investors and eliminates limitations on relevant account opening and payments.

The PBOC and CSRC jointly released provisional guidelines on **green bond certification**. Two certification stages are proposed. The first stage, pre-issuance certification, focuses on: •the compliance and completeness of the issuers' green bond framework, •whether the green projects and the selection/decision making procedures comply with laws and regulations, •whether management of funds raised, information disclosure and reporting mechanisms are complete, and •whether the target-setting of environmental benefits is reasonable. The second stage, duration certification, focuses on the effective implementation of pre-issuance requirements, namely the use of funds raised, the compliance with market disclosure rules, and the assessment of progress in achieving the expected environmental targets.

The PBOC issued new **barcode and QR code** standards, which will come into effect on 1 April 2018. The standards recognise that the risks associated with barcode and QR codes differ from traditional bank card payment and mandate that inter-bank transactions of barcode and QR code be processed by the PBOC's clearing system or a legitimately established clearing institution, specify risk management practices for consumers and for merchants, and require enhanced risk prevention and security controls (e.g. payment tokenization, Trusted Execution Environment, code anti-counterfeit identification).

Hong Kong SAR

The Hong Kong Monetary Authority **(HKMA)** issued a consultation on proposed rules setting **minimum loss-absorbing capacity (LAC) requirements** for authorised institutions. The rules aim to support the regulator's ability to use 'bail-in' as an effective tool for the orderly resolution of firms in distress and are designed to align with the international standards on loss-absorbing capacity set by the FSB.

The HKMA outlined its intended approach to **open application programming interfaces** (API) for the banking industry in Hong Kong, which covers a selection of open API functions and deployment timeframes, technical standards, third-party service provider governance, facilitation measures and maintenance models.

The HKMA announced that the **countercyclical capital buffer** (CCyB) for Hong Kong will increase to 2.5% (currently 1.875%) from 1 January 2019.

"Insurance is the delivery of a promise in the future, and the industry's sustainable development hinges on policy holders' trust and confidence, which can be reinforced with adequate and effective protection of consumers' interests."

Dr Moses Cheng
HKIA Chairman

The Securities and Futures Commission (**SFC**) released a circular reminding licensed corporations (LCs) who distribute complex bonds and structured products of various legal obligations, particularly those relating to **suitability obligations**. The circular was issued in light of various failings identified in SFC reviews, which are also detailed in the release and included: •assigning risk ratings to bonds based solely on ratings from credit rating agencies, •recommending high risk bonds issued by a commercial firm to an elderly client who said they wanted to invest in "prudent or safe" products, and •not clarifying a client's apparently inconsistent statement that their investment objectives were both "capital preservation" and "capital appreciation". The SFC said "senior management of LCs, including relevant Managers-In-Charge of Core Functions … bear primary responsibility for ensuring appropriate standards of conduct and adherence to proper procedures". The regulator urged LCs to review the areas of concern outlined in the circular and take immediate action to rectify any deficiencies.

The SFC launched a consultation on proposed amendments to the codes on **takeovers and mergers and share buy-backs**. Key proposals include: •raising the voting approval threshold for whitewash waivers from a simple majority of independent votes to 75%, •introducing an explicit requirement to require separate resolutions to be put to independent shareholders for the underlying transaction(s) and the whitewash waiver, and •measures to protect minority shareholders in relation to companies incorporated in jurisdictions which have no compulsory acquisition rights (e.g. mainland China).

India

The Reserve Bank of India (**RBI**) published a master direction on **foreign investment**, which lays down the modalities as to how authorised persons are to conduct their foreign exchange business. The master direction provides that any investment made by a person resident outside India shall be subject to entry routes, sectoral caps or investment limits, and the attendant conditions for making such investment. A new definition of 'Foreign Portfolio Investment' (FPI) is set out, which paves the way for any person, not just an FPI, to invest in the securities of a listed Indian company, where the investment is: (i) less than 10% of the post-issue paid-up share capital on a fully-diluted basis, or (ii) less than 10% of the paid-up value of each series of securities of a listed Indian company. Capital instruments of any Indian company may also be pledged with a non-bank finance company to secure credit facilities. NRI or OCI holding capital instruments of an Indian company or units on repatriation basis can now transfer the same by way of sale or gift to any person resident outside India without RBI approval. Certain new forms are also introduced for limited liability partnerships, Indian companies making downstream investment in another Indian company, and Indian start-up companies.

The RBI advised that it had harmonised the definitions of a set of 83 data elements that are reported in multiple returns. The move is part of a larger project to standardise definitions for major balance sheet/ profit and loss/ off-balance sheet items covered in the banking/**regulatory returns** received across RBI departments.

The RBI announced a decision to permit the overseas branches and subsidiaries of Indian banks to refinance **external commercial borrowings** (ECBs) of highly rated (AAA) corporates as well as Navratna and Maharatna PSUs, providing the outstanding maturity of the original borrowing is not reduced and all-in-cost of fresh ECB is lower than the existing ECB.

The Indian government was reported as wanting to introduce a law to regulate trading in **cryptocurrencies** in India and has formed a committee to fast track the process. According to reports, there are two main concerns that the law will address: source of the money being used to trade in cryptocurrencies and consumer protection.

The Insurance Regulatory and Development Authority of India (**IRDAI**) was reported as saying that **forthcoming reinsurance regulation** will provide that the order of preference for placing business with reinsurers will be led by Indian reinsurers who have been transacting business for not less than past three continuous years. This will be followed by other Indian reinsurers, then foreign reinsurers' branches, and finally cross border reinsurers (CBRs). General Insurance Corporation of India (GIC Re) is the only Indian reinsurer with more than three years business track-record.

IRDAI will soon be releasing **new regulations for brokers** aimed at governing the growing number of insurance brokers and ensuring value for policy holders. Brokers will need to make claim settlements more transparent by adopting technology and by improving insurance penetration across cities.

"Market liberalization does not just involve the regulator easing business processes, introducing new products and creating new markets; it also requires participants to take initiative to reskill themselves for constantly evolving market conditions and products. Market development is a two-way interactive process between market participants and regulators."

Viral V Acharya
RBI Deputy Governor
15 January 2018

Indonesia

Bank Indonesia (BI) reaffirmed that virtual currencies are not recognised as a legitimate instrument of payment in Indonesia and, therefore, cannot be used for payment in the nation. The regulator further said that payment system operators (e.g. switching, clearing or final settlement operators, issuers, acquirers, payment electronic wallet or money transfer operators) and financial technology operators in Indonesia, both bank and non-bank, are **prohibited from processing transactions using virtual currency**. BI also warned "all parties not to sell, buy, or trade virtual currency" noting that ownership is highly risky, volatile and speculative (particularly given that there is no responsible authority, official administrator or underlying asset), as well as susceptible to bubbles and money laundering.

BI issued a circular on the issuance of **commercial marketable securities** that cover registration, investor disclosure and regulatory reporting requirements for non-bank corporations that issue commercial marketable securities. The circular sets out requirements on execution of offers, issuance and administration and transactions of commercial marketable securities in the secondary market.

Indonesia's Financial Services Agency (**OJK**) outlined its **regulatory plans and priorities for 2018,** which is summarized in table B.

The OJK issued a market standard for **repo transactions** on debt securities to provide guidance, deepen financial markets, and enhance the professionalism of market participants.

Table B: OJK 2018 priorities

Support infrastructure financing and other priority sectors

- Encourage the expansion and utilisation of varied financing instruments such as perpetual bonds, green bonds, and regional bonds including the issuance of the Tapera funds management through the collective investment contract scheme.
- Simplify the process of public offering for debt and sukuk securities for professional investors.
- Improve access for domestic investors, e.g. through the establishment of the regional securities companies' policy.
- Improve the licensing handling process and accelerate transaction settlement through technology.
- Eliminate the obligation of forming a 10% margin for hedging exchange rate transactions.

Improve financial education and literacy

- Develop various financial education models that are high impact, accurate, and measurable, by utilising various delivery channels.
- Optimise the role of *Satgas Waspada Investigasi* in the prevention and enforcement of illegal investments.

Optimise supervision

- Optimise the role of technology for integrated supervision in banking, capital market, and non-bank financial industry sector by implementing international standards, adjusted to the conditions in Indonesia.
- Increase efficiency through the use of intensive information technology.

Japan

Japan's Financial Services Agency (**JFSA**) released an English version of its **strategic directions and priorities**. The regulator indicates that its general supervisory approach will be to focus on whether institutions are **pursuing best practices and long term sustainability** and soundness. The **Customer-Oriented Business Conduct** Principles, released in March 2017, will continue to feature prominently in 2018 and in this regard the JFSA plans to publish overall trends and best practices, as well as analyse whether business models that encourage aggressive commission seeking are compatible with the principles.

Corporate governance reform will also be on the agenda, with guidance on communications between institutional investors and investee companies' being one of the tasks in progress. **Hybrid finance** screening and risk management will be examined, as will **real estate loans** that have expanded in the low interest rate environment. The JFSA will consider introducing a **new market surveillance system** equipped with AI data analysis and will conduct on-site monitoring of regional banks with serious **business model challenges**. Insurance companies can also expect dialogue with the regulator on sustainability of their business models and strategies. How the financial services industry can support retired generations manage their financial assets is another topic planned for JFSA consideration, and the regulator will collaborate with foreign authorities on overcoming challenges bought about by **ageing populations**. Collaboration with UK and European authorities in also on the cards, with a view to ensuring Japanese firms can smoothly adjust to **Brexit**.

Innovation in financial services will be promoted by the JFSA, including a cross-sectoral review of regulations to accommodate changes in technology and for strengthening information collection and analysis. A review will be undertaken on whether **virtual currency exchange service providers** are equipped with appropriate business systems (e.g. IT risk management), while **ICO** activity will be closely monitored. **Cyber security** will remain a priority for the JFSA and there are plans for a more inclusive industry wide exercise, for assistance in upgrading capabilities of small to medium enterprises and to encourage larger firms to enlist more sophisticated methods for evaluating and addressing cyber security risks.

Minutes of the Financial Council Disclosure Working Group were published by the JFSA. Support was shown for **more detailed disclosure of the specific risks** faced by companies, including how these risks are managed, the impact on corporate value, and how the level of risk has changed. Director and executive remuneration was another topic of debate, with some calling for additional disclosure (e.g. calculation methods, trigger points, how linked to longer term strategies), while others noted the difficulty in developing good KPIs. Better disclosure on cross-holdings, climate risk, corporate culture and the impact of technological innovation were other matters raised, and support was expressed for translating the securities report into English as well as moving to **digital disclosure**.

The JFSA advised that it will be looking into whether bank **business card loans** are being appropriately managed in respect of preventing multiple debts and protecting users. It was also reported that the regulator will increase oversight of how financial services **firms use information technology (IT)** and that, from July, inspections will be conducted to examine matters such as executive understanding of the importance of IT management.

Guidelines on application procedures for registration of export funds and import funds under the **Asia Region Funds Passport (ARFP) framework** were released by the JFSA. The ARFP provides a multilaterally agreed framework to facilitate the cross border marketing of managed funds across participating economies in the Asia Pacific region. When exporting funds from Japan based on the ARFP, the fund will need to obtain formal JFSA confirmation of conformity with the ARFP agreement. To be authorised to import funds to Japan based on the ARFP, the fund will need to provide documentation certifying compliance with the ARFP rules issued by the home country.

"It's uncertain whether global cooperation would mean global regulation. It may mean sharing a common view on the risks involved in cryptocurrency trading and seeking to send out a common message. Global harmonisation may not necessarily mean global regulation"

Hiromi Yamaoka
Bank of Japan
January 2018

Korea

Korea's Financial Services Commission (**FSC**) announced its **financial policy roadmap for 2018**, a summary of which is in table C below.

Table C: FSC 2018 policy roadmap

Trustworthy finance

- Be more open about regulatory practices.
- Ensure transparency in CEO succession procedure.
- Enhance expertise and independence of external directors.
- Encourage active participation of minority shareholder.
- Introduce a consolidated supervisory system for financial conglomerates.
- Phase in mandatory disclosure of corporate governance reports.

Productive finance

- KRW 10 trillion to provide venture capital to innovative start-ups.
- Refresh the Kosdaq market to better support the growth of start-ups and venture businesses.
- Amend capital requirements to curb excessive concentration of capital in household and property lending.

Inclusive finance

- Government-funded micro loans (KRW 7trillion annually) and mid-rate loans (KRW 3 trillion until 2020) for low income households.
- Reduce the maximum interest rate to 24%.
- Lower credit card fees for small retail businesses.
- Write off small/long-overdue loans for low-income borrowers via government-backed funds.

Innovative finance

- Overhaul of regulatory requirements for entry of more diverse and specialised players.
- Release a FinTech Policy Roadmap covering mobile payment services.
- New insurance products for auto-driving vehicles.
- Utilise blockchain technology.
- Further develop regulatory sandbox scheme.
- Enact the 'Special Act to Foster Financial Innovation' to allows pilot authorisation or regulatory relief for the launch of innovative financial services.

Following regulatory inspections that identified loopholes in banks' compliance with **anti-money laundering** (AML) obligations, the FSC introduced **new cryptocurrency trading measures** for financial institutions that: •require banks to only allow cryptocurrency trading through **real-name bank accounts** linked to cryptocurrency exchanges, •prohibit persons **under 18 and foreigners** from opening new bank accounts linked to cryptocurrency exchanges to deposit their money for cryptocurrency trading, •impose **enhanced due diligence** in relation to cryptocurrency exchange transactions (e.g. verifying the purpose of the financial transactions and the source of the money, obtaining details of the services that the exchange provides and whether the exchange is using real-name accounts), •identify the types of cryptocurrency transactions that will require submission of a **suspicious transaction report** (e.g. a user makes deposits or withdrawals of more than KRW10 million per day, an organisation withdraws money from their bank accounts to trade cryptocurrencies), •require banks to refuse to offer accounts to cryptocurrency exchanges if they do not provide their users' identification information, and •require financial institutions to strengthen their **internal controls** related to cryptocurrencies and to share information about cryptocurrency exchanges with each other. The FSC said the measures are aimed at minimising negative side effects from cryptocurrency trading such as money laundering and tax evasion. The regulator also tweeted a consumer warning on risks associated in trading in cryptocurrencies saying "investment in cryptocurrencies always bare risks of a huge loss. Please be extremely cautious when making investment decisions."

The FSC announced that in the first half of 2018 measures will be introduced to **revitalise the Kosdaq market**, with a view to supporting the **growth of start-ups and venture businesses**. Key measures include: •a new KRW 300 billion 'Kosdaq Scale-up Fund' to invest in Kosdaq-listed companies, •a new market index 'KRX300, that incorporates Kospi and Kosdaq-listed companies, •revision of Kosdaq listing requirements (e.g. relaxing or removal of requirements that hinder listing of start-ups, special track listing of companies that have growth potential but not yet posted profits), •organisational and operational reforms to spur competition between Kosdaq and Kospi markets (e.g. listing and delisting evaluation authority currently held by CEO of Kosdaq will be delegated to the Kosdaq Market Committee), •strengthening post IPO supervision, and •forbidding large shareholders and underwriters from selling shares for a certain period of time following IPOs.

Korea (cont.)

The Financial Supervisory Service (**FSS**) issued a consultation on proposed legislative amendments designed to facilitate **crowdfunding.** Key provisions are: •retail investors' investment limit per issuer over the one-year period to be raised from KRW2 million to KRW5 million, and the accumulative investment limit per annum raised from KRW5 million to KRW10 million, •social enterprises allowed to raise capital through crowdfunding platforms without any minimum number of years in business and will also be eligible for investment by start-up and venture business-focused private equity funds, and •the resale restriction period for investors who purchased their securities in a secondary transaction will be shortened from 1 year to 6 months.

The FSS proposed amendments to the Banking Act under which: •banks will be exempt from **ex-ante reporting** for concurrent businesses that are registered, approved, or authorised pursuant to other legislation, •**investment limits** on low-risk debt securities such as municipal bonds will be removed, and •banks are to accumulate at least 10% of their cash dividend as an 'earned surplus reserve' until the aggregate reserve amount reaches half the **capital required** under the Commercial Act.

The FSS announced the launch of a **translation service** for overseas financial consumers, which covers 14 languages. Under the service, if non-Korean consumers file complaints, the FSS will translate the contents into Korean and provide answers in homes language.

"Fathoming the depth and breadth of the changes taking place in the financial sphere due to the recent digital innovations is not easy…There is a possibility that cryptocurrency transactions, which are showing signs of overheating around the world, will work as risks to financial stability, and we will therefore also have to continue considering measures for dealing with those risks."

Juyeol Lee
Governor of the Bank of Korea
2 January 2018

Malaysia

Bank Negara Malaysia (**BNM**) and the Securities Commission Malaysia (**SCM**) issued a joint warning on **ICOs,** both for ICO issuers and consumers. The regulators said that launching of an ICO, offering digital tokens in exchange for digital currency or any form of payment, and other incidental activities may trigger regulatory requirements under Malaysian securities laws. Issuers were reminded of the need for formal SCM or BNM approval to carry on regulated activities in Malaysia (e.g. fundraising, fund management, dealing in capital market products, deposit taking, FX administration). Members of the public were advised to exercise caution before participating in an ICO and to consult the list of institutions that are licensed or approved by SCM or BNM.

BNM released a revised **credit risk standard** for banking institutions, financial holding companies, insurers and takaful operators. The new standard aims to enhance industry credit risk management practices, as well as support effective implementation of Malaysian Financial Reporting Standards 9: Financial Instruments (MFRS 9). Key changes include: ●more clarity on governance expectations in regards board and risk involvement in credit decision-making, ●management of problem credit and the independent credit review function, ●expanded requirements for the management of exceptional credits and concentration risk, ●strengthened requirements on credit risk measurement to promote greater sophistication in loss estimation approaches, ●new expectations for the management of country risk, transfer risk and group-wide credit risk oversight. The revisions take effect on 1 July 2018 for banks on an entity basis and 1 July 2019 on a consolidated basis, while insurers and takaful operators will be required to comply on both an entity and consolidated basis from 1 January 2021.

BNM announced the introduction of **eCCRIS, an online platform**, which gives the public free access to their Central Credit Reference Information System (CCRIS) report. The CCRIS report shows the financing and repayment history of a borrower with participating financial institutions over the past 12 months. BNM said eCCRIS aims to "promote the financial well-being of all Malaysians by encouraging prudent financial management". Users will also be able to lodge data verification requests directly via eCCRIS to participating financial institutions to verify and correct any inaccuracies identified in their CCRIS report.

Singapore

The Monetary Authority of Singapore (MAS) released a consultation paper on proposed revisions to the regulatory framework for **large exposures of Singapore-incorporated banks**. The proposed revisions take into account BCBS standards and aim to limit the maximum loss that a bank faces in the event of a sudden counterparty failure. The MAS proposals will apply to Singapore-incorporated banks from 1 January 2019 and replace the requirements currently set out in MAS Notice 639. Banks which are incorporated outside of Singapore will, for the time being, continue to be subject to existing MAS Notice 639. Key proposals include: •a revised large exposure limit of 25% of Tier 1 capital for any counterparty or single counterparty group, •require exposures to banks to be subject to the large exposures limit, except for intraday interbank exposures (but exposures to related corporations that are non-bank entities will not be exempted), •a lower limit of 15% of Tier 1 capital on the exposures of a global systemically important bank (G-SIB) that is headquartered in Singapore to another G-SIB, and •banks to set internal limits for their exposures to other systemically important financial institutions, including domestic systemically important banks.

The **Payment and Settlement Systems (Finality and Netting) Amendment Bill** was read for a second time. The bill aims to: •enhance the protection of payment transactions by extending the period during which transactions enjoy finality and, thereby, protect a wider range of transactions from insolvency law in a liquidation event, •set out clear criteria for MAS to designate such systems (FAST and NETS EFTPOS debit card system in 2018), and •strengthen MAS' powers (e.g. an obligation to notify MAS in the event of a potential insolvency). The Bill does not directly cover the regulation of customer-facing retail payment or remittance service providers, which are subject to a separate public consultation.

The Corporate Governance Council released a consultation paper on its recommendations to **revise the Code of Corporate Governance**. Key recommendation include: •streamlining the Code to focus on key tenets of corporate governance, shifting 12 baseline market practices to the SGX LR for mandatory compliance and moving 24 less essential details into practice guides, •lowering the shareholding threshold in relation to determining director independence from 10% to 5%, •two options for independent directors (IDs) who have served more than nine years: incorporate the nine-year rule in the SGX LR as a hard limit or subject the appointment of IDs who have served beyond nine years to an annual vote, •a new provision for the board to comprise a majority of directors who have no management or business relationships with the company, •recommend adding "age" as one of the aspects of board diversity for companies to consider, •a revision to the Code for companies to disclose the relationship between remuneration and value creation, •a new principle for companies to consider and balance the needs and interests of material stakeholders, and •establishing an industry-led Corporate Governance Advisory Committee to promote good corporate governance practice.

MAS issued a consultation paper on changes to the AML/CFT requirements for **money-changing and remittance businesses**. Proposed amendments include: •a prohibition on issuing bearer instruments, •removing the requirement for MAS' pre-approval to conduct non-face-to-face business, and •requiring holders of a remittance licence to perform client due diligence on FX counterparties for the purchase or sale of foreign currencies.

"From one perspective, the wide-ranging post-crisis regulatory reforms have made the global financial system more robust and resilient…Yet, from another perspective, the risk of financial instability is not small. This is mainly due to the build-up of leverage …In emerging Asia, corporate debt issuance has ramped up…Household debt has built up sharply in many advanced as well as emerging market economies, with escalating house prices a key driver...If these pressures lead to widespread credit defaults, financial instability is usually not far off."

Ravi Menon
Monetary Authority of Singapore
15 January 2018

Thailand

The Bank of Thailand (**BOT**) announced a new policy on **market conduct**. The policy covers corporate culture, director and senior manager responsibility, policies, product development (e.g. products appropriate for customer), compensation (e.g. does not promote inappropriate sales), the sales process (e.g. complete and clear explanations), internal communications and training, customer confidentiality, post-sale customer care and complaints handling (e.g. convenient contact channels, root cause analysis), internal controls and escalation processes.

BOT also released new **information technology (IT) risk management** regulations for financial institutions. Among other things, the standards provide that: •IT risk management must align with strategy and be commensurate with the size and nature of the firms' business, •the board of directors must be knowledgeable and be given training on IT, as well as ensure that it is part overall risk management, •the executive also has an important role in managing IT risk and day to day supervision is to be based on the three lines of defence, •firms must have IT policies and procedures, •staff should be trained on the importance of managing IT risk and be responsible for maintaining IT security •those working in IT must have appropriate qualifications, •firms should have measures to ensure physical security and operational continuity of IT, • penetration testing and IT audits must be carried out, •develop clear guidelines on procurement and on third party providers, •abnormal IT incidents should be reported to the board and a root analysis conducted to find appropriate remedies, •significant incidents should be reported to BOT.

The Securities and Exchange Commission of Thailand (**SECT**) released its **strategic plan for 2018-2020**, which identifies five key areas for regulatory attention. First, supporting providers of financial advice and financial planning in delivering accessible and quality services, including enlisting financial technology (FinTech). Second, supporting alternative fundraising methods for SMEs and start-ups. Third, strengthening Thai market competitiveness by building robust infrastructure compatible with digital business models. Fourth, enhancing supervision of listed companies and commercial banks giving services as selling agents of investment units. Fifth, revising and streamlining regulatory guidance, as well as maximising use of technologies in regulatory work.

SECT issued a consultation on amendments to the rules governing issuance and offering of **derivative warrants** (DW) to require additional disclosure on price. It is proposed that: •historical volatility of the underlying shares be disclosed in the registration statement and prospectus, •there be continuing disclosure of the implied volatility in comparison to the historical volatility on the DW issuer's website, •a warning statement about the gearing ratio be given on the cover of the registration statement and prospectus, and •foreign shares and foreign index to be permitted as an additional underlying for DW products.

SECT is also consulting on amendments to **initial public offering** (IPO) disclosure rules, which will require issuers to prepare and disclose information in visual and audio formats. The proposed amendments aim to respond to investors' growing reliance on the internet for news and information, as well as "the inconvenience for thorough reading of lengthy registration statements and prospectuses". The current requirement to submit advertising copy or media samples to SECT before launch is also to be replaced with an obligation to supervise and ensure that advertisements are complete, correct and not misleading.

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