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The biggest news in financial services regulation during November and December was the announcement from the Basel Committee on Banking Supervision (BCBS) that **agreement had been reached on the remaining elements of the Basel III post-crisis bank capital framework**. The start date for most of the new standards, as well as previously agreed revisions to the market risk framework, is 1 January 2022. Regulators in Australia, Hong Kong and Indonesia responded to the BCBS announcement, indicating that the Basel III revisions will be implemented in a way that suits local priorities and timetables.

Beyond Basel III, financial technology (FinTech) issues were very prominent in another busy period of policy activity in the region. The Monetary Authority of Singapore hosted the world's largest **FinTech** Festival and used the opportunity to release a raft of new initiatives responding to innovation. FinTech seminars and conferences were also held by regulators in Japan, Korea and Malaysia. **Digital currencies** continue to be of concern, with supervisors in India, Indonesia, Korea, Malaysia and Singapore issuing further warnings and extending regulatory regimes.

China and Singapore's central banks announced that they are two of the eight founding members of the Central Banks and Supervisors Network for Greening the Financial System, which plans to enhance the role of the financial system to manage risks and to mobilize capital for **green and low-carbon** investments. Regulators in Australia and Singapore further elaborated on measures that will be implemented to ensure **climate-change related risks** are being considered by financial services firms.

China, India and Korea announced reforms or plans to **ease entry of foreign financial companies** into domestic markets.

The Australia Government called a wide ranging **Royal Commission into alleged misconduct** by financial services entities, meaning conduct and culture will be front of mind for regulators and industry in Australia for at least the next 12 months.

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

International

The Basel Committee on Banking Supervision (**BCBS**) published the **finalised Basel III framework**, marking the completion of its post-crisis regulatory reforms. The framework calibrates a standardised output floor at 72.5% of risk weighted assets, which will be phased in between 2022 and 2027. Other elements of the framework, including the standardised approach for credit risk and constraints on the use of IRB approaches, will apply from **January 2022**. The BCBS also decided to delay implementation of revisions to market risk framework (the "Fundamental Review of the Trading Book" or FRTB) from 1 January 2019 to 1 January 2022.

The BCBS published a discussion paper on the **regulatory treatment of sovereign exposures**, although it is not currently proposing changes to the existing regime.

The BCBS released the results of its **cumulative quantitative impact study**, concluding that the finalisation of Basel III will not result in any significant increase in overall capital requirements, although effects will vary among banks.

"The package of reforms endorsed by the GHOS now completes the global reform of the regulatory framework, which began following the onset of the financial crisis."

Mario Draghi
GHOS Chairman and ECB President

The **Financial Stability Board** released two reports as part of ongoing guidance on **effective resolution regimes for G-SIBs**: Principles on Bail-in Execution; and Funding Strategy Elements of an Implementable Resolution Plan. The report **on bail-in execution** provides principles to assist domestic regulators in operationalising bail-in strategies in regards to: disclosures on instruments in the scope of the bail-in, valuations to support the bail-in application, processes for transferring governance and establishing new boards, and processes for communicating to creditors and the market. The **funding strategy** report builds on previous guidance in August 2016, and covers key areas such as the firm's monitoring and reporting capabilities for estimating funding in resolution, the development of a resolution funding plan by authorities, and information sharing between authorities. Consultation will close in February 2018.

The FSB held the RCG for Asia at which an update on the ongoing implementation of the post-crisis reforms was provided to the members, along with details of the FSBs monitoring of emerging vulnerabilities in the region, particularly around FinTechs, **conduct risk**, and the withdrawal of **correspondent banking** relationships. Members shared their experience in regulating emerging **financial technologies** such as virtual currencies and e-payments. The ongoing implementation of the **FX Global Code of Conduct** and the role of **firm culture** in driving or preventing misconduct were also discussed.

The **FSB** published a report on the growing **use of artificial intelligence (AI) and machine learning** within the financial industry. Four key use-cases of AI and machine learning were identified: front-office (e.g. credit scoring, and chatbots), back-office (capital optimization and risk management), trading and portfolio management (e.g. trade execution), and regulatory compliance (e.g. regulatory capital management). The report notes that opportunities of AI and machine learning are abundant and could lead to a more efficient and well-functioning market. However, the lack of auditability in the decision-making process of AIs, increased interconnectedness from technology providers through software as a service (SaaS), and the lack of prudential regulation for these third-party providers could lead to significant financial stability issues.

International (cont.)

The FSB has published its work on the 2017 list of global systemically important banks (**G-SIBs)** and global systemically important insurers (**G-SIIs**). The number of G-SIBs has remained the same from the previous year, however one bank was added (Royal Bank of Canada - Canada), and one was removed (Groupe BPCE - France). Further, there has been some changes to the requirements for higher capital buffers for several G-SIBs, with two moving to higher buckets (Bank of China and China Construction Bank), and three moving lower (Citigroup, BNP Paribas and Credit Suisse). The FSB, in consultation with the IAIS, decided there will be no changes to the list of G-SIIs.

The **International Association of Insurance Supervisors** (**IAIS)** issued an interim consultation paper on an **activities-based approach to systemic risk in the insurance sector**, which is intended to allow stakeholders to provide input on the development of the approach, and feedback on the proposed steps that the IAIS will follow. The IAIS intends to launch a second consultation on its final proposals "by the end of 2018" after considering comments on this consultation, completing further work on the development of policy measures and review of its assessment methodology for the identification of G-SIIs.

IAIS released **revisions to ICP 8** (Risk Management and Internal Controls), **ICP 15** (Investments) and **ICP 16** (Enterprise Risk Management for Solvency Purposes) for consultation. These will be included in the updated Common Framework (ComFrame) for the supervision of insurance groups. The primary purpose of the revision is to remove overlaps and duplications between the existing ICP regulations, and to improve the efficiency of supervisory material development. From a substance perspective, there is limited addition to the underlying requirements, though wording has been strengthened and further formalised.

The **International Organisation of Securities Commissions** (IOSCO) published progress updates to its peer review papers on the **Regulation of Money Market Funds** (MMF), and the **Implementation of Incentive Alignment Recommendations for Securitisations**. The MMF paper tracks three areas of reform: valuation practices, liquidity management, and addressing the risk of MMFs that offer a stable net asset value (NAV). Overall implementation is on track for valuation practices, but less so for the remainder, despite China, Japan and the US having formally implemented all three reforms which indicate strong progress at an overall market size level. For the Securitisations report, two reform areas are evaluated: regional approaches to align incentives across the securitisation value chain and the definition of the individual elements making up each regions incentive alignment approach - including for risk retention (where securitisers hold a certain stock of their own securitisation and thus have a stake in its performance). Progress is mixed, with only 50% having adopted either of the two measures. Though only three participants are reported to have completed all reforms, of these are the US and Korea which account for 79% of the international market for securitisations.

Australia

The **Australian Government** called **a Royal Commission into alleged misconduct** by banks and financial service entities. The key issues which the Commission will inquire into are: •the nature, extent and effect of misconduct by financial services entities, •conduct or practices that fall below community standards and expectations, •whether any misconduct is attributable to culture or governance practices, •the effectiveness of current mechanisms for financial redress, •the adequacy of existing laws, policies and regulation, and •the effectiveness and ability of regulators to identify and address misconduct. A final report is due within 12 months.

In response to the BCBS' announcement that Basel III had been finalised and would be implemented from 1 January 2022, the **Australian Prudential Regulation Authority** (APRA), said it still expects local banks to be "following strategies to increase their capital strength to exceed the unquestionably strong benchmarks by 1 January 2020".

APRA Chairman Wayne Byres, delivered the keynote address at a securitisation forum, where he focused on **housing**; the underlying asset for the majority of Australian securitisations. The Chairman discussed recent APRA measures (e.g. 10% credit growth limit, 30% interest-only benchmark as a proportion of new loan originations, reductions on maximum loan-to-value ratios) and noted that authorised deposit-taking institutions (ADIs) have made efforts to align with these measures. Nonetheless, Chairman Byres pointed to metrics which are tracking "higher than intuitively feels comfortable", such as rates of non-performing housing loans trending up to near six year highs, despite lower unemployment and cash rates at historic lows. The Chairman said APRA will pay particular attention to lending with a low net income surplus and the possible overuse of benchmarks as the primary measure of living expenses, saying "we would like to see the industry devote more effort to the collection of realistic living expense estimates".

APRA proposed changes to its **life insurance standard on reinsurance** (LPS230) to align it more closely with the general insurance equivalent (GPS 230). The regulator also proposed **updates to APS330 Public Disclosure** to incorporate the additional disclosure requirements for the **Net Stable Funding Ratio** (NSFR) stipulated under the Basel III framework, which aims to elucidate regulatory funding requirements, bolster principles for liquidity risk management and reduce uncertainty.

APRA further released revisions to **APS 111 Capital Adequacy**, in order to provide **mutually owned ADIs** with more flexibility in their capital management. APRA developed the Mutual Equity Interest (MEI) framework in 2014 to enable mutually owned ADIs to issue instruments that meet the Tier 1 and Tier 2 capital requirements. In July 2017, a consultation paper was released to propose extending the MEI to allow mutually owned ADIs to issue CET1-eligible instruments without jeopardising their mutual status. The current report brings the July changes into APS 111, and will come into effect in January 2018.

APRA Executive Board Member Geoff Summerhayes gave a speech on **climate risk** noting that the regulator: •thinks financial institutions should consider climate change in the context of their strategic and operational risk management, •has begun to ask regulated entities about their awareness of and actions in regards to climate risk, •has commenced discussions with Treasury, ASIC and the RBA, on the sustainability and financial risk dimensions of the economy related to climate change, •has established an internal Climate Change Financial Risk Working Group to develop supervisory responses, and is •planning to survey of regulated entities to understand emerging best practice.

"Ongoing speculation and fear-mongering about a banking inquiry or Royal Commission is disruptive and risks undermining the reputation of Australia's world-class financial system… The Government has decided to establish this Royal Commission to further ensure our financial system is working efficiently and effectively."

Australian Government

Australia (cont.)

The **Australian Securities and Investments Commission** (ASIC) entered into agreements with the Chinese Securities Regulatory Commission and the Dubai Financial Services Authority to provide structures for support and cooperation on FinTech and RegTech.

ASIC released a report on the **cyber resilience** of firms in Australia's financial markets, which was based on self-assessments by over 100 stockbrokers, investment banks, market operators, post-trade infrastructure providers and credit rating agencies. The regulator found that there is a growing understanding that cyber risk is a strategic, enterprise-wide issue and is attracting increasing investment. While "larger firms have demonstrated a relatively high degree of cyber resilience", small-and-medium firms have "a long way to go" according to ASIC.

ASIC Commissioner Cathie Armour identified MiFID II, centralisation of OTC market infrastructure, new forms of market infrastructure (blockchain, crowdfunding), benchmark and FX reforms, the risks associated with critical third party service providers, and AI as key **issues on the horizon for Australia's markets.**

ASIC updated its Regulatory Guide 246 on **conflicted and other banned remuneration**. The RG now includes •guidance on the operation of the incoming life insurance remuneration reforms, •additional guidance on the exclusion for benefits paid by the client, and •examples of when conference benefits are likely to be conflicted remuneration. The updated RG further reiterates that commissions given by a property developer to an adviser where the adviser recommends the establishment, or use, of a self-managed super fund to purchase property are likely to be conflicted remuneration.

Treasury issued a consultation on **enhancing ASIC's powers** to direct Australian financial services or credit licensees to take or refrain from taking actions. Exposure draft regulations were also released on the **extension of the crowd-sourced funding** (CSF) framework to proprietary companies.

Treasury released a consultation paper on Phase 2 of the ASIC industry funding model. The paper sets out the proposed **fees-for-service** that will be introduced from 1 July 2018 to recover ASIC regulatory costs that are directly attributable to a single, identifiable, entity (e.g. licence applications and variations). In a number of cases, the proposed new fees significantly increase from their current level. Phase 1 of the industry funding model introduced an industry levy.

The Government introduced a Bill to **establish the Australian Financial Complaints Authority** (AFCA). AFCA will replace the three existing external dispute resolution schemes: the Financial Ombudsman Service, the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal. The Bill sets out standards that AFCA must meet, provides additional powers in relation to superannuation disputes and gives ASIC certain regulatory powers, including the power to issue directions.

Mainland China

The new **committee to oversee financial stability and development**, announced in July, was formally set up by the State Council. Vice-Premier Ma Kai will head the committee, which will focus on the deliberation and coordination of major issues concerning financial stability and related reform and development. It will also be responsible for analysing the international and domestic financial situation, addressing international financial risks, and conducting policy research on systemic risk prevention and treatment.

Plans to **ease limits on foreign ownership of financial services groups** were announced by the Chinese government. Vice-minister of finance, Zhu Guangyao, indicated caps on foreign equity stakes in securities, fund management and futures companies would be lifted to 51% (currently 49%) and would be removed entirely three years after the new caps take effect. The limit on foreign stakes in life insurance will be raised to 51% within 3 years and removed entirely within 5 years. Also planned for removal is the 20% ceiling on ownership of Chinese commercial banks or asset management companies by a single foreign investor, as well as the 25% cap on total foreign ownership of such companies.

The **Peoples Bank of China** (PBOC) announced draft standards on **asset and wealth management products**, aimed at curbing off-balance-sheet and highly leveraged borrowing. The standards will apply across the financial sector (e.g. banks, insurers, fund managers) and were jointly drafted by the PBOC, the China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission and the State Administration of Foreign Exchange. The regulation requires firms to set leverage ceilings on asset management products and set aside 10% of management fees as 'risk reserves'. For investors to be classed as 'qualified' they should have at least ￥5m in family financial assets or have earned more than ￥400,000 per year for three consecutive years. Guaranteed rates of return will also be prohibited, and personal investors will not be allowed to use bank loans as investment capital in asset and wealth management. The draft regulation also includes provisions on digital advice (robo-advice) that will require firms to obtain regulatory approval for such services and also disclose to regulators algorithms, financial models and logic used in asset allocation. It is also proposed that regulators have the power to intervene if algorithms are found to be flawed or disrupt market stability. The draft rules are set to take effect on 30 June 2019.

PBOC became one of the eight founding members of the **Central Banks and Supervisors Network for Greening the Financial System**. The Network's goal will be to strengthen the global response required to meet the Paris agreement, enhance the role of the financial system to manage risks, and mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. The network will begin meeting in 2018 with the aim to conduct a stock-taking exercise during the year and hold a high-level conference focused on climate risk management and supervision in April 2018.

The **China Banking Regulatory Commission** (CBRC) announced that it will **ease caps on foreign ownership** in Chinese banks (not including private banks) and financial asset management companies. Other measures to further open up the banking system include: •removal of the waiting period for conducting renminbi business, •supporting foreign bank branches to engage in government bond-related businesses, •loosening the renminbi retail deposit-taking requirement for foreign bank branches, and •supporting foreign banks to conduct business in financial markets, and adjusting regulations on working capital in foreign bank branches.

CBRC issued draft rules on **liability risk management in commercial banks**. The proposed new rules will introduce three new quantitative measures on banks' liquidity risks: the net stable funding ratio for commercial banks with more than ￥200bn in assets, the high-quality liquid assets adequacy ratio for commercial lenders with less than ￥200bn in assets, and the liquidity matching ratio for all commercial banks. The rules will take effect on 1 March 2018.

CBRC issued a consultation on measures to enhance the **management of equity in commercial banks** to address concerns about unclear and opaque ownership structure, related party transactions, abuse of shareholders' rights and not acting in the interests of the bank. Provisions cover matters such as shareholders' liability, the responsibilities of commercial banks, transparency and information disclosure, supervision and management, caps on shareholdings, and legal responsibilities.

CBRC issued draft guidelines for commercial banks to better manage their **interest rate risks**. Matters covered include risk management requirements, interest rate stress tests and routine assessments of risks. The guidelines will take effect on 1 January 2019.

Mainland China (cont.)

The **China Insurance Regulatory Commission (CIRC)** advised that it had issued regulatory letters to three **life insurers** identified as having **deficient practices** during regulatory spot checks. Inadequate pricing practices and poor product management were highlighted, and the insurers were told to cease sale of the products which did not meet regulatory requirements.

The **China Securities Regulatory Commission (CSRC)** Assistant Chairman Zhang Shenfeng outlined some of the regulators recent achievements, objectives and plans going forward. The AC noted the launch of new products such as dual debt creation and green bonds, and said there will continue to be an emphasis on promoting an **inclusive financial system**, helping the poor, opening up green channels, and guiding firms to pay more attention to **customer demand-oriented services**. Opening up the capital market and making better use of the global market and global resources was noted as another objective, and in this regard **relaxing the access to foreign capital** in the securities and futures industry is planned. The AC flagged **tough supervision** to prevent regulatory arbitrage and a focus on prevention and **mitigation of risks**. Attention will be on creating multi-level, diversified, complementary **equity financing**, growing and developing the exchange market, and promoting the **bond market**.

CSRC announced a consumer education event aimed at protecting the rights and interests of **bond investors**. There has been a rapid expansion of China's bond market, but also an increase in debt defaults which has negatively impacted some investors and the industry's reputation. The event focuses on deepening consumer understanding of bond characteristics and risks, as well as the applicable regulations.

CSRC issued a consultation on guidelines to facilitate professional wealth management in **pension investments** and healthy development of **pension funds**. The guidelines address such matters as sound investment strategies, asset allocation, and a focus on long-term steady earnings.

Hong Kong SAR

Responding to the finalisation of the Basel III reform package, the **Hong Kong Monetary Authority** (**HKMA**) said it will implement the new standards on Minimum Capital Requirements for Market Risk (**FRTB**) on 1 January 2022 (in alignment with the new BCBS start date). The local **implementation timeline** for the other elements of the Basel III reforms will be further considered by the HKMA, and will take into account industry views and local data.

HKMA and the **Securities and Futures Commission** (**SFC**) issued a circular on a recent thematic review of **conflicts of interest arising** from the sale of in-house products within a single financial group. The circular provides general observations, notes good practices and outlines regulatory expectations, some of which follow.

Poor **order execution practices** were identified as including: ●intermediaries only selecting their related entities as counterparties without sufficient client disclosure, which sometimes resulted in orders not being executed at a better prevailing price, and ●not requiring staff to obtain quotes from different market participants if they considered that the in-house quote was reasonable. Good order execution practices were identified as including: ●implementing policies and procedures requiring staff to compare in-house quotes with those of other market participants, and ● having an independent unit perform review the effective implementation of conflicts of interest policies.

Poor practices identified in the **selling process** and **discretionary portfolio management** included solicitations of a specific class of products without disclosing that clients were entitled to invest in another class where lower fees and charges could apply. Good practices included disclosure in clients' monthly statements about the percentage split of investment allocation between in-house managed and third-party managed strategies.

On **management supervision, controls and monitoring** the regulators noted some situations of: ●a lack of clarity around the definition of conflicts of interest and the circumstances under which matters should be escalated, ●failure by the control function to adequately identify actual or potential conflicts, and ●instances of inadequate training. Written guidance, a list of focus areas and scenarios on conflicts of interest, and including conflicts as a standard item in annual risk assessments were examples of good practice.

Hong Kong SAR (cont.)

The HKMA announced that it had exchanged a memorandum of understanding with the Monetary Authority of Singapore (MAS) to jointly develop the Global Trade Connectivity Network (GTCN), a cross-border infrastructure based on distributed ledger technology (DLT), which will **digitalise trade and trade finance** between the two cities. The GTCN is expected to go live by early 2019.

The HKMA launched the **FinTech Supervisory Chatroom** as part of its FinTech Supervisory Sandbox 2.0. Firms wishing to offer innovative products and services can access the chatroom through emails, video conferences or face-to-face meetings to engage HKMA at an early stage "thereby reducing abortive work and expediting the rollout of new technology applications".

The HKMA advised that the Enhanced Competency Framework on Treasury Management (ECF-TM) will be launched on 2 January 2018. The ECF-TM establishes a set of common **competency standards** for raising and maintaining the professional competence of practitioners of **treasury management functions** in authorised institutions. The framework outlines expectations on professional knowledge, technical skills and ethical behaviours. The HKMA is encouraging firms to adopt the ECF-TM as a benchmark, to support staff attend training and examination that meets ECF certification, and to keep records of staff training and qualifications.

The HKMA announced a pilot scheme to provide **cash withdrawal services to the elderly** at convenience stores, without the need to make purchases. The pilot will be launched in March 2018 and aims to improve accessibility of cash withdrawal service to the elderly in remote areas.

The SFC decided to adopt most of the proposals made in its November 2016 consultation on enhancing **asset management regulation and point-of-sale transparency**. The proposals will amend the Fund Manager Code of Conduct (FMCC) and the Code of Conduct for SFC licensed or registered persons. Among other things, the amendments will restrict intermediaries using the term "independent" and enhance disclosure of trailer fees, commissions and other monetary benefits. References in the FMCC to the concept of "de facto control" have been removed, and the definition of "independence" has been revised and is the subject of additional guidance. While there are no plans at this stage to ban commissions outright, the SFC will keep "under active consideration" the merits of pay-for-advice models. The SFC has also commenced a two-month consultation on requirements for disclosure of monetary and non-monetary benefits by licensed or registered persons to discretionary account clients.

The Hong Kong Insurance Authority (**HKIA**) published its **Annual Report 2016-17**, which provides an overview of the HKIA's work during April 2016 to March 2017 including: •measures to enhance corporate governance, •preparation for developing standards to promote higher levels of professionalism, and •the set-up of the Future Task Force. The report also provides details of some upcoming **regulatory initiatives**, such as: •the introduction of a risk-based capital regime •the introduction of a policy holder's protection scheme, and •preparing for the direct regulation of insurance intermediaries (e.g. developing codes and guidelines).

"While it is true that the kind of "cozy" or "light touch" supervision that was prevalent before the GFC is now out of the question, there is still a great deal of space in how we calibrate the "intensity" or "intrusiveness" of banking supervision …Through better and ongoing communication with the industry, we should be able to achieve a more optimal and sustainable supervisory outcome in the longer run."

Norman T.L. Chan
HKMA Chief Executive

India

The **Reserve Bank of India** (RBI) provided notification on changes to the foreign exchange management regulations designed to **improve the ease of foreign investment**. The total investment made by a registered foreign portfolio investor (FPI) in a listed company will be re-classified as foreign direct investment (FDI) where it's holding exceeds 10% of the paid-up capital or 10% of the paid-up value in respect of each series of instruments. Such a reclassification is required to be reported by way of Form FC-GPR. FPIs, Non-Resident Indian (NRI) or Overseas Citizens of India (OCIs) will also be required to mandatorily divest their holdings that exceed the prescribed limits. Non-residents (NRs) will be able to acquire capital instruments (other than share warrants) that are renounced by residents and NRIs will be able to transfer capital instruments to a NR without RBI approval.

The RBI issued directions on managing the risks and the code of conduct in **outsourcing of financial services by non-bank financial companies** (NBFCs). The objective of the direction is to ensure that the NBFCs avoid engaging in outsourcing that would result in their internal control, business conduct or reputation being compromised or weakened. The directions are not applicable to technology-related issues and outsourced activities unrelated to financial services (e.g. catering janitorial services, security, archiving of records). The directions require NBFCs to establish grievance redressal machinery and have the name and contact details of the redressal officer displayed prominently at their branches. NBFCs must also ensure that they can access all books, records and information relevant to the outsourced activity, and also ensure the security and confidentiality of customer information in the custody or possession of the service provider. Customers shall be informed of the specific company offering the financial product or service, wherever there are multiple entities involved or any cross selling.

"In the wake of significant spurt in the valuation" of many **virtual currencies** (VCs) and the "rapid growth in **Initial Coin Offerings** (ICOs)", the RBI reminded the public of two previous circulars it had issued on VCs. The first (from 2013) cautioned users, holders and traders of the potential economic, financial, operational, legal, customer protection and security related risks associated in dealing with such VCs. The second (from early 2017) noted that the RBI has not given any licence or authorisation to any entity or company to operate such schemes or deal with any VC.

The **Insurance Regulatory and Development Authority of India** (IRDAI) announced the launch of a **new portal for Motor Insurance Service Providers** (MISP). All general insurers and insurance intermediaries are required to upload details of MISPs to be appointed by them, as well as designated persons and sales persons.

IRDAI sought comments on the Report of the Product Regulations **Review Committee for Life Insurance**. Key recommendations in the report are: (1) transition from prescriptive product specific regulations to an outcomes based regime with guiding principles and specific boundary conditions that apply generically to all products, (2) phase out benefits for traditional products, (3) review pension regulations to enable more involvement by insurers, (4) relax the investment norms with a view to improving the returns, (5)level the playing field in health insurance business for life insurers, (6) use of all forms of reinsurance including quota share and financial reinsurance techniques, (7) introduce a modular approach wherein IRDAI can approve individual benefit modules instead of products, (8) promote simplified and transparent disclosures that are easy to understand and common across different product segments, (9) introduce measures to improve persistency, (10) optimize new distribution platforms and allow distribution of financial and non-financial products, and (11) remove the variable insurance product category.

IRDAI also published the **Report of the Reinsurance** Expert Committee, which was constituted in May 2017 and tasked with carrying out a comprehensive review of the existing regulatory framework and provisions for reinsurance activities.

IRDAI constituted a working group to examine innovations in insurance involving **wearable/portable devices**. The working group will: •examine how technological advancements, particularly wearable and portable devices, should be treated from the point of view of risk improvement, risk assessment and use/distribution; •review practices of other jurisdictions, •suggest a policy framework, and •examine factors that would impact pricing.

India (cont.)

Indian President Ram Nath Kovind gave his assent to the Ordinance approved by the Union Cabinet to amend the Insolvency and Bankruptcy Code (IBC) which is aimed at **strengthening the stressed-asset resolution process**. The newly included Section 29A of the ordinance makes certain persons, including willful defaulters and those who have their accounts classified as non-performing assets for one year or more, ineligible to be a resolution applicant. The policy is retrospective in nature and can hit businesses coping with down-cycles or unexpected policy changes, which would make the one-year period onerous. The ordinance also allows the committee of creditors to reject any resolution plan involving ineligible parties even if it has already been presented.

The Securities and Exchange Board of India (SEBI) issued a consultation paper on permitting **mutual funds and portfolio managers** to participate in the **commodity derivatives** market. Some of the matters for consideration are: appropriate routes for mutual fund participation (e.g. ETFs or open-ended schemes), whether portfolio managers should be permitted to leverage the portfolio of their clients for investing in commodity derivatives, and mechanisms to safeguard client interests.

SEBI announced measures to **enhance governance structures for mutual funds**. The new measures include: independent trustees and independent directors are to hold office for a maximum of 2 terms with each term not exceeding a period of 5 consecutive years, ●individuals who have held office for 9 years or more (as at date of circular) are to continue for a maximum of 1 year ● auditors should be appointed for no more than 2 terms of a maximum 5 consecutive years, and ●the incoming auditor may not include any firm that has common partner(s) with the outgoing audit firm.

"Corporate governance, with all its underpinnings, is an ethical issue at its core. No matter how many rules are prescribed, how many guidelines are issued and how many enforcements actions are taken, in the end, it all boils down to us, as individuals, to uphold the principles of good governance."

Shri Ajay Tyagi
SEBI Chairman

Indonesia

Responding to the BCBS announcement of the finalisation of the **Basel III framework**, Chairman of Financial Services Authority's (OJK), Wimboh Santoso, said that local implementation would prioritize national interests.

OJK issued a consultation on regulations for the provision of **digital banking services by commercial banks**. The regulations seek to encourage the use of new technology to improve efficient and effective service to customers, at the same time as ensuring associated risks are appropriately managed. The regulations propose: •OJK approval for digital banking services and certain products, •appropriate governance and oversight, policies, systems, procedures, and IT infrastructure, •KYC procedures •complaints and dispute resolution mechanisms, and •reporting of critical events that could result in significant financial loss or disruption to bank operation.

It was reported that Bank Indonesia will ban FinTech companies from using **virtual currencies** on their platforms from 1 January 2018.

"In implementing international standards, the OJK will always prioritize national interests."

Wimboh Santos
Chairman of OJK Board of Commissioners

Draft regulations on **investment management governance** were released for consultation by the OJK. The regulations aim to improve transparency, enhance ethical practices and promote the interests of the customer. Some of the matters covered in the proposed regulation include •licencing requirements, •board governance (e.g. number of independent directors and meetings), •integrity, experience and competence of leadership, •board remuneration, •business ethics •conflicts policy, •internal controls (e.g. internal audit and risk management), • business plan (e.g. identifying target customers and markets), •systems for reporting violations and for customer complaints, •website requirements, and •reporting requirements (e.g. financial statements, business plan, public accountant's report).

The details of an OJK 2018 **five-point strategic plan** for the supervision of the non-bank financial industry was reported on. According to the report, the regulator plans to: •employ more information technology in supervision (e.g. integrated surveillance system, data analytics), •develop the Shariah economy and finance (e.g. expand public access to Shariah insurance products), •improve financial access (e.g. microinsurance), • strengthen supervision of financial conglomerates, and •develop FinTech.

OJK was one of the regulators to launch the ASEAN **Green Bond Standards** for Sustainable Investment, which is based on the International Capital Markets Green Bond Principles.

Japan

State **Minister for Financial Services** Takao Ochi spoke about the impact that **FinTech** is having on industry, its customers and its regulators. The Minister said that FinTech can facilitate the rise of "**C2B business models** that create shared values based on the accumulation and analysis of customer information". According to the Minister, this will create "better products and services corresponding to the needs of… customers" that will in turn support growth of the customer base, stabilise business and enhance corporate value.

The Minister identified financial institutions as at a disadvantage vis-à-vis online distributers like Amazon in relation to the amount of consumer **data** they accumulate, but recognised most were actively looking to improve tech capabilities. **Network structures** arising from FinTech will be of particular interest to regulators according to the Minister, who predicted that customers will increasingly be provided with a combination of financial and non-financial services and that "**blockchain** technology may enable customers to participate directly in exchanges or to transact multilaterally and directly with each other". In this evolving FinTech environment, the Minister said regulators should be guided by the overarching goal of promoting national welfare and, within this, take measures to eliminate obstacles for FinTech in a forward-looking manner, focus on timely and appropriate responses to consumer protection issues, and encourage financial institutions to continuously review their business models.

Big data and its utilization was the subject of a speech by the Deputy Governor (DG) of the **Bank of Japan (BoJ)** Hiroshi Nakaso. The DG said that "the rapid increases in the volume of data, and significant improvements in its processing capacity, are exerting a big influence on the economy and financial services". He encouraged the financial services industry to make better use of big data, such as using transaction data to **understand customer needs and risks**, and provide more tailored and dynamic services. Enlisting big data to facilitate the networking of financial services with broader industries and refining risk management were further highlighted by the DG. Whilst praising the benefits of big data, Mr Nakaso also reminded industry to pay attention to **cybersecurity, data protection** and **privacy**.

Japan's Financial Services Agency (JFSA) published an update on its strategic directions and priorities to June 2018. The regulator will continue to work on reforming its structure, and has plans to strengthen its market surveillance function by implementing a forward-looking supervisory approach and considering new technology. **Industry cultural change**, implementation of the Principles of Customer Oriented Business Operations, managing conflicts of interest, and **improving trust, corporate value** and **reputation** were also flagged as areas of ongoing interest. Examining the challenges brought about by **demographics,** such as the appropriateness of financial services for the retirement generation and how industry can ensure people are supported during this phase of life, will be another area of emphasis in the upcoming year. There will also be a focus on strengthening the **asset management industry**. The regulator will encourage industry to take "bold and timely" responses to evolution in technology and will work to create an environment **supportive of innovation**, whilst maturing **cyber security** capabilities across financial services. On **consumer protection**, the JFSA plans to examine loan practices, as well as the provision and availability of services to more vulnerable customers (e.g. those with disabilities and the elderly).

The JFSA published guidance on registration as a **Virtual Currency Exchange Provider** and an English guidebook on the process for **foreign asset managers** setting up business in Japan. The regulator also issued draft anti-money laundering and counter-terrorism financing (**AML/CTF)** guidelines to strengthen the Japanese regime and clarify expectations on risk management.

"In today's society, data is a kind of resource, and power belongs to those who are able to collect and efficiently utilize such big data. It is analogous to the economic power of countries with large amounts of petroleum resources…"

Hiroshi Nakaso
Deputy Governor, Bank of Japan

Korea

The **Financial Supervisory Service (FSS)** held an International **FinTech** Seminar, which bought together private and public sector professionals from across the globe to discuss impacts, risks, and future prospects brought about by FinTech. FSS Governor, Choe Heungsik, provided opening remarks in which he said that FinTech innovations are "disrupting and unbundling services that have long been the domain of the traditional financial service providers", and are opening the door to "more, better, and cheaper" financial services. The Governor also spoke about the risks that FinTech can bring, such as the potential increase in privacy and data protection breaches. He urged FinTechs to "prioritize safety and soundness, consumers, and financial inclusion ahead of technology", and said regulators should continually encourage investment in new technology and service development, adopt "technology neutrality" into supervisory approaches, and "actively promote" RegTech to improve regulatory compliance at low cost. In closing, the Governor stressed the importance of global cooperation in the FinTech era, "because FinTech services can cross national borders at a far faster speed than non-FinTech services".

At a meeting with heads of foreign firms that operate in Korea, FSS Governor spoke about making Korea a North Asian financial hub. The Governor said that the nation's financial services regulators had developed a basic roadmap to achieve this status, set up taskforces to improve regulations on market entry, would **support foreign financial companies** operating in Korea, and are working to adjust regulations to ensure they align with global standards and don't hinder innovation.

"Despite FinTech's many great promises, there are those who also voice concerns about new risks that FinTech innovations will bring. One is that, as more big data sellers collect huge amounts of personal information for profit, our privacy will be compromised."

Choe Heungsik
FSS Governor

The **Financial Services Commission (FSC)** proposed amendments to **AML/CTF** regulations with a view to strengthening compliance standards and requirements for firms' internal controls, and to further align domestic rules with Financial Action Task Force standards. Key amendments include: •the removal of certain existing internal control exemptions, •requiring firms engaging in a financial transaction with a corporate client to establish the identity of the person representing the corporate client (e.g. verifying national resident registration card numbers), and •shortening the record keeping obligation for electronic fund transfers and foreign exchange transactions from 25 to 5 years.

It was reported that the Korean government released measures to regulate **cryptocurrency exchanges**. Among other things, there will be a ban on banks, minors, and foreigners trading cryptocurrency as well as restrictions on the use of virtual bank accounts to trade cryptocurrencies.

The FSB released findings from its **peer review of Korea's** crisis management and resolution framework, and the regulation and supervision of non-bank depository institutions. While the nation's **resolution framework** was found to meet a number of the elements of the global framework (the Key Attributes of Effective Resolution Regimes for Financial Institutions), the FSB recommended: •timely implementation of planned resolution reforms to close the gaps vis-à-vis the Key Attributes, •develop triggers that facilitate early entry into resolution, •permit the use of the full range of resolution tools under the framework; and •further strengthening crisis preparedness arrangements.

The FSB further commented that steps to strengthen and more closely align prudential standards in the **non-bank depository institution** sector with those of banks are under way in Korea, as well as steps to enhance regulatory cooperation on mutual credit cooperative (MCC). Nonetheless, the FSB recommends: •strengthening the role of the FSC and the FSS in the regulation and supervision of MCCs, •enhancing MCC and mutual savings bank (MSB) prudential requirements, •increasing the focus on MCC federations, and •developing measures to proactively manage the orderly consolidation of the MCC/MSB sectors.

Malaysia

The **Securities Commission of Malaysia** (SCM) hosted the SCxSC **Digital Finance Conference** 2017, which was themed 'Democratizing Investments'. SCM Chairman Tan Sri Ranjit Ajit Singh reflected on the regulator's Digital Markets Strategy, noting in this regard that: •ECF and P2P platforms in Malaysia had raised close to RM50m, •70% of ECF issuers had women or youth founders, •the aFINity programme has over 100 industry participants and has expanded to include "Innovation Labs" to test new digital innovations, including the possible use of DLT in the unlisted and OTC market, and •a regulatory framework for Digital Investment Management was launched. The Chairman ended his speech reminding of the need for **cyber vigilance and resilience**, adding that the regulator will shortly be issuing Guidelines on Management of Cyber Risk and has convened a capital market industry cyber security committee.

Bank Negara Malaysia (BNM) issued a consultation on exposure draft legislation that will apply **AML/CTF obligations to digital currency exchange** businesses. These include obligations to ensure information is given to the public on risks associated with the use of digital currencies. A digital currency exchange will also be required to declare its details to the BNM. The bank took the opportunity to remind the public that digital currencies are not legal tender in Malaysia, are not subject to prudential and market conduct standards applicable to financial institutions, and that risks associated with dealings in digital currencies should be carefully assessed (e.g. price volatility, no mandatory dispute resolution process).

BNM Governor Muhammad bin Ibrahim presented at the IAIS Annual Conference on the role of regulators and the insurance industry in addressing economic and social challenges. The Governor said that in an increasingly interconnected world, firms need to move away from a "zero-sum" view of competition in favour of a model of "co-operative competition", in which players improve efficiencies by **sharing infrastructure and data**. The need to embed **professional and ethical standards** into industry DNA was also highlighted by Mr. bin Ibrahim, who said that "consumer welfare and wider social impacts alongside profits will constitute key metrics by which performance is measured". Regulators also need to respond to a world in which new areas of risk emerge "faster than regulators can write new rules", by developing "agile, **pragmatic and dynamic" supervision** where changing conditions can be quickly responded to and "a bit of uncertainty [is] tolerated".

An exposure draft on enhancements to regulatory requirements and expectations **on Shariah governance for Islamic financial institutions** was released by BNM. Proposed changes include: •strengthened board oversight on accountability and responsibilities, •enhanced requirements for the Shariah committee in providing objective and sound advice to Islamic financial institutions, and •enhanced expectations on the quality of internal control functions.

BNM Governor Muhammad bin Ibrahim announced: •an extension of the **short-selling** framework to Malaysian Government Investment Issue, •an expansion of the **eligible collateral for liquidity** operations with BNM to include Bankers Acceptances and Negotiable Instruments of Deposits issued by AAA-rated onshore licensed banks, and •the introduction of Bank Negara Interbank Bills in ringgit and foreign currency.

"Fintech is a tool - a powerful tool. But it is crucial to remember that it is not an end in itself. Whether brick and mortar or ones and zeros, the end remains the same - a customer experience that delivers on value and satisfaction."

Datuk Ahmad Hizzad Baharuddin
BNM Assistant Governor

New Zealand

The **Reserve Bank of New Zealand (RBNZ)** announced an **easing on loan to value (LVR) restrictions**, commencing 1 January 2018. Specifically, the percentage of a bank's new mortgage lending to owner occupiers permitted to be at LVRs of more than 80 percent will rise to 15% (currently10 %), and no more than 5% of each bank's new mortgage lending to residential property investors can be at LVRs of more than 65% (currently 60%).

The RBNZ published a paper on **DLT** and **crypto-currencies** with a view to increasing public understanding of the underlying technology, highlighting risks (e.g. volatility, lack of secondary use), and discussing some of the potential implications of these technologies for consumers, financial systems, monetary policy and financial regulation. In the paper it is argued that crypto-currency currently only raise consumer protection and AML/CTF concerns, rather than posing any material financial stability concerns. However it is further noted that risks could increase if crypto-currencies become more popular or more integrated with the activities of traditional financial institutions.

The RBNZ advised that its **dashboard of quarterly disclosures** for locally incorporated banks should commence in May 2018, displaying data from Q1 2018. To support the dashboard, the bank has proposed changes to the existing registered bank disclosure requirements, including removal of the requirement for off-quarter disclosure statements and to publish a maturity analysis of assets. Common Equity Tier 1 capital is proposed as the denominator for concentration measures (rather than equity). All exposures to banks will be included (without any credit rating cut-off), while the exclusion for sovereigns will be extended to certain supranational organisations and quasi-sovereign entities.

The **Financial Markets Authority (FMA)** published a report on **peer-to-peer (P2P) lending** and **crowdfunding** in New Zealand. In the year ending 30 June 2017, NZ$259.9m in loans were made to individuals and NZ$29.5m to businesses through P2P lending, while NZ$74.2m was raised from investors through crowdfunding. The FMA requires P2P lending and crowdfunding licensees to submit information returns every year.

Following on from a June 2017 consultation, the FMA announced that it had decided to grant **an exemption for digital advice services to retail clients**. Only certain types of services and products can be offered under the exemption (e.g. listed equity or listed debt securities, interests in the KiwiSaver scheme, investment planning but not discretionary investment management services). Those relying on the exemption will still be subject to requirements around: •disclosure, •compliance with the code of professional conduct (e.g. acting in client's best interests, suitability, integrity, conflicts management), •record-keeping, and •notifying the FMA of a material change in circumstances. Applications must be made to the FMA to be formally included in the list of providers able to rely on the exemption. Applicants will need to provide certain information on character, capability and competency of directors and senior managers. The FMA will revoke the exemption once a new financial advice regime that is 'technology neutral' comes into effect, which is expected to be in 2019.

Singapore

The **Monetary Authority of Singapore (MAS**) hosted the **world's largest FinTech Festival**, which attracted over 25,000 participants from across 100 countries. The festival featured an Innovation Lab Crawl, a three day FinTech Conference*,* FinTech Hackcelerator, FinTech Awards, as well as an Investor Summit. During the festival (or shortly after), MAS announced a series of new initiatives responding to innovation in financial services, as follows.

An MoU with the HKMA to develop the Global Trade Connectivity Network (GTCN), a **cross-border platform for trade finance using DLT**, expected to go live in early 2019*.*

Endorsement of the specification for **a common Singapore Quick Response Code (SG QR)** that can accept electronic payments by both domestic and international payment schemes, e-wallets, and banks, and is the first of its kind globally.

Guidance on **digital token offerings** outlining the application of the securities laws administered by MAS in relation to offers or issues of digital tokens.

Plans to **collaborate with the Bank of Canada on** cross-border payments using DLT technology**.**

Teaming with the World Bank's International Finance Corporation to establish the ASEAN Financial Innovation Network (AFIN), **a cloud-based industry platform** that will allow banks to connect with FinTechs across borders and also provide an industry sandbox to test cross-border solutions.

Plans to work with local and foreign banks to develop, during 2018, a **Banking KYC Shared-Services Utility** that will streamline end-to-end KYC.

An agreement with the Massachusetts Institute of Technology to develop **FinTech** pilots using DLT, cryptography, quantum computing, big data, artificial intelligence, and machine learning.

An agreement with the Infocomm Media Development Authority, SkillsFuture Singapore, six local universities, and five financial associations to jointly **develop industry-ready professionals** in meeting the strong demands of emerging infocomm technology skills.

A **S$27m** artificial intelligence and data analytics **grant** for financial institutions

Plans to release **publicly and free-of-charge** all **source codes** for the three successful prototypes from Project Ubin Phase 2.

A second consultation on a proposed **new payments regulatory framework**, under which payment firms will only need to hold one licence under a single framework to conduct any or all of the specified payment activities. Only payment activities that face customers or merchants, process funds or acquire transactions, and pose relevant regulatory concerns will need to be licensed. The new framework will expand the scope of regulation to include domestic money transfers, merchant acquisition, and the **purchase and sale of virtual currencies**. Different regulatory requirements will be imposed according to the risks that specific payment activities pose, rather than apply a uniform set of regulations on all providers.

Launch of the Asia-Pacific Regional Information & Analysis Centre by FS-ISAC*,* a global intelligence gathering and sharing initiative for the financial sector, with over 7000 members worldwide, to support a **rapid and coordinated response to emerging cyber threats**.

Plans to review MAS Technology Risk Management Guidelines and to partner with the ABS to establish **guidelines for 'red-teaming'** (covert penetration testing conducted in a live environment).

Data analytics and pattern recognition to be incorporated into MAS' study of trading behaviour and MAS will strive to have all data requests in **machine readable templates**.

"As financial institutions and FinTechs tap on emerging technologies to create more innovative services, the need for professionals with strong technology skillsets and a good understanding of financial products and processes will grow significantly"

Jaqueline Loh
MAS Deputy Managing Director

Singapore (cont.)

Innovation and FinTech were not the only matters on MAS' agenda. The regulator issued a consultation paper that seeks to **formalise 'best execution' requirements** for capital markets intermediaries (e.g. CMS licence banks, finance companies that trade in futures contracts). Proposals include requirements to: ●establish and implement written policies and procedures to place and/or execute customers' orders on the best available terms (best execution), ●monitor the effectiveness of these best execution policies and procedures, ●provide adequate disclosure to customers on best execution policies, in a clear and easily understood manner, and ●establish and implement written policies and procedures to place and/or execute comparable customers' orders (e.g. in terms of order size) in accordance with the time of receipt of such orders.

MAS became one of the eight founding members of the **Central Banks and Supervisors Network for Greening the Financial System**. The Network's goal will be to strengthen the global response required to meet the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. The network will be meeting in early 2018, will conduct a stock-taking exercise during the year, and hold a high-level conference focused on climate risk management and supervision in April.

Singapore's role in **deepening regional green finance** was also the subject of a speech by Lawrence Wong, Minister for National Development and Second Minister for Finance. The Minister said MAS plans to: ●work closely with industry associations to promote broader and more effective adoption of sustainability standards, ●include climate-related scenarios in future industry-wide stress testing exercises, ●encourage industry adoption of the recommendations of the Taskforce on Climate Related Financial Disclosure, ●recognize the ASEAN Green Bond Standards as a qualifying standard under MAS' Green Bond Grant Scheme, and ●work toward putting in place programmes that will broaden the base of talent to support the growth of green and sustainable finance in the coming years.

Lim Hong Kiang, Minister for Trade and Industry and MAS Deputy Chairman, announced the **creation of the insurance-linked securities (ILS) grant scheme.** Under the scheme, MAS will fund 100% of the upfront costs incurred in issuing catastrophe bonds out of Singapore. The grant will run from 1 January 2018 and will be applicable to ILS bonds covering all forms of risks. The Deputy Chairman further announced the formation of a Singapore-based **consortium for One Belt One Road (OBOR) projects**, which will provide top-up capacity and specialised insurance coverage for OBOR projects in Asia Pacific (ex-China).

MAS published a consultation paper proposing a framework for determining Singapore Government Securities and MAS Bills end-of-day prices, with a view to enhancing the robustness of pricing inputs and methodology, as well as strengthening governance and procedures. The new framework is based on IOSCO's Principles for **financial benchmarks**.

MAS and the CSRC agreed to strengthen supervisory **cooperation and facilitate the development of their capital markets**. The listing of qualifying Chinese companies in Singapore, exploring mutual recognition of collective investment schemes, and developing a staff exchange programme between the two authorities are some of the initiatives proposed.

MAS issued new guidelines **for fund management companies** (FMCs), which cover, among other things, criteria for **licensing or registration** (e.g. capital, risk management and fit and proper requirements) and ongoing requirements (e.g. **business conduct** rules, breach reporting, AML/CTF requirements).

Thailand

The **Bank of Thailand** (BOT), announced that it had developed the **Thai QR code standard** for e-payment in Thailand together with a group of financial institutions, non-bank payment service providers, and international card schemes. KASIKORNBANK, Siam Commercial Bank, Krungthai Bank, Bangkok Bank, and Government Saving Bank will be permitted to offer QR code payment services to the general public as have demonstrated readiness and robustness (e.g. IT systems, risk management, consumer protection). The QR code payment services of the five banks have been developed on the PromptPay system where customers can use their mobile application of those banks to scan the merchant's standard QR code.

BOT held a seminar on **cyber resilience** aimed at enhancing leadership's understanding of the importance of strong cybersecurity. The seminar attracted 52 financial institutions and over 250 participants. Key focus points were: •the role of directors and senior executives in ensuring adequate and timely cyber risk management, •training and awareness of cyber risks, and •the importance of industry and government working together at both a domestic and international level.

The **Securities and Exchange Commission of Thailand** (SECT) announced revisions to **bond market rules** in light of recent cases of poor disclosure on investment risks. Proposed amendments include limiting the offer of bills of exchange to a certain number of investors, and a representative of debenture holders will be required in case of offering long-term debentures to high net worth investors. The issuer's ability to comply with the repayment terms must also be disclosed more clearly.

SECT issued a consultation on legislative amendments to put in place **a new securities licensing regime** whereby more specific type of license can be issued to better align with the applicant's particular business model. This aims to replace the current regime whereby each license represents a bundle of business undertakings, which can be costly for licensees. The revisions aim to provide more flexibility and support future types of securities businesses. The new regime will retain existing qualification requirements, but adjust fee structure.

Contacts

Kevin Nixon
Global and Asia Pacific Lead, Centre for Regulatory Strategy
P: +61 2 9322 7555
E: kevinnixon@deloitte.com.au

Benny Koh
Regulatory Risk Leader, SEA Risk Advisory
P: +65 6800 2266
E: bekoh@deloitte.com

Somkrit Krishnamra
Financial Risk Leader, SEA Risk Advisory
P: +66 2034 0134
E: somkrishnamra@deloitte.com

Tsuyoshi Oyama
Asia Pacific Risk & Capital Management Lead
P: +81 90983 44302
E: tsuyoshi.oyama@tohmatsu.co.jp

Tony Wood
China Financial Services Risk & Regulatory Lead
P: +852 2852 6603
E: tonywood@deloitte.com.hk