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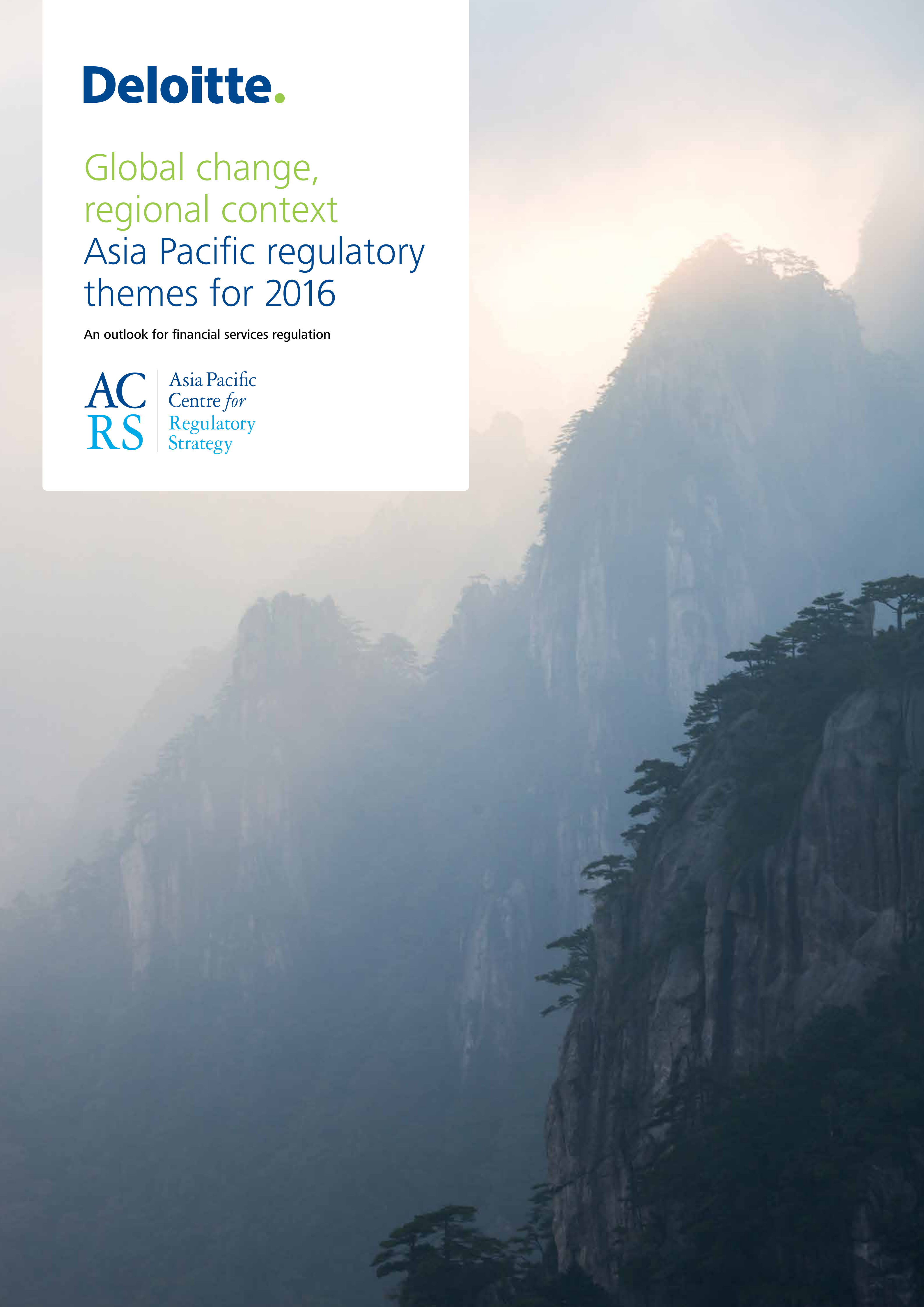
# Global change, regional context
# Asia Pacific regulatory themes for 2016

An outlook for financial services regulation

ACRS
Asia Pacific Centre *for* Regulatory Strategy



# Four major themes for 2016

The Deloitte Asia Pacific Centre for Regulatory Strategy has identified four major regulatory themes for the Asia Pacific financial services industry in 2016. While each theme may have a varying relative level of importance across each institution and jurisdiction, we believe that in combination these themes will dominate strategic considerations in the coming period across the Asia Pacific region.

## Resilience

Much crisis response regulation has concerned making institutions and markets resilient to financial stress. Despite substantial reforms already, these initiatives will continue through 2016 and beyond. They include:

- Implementation of Basel III's Net Stable Funding Ratio (2018) and calibration of the Leverage Ratio (2017)
- Changes to how bank RWAs are calculated and a capital floor (end 2015 and through 2016)
- Implementation of total loss absorbing capacity for G-SIBs (starting 2019), with possible application of similar requirements to D-SIBs
- A new comprehensive Pillar 3 framework (end 2016)
- Ongoing work on OTC derivative reforms, including the September 2016 commencement of margining for non-cleared transactions and resiliency work on CCPs
- Finalisation of insurer capital standards and higher loss absorbency for G-SIIs
- Further work on potential regulation of asset management.

These initiatives will require institutions to watch the policy space, understand the potential impact of regulatory initiatives and prepare for implementation.

## Culture and conduct

A major area of recent regulatory activity has concerned the behaviour of financial institutions and their staff with respect to consumer and investor protection and market integrity. The Financial Stability Board now sees misconduct as a systemic risk and is overseeing policy reforms to address it. At the domestic level, strong supervisory expectations concerning conduct and culture will impact Asia Pacific institutions through 2016. Institutions will need to ensure they have robust processes to assess and, where necessary, improve their culture and conduct standards. Evidencing cultural improvements will be particularly challenging.

## Technology

Technological innovation will be a defining competitive dynamic for financial services in 2016 and beyond. We see a debate emerging concerning the appropriate regulatory response, with different players contributing different perspectives.

- **Regulators** will be concerned to facilitate innovation but also regulate new activities to meet their objectives of stability, market integrity and investor protection
- **FinTechs** may seek to exploit low regulatory costs to facilitate market entry but ultimately want regulatory approval to bestow legitimacy and engender trust
- **Incumbents** will be concerned about asymmetric regulatory burdens hampering their competitive response but forward-looking institutions will also be optimistic about opportunities.

Regulators are also increasingly concerned that institutions manage the risks associated with technology, particularly with respect to cyber-security. In response, institutions will need to maintain awareness of regulatory requirements and ensure their risk measures are appropriately aligned.

## Implementation

Beyond the themes arising from new or recalibrated regulations, we believe that financial institutions will continue to face implementation challenges in 2016:

- First, the cumulative impact of the ongoing regulatory agenda risks reform fatigue and confusion concerning the cumulative impact of regulatory change
- Second, institutions that operate across borders face ongoing challenges to reconcile different domestic rules, which can frustrate the desire for uniform operating models
- Third, branch institutions active in the Asia Pacific region may face challenges in securing regulatory change and compliance funding as European and United States headquarters face greater regulatory burdens.

We believe that responding to these themes well requires institutions to have a strong understanding of the regulatory change agenda, the ability to assess the impact of proposed changes on business lines and incorporate upcoming changes into strategic planning.

# A closer look at the regulatory themes

The remainder of this document explores, in more detail, the four regulatory themes that the Deloitte Asia Pacific Centre for Regulatory Strategy believes will impact financial services institutions in 2016 and provides our understanding of the current and potential responses of institutions to them.

You will also find a detailed timeline that sets out key international and Asia Pacific regulatory events in 2016 and beyond across the areas of resilience, conduct and culture and technology. The timeline focuses on international regulatory activity and highlights national regulatory activity in the following key Asia Pacific jurisdictions: Australia, China, Hong Kong, Japan and Singapore.

# Resilience

Eight years on from the start of the 2007/08 crisis, resiliency will remain a dominating regulatory theme through 2016. This reflects both the wholesale recalibration of existing regulation and the drawn-out implementation of crisis-response reforms.

For banks, the end of 2015 and 2016 will see the release of proposed and finalised revisions to the standardised and model-based approaches to calculating risk-weighted assets (**RWA**) across major risk areas, as shown below.[i] These revisions represent the Basel Committee on Banking Supervision's (**BCBS**) disenchantment with Basel II risk models that it sees as generating excessive RWA variability across the banking industry.[ii] The revisions, which some are calling 'Basel IV', will significantly reduce the discretions given to both banks and national regulators to determine RWAs. In addition, the BCBS will release a capital floor based on the standardised approach.[iii] This will require model-based banks to simultaneously run standardised models. The floor will limit the variability in outcomes resulting from model-based calculations of RWAs. The net impact of these initiatives will likely be an increase in RWAs, although the precise hit will vary with institution and jurisdiction. As the denominator of capital ratios, this will also require an increase in capital to maintain prescribed ratio levels.

At the end of 2016, we should also see a new and comprehensive Pillar 3 requirement.[iv] We expect this to reflect the above revisions to the Basel framework, together with the total loss absorbing capacity (**TLAC**) framework, discussed below.

**Recalibrating risk and capital – open issues**

| Credit | Market | Operational | Interest rate risk | Securitisation | Securities financing | Credit valuation adjustment |
|---|---|---|---|---|---|---|
| Consultation on revisions to both standardised approach and internal ratings-based approach (end 2015) | Finalisation of Fundamental Review of the Trading Book covering both standardised and model-based approaches (end 2015) | Consultation on replacement of standardised and advanced approaches with more risk-sensitive standardised approach (end 2015) | Either a Pillar 1 or an enhanced Pillar 2 approach for banking book interest rate risk (consultation closed September 2015) | Consultation on different capital treatment for simple, transparent and comparable securitisations (consultation ends February 2016) | Consultation on higher capital treatment for non-centrally cleared securities financing transactions below FSB haircut floors (consultation ends February 2016) | Consultation on revisions to credit valuation adjustment framework (consultation closed October 2015) |

Capital floor based off the revised standardised approach (finalisation by end-2016)

A comprehensive Pillar 3 disclosure framework (including TLAC) (finalisation by end-2016)

# Resilience *(continued)*

These 'Basel IV' initiatives will sit on top of the completion of the final Basel III changes to capital and liquidity, including the 2017 calibration of the leverage ratio and the 2018 implementation of the net stable funding ratio.

The Financial Stability Board (**FSB**) has also recently released the final TLAC framework for the globally systemically important banks (**G-SIBs**).[v] G-SIBs will need to hold TLAC of at least 16% of the resolution group's RWAs from 1 January 2019 and at least 18% from 1 January 2022 (with delayed implementation deadlines for entities in emerging markets, including China). Local regulators will no doubt consider the merits of extending this framework to their domestic systemically important banks (**D-SIBs**). In fact, Australia has already indicated an intention to extend the framework to D-SIBs, with the Chairman of the Australia Prudential Regulation Authority (**APRA**) recently noting that he is sure they "will not be alone in extending the TLAC regime beyond G-SIBs."[vi]

## G-SIBs will need to hold TLAC of at least 16% of the resolution group's RWAs from 1 January 2019 and at least 18% from 1 January 2022

For insurers, 2016 will see quantitative field-testing by the International Association of Insurance Supervisors (**IAIS**) of the new Insurance Capital Standard (**ICS**) in advance of its adoption in 2017 for confidential reporting. The ICS seeks to introduce a risk-based, global insurance capital standard, like the Basel standards that apply to banks. IAIS is also revising the Higher Loss Absorbency requirements for globally systemically important insurers before their implementation in 2019.

For derivative markets, local regulators will be under increasing pressure to finalise all of their reforms after the FSB highlighted that work was well behind schedule.[vii] Specifically, however, the key regulatory development in 2016 will be the scheduled commencement in September of the phase-in period for margin requirements for non-cleared OTC derivatives.[viii] Singapore[ix] and Japan have released their domestic implementation proposals of these requirements, while Hong Kong and Australia are yet to consult on them. There will also be work to resolve issues with data reporting, including privacy restrictions and aligning domestic reporting fields. The cross-border aspects of OTC derivatives regulation will continue to be important in 2016, with ongoing mutual recognition issues particularly with respect to central counterparty (**CCP**) regulation. With increasing volumes of cleared derivatives, CCP resiliency, including recovery and resolution mechanisms, has become a critical issue and will remain so in 2016.[x]

Lastly, 2016 will see potential developments with respect to the regulation of asset management. Earlier in 2015, the FSB and the International Organisation of Securities Commissions (**IOSCO**) decided to defer finalisation of assessment methodologies for identifying non-bank non-insurer global systemically important financial institutions.[xi] However, the FSB is currently considering the potential systemic risk issues associated with asset management activities and has said that it may develop activities-based policy recommendations in support of systemic resilience through 2016.

We believe that an effective response for banks to the proposed RWA changes would include engaging with the policy environment, performing impact assessments across their business lines and incorporating the potential standards into their strategic decision making. For insurers, the ICS has the potential to be broadly applied, and therefore engagement in the policy development process is, in our view, important across the spectrum of insurers, including understanding and assessing the impact of the proposed standard. For asset managers, 2016 is likely to be the year that we see the first global regulatory standards developed for asset management activities. As the FSB and IOSCO consider what shape the policy framework for asset managers should take, we recommend asset managers proactively engage in the debate.

# Conduct and culture

Recent years have seen conduct and culture within financial institutions come under intense scrutiny. Significant fines for interest rate and foreign exchange manipulation, sanctions in respect of financial crime violations and large-scale remediation programs for mis-selling have dominated the headlines.

While high-profile enforcement actions for misconduct may wane in 2016 (albeit with national exceptions), the industry's culture and conduct in the Asia Pacific region will continue to face strong supervisory and regulatory policy focus. Regulators throughout the region are on-message concerning the importance of conduct and culture and asking what measures are being taken to assess and, where necessary, improve these dimensions within financial institutions.

At the international policy level, the FSB now sees misconduct as a systemic risk.[xii] This represents a significant elevation of the topic.It has recently released a work-plan on countering misconduct that will ultimately flow into regulatory initiatives at the national level.[xiii] This work plan has the FSB coordinating or conducting conduct-related work across three areas in 2016 and beyond:

**Incentives**
- Consideration of strengthening disincentives to misconduct through compensation-related tools
- A report on practices on the use of governance frameworks to address misconduct risks
- A workshop on national experiences with bank regulators' (and possibly other regulators) enforcement powers in addressing misconduct by individuals.

**Fixed income, currency and commodity (FICC) markets**
- Bank of International Settlements (BIS) Committee to finalise the FX Code and the proposals to ensure greater adherence
- IOSCO to publish its report to further strengthen the current global framework to address misconduct by firms and individuals in professional markets
- Work on benchmarks, including the FSB's final report on revisions to the IBOR interest rate benchmarks and follow-up reviews by IOSCO of major FX and interest rate benchmarks.

**Co-ordination in the application of conduct regulation**
- Sharing of information on powers and enforcement of conduct rules.

Critically for those banks involved in correspondent banking, the FSB will also be working on several issues that may be driving the decline in these types of services.[xiv] This will include further guidance from the Financial Action Task Force.

These international initiatives will sit on top of domestic developments. We expect that the main domestic conduct and culture initiative will be a strong supervisory focus on how institutions are fostering good cultures and conduct within their organisation.

In Australia, there will also be new regulatory policy as part of the Government's response to an independent review of the local financial system. These will see the introduction of a product governance responsibility, product intervention powers for the conduct regulator, stronger sanctions and a professional standards framework for financial advisors.[xv]

We believe that an effective response to these issues would include maintaining a strong awareness of regulatory trends, particularly those from outside the region, and institutions critically assessing their conduct framework and cultural standards. Institutions in our view should not wait for supervisory visits or regulatory reform to be the catalyst for action. We are already seeing many institutions developing strong risk frameworks for managing conduct risk and, with more difficulty, considering how they can evidence the artifacts of good culture to regulators.

# 2016 and beyond
## Key international and Asia Pacific regulatory events

By **end of 2015** it is expected that the **BCBS** will have:
- Finalised the fundamental review of the trading book for approaches to **market risk**
- Commenced consultations on a more risk sensitive approach to **operational risk** and on revisions to standardised and IRB approaches to **credit risk.**

BCBS risk exposure **policy work that is currently open** but is expected to be finalised in 2016, include: interest rate risk in the **banking book**; review of the **credit valuation adjustment** framework; capital treatment for **STC securitisation**; and haircut floors for non-centrally cleared securities financing transactions. These policy initiatives will be underpinned by revisions to the Pillar 3 disclosure requirements that are expected to be released by the end of 2016.

**Notes:**
- We expect regulators and governments in the Asia Pacific region to announce further regulatory initiatives in the aftermath of the G20 summit; as international intentions are clarified.
- See page 14 for glossary of terms
- **Red text indicates deadline for industry or commencement of new requirements.**

## International

### Q1 2016 Jan-Mar
- **G-SIIs to report HLA** to group-wide supervisors (Jan)
- **G-SIBs** must comply with BCBS **risk data aggregation and risk reporting principles** (Jan)
- BCBS QIS on **credit risk and operational risk**
- IOSCO to publish report on **interest rate benchmarks**
- IOSCO to begin follow-up review of **FX benchmark** providers
- FSB **shadow banking** publication on harmonisation of approaches to **re-hypothecation** of client assets and issues related to **collateral re-use**
- Phase in period for Basel III **HLA** requirements for **G-SIBs.**

### Q2 2016 Apr-Jun
- IOSCO report on further strengthening global framework to address **misconduct by firms and individuals** in professional markets
- BCBS to finalise treatment of **STC securitisations**
- IAIS to publish second **ICS and ComFrame consultation**
- CPMI-IOSCO to consult on **CCP resilience and recovery**
- FSB recommendations to address gaps or weakness identified during **shadow banking** peer reviews.

### Q3 2016 Jul-Sep
- BCBS/IOSCO **margin requirements** for non-centrally cleared **OTC derivatives** phase-in period starts
- FSB report on jurisdictions' planned steps to implement **OTC derivative trade reporting**
- FSB report on reforming **interest rate benchmarks.**

### Q4 2016 Oct-Dec
- **Basel III Pillar 3 revised disclosure** requirements take effect
- Joint BCBS, CPMI, FSB and IOSCO report on **interdependencies** between **CCPs and clearing members**
- FSB Resolution Steering Group to report on need for further guidance for **CCP resolution, prefunded financial resources and liquidity** in resolution
- FSB report on **misconduct** risks
- Possible CMCG/FSB recommendations on strengthening **disincentives to misconduct through compensation**-related tools
- FSB recommendations on possible measures of **'collateral velocity'**
- **G-SII cohort 2015** must have systemic risk management plan and liquidity management/ planning (Dec).

### 2017
- **Basel III** capital requirements for **equity investments** in funds. **CCP exposures and SA-CCR** effective (1 Jan)
- End of phase in period for BCBS **OTC derivatives (VM)** margin requirements (1 March)
- BIS Markets Committee to **finalise FX Code** and proposals to ensure greater adherence (May)
- **Approval of ICS v1.0** for confidential reporting
- National/regional authorities to begin reporting **securities financing data** to the global data aggregator in accordance with FSB standards
- FSB progress report on **compensation practices**
- **G-SII cohort 2016** must have systemic risk management plan and liquidity management/ planning (Dec).

### 2018
- **Basel III securitisation framework and Pillar 1** (minimum capital) requirements in effect (1 Jan)
- **IFRS9** effective (1 Jan)
- BCBS **NSFR** becomes minimum standard (1 Jan)
- FSB **numerical haircut floors** framework to apply to non-bank-to-non-bank securities financing
- Jurisdictions must have removed legal barriers to full **reporting of OTC derivatives to TRs**
- Deadline to **cease masking** identifying data for **OTC derivative counterparties**
- Jurisdictions must have legal framework to permit authorities **access to TR held OTC derivatives data**
- Consultation on **ComFrame and ICS v.2**
- **G-SII cohort 2017** must have systemic risk management plan and liquidity management/ planning (Dec).

### 2019 and beyond
- **Basel III capital requirements** on CET1,capital conversion buffer, G-SIB buffer, countercyclical capital buffer, min T1 ratio and min total capital ratio fully implemented (1 Jan 2019)
- **Basel III** liquidity requirements on **LCR and large exposures** fully implemented (1 Jan 2019)
- **G-SIBs** required to meet min **TLAC** of **16%** RWA and **6%** LRE (1 Jan 2019)
- **G-SIIs'** to comply with **BCR and HLA** requirements (2019)
- Adoption of **ComFrame**, including **ICS v.2.0** (2019)
- Phase-in period ends for BCBS **margin requirements for OTC derivatives (IM)** (1 Sep 2020)
- **G-SIBs** required to meet min **TLAC** of **18%** RWA and **6.75%** LRE (1 Jan 2022)
- **Emerging market G-SIBs** to meet min **TLAC** of 16% RWA and 6% LRE by **2025** and 18% RWA and 6.75% LRE by **2028**.

### During 2016
- IAIS to undertake **BCR field testing for Cohort 2015**
- IOSCO to consider plans for monitoring and reporting on implementation of **MMF** and **securitisation recommendations**
- FSB to work on **market liquidity** and **asset management risks**, including policy options to mitigate structural vulnerabilities.

## National

### Q1 2016 Jan-Mar / Q2 2016 Apr-Jun

**Australia**
- **Central clearing of OTC derivatives** commence for certain entities meeting A$100 bn threshold (April)
- Legislation providing a **professional standards framework for financial advisers** and to **ban excessive card surcharges** and better **protect consumers using electronic payment systems**
- Legislation to reduce **disclosure requirements for 'simple' corporate bonds**
- Consultation on ASIC **product intervention powers** and **accountabilities** for financial product **issuers and distributors**
- APRA consultation on **recapitalisation frameworks, NSFR** leverage ratio and other prudential issues
- Government to consult on tools for **managing any future financial crisis.**

**China**
- CBRC policy framework for Basel III capital for equity investments in funds and for **CCPs, SA-CCR, securitisation framework, NSFR, Pillar 3 disclosure and large exposures.**

**Hong Kong**
- New rules for clearing of **OTC derivatives** to come into effect
- Large scale roll out of requirement that banks accept **e-Cheque deposits.**

**Japan**
- JFSA to publish a summary report reviewing progress with 2015-2016 strategic directions and priorities, which include: **FinTech, cyber security; algo trading;** intermediary prioritisation of **customers' interests;** enhancing skills of asset managers and institutional investors.

**Singapore**
- Basel III **D-SIBs capital conservation and counter-cyclical buffer** and **LCR disclosure** requirement to take effect (1 Jan)
- Basel III **liquidity** requirements extend to **merchant banks** (1 Jan)
- **Draft rules** to be issued on Basel III **NSFR** and **large exposures** requirements
- Consultation in progress or completed for draft rules on Basel III capital for equity investments in funds and for **CCPs, SA-CCR, securitisation framework.**

### Q3 2016 Jul-Sep / Q4 2016 Oct-Dec

**Australia**
- **APRA to set capital standards and ratios** that ensure ADIs unquestionably strong
- **Legislation** giving ASIC the power to **ban individuals** from managing financial firms
- Legal effect given to the **Asian Region Funds Passport** initiative
- Consultation on strengthening **ASIC's enforcement tools** in relation to the financial services and credit **licensing regimes**
- ASIC review of remuneration arrangements in the mortgage broking industry
- Government to consider **technology neutrality** in financial sector regulation.

**Hong Kong**
- **Draft rules** for Basel III requirements re **capital for equity investments** in funds and for **CCPs, SA-CCR, pillar 3 disclosure and large exposures** to be published.

**Singapore**
- **VM and IM requirements** for non-centrally cleared derivatives planned to be effective for commercial banks **exceeding S$4.8 tn** threshold (1 Sep 2016).

> "We also have more to do to make sure that the Hong Kong regime remains aligned with those in the rest of the world and keeps pace with the evolving international regulatory agenda."
>
> **Ashley Alder**, Chief Executive Officer, Securities and Futures Commission
> *ISDA Annual Asia Pacific Conference, Hong Kong 26 October 2015*

### 2017 / 2018 / 2019 and beyond

**Australia**
- Draft rule on Basel III **large exposure** requirements (2017).
- APRA to ensure **banks** have appropriate **TLAC and leverage ratios** in place
- **Legislation** to enable **innovative disclosure** for financial products
- **Legislation** to improve the regulation of **managed investment schemes**
- ASIC review of **stockbroking remuneration** arrangements
- Rationalisation of life insurance and managed investment scheme **legacy products**

**Hong Kong**
- **Rules** on **OTC derivatives reporting** come into effect (early 2017)
- Draft rules for Basel III **securitisation framework** and **NSFR** requirements (2017).

**Singapore**
- **VM requirements** for non-centrally cleared derivatives planned to be effective for all commercial and merchant banks (1 Mar 2017)
- **IM requirements** for non-centrally cleared derivatives planned phase in period for all commercial and merchant banks **exceeding S$13 bn** threshold (1 Mar 2017–1 Sep 2020).

> "If Asia is to further integrate its financial markets and allow cross-border capital flows and financial services to flourish, a precondition is to build strong mutual trust and confidence amongst regulators and supervisors, and achieve, over time, further convergence and harmonization in regulation and supervisory practices across the region."
>
> **Masamichi Kono**, Vice Minister for International Affairs, Financial Services Agency, Japan
> *Welcome Speech, Reception of the IMF Conference 'Asia Regional Conference on Banking Supervision and Regulation', Tokyo 14 September 2015*

# Technology

Technological innovation will continue to disrupt the financial services industry in 2016. As a recent World Economic Forum report, prepared with the assistance of Deloitte, found:

> *'[d]isruption will not be a one-time event, rather a continuous pressure to innovate that will shape customer behaviours, business models, and the long term structure of the financial services industry.'*[xvi]

The financial services competitive landscape will be defined by this dynamic. New financial industry entrants, both in the form of start-ups and major technology players, will challenge incumbents. For example, Chinese technology giants Tencent and Weibo have recently been granted banking licenses in China.

While Tencent's and Weibo's activities have been covered by the existing regulatory framework, the key regulatory issue through 2016 in response to this dynamic will be a debate over what regulation should apply to innovative financial technology (**FinTech**). New ways of providing financial services and products, such as robo-advice, crowdfunding and blockchain technology, potentially fall outside current rules and this raises the issue of how regulation should respond.

We see three possible sides to this discussion.

Regulators will likely want to incorporate FinTech within the regulatory perimeter to ensure they meet their financial system and institutional stability, market integrity and investor protection objectives. However, regulators are also aware that they need to encourage FinTech. These imperatives will likely be addressed by trying to maintain minimal regulatory burdens on new entrants while still subjecting them to relevant standards. For example, the Australian Government is currently seeking to make clear how equity crowdfunding fits into the regulatory framework,[xvii] while the Australian Securities and Investments Commission (**ASIC**) is holding outreach sessions to explain the licensing regime to aspiring FinTechs.

New entrant FinTechs will understandably wish to avoid regulatory burdens where possible. Low (or no) regulatory costs can clearly be a competitive advantage. However, FinTechs may also wish to ultimately obtain some form of regulatory license or approval to project legitimacy and engender trust, both key currencies in financial services.

Incumbent providers will be concerned about uneven playing fields and the impact that comparatively high regulatory costs may have on their ability to compete. They will likely argue that asymmetric regulatory treatment could tilt the field in favour of specific cohorts of actors, potentially to the detriment of competition and regulatory objectives.

This debate will be ongoing and arise in new iterations with each new FinTech's innovation. We believe that institutions will need to assess emerging technologies against current regulatory settings and engage in policy discussions to ensure regulatory settings are accommodative to new technology and oriented towards engendering a strong financial services industry. To us, ensuring that such settings are technology neutral would be an appropriate first step to seeing this happen.

Separately from this debate concerning the regulatory perimeter, regulators are also increasingly worried about the risk posed by high degrees of reliance on technology systems. High-profile cyber-attacks and market instability caused by faulty algorithms have exposed the risks that our reliance on technology can bring. As such, we are seeing regulators impose specific risk management requirements for technology including with respect to cyber-resiliency, outsourcing and the testing of trading algorithms. For example:

- The Monetary Authority of Singapore has released comprehensive standards on technology risk[xviii]
- The Japanese Financial Services Agency has released a document on policy approaches to strengthen cyber security in the financial sector[xix]
- The Hong Kong Monetary Authority has released material on risks related to technology, including cyber security risk and the risk management of e-banking[xx]
- ASIC has released a 'health-check' on cyber-resiliency that sets out steps for institutions to follow.[xxi]

These domestic developments reflect international trends, including work by IOSCO[xxii] and the Committee on Payments and Markets Infrastructure.[xxiii]

We believe that an effective response to these issues include being forward looking with respect to technological innovation and making substantial, but smart, investments. Engaging in the policy discussion is needed to ensure that there is an accommodative and level regulatory framework in place. Investing heavily in cyber-resilience, which means that institutions can detect and defeat cyber-attacks and restore functionality quickly following a disruption, is of critical importance in our view.

We believe that institutions will need to assess emerging technologies against current regulatory settings and engage in policy discussions to ensure regulatory settings are accommodative to new technology and oriented towards engendering a strong financial services industry

# Implementation

Beyond upcoming regulatory policy initiatives, Asia Pacific financial institutions will continue to face challenges with the implementation of regulatory requirements in 2016. We see three separate, but related, challenges that will need to be resolved.

First, there is the cumulative impact of significant and ongoing reforms. While many areas of post-crisis reforms have been implemented, the forward-looking policy agenda for international bodies and domestic regulators remains full, as made clear by the FSB's latest implementation report.[xxiv] Our topics above do not capture the full regulatory agenda which now includes topics such as macro prudential matters and shadow banking regulation. This unrelenting tempo could engender reform fatigue within institutions and may render the task of understanding the agenda and its cumulative, long-term effect on business difficult.

Second, this first challenge is heightened for those institutions that operate across borders and are subject to multiple regulatory jurisdictions. Gaps, conflicts and inconsistencies between domestic rules turn the desire of simple and uniform operating models across jurisdictions into a potentially unattainable holy grail.

Third, and related to this, branch institutions operating in the Asia Pacific region often face tensions between the resourcing allocated to regulatory change initiatives directly impacting headquarters and that set aside for branch requirements. This places pressures on the ability of institutions to allocate sufficient resources to Asia Pacific compliance measures.

We believe that institutions that are responding well to these challenges are those that have a very firm and centralised understanding of current and upcoming regional and global regulatory requirements. The ability to see clearly across an institution's portfolio of regulatory change will be critical to cost-minimisation and optimising strategic decision making. Such a global view of regulatory change needs to well-supported by strong regulator-engagement and clear lines of communication into affected business areas.

We believe that institutions that are responding well to these challenges are those that have a very firm and centralised understanding of current and upcoming regional and global regulatory requirements

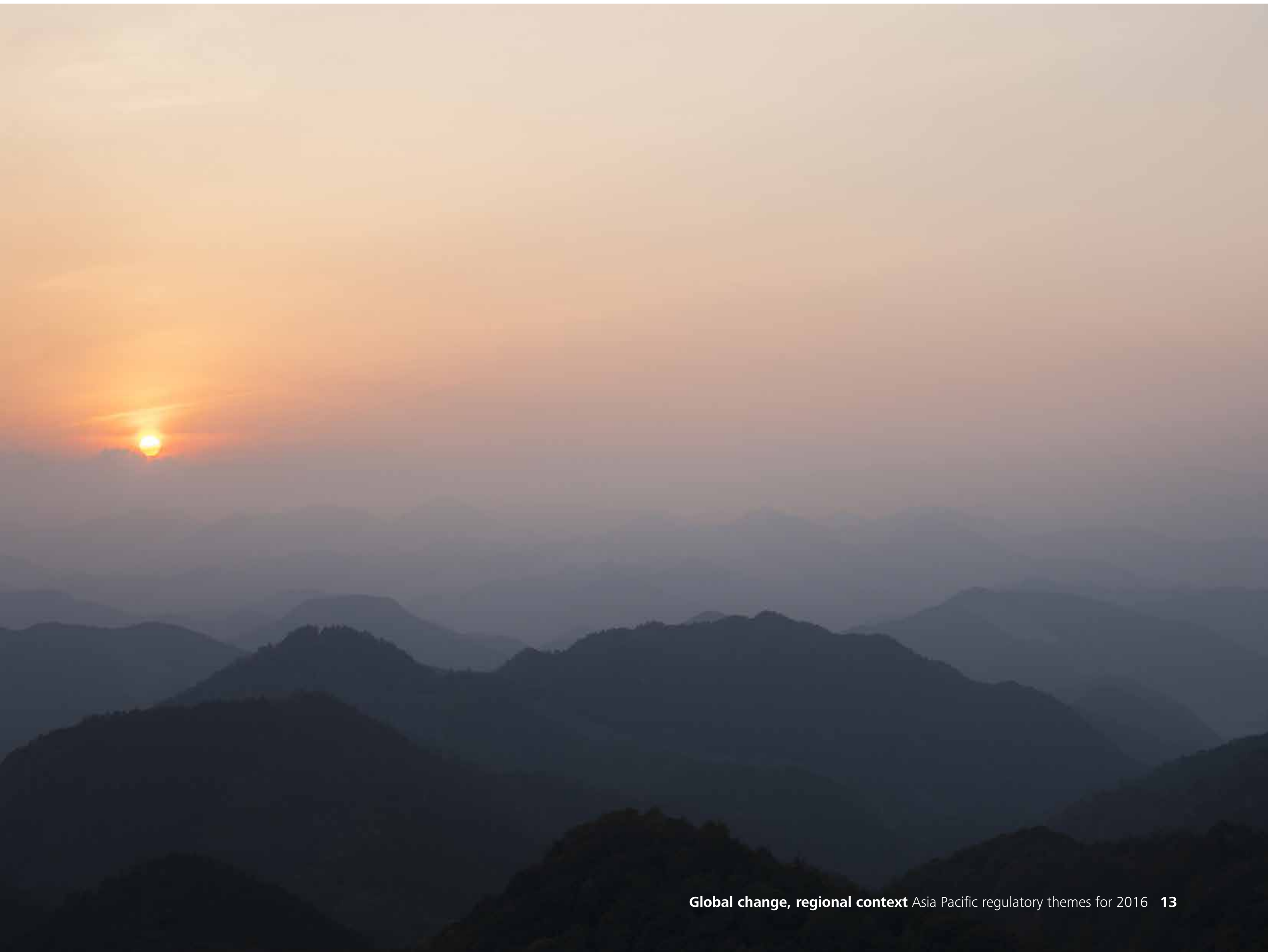
# Conclusion

The Asia Pacific regulatory policy agenda remains wide-ranging, comprehensive and impactful.

This paper sets out the regulatory themes that we believe will dominate in 2016. Implementation of individual requirements, as well as the adaptation of business strategy in response to regulatory initiatives, is best done with an understanding of policy intent and future reforms and in a holistic context. The cumulative effect of all reforms, and the interactions between individual reforms, is far from understood or certain, and should continue to be analysed just as much by businesses as policymakers.

Engagement with the policy agenda, particularly in the year of China's G-20 presidency, will be essential to ensure that regulatory reforms are pursued in a manner that is sensitive to the interests of the Asia Pacific region. To engage effectively with this agenda, institutions should develop a nuanced and detailed view of where regulation is heading and its business and strategic impacts. These impacts need to be communicated to policy makers clearly.

We trust that this paper provides a useful overview, placing the issues in context, and identifying areas for further analysis and consideration.



# Glossary of terms

| | |
|---|---|
| ADI | Authorised deposit taking institution (Australia) |
| APRA | Australian Prudential Regulation Authority |
| ASIC | Australian Securities and Investments Commission |
| BCBS | Basel Committee on Banking Supervision |
| BCR | Basic capital requirement |
| BIS | Bank for International Settlements |
| CET1 | Common equity tier I (capital ratios) |
| CCP | Central counter-party |
| CMCG | Compensation Monitoring Contact Group |
| ComFrame | Common Framework for the Supervision of Internationally Active Insurance Groups |
| CPMI | Committee on Payments and Market Infrastructures |
| D-SIB | Domestic systemically important bank |
| FinTech | Financial technology |
| FSB | Financial Stability Board |
| FX | Foreign exchange |
| G-SIB | Global systemically important bank |
| G-SII | Global systemically important insurer |
| HLA | Higher loss absorbency |
| IAIS | International Association of Insurance Supervisors |
| IBOR | The group of interest rate benchmarks that are considered to play the most fundamental role in the global financial system, namely LIBOR (London Interbank Offered Rate), EURIBOR (Euro Interbank Offered Rate) and TIBOR (Tokyo Interbank Offered Rate) |
| ICS | Insurance Capital Standard |
| IM | Initial margin |
| IOSCO | International Organisation of Securities Commissions |
| IFRS | International Financial Reporting Standards |
| IRB | Internal ratings-based (approach to credit risk) |
| JFSA | Japanese Financial Services Agency |
| LCR | Liquidity coverage ratio |
| MMF | Money market fund |
| NSFR | Net stable funding ratio |
| OTC | Over-the-counter (derivatives) |
| QIS | Quantitative impact study |
| RWA | Risk weighted assets |
| SA-CCR | Standardised approach for measuring counterparty credit risk exposure |
| STC | Simple, transparent and comparable |
| TLAC | Total loss-absorbing capacity |
| TR | Trade repository |
| VM | Variation margin |

# End notes

[i] Stefan Ingves Speech by *Stefan Ingves at the IIF Annual Membership Meeting* (9 October 2015); available at: http://www.bis.org/speeches/sp151010.htm

[ii] Basel Committee on Banking Supervision *Reducing excessive variability in banks' regulatory capital ratios A report to the G20* (November 2014); available at: http://www.bis.org/bcbs/publ/d298.pdf

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# Asia Pacific Centre for Regulatory Strategy

**About the Centre**

Through regular dialogue with regulators and financial institutions across the region, and in collaboration with Deloitte's global network, including its existing centres in EMEA and the U.S., the Deloitte Asia Pacific Centre for Regulatory Strategy provides clients with critical insights and advice on managing the aggregate impact of regional and international regulatory policy.

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