



Financial institutions in the new regulatory environment

Giam Ei Leen, Southeast Asia Risk & Regulatory Advisory Leader,
Deloitte Southeast Asia



Today's agenda



Key regulatory focus in 2014



Top 10 predictions for 2015



Regional top 5+1



Structural reform and resolution in the banking sector



Data and regulatory reporting



Culture and trust



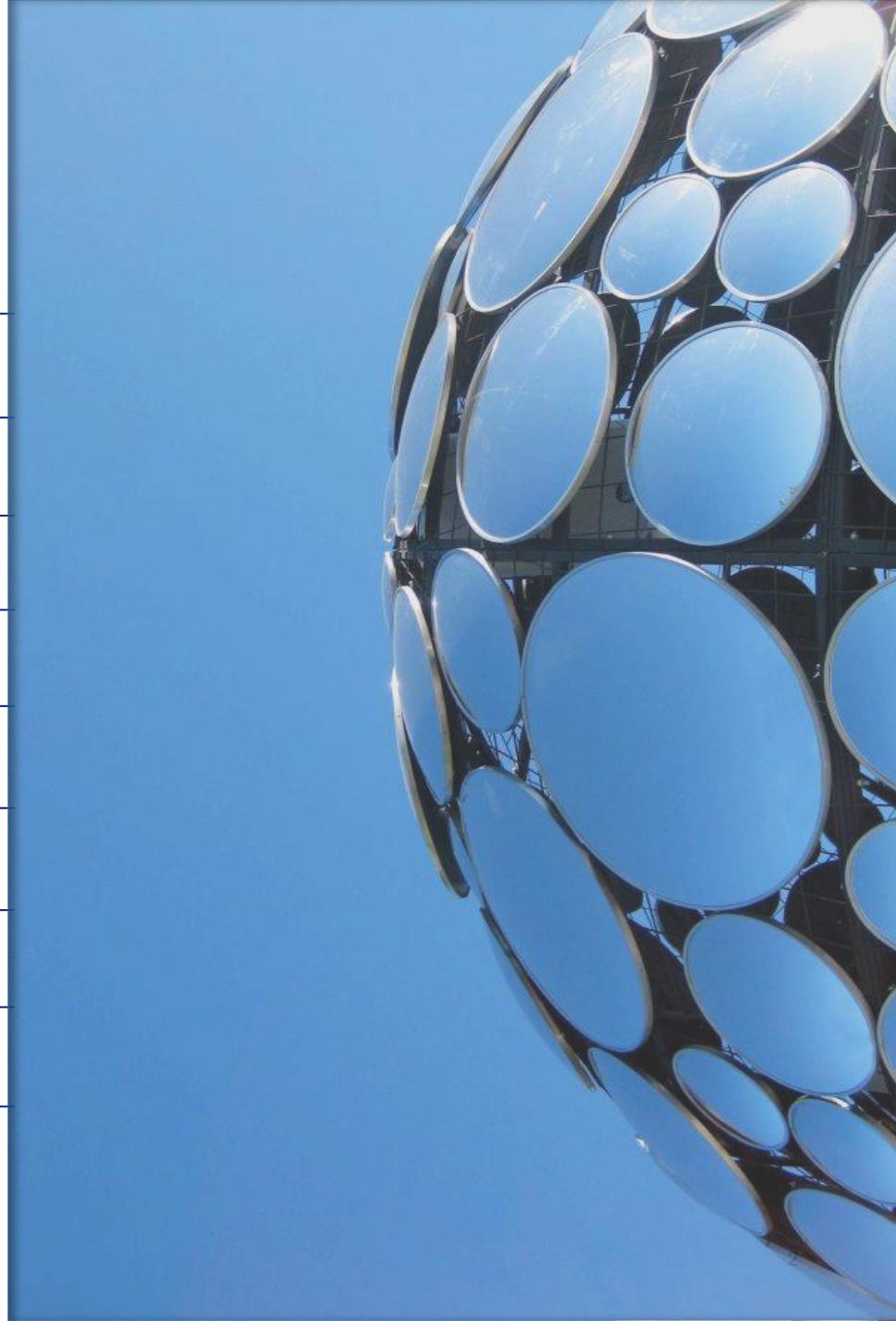
Stress testing and risk management



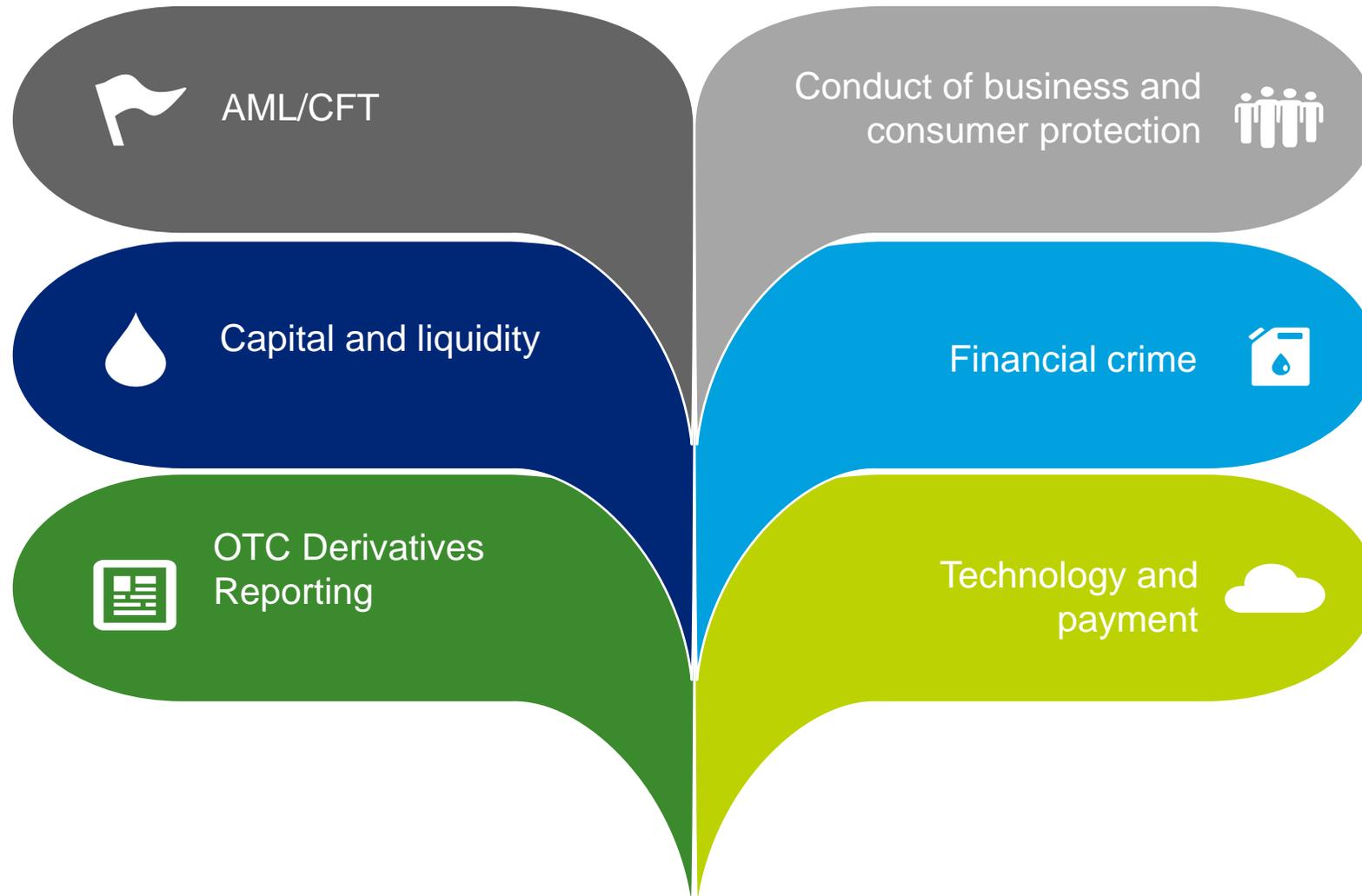
Business model mix in a world of multiple constraints



Asset management under the spotlight



Key regulatory focus in 2014

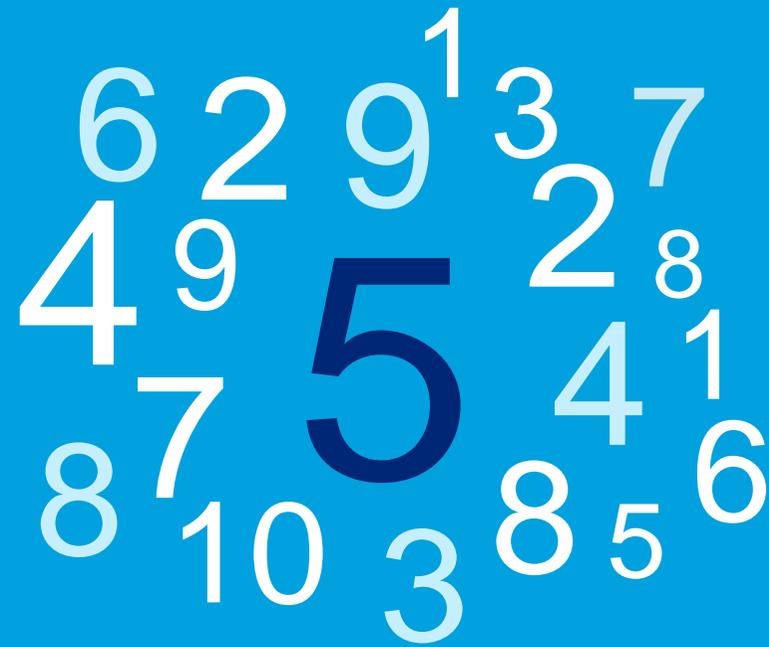




Will 2015 be the *turning point* in the post-crisis re-regulatory agenda?

Top 10 predictions for 2015





Regional top 5+1

Structural reform and resolution in the banking sector



Supervisors will expect banks to demonstrate a thorough understanding of their objectives and requirements and a credible strategy

Structural reform and resolution in the banking sector

International developments in EMEA and the US

Making banks resolvable, “Safe to Fail”

- Measures to end too-big-to-fail (“TBTF”) continue to be drafted, and under implementation across jurisdictions in different degree
- Changing the structure and model of big banks
- Formulation of living wills or recovery and resolution plans (“RRP”)
- Increasing the resilience of banks via total loss absorbing capacity
- Strengthening the resolution regimes of key jurisdictions

Structural reform

- G-SIBs required to simplify organisation structure
- Also to ring-fence the activities via various proposals, e.g. Liikanen Report, Vickers Commission, Volcker Rule

Recovery and Resolution Planning (“RRP”)

- Major banks operating in US had already submitted the first round of individual resolution plans to the US authorities, and subsequent round will likely have more details
- Implementation of EU Banking Recovery and Resolution Directive (“BRRD”)

Structural reform and resolution in the banking sector

Regional perspective and implications

Head office implications for G-SIBS

- Implications for operations in Asia region
- Revamp of legal vehicle structures in various jurisdictions
- Simplifying organisation structure and business models to make it “safe to fail”

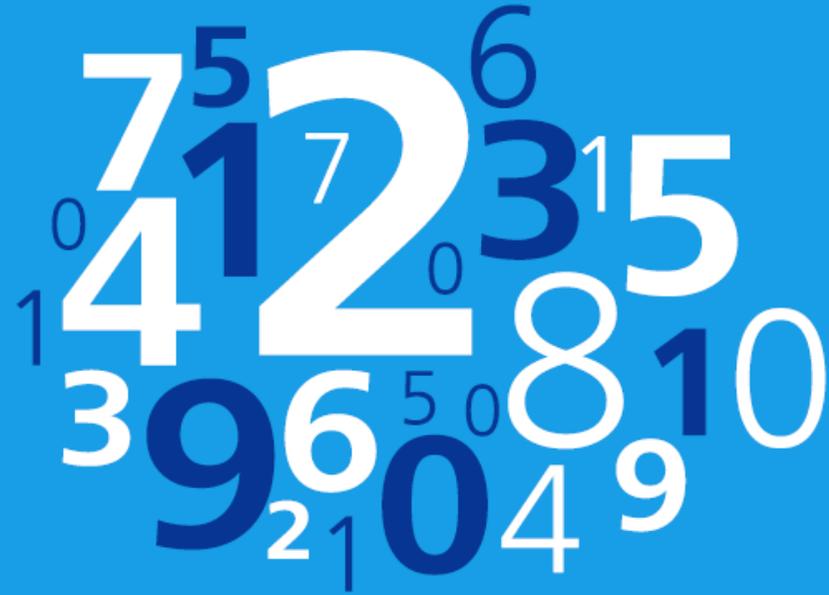
Similar initiatives for Asian banks?

- Currently, only Japanese and Chinese banks in G-SIB list
- Each jurisdiction to identify own D-SIBs
- Anticipate similar regulatory expectations for D-SIBs to review its banking structure and model

Resolution regime

- Different jurisdictions within SEA have different levels of sophistication
- Resolution framework may change as international standard setters continue to review and roll out new resolution tools and measures
- International co-ordination in crisis management and resolution will also continue to be an area of focus

Data and regulatory reporting



Many banks experienced difficulties providing accurate data in the form that supervisors wanted on a timely basis

Data and regulatory reporting

International developments in EMEA and the US

BCBS' Principles for effective risk data aggregation and risk reporting

- Currently applicable to G-SIBs (compliant by January 2016)
- Expected to extend to D-SIBs
- Enables better risk management practices and resolution purposes, as data will be at legal entity and business line level

Regulator's expectations of data and regulatory reporting becoming onerous

- Supervisors expect banks to improve risk data capabilities
- Enhancing the breadth, depth, quality and timeliness of data disclosed

FINRA reporting requirements

- Proposes new data reporting requirement, allowing FINRA to collect, on a standardised, automated and regular basis, account information, as well as account activity and security identification information that a firm maintains as part of its books and records

Data and regulatory reporting

Regional perspective and implications

MAS Notice 610 Reporting

- More granular data requirements
- More templates and different reporting frequencies
- Banks should not miss the bigger picture of risk data principles

The bigger picture

- Given that risk data is part of risk management architecture, the standards in risk data principles could be embedded in the regulatory expectation once MAS formally codify the risk management standards
- Embed the Basel risk data principles into the regulatory reporting routines

4 key aspects of operationalising the principles

- Overall governance and risk oversight over risk reporting
- Enhancing the hardware of information system, automation in reporting and reconciliation
- Enhancing the review and analysis capabilities, e.g. independent data validation unit, variance analysis
- Data management

Culture and trust



Industry needs to focus on how senior management can best oversee culture and conduct risk, putting conduct risk high on the agenda

Culture and trust

International developments in EMEA and the US

Trends in regulatory stance

- Move towards more 'intensive' approach to supervision
- Emphasis on individual accountability
- New regulatory framework to encourage individuals to take greater responsibility and accountability for their actions
- Easier for banks and regulators to hold individuals to account

Latest moves by regulators

- FSB on 7 April 2014 - Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture
- UK – Senior Managers and Certification Regime to take effect 7 March 2016
- Establishment of UK Banking Standards Review Council in 2014

Culture and trust

Regional perspective and implications

MAS' Managing Director, Ravi Menon's speech on "Building a culture of trust in the financial industry"

- Stressed the importance of restoring the trust that public have on financial industry
- Key to this is the culture within the financial institution, i.e. "Getting the culture right", "Rules tell us what we can do, but values tell us what we should do"
- MAS has stepped up its supervisory intensity of financial institutions' overall compensation policies and practices and intends to conduct deeper-dive reviews on how a firm makes compensation decisions in practice, as well as the extent to which the firm's board and management deal with issues relating to compensation and risk culture

Wholesale conduct risk

- "Financial Advisory Industry Review" ("FAIR") initiatives include formulating KPIs to influence behaviour and conduct, impacting remunerations
- After LIBOR, SIBOR and FX benchmark probe, there could be similar emphasis on KPIs to address wholesale conduct risk

Stress testing and risk management



Ultimately banks should recognise that, in the context of a forward looking, judgment-led approach to supervision, scenario analysis – and stress testing – is a key supervisory tool

Stress testing and risk management

International developments in EMEA and the US

Stress testing developments

- ECB's comprehensive assessment via the combined Asset Quality Review and Stress Testing has helped boost the transparency of banks' balance sheets
- Likewise in US, regulatory stress testing via the annual Comprehensive Capital Analysis and Review ("CCAR") has been used to determine adequacy of banks' capital plans and dividend distribution.

Rising importance of stress testing

- Becoming an increasingly important supervisory tool – not just a determinant of capital in the future, but also as part of risk management.
- Supervisors will place greater emphasis on banks' stress testing processes and governance, controls and oversight.

Stress testing and risk management

Regional perspective and implications

Developments in SEA

- Central Bank of the Philippines conducted real estate stress tests in 2014 to determine if their capital is sufficient to absorb a severe shock
- Stress testing conducted by IMF in Feb 2013 under Financial Sector Assessment Program on Malaysian banking sector
- MAS conducts annual industry wide stress testing

Potential developments in Singapore

- For D-SIBs, stress testing will be used as part of measures to increase the resiliency of banks, e.g. testing the sufficiency of total loss absorbency ratio and LCR
- Stress testing will be progressively emphasised in other sectors. MAS had recently issued circular requesting direct insurers to conduct stress testing. Could this be also extended to other sectors, like asset management?

Business model mix in a world of multiple constraints



Divining an optimal strategy that considers all metrics simultaneously and at different points of the economic cycle (when different constraints may bind) will present a significant challenge

Business model mix in a world of multiple constraints

International developments in EMEA and the US

Multiple drivers and factors

- Determining the most profitable business lines increasingly complex, due to multiple regulatory requirements and constraints
- Basel III capital, total loss absorbency, LCR, NSFR, RRP, market conduct, compensation rules, and tax
- Supervisors trending towards localisation of financial resources, with G-SIBs likely to face the brunt of impact

For G-SIBs, business model needs simplification and resilience

- TBTF initiatives include structural reform to simplify organisation structure of G-SIBs, e.g. merging of legal entities and creation of holding company
- National resolution strategy may also cause banks to adopt certain organisation structure and capital mix. US' single point of entry resolution strategy favours non-operating holding company structure, with longer tenor of unsecured debt

Business model mix in a world of multiple constraints

Regional perspective and implications

G-SIB's operation in Asia under review and change

- While the G-SIB adjust its global business model and business lines, operation in the more risky markets will be under review. Banks could continue to exit certain emerging markets, including Asia/SEA
- At the same time, banks are also re-organising the diverse business lines and legal entities across Asia many jurisdictions, e.g. setting up dedicated holding company for its Asia business

Asset management under the spotlight



Large-scale trading by funds could have a large effect on markets

Asset management under the spotlight

International developments in EMEA and the US

Systemic risk of asset management

- Increasing size of asset management firms and various funds led to the observation and recognition that large-scale trading by funds could have large effect on markets
- TBTF issues around asset management firms?
- In 2014, the FSB and IOSCO proposed assessment methodology to identify investment funds that might be deemed to be G-SIBs. The proposal was recently revised in March 2015, which further expanded the scope to asset managers

Protection of client's assets and monies

- IOSCO conducted survey of jurisdictions' rules on client's assets and monies in 2013, which led to "Recommendations Regarding the Protection of Client Assets" in 2014
- The FCA in UK introduced revised rules on client's asset protection, including immediate segregation of client monies, in July 2014. There are also similar attention in this area in Australia, following the MF Global collapse

Asset management under the spotlight

Regional perspective and implications

Changes to supervisory approach

- Given the international attention on asset management, industry could expect some changes in the way asset management firms will be supervised in Singapore
- Rules on client's asset and monies could be under review, given that the event of MF Global also affected investors in Singapore

Closing remarks

Speaker's profile

Speaker's profile

Giam Ei Leen



Southeast Asia Risk & Regulatory Advisory Leader, Deloitte Southeast Asia

+65 6224 8288

eilgiam@deloitte.com

Ei Leen is an Assurance and Advisory Partner with Deloitte's Financial Services practice in Singapore and leads the Regulatory Advisory team. Ei Leen has more than 19 years of experience in public accounting in Singapore and the U.S., providing assurance and advisory services to clients in the financial services industry. She has also provided regulatory advisory services to clients in the financial services industry, including banking, capital markets and insurance sectors, and has worked on numerous projects pertaining to compliance reviews as well as review of remediation of regulator's inspection findings.



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