Top regulatory trends for 2016
Asia Pacific Region
Agenda

2016 Top Regulatory Trends for Asia Pacific

• Resilience
• Culture & Conduct
• Technology
• Implementation
Introduction
Asia Pacific regulatory themes for 2016
Addressing vulnerabilities and staying vigilant to growing risk areas

2016 Top Regulatory Trends for Asia Pacific
1. Resilience
2. Culture & Conduct
3. Technology
4. Implementation

International Regulatory Developments

Regulatory Strategy

Business Strategy

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1. Resilience
1. Resilience

Resiliency of institutions and markets to financial stress remains a dominant regulatory theme for 2016

- Building a more robust and resilient financial market
- Large level recalibration of existing regulations on risk and capital issues
- Implementation of crisis-response reforms continue to have an impact

- Revisions to Basel Framework
- Finalised Total Loss Absorbing Capacity ("TLAC") framework for Globally Systemically Important Banks ("G-SIBs")
- Finalisation of Insurance Capital Standards ("ICS") and High Loss Absorbency for Globally Systemically Important Insurers ("G-SII")
- Over-The-Counter ("OTC") Derivatives Regulatory Reforms
- Regulation of Asset Management
- BCBS 239 Principles for effective risk data aggregation and risk reporting

To achieve completeness, accuracy and timeliness of data capabilities and risk reporting for effective decision-making based on 14 basic principles
1. Resilience

Revisions to Basel Framework

- Risk-Weighted Assets ("RWAs") Calculations
- Capital Floor
- Pillar 3 Disclosure Requirements
- Leverage Ratio & Net Stable Funding Ratio ("NSFR")

What are some of the challenges?

- Technical
- Regulatory
- Legislative
- Transitional Costs
- Costs

1. Variability
2. Comparability
3. Standardisation
1. Resilience

Finalised Total Loss Absorbing Capacity (“TLAC”) framework for Globally Systemically Important Banks (“G-SIBs”)

- The TLAC requirements aim to bolster G-SIBs' capital and leverage ratios

1 Jan 2019
G-SIBs will need to hold TLAC of at least **16%** of the resolution group’s RWAs

1 Jan 2022
G-SIBs will need to hold TLAC of at least **22%** of the resolution group’s RWAs

2025 & 2028
Delayed implementation deadlines for entities in emerging markets, including China

Extension of TLAC framework to Domestic Systematically Important Banks (“D-SIBs”)?

Financial Stability Board (“FSB”) → Local Regulators
1. Resilience

Finalisation of Insurance Capital Standards (“ICS”) and High Loss Absorbency for Globally Systemically Important Insurers (“G-SIIs”)

- ICS is a common supervisory framework pushed by the International Association of Insurance Supervisors (“IAIS”) for Internationally Active Insurance Groups (“IAIGs”)
- Similar to the Basel standards that apply to banks – aim to improve comparability of IAIGs’ capital requirements and capital resources
- Similar capital requirements and capital resources expected to be extended to non-bank non-insurer global systematically important financial institutions such as asset management companies
- ICS expected to form the foundation for planned Higher Loss Absorbency requirements for G-SIIs

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tr>
<td>2016</td>
<td>Quantitative field-testing by IAIS on the ICS</td>
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<td>Estimate: 2017 Final consultation of framework for IAIGs</td>
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<td>Estimate: 2018 Formalisation of framework</td>
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What are some of the implications?

- Investment in Infrastructure & Processes
- Solvency II Directive
- Limited Market Data
- Constraints to Insurers’ Tools & Processes
1. Resilience

Regulation of Asset Management

- Global regulatory standards expected to be developed for asset management
- Possible finalisation of assessment methodologies for identifying non-bank non-insurer global systematically important financial institutions
- Intention by FSB to develop activities-based policy recommendations in support of systemic resilience through 2016.
1. Resilience

**Over-The-Counter (“OTC”) Derivatives Regulatory Reforms**

- Scheduled commencement in September 2016 of the phase-in period for margin requirements for non-centrally cleared OTC derivatives
- Local regulators will be under increasing pressure to finalise all of their reforms in the derivative markets after the Financial Stability Board (“FSB”) highlighted that work was well behind schedule

> With the start date for these requirements already having been delayed once, it is important that all jurisdictions take the necessary regulatory steps to implement these requirements on schedule, taking into account the lead time necessary for market adoption.

2. Culture & Conduct
2. Culture & Conduct

Strong supervisory focus on how institutions are fostering good culture and conduct within their organisations

- Importance of a sound culture is a given; the difficulty is in achieving it
- When achieved, exemplary ethical behavior can enhance a company’s reputation and public trust

Desired values and conduct should be reflected in the daily habits and practices of employees – how they work; how they are evaluated; who is hired, promoted and rewarded; and how employees act when managers are not present and when matters of personal judgement arise.

- Report on Banking Conduct and Culture by The Group of Thirty (July 2015)
2. Culture & Conduct

Consumer & Investor Protection

- Competitive advantage can be gained by improving customer experience and enhancing brand image

- Disclosure requirements for sale of investment-linked life insurance policies ("ILPs")

- Regulatory framework for safeguarding of investors’ interests (example: complexity-risk ratings of investment products and disclosure to investors)

- Professional standards framework for financial advisors (example: Financial Advisory Industry Review [FAIR], product governance responsibility)

Call to Action
2. Culture & Conduct

Market Integrity

- Market integrity relates to having a fair, orderly, transparent and efficient market
- Regulatory spotlight on misconduct as a systemic risk
- Maintain strong awareness of regulatory trends and critically assess institutions’ own conduct framework and cultural standards on an ongoing basis

“Singapore’s attraction and standing as an international financial centre must be underpinned by investor confidence in a stable business environment, with clear rule of law and a sound regulatory framework… As our markets develop, we must continue to safeguard this reputation of integrity, trust and resilience.”

- Keynote Address at the SGX Equities Dialogue 2016 by Mr. Ong Chong Tee, Deputy Managing Director of Monetary Authority of Singapore (January 2016)
3. Technology
3. Technology

Innovative FinTech challenges existing regulatory framework

- FinTech will be a defining competitive dynamic for financial services in 2016 and beyond
- Challenge of applying appropriate level of regulation to FinTech while encouraging innovation
- Idea of a “regulatory sandbox” aims to encourage innovation by providing a safe space for testing of new financial products and services
3. Technology

An appropriate regulatory response to FinTech should take into consideration perspectives of different players in the FinTech industry.

Balance regulatory objectives of institutional stability, market integrity and investor protection with the need to encourage innovation and progress of the financial services industry.

May seek to take advantage of low regulatory costs to facilitate market entry but ultimately recognise the merits of regulatory approval to bestow legitimacy and engender trust.

May be concerned with comparatively high regulatory costs that could result in an uneven playing field but forward-looking institutions recognise opportunities for collaboration to enhance product offerings and improve efficiency.
3. Technology
Continual evolution of Cybersecurity threats poses challenges

- Fast-paced evolution of technology threats pose worrying risk due to high degrees of reliance on technology systems
- Financial institutions are expected to incorporate leading standards and practices into their cybersecurity programs
- Regulatory scrutiny is especially high for systemically important financial institutions (“SIFIs”) which are expected to follow the highest possible cybersecurity standards

More in upcoming session on “Cyber security trends”
4. Implementation
3. Implementation

Implementation of regulatory requirements continue to challenge the Asia Pacific region

Main Challenges

- Cumulative impact of significant and ongoing reforms
- Cross-border challenges in regulatory implementation
- Sufficiency of compliance resource allocation for branch institutions in APAC

Developments in the local horizon
- MAS Notice 610
- MAS Notice 643
- MAS Notice and Guidelines on Outsourcing

- Seemingly unrelenting regulatory reforms and further regulatory agenda in the pipeline may result in reform fatigue and confusion
- Institutions operating across borders are subjected to multiple regulatory jurisdictions
- Existence of gaps, conflicts and inconsistencies between domestic rules
- Pressure on United States and European headquarters, where increasing regulatory burdens are being faced, to allocate sufficient funding and resources to APAC compliance measures
Speaker profiles
Speakers’ Profiles

Giam Ei Leen
Lead Partner
Risk & Regulatory Advisory
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 in Southeast Asia and Singapore. Ei Leen has more than 21 years of experience in Public Accounting in Singapore and the United States, providing assurance and advisory services to clients in the financial services industry, including banking, capital markets and insurance sectors.

Ei Leen has extensive experience in providing advice and assistance on regulatory compliance, risk management and operational controls issues. She advises clients for pre-inspection diagnostic, post-examination remediation and supervisory action response purposes, covering a broad range of topics.

In addition, she has led numerous projects pertaining to compliance reviews, including review of remediation of regulator’s inspection findings.

Frederic Bertholon-Lampiris
Executive Director
Risk & Regulatory Advisory
flampiris@deloitte.com

Frederic is an Executive Director with Deloitte’s Financial Services Industry practice in Singapore, leading risk audit and advisory services and covering more than 40 banks in Singapore and across South East Asia.

He has 16 years of multidisciplinary experience in risk management, regulatory compliance and internal/external audit in the banking and asset management industry, essentially within international audit and consulting firms, as well as in the risk management department of a large bank.

Prior to joining Deloitte Singapore, Frederic was in charge of risk management audit and advisory services for financial institutions at Deloitte Switzerland, where he was based in Geneva, as well as leading the Basel II & Basel III initiatives. He has developed an expertise in the field of risk governance advisory to leading banks and asset managers, assisting large global and regional organizations in transforming and upgrading their risk management, compliance and internal audit functions, advising them on their risk policies and practices.
Speakers’ Profiles

**Thng Teck Soon**
Director  
Risk & Regulatory Advisory  
thng@deloitte.com

Teck Soon is a Director with Deloitte’s Financial Services Industry practice in Singapore, covering risk and regulatory advisory services. Teck Soon joined Deloitte with a wealth of experience, after spending close to twenty years with the Monetary Authority of Singapore (MAS). While with MAS, Teck Soon was responsible for banking supervision and examination, covering a spectrum of banking business and activities, such as private banking, capital market/treasury, and credit risk management.

Added to Teck Soon’s capability in bank examination is his familiarity with banking regulations and compliance standards, as well as best practices which bank regulators generally demand. While at Deloitte Singapore, Teck Soon has assisted to provide advice and recommendations on regulatory and compliance issues, as well as share best practices regarding risk management.

**Carene Siew**
Director  
Risk & Regulatory Advisory  
casiew@deloitte.com

Carene is a Director with Deloitte’s Financial Services Industry practice in Singapore, covering risk and regulatory advisory services. Carene joined Deloitte with 17 years of working experience in the financial industry, 15 years of which were spent working with the Monetary Authority of Singapore (MAS). While with MAS, Carene was in the Banking Supervision Department, responsible for ongoing regulatory and prudential supervision of a portfolio of banking institutions, via continuous risk and control assessments.

At Deloitte Singapore, Carene has led various remediation projects to assist financial institutions to address findings arising from the MAS’ inspections; reviewed the governance framework on regulatory reporting and accuracy of regulatory reporting returns to MAS; provided assistance to financial institutions to obtain various types of licenses/registrations with MAS; led periodic compliance reviews for capital market services licensee and registered fund managers; provided advisory services and recommendations on topical and specific regulatory compliance issues as well as best practices regarding risk management framework.
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