December 2024 & January 2025

PwC Regulatory Update

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Legislative/ Government developments

Mandating Cash Acceptance

The consultation is seeking feedback from businesses, consumers and stakeholders to support mandating cash acceptance, which is expected to be implemented 1 January 2026.

The mandate is aimed at businesses supplying essential goods and services to accept cash payments, with exemptions for small businesses. This initiative aims to ensure cash remains a viable payment option, particularly focusing on payment system resilience for consumers who are digitally excluded or preference.

Submissions are due by 14 February 2025.

Source: Treasury

Compensation Scheme of Last Resort post-implementation review – Terms of reference

Submissions to the review of Compensation Scheme of Last Resort (CSLR) are being sought. The scheme aims to provide redress for victims of financial misconduct when other options are exhausted. It seeks to:

- bolster confidence in the financial system,
- offer last-resort compensation for unpaid Australian Financial Complaints Authority determinations, and
- remain sustainable through an industry levy.

The government has tasked the Treasury with reviewing the scheme to ensure it meets its objectives, considering its operation, funding model, and the powers of the CSLR Operator, while aligning with other relevant reviews.

Submissions are due by 28 February 2025.

Source: Treasury

Regulatory Initiatives Grid – December 2024

The first edition of the Regulatory Initiatives Grid (RIG) has been launched as a comprehensive tool to modernise and coordinate the financial sector and boost economic dynamism. RIG provides a comprehensive overview of regulatory initiatives impacting the financial sector involving key industry agencies. It aims to align financial services businesses with the government, and to support regulators by:

- Building shared strategic priorities
- Implementing reforms
- Avoiding duplication across regulations
- Providing clear visibility of upcoming regulations

The first edition of RIG outlines 71 initiatives in total, categorised by

- Policy development,
- Development of legislation, regulations and instruments,
- Ongoing program implementation, and
- Review and evaluation.

RIG is a snapshot document that only includes initiatives that will materially affect the financial sector in the next 2 years that is meant to complement existing transparency tools.

Source: Treasury

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What have the regulators been up to?

What have the regulators been up to?

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APRA
The Australian Prudential Regulation Authority

AUSTRAC
Australian Transaction Reports and Analysis Centre

APRA review highlights the need for improved valuation and liquidity risk governance in superannuation

The Australian Prudential Regulation Authority (APRA) has identified the need for improved valuation and liquidity risk governance among superannuation trustees. A recent review, covering 23 trustees managing 80% of APRA-regulated assets, revealed significant gaps in compliance with Prudential Standard SPS 530 – Investment Governance. The review acknowledged enhanced trustee capability but identified major deficiencies. Out of 23 trustees, 12 require improvements in valuation governance and liquidity risk management, highlighting significant gaps that need addressing to ensure effective oversight and risk management within the organisation.
APRA urges all trustees to enhance their valuation governance and liquidity risk frameworks in line with SPS 530 and will take further actions where necessary to enforce the provisions.

Source: APRA

AUSTRAC takes action to stamp out financial crime through cryptocurrency ATMs

AUSTRAC is intensifying its crackdown on cryptocurrency ATM providers in Australia to combat financial crime. The agency has identified cryptocurrencies as a significant money laundering risk, often exploited for scams and money mule activities.

A dedicated taskforce ensures digital currency exchanges (DCEs) offering crypto ATM services comply with the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Act 2006. This includes:
- Registration
- Transaction monitoring
- Know Your Customer (KYC) checks
- Reporting suspicious activities

AUSTRAC warns non-compliant operators of severe penalties, emphasising the need to eliminate high-risk operations and protect Australians from scams.

Source: AUSTRAC

ASIC

Australian Securities and Investments Commission

ASIC highlights focus areas for 31 December 2024 financial reports

ASIC has emphasised key focus areas for financial reporting for the year ending 31 December 2024, urging directors, preparers, and auditors to address areas with significant judgment and estimation which have previously shown the highest rates of non-compliance including:

- Impairment and asset values,
- Provisions,
- Events after year end and before completing the financial report, and
- Disclosures in the financial report and Operating and Financial Review (OFR)

ASIC will monitor compliance with new requirements, including consolidated entity disclosure statements and new sustainability and climate reporting requirements for financial years beginning on or after 1 January 2025.

ASIC's surveillance project will keep in focus auditors' independence and conflicts of interest obligations. ASIC encourages self-identification and self-reporting of non-compliance.

Source: ASIC

ASIC puts insurers on notice for blind spots in complaints handling

ASIC's recent review reveals critical shortcomings in the Internal Dispute Resolution (IDR) practices of Australian insurers, with one in six customer complaints going unrecognised.

This oversight denies customers crucial protections and remedies, prolonging distress for both customers and insurers, as it may impact downstream remediation and business costs.

The review also highlights that insurers' failure attributed to adequately identify systemic issues, with a significant gap between insurer-identified and AFCA-identified issues.

ASIC expects all insurers to act on its findings to enhance their complaints management systems and to devise an action plan to address these deficiencies and provide customer support.

Source: ASIC

RBA

The Reserve Bank of Australia

Statement by the Reserve Bank Board: Monetary Policy Decision

On 10 December 2024, the Reserve Bank of Australia (RBA) has held the cash rate target steady at 4.35% and the interest rate on Exchange Settlement balances at 4.25%. Underlying inflation, while reduced from its 2022 peak, remains high at approximately 3.5%, with projections indicating it may not reach the target midpoint of 2.5% until 2026.

Economic growth is subdued, with the slowest pace observed since the early 1990s, excluding the pandemic period. Labour market conditions are tight but show signs of easing, and wage growth has decelerated. Despite some improvement in consumption, restrictive financial conditions continue to impact household spending.

The RBA prioritises returning inflation to target, acknowledging uncertainties in both domestic and global economic conditions. The Board remains vigilant, relying on data to guide its policy decisions, while emphasising the importance of maintaining long-term inflation expectations consistent with the target.

Source: **RBA**

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Industry bodies

Industry bodies

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ASFA
The Association of Superannuation Funds of Australia

AFCA
Australian Financial Complaints Authority

Superannuation Peak Body Calls for Facts Over Fear on Rare Super Scams

The superannuation sector's peak body, ASFA, has pushed back against ASIC's recent media statements on superannuation scams, arguing that they overlook the significant steps taken by the industry to safeguard retirement savings. ASFA CEO Mary Delahunty criticised ASIC's framing of the issue, stating that the low number of super-related scam complaints (0.18% or fewer than 20 out of 11,000 scam complaints received by AFCA) reflects the sector's effectiveness rather than a growing problem.

Delahunty reassured Australians that superannuation remains one of the safest places for their money, as funds are held in trust and protected until retirement. She also highlighted the role of banks in detecting fraud and emphasised that the sector is proactively addressing potential risks through initiatives like ASFA's Financial Crime Protection Initiative (FCPI).

ASFA has actively supported government-led scam prevention measures, including the Scams Prevention Framework and Cyber Security Legislative Package. It has also advocated for increased funding to consumer education initiatives like Moneysmart. Delahunty called for collaboration between government, regulators, and super funds to focus on consumer awareness.

Source: ASFA

AFCA completes 3-year program responding to Independent Review

The Australian Financial Complaints Authority (AFCA) has completed a 3-year program responding to the 2021 Independent Review, redefining its approach to dispute resolution and strengthening its global leadership.

Led by Deputy Chief Ombudsman Dr. June Smith, the program implemented 13 key recommendations to enhance transparency, fairness, and operational excellence. Amid a surge in complaints—reaching nearly 105,000 in 2023-24—AFCA introduced major reforms, including improved case management systems, clearer complaint-handling guidelines, and stronger collaboration with regulators. Independent audits affirmed the quality of its decision-making, with 90% of cases rated as Excellent to Good. Dr. Smith emphasised that AFCA remains committed to ongoing improvements, focusing on service excellence, efficiency, and equitable access.

Source: AFCA

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Overseas developments

FSB develops analytical framework and toolkit to assess climate-related vulnerabilities

The Financial Stability Board (FSB) has released a report outlining a framework and toolkit for assessing climate-related financial vulnerabilities from a global perspective. Climate risks, including physical and transition risks, can amplify traditional financial stability concerns like credit, market, and liquidity risks, making them complex to analyse. The accompanying toolkit includes three types of metrics:

- Early warning proxies,
- Exposure metrics, and
- Risk quantification tools.

While some FSB members already use these metrics domestically, challenges remain in applying them globally. The framework aims to provide a forward-looking approach to climate risk assessment, with ongoing refinements and further analyses planned to enhance financial stability monitoring.

Source: FSB

Global standard-setting bodies publish three final reports on margin in centrally and non-centrally cleared markets

The Basel Committee on Banking Supervision (BCBS), the BIS Committee on Payments and Market Infrastructures (CPMI), and IOSCO have published final reports on initial and variation margin in centrally and non-centrally cleared markets. These reports, part of a broader Financial Stability Board (FSB) initiative, aim to enhance transparency, streamline margin processes, and improve the predictability of margin requirements. They include policy proposals for central counterparties, best practices for variation margin in centrally cleared markets, and recommendations for improving margin models in non-centrally cleared markets. The reports complement the FSB's December 2024 liquidity preparedness report, forming a comprehensive approach to strengthening margining practices and financial stability.

Source: BIS

FSB consults on recommendations to address financial stability risks arising from leverage in non-bank financial intermediation

The FSB has released a consultation report on leverage in non-bank financial intermediation (NBFI), proposing nine policy recommendations to help authorities and market participants monitor, contain, and mitigate financial stability risks from NBFI leverage. The recommendations cover:

- risk identification and monitoring, supported by a suite of risk metrics, and work to assess and address data challenges;
- measures to address financial stability risks related to NBFI leverage in core financial markets, including measures that affect specific activities, types of entities, and concentration-related risks;
- counterparty credit risk management and private disclosure;
- addressing inconsistencies by adopting the principle of "same risk, same regulatory treatment"; and
- enhancing cross-border cooperation and collaboration.

They apply to leveraged non-bank financial firms, including hedge funds, investment funds, pension funds, and insurers, as well as banks and broker-dealers in their role as leverage providers. The FSB is seeking public feedback by 28 February 2025, with a final report expected in mid-2025.

Source: FSB

The EBA launches its 2025 EU-wide stress test

The European Banking Authority (EBA) has initiated the 2025 EU-wide stress test, unveiling the macroeconomic scenarios aimed at evaluating the resilience of the European banking sector amidst a volatile global economic climate. The adverse scenario envisions a hypothetical escalation in geopolitical tensions, leading to significant trade and confidence shocks that detrimentally impact private consumption and investments globally. This scenario, marked by severe macroeconomic deterioration, tests the robustness of the European banking system under extreme conditions. The results of this exercise are expected by August 2025.

The stress test evaluates the solvency of EU banks over a three-year period (2025-27) under adverse economic conditions. Its objectives include assessing the banks' resilience to severe economic shocks, ensuring capital sufficiency to support the economy during stress, promoting market discipline through transparent data publication, and providing insights for the Supervisory Review and Evaluation Process (SREP) by supervisory authorities. The test covers 64 banks, including 51 from Single Supervisory Mechanism (SSM) member countries, representing about 75% of the banking sector assets in the EU and Norway.

The adverse scenario predicts a cumulative EU GDP decline of 6.3% from 2025-2027, with unemployment rising 6.1 percentage points above baseline. Inflation is expected to rise to 5.0% in 2025 and 3.5% in 2026, before dropping to 1.9% in 2027. As in 2023, the scenario includes sector-specific Gross Value Added (GVA) growth data to better assess banks' performance across different economic sectors.

Source: **EBA**

The EBA consults on Guidelines on ESG scenario analysis

The EBA has launched a public consultation on draft Guidelines for ESG scenario analysis, aligning with Directive 2013/36/EU. These guidelines enhance scenario analysis, especially for institutions using the Internal Ratings-Based (IRB) approach for credit risk, by incorporating ESG risks, notably climate-related physical and transition risks, into stress testing scenarios. This effort supports Regulation (EU) No 575/2013. Scenario analysis, ranging from simple 'what if' approaches to complex methodologies, helps institutions anticipate risks and seize opportunities in an uncertain environment.

The guidelines focus on using scenario analysis to bolster resilience against environmental risks, particularly climate change. They distinguish between testing financial resilience to short-term shocks and evaluating long-term business model resilience. Divided into three sections, the guidelines detail the integration of scenario analysis, criteria for setting scenarios, and distinctive features for climate stress tests, aiming to refine institutional strategies and business model robustness. The consultation runs until 16 April 2025.

Source: **EBA**

Monetary Statement Press Conference

The European Central Bank (ECB) has reduced its three key interest rates by 25 basis points, focusing on the deposit facility rate to align with the updated inflation outlook. This decision aims to stablise inflation at the ECB's medium-term target of 2%. Disinflation process is progressing, with inflation expected to meet the target within the year.

Despite high domestic inflation from delayed wage and price adjustments, wage growth is moderating, and profits are buffering inflation impacts. Economic activity in the Euro area has stagnated, with manufacturing contracting and services expanding.

Consumer confidence remains fragile, but conditions for recovery exist, supported by a robust labor market. The ECB anticipates that more affordable credit will boost consumption and investment, provided trade tensions do not escalate. The ECB remains committed to adjusting its monetary policy as needed to ensure inflation stabilizes at the target and to preserve smooth monetary policy transmission.

Source: BOE

Financial Services Compensation Scheme – Management Expenses Levy Limit 2025/26

The FCA and the Prudential Regulation Authority (PRA) have proposed a Management Expenses Levy Limit (MELL) of £108.6 million for the Financial Services Compensation Scheme (FSCS) for 2025/26. This includes a management expenses budget of £103.6 million and a £5 million unlevied reserve. The FSCS, a last-resort fund for consumers when financial firms fail, will implement the new MELL from 1 April 2025. Stakeholders can comment on the proposal until 7 February 2025. The consultation ensures the FSCS remains funded to protect consumers while considering economic conditions for financial firms.

Source: BOE

FCA review finds gaps remain in brokers' money laundering defenses

The Financial Conduct Authority (FCA) has identified significant deficiencies in the anti-money laundering defenses of wholesale brokers. Despite progress since the 2019 Thematic Review, issues persist, such as:

- an underestimation of the risks of money laundering firms are exposed to,
- over-reliance on others in the transaction chain completing appropriate due diligence checks on customers,
- limited information sharing between firms,
- insufficient awareness of the money laundering, through the market's suspicious activity reports glossary code.

FCA emphasised the importance of maintaining financial integrity and urged firms to enhance their controls. They are committed to collaborating with industry stakeholders to improve understanding and information sharing, encouraging innovation in transaction monitoring to combat financial crime effectively.

Source: FCA

SEC Announces Record Enforcement Actions Brought in First Quarter of Fiscal Year 2025

The U.S. Securities and Exchange Commission (SEC) reported a record number of enforcement actions since the last 20 years in the first quarter of fiscal year 2025, with 200 actions filed, including 118 standalone cases. This surge, the highest since at least 2000, addressed violations, such as:

- Financial misstatements,
- Misleading disclosures to brokerage customers,
- Failures by advisory firms to disclose conflicts of interest,
- Alleged bribery schemes,
- Frauds targeting retail investors, and
- Misleading statements.

The SEC Chair emphasised the importance of actions for self-accountability and investor protection. The SEC encourages cooperation and remediation, aiming to foster compliance. These efforts highlights SEC's commitment to safeguarding investors and ensuring market integrity.

Source: SEC

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PwC Publications

Next in banking and capital markets 2025

PwC US has released an article on banking and industry trends expected in 2025, highlighting trends for regulatory deficiencies, with AI and data being the next competitive edge for the industry.

The banking and capital markets sector is set for substantial growth, fueled by a robust U.S. economy, declining interest rates, and steady loan demand. The recent Republican electoral victory has generated optimism for streamlined regulations and pro-business policies, potentially boosting capital market activities. Banks must prepare for increased demand by strengthening relationships, sales teams, and balance sheet capacity. Globally, the U.S. offers a stable environment for growth, contrasting with challenges in China and political turmoil in Europe. Banks are encouraged to adopt bold growth strategies, focusing on loan origination and capital markets underwriting while ensuring regulatory compliance for mergers and partnerships.

The rapid integration of artificial intelligence (AI) is transforming the banking sector, emphasising data as a key differentiator. Banks must address data quality and security challenges and invest in AI talent. Technology modernisation is crucial, requiring evaluation of legacy systems to maintain competitiveness. However, financial system safety will still be enforced. Growth opportunities in infrastructure development, such as clean energy and data centers, are emerging. Effective scenario planning and cost management will be essential for banks to adapt and thrive in this dynamic environment.

See: [Publication]

Next in insurance 2025

PwC US has released a publication that highlights clear goals, and careful execution can help insurers meet complex challenges. The main challenges are climate change, technological advancements, and shifting market dynamics.

Severe weather events complicate risk prediction and pricing, creating a gap between available coverage and community needs, which threatens the core purpose of insurance. While technologies like AI and cloud computing offer potential, their impact is limited without strategic integration. Insurers, though well-capitalised, must collaborate with governments, scientists, and community leaders to build climate resilience. They can lead by using data to develop innovative solutions, incentivising property protection, and alerting communities to government funding for resilience efforts.

Technological investments require a comprehensive tech and data strategy to maximize ROI, involving data centralisation and process integration. This shift will automate routine tasks, prompting a redefinition of job roles towards strategic functions. Ecosystems offer growth opportunities by expanding market reach through partner networks, but insurers may face challenges in integration and monetisation.

To address these challenges, insurers require a clear strategic vision and strong data management. The industry is also seeing a rise in deals, driven by stable interest rates and private equity activity, particularly in property and casualty sectors. As the IPO environment improves, insurers must focus on strategy, reporting, and compliance to navigate the evolving market landscape effectively.

See: [Publication]

The Reinvention of Retail Banking

PwC UK has released an article on how retail banks may be able to unlock value by building focused business models. UK retail banks, traditionally broad and vertically integrated, face external pressures to shift towards specialisation and differentiation. Rising interest rates and other forces are accelerating this change, suggesting only the largest banks can maintain broad models, while others must leverage unique capabilities.

Since 2021, UK banks have seen a temporary performance boost from rising interest rates and net interest income. However, this is waning, and banks must address structural issues like cost management and customer experience to sustain growth. Compared to international peers, UK banks have lagged in shareholder returns despite recent outperformance in some areas.

Therefore, the publication suggests UK bank sector should shift their transformation strategy to focus on specialised models, similar to other sectors, to meet market needs in terms of their offering and their role in the value chain. It outlines seven potential banking archetypes, each with unique value drivers, urging banks to choose models aligning with their capabilities and market position. It also highlights that strategic clarity, partnerships, and innovation are crucial for successful transitions.

See: Publication

Contacts

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Contacts

Amrita Jebamoney

Partner

amrita.jebamoney@pwc.com
+61 412 782 897

Craig Stafford

Partner

craig.stafford@pwc.com
+61 438 842 700

Marna Slabbert

Partner

marna.slabbert@au.pwc.com
+61 437 287 583

Simon Taylor

Partner

simon.c.taylor@au.pwc.com
+61 409 252 465

Penny Dunn

Partner

penny.dunn@au.pwc.com
+61 407 367 561

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