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PwC Regulatory Update

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What have the regulators been up to?

AUSTRAC
Australian Transaction Reports and Analysis Centre

AUSTRAC: New resources for your sector

AUSTRAC has released new sector-specific indicators to help identify potential money laundering, terrorism financing, and other criminal activities. Businesses in sectors like banking, digital currency, and insurance should review the guidance to recognise suspicious behaviours. Companies must conduct enhanced due diligence and report any suspicious activities to AUSTRAC, in compliance with anti-money laundering and counter-terrorism obligations.

Source: AUSTRAC

AUSTRAC: Have your say on draft guidance

Feedback is being sought on draft guidance updates for using alternative identification methods, with responses due by 30 October 2024. These updates aim to help banks and other financial institutions support customers who face difficulties providing standard IDs, such as those in remote areas, experiencing homelessness, or fleeing unsafe situations. The guidance encourages financial inclusion by allowing alternative ID options based on individual risk assessments.

Source: AUSTRAC

What have the regulators been up to?

01

RBA
Reserve Bank of Australia

RBA: Review of the Term Funding Facility

The Reserve Bank of Australia today released the Reserve Bank Board's Review of the Term Funding Facility (TFF). This review is one element of a broader set of reviews the Board has undertaken of the monetary policies it adopted in response to the pandemic. The purpose of the reviews is to be transparent and open about the experience and draw out lessons.

The review noted that the TFF effectively supported the COVID-19 policy package by lowering funding costs, reducing market disruptions, and aiding bank lending, particularly in housing. While the policy contributed to lower lending rates and credit growth, business credit remained weak due to economic uncertainty. The TFF ultimately cost the RBA $9 billion due to unforeseen economic outcomes. In the future, the RBA plans for unconventional policy tools to involve broader scenario analysis and flexible design to limit financial risks, with a focus on managing economic stability and risks.

Source: RBA

RBA: Review of Merchant Card Payment Costs and Surcharging

The Reserve Bank of Australia (RBA) has launched a review of retail payments regulation, focusing on merchant card payment costs and surcharging rules. An Issues Paper invites stakeholders to give feedback by 3 December 2024, which will help shape potential reforms. The review aims to address rising concerns about payment costs and ensure regulations remain effective. If needed, the RBA will consult further on specific reform proposals.

Source: RBA

What have the regulators been up to?

01

ASIC
Australian Securities and Investments Commission

APRA
The Australian Prudential Regulation Authority

ASIC annual report underscores transformation

ASIC's 2023–24 annual report highlights the agency's transformation efforts, resulting in enhanced consumer protection, improved regulatory capabilities, and cost reductions for businesses. Key outcomes include regulatory firsts, such as the first greenwashing civil penalty and a stop order on a life insurance product. ASIC also increased investigations and civil proceedings, removing over 7,300 scam websites to protect Australians from fraud. Chair Joe Longo emphasised the benefits of ASIC's extensive restructuring, noting improved collaboration and systems, while acknowledging ongoing areas for improvement as the agency adapts to new challenges.

Source: ASIC

ASIC releases third publication on insights from the reportable situations regime

ASIC's latest report on the reportable situations regime (breach reporting) summarises data from July 2023 to June 2024, highlighting trends in breach reporting by licensees. Over the period, 12,298 reports were submitted, with 79% of cases impacting customers financially or non-financially. As of 30 June 2024, licensees had paid roughly $92.1 million in compensation to about 494,000 affected customers. The report covers licensee reporting trends, breach investigations, root causes, consumer impacts, and remediation efforts.

Source: ASIC

APRA increases transparency of super fund expenses

APRA has published its first report on superannuation fund expenditures, covering costs like investment, administration, and advertising. This follows APRA's October 2024 notice of increased oversight based on these data. The 2022-23 expenditure details are included in APRA's annual superannuation publications, with updates to be released annually starting in early 2025.

Source: APRA

02

Industry bodies

CALI
Council of Australian Life Insurers

AFCA
The Australian Financial Complaints Authority

Australians to face generations of financial uncertainty if advice reforms are put off

The Council of Australian Life Insurers (CALI) is warning of generational financial risks if advice reforms in the Federal Government's Delivering Better Financial Outcomes package are delayed. CALI CEO Christine Cupitt emphasised that without these changes, millions of Australians will remain in "financial limbo," unable to access affordable, personalised advice on life insurance. Research shows that over 40% of Australians want specific advice on the right cover for their needs, but current laws restrict life insurers from providing it directly. This lack of accessible advice leaves many Australians underinsured and unprotected, especially as the cost of living rises. CALI argues that allowing insurers to offer product-specific advice at no extra cost could address these critical needs.

Source: CALI

AFCA Annual Review shows record complaints, signs of downturn in scams

AFCA's 2023–24 Annual Review shows a record 104,861 complaints, an 8% increase, with scams comprising 1 in 10 cases. Chief Ombudsman David Locke highlighted that 10,440 scam cases were resolved, 70% within 60 days, and that 67% were settled at the first stage, often by the firm. A decrease in scam complaints late in the year suggests that measures like the National Anti-Scams Centre and bank verification efforts are helping, though Locke emphasised ongoing improvements are needed. AFCA also noted an 18% rise in complaints about financial hardship and called for improved responses to hardship cases. General insurance complaints remain high, spurred by record premium growth, and AFCA urged insurers to improve resources and resolution processes. Locke stressed the importance of collaboration across banking, telecom, and digital platforms to combat scams effectively and called on firms to adopt a more consumer-focused, solution-oriented approach.

Source: AFCA

03

Overseas developments

FSB analyses interest rate and liquidity risks and the role of technology and social media on depositor behaviour

The Financial Stability Board (FSB) recently published a report highlighting vulnerabilities in the financial system from solvency and liquidity risks, drawing lessons from the March 2023 banking turmoil. The analysis identifies life insurers, non-bank real estate investors and weaker banks as particularly susceptible due to their interest rate-sensitive assets and liabilities. The report notes that technological advancements and social media have accelerated the pace of bank runs, with recent outflows reaching unprecedented levels. The FSB urges bank managers and regulators to improve response times to rapid outflows, address solvency and liquidity vulnerabilities, and explore social media monitoring as an early warning tool. Authorities are encouraged to enhance readiness for quick resolutions and ensure consistent communication during future financial stresses.

Source: FSB

Report for the G20 on tokenisation highlights the opportunities, risks and future considerations for central banks

The Bank for International Settlements (BIS) has published a report to the G20 exploring the potential impacts of tokenisation on finance, especially regarding the role of central banks in payments, monetary policy, and financial stability. Tokenisation, which involves creating digital representations of assets on programmable platforms, promises benefits like faster and more affordable transactions, though it also introduces new costs and risks. The BIS outlines four key areas for central banks to focus on:

- engaging with private-sector tokenisation efforts,
- balancing different settlement assets,
- ensuring sound regulation and oversight, and
- understanding the impact of tokenisation on monetary policy.

The report suggests tokenisation may alter financial market structures, posing unique regulatory and operational challenges.

Source: BIS

ESAs publish 2024 Joint Report on principal adverse impacts disclosures under the Sustainable Finance Disclosure Regulation

The three European Supervisory Authorities (ESAs, comprising of EBA, EIOPA and ESMA) have released their Autumn 2024 Joint Committee Report, highlighting persistent economic and geopolitical uncertainties affecting the EU financial system. The report emphasises the importance of vigilance among national supervisors and financial market participants regarding financial stability risks. It includes a new analysis of credit risks across sectors. Although inflation is declining and central banks are shifting towards looser monetary policies, significant uncertainties remain concerning the global economy and market expectations. The ESAs advise financial institutions to prepare for high-interest rate impacts, monitor credit risk, and address operational risks, including those arising from cyber threats.

Source: EBA

The EBA consults on draft technical standards for structural foreign exchange positions

The European Banking Authority (EBA) has launched a public consultation on its draft Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) for structural foreign exchange (FX) under the Capital Requirements Regulation (CRR). The proposed RTS aim to improve clarity and consistency in the treatment of structural FX across the EU, introducing changes such as quantitative thresholds for currency eligibility, adjusted computation of open positions, and clarifications on risk positions and illiquid currencies. The consultation runs until 7 February 2025.

Source: EBA

The EBA publishes its Work Program for 2025

EBA has released its 2025 Work Program, focusing on key priorities for the coming year. These include implementing the EU Banking Package, enhancing financial stability with a sustainable economy in mind, improving data infrastructure with a new data portal, and initiating oversight under the Digital Operational Resilience Act (DORA) and the Markets in Crypto-Assets Regulation (MiCAR). Additionally, the EBA aims to support consumer protection and ensure a smooth transition to updated anti-money laundering and counter-terrorism financing (AML/CFT) regulations. Working closely with EU and global partners, the EBA will prioritise resources to balance new and existing regulatory responsibilities.

Source: EBA

CP14/24 – Large Exposures Framework

The Prudential Regulation Authority (PRA) has released a consultation paper CP14/24 outlining proposals to implement the remaining Basel Large Exposures (LEX) standards. The proposals aim to strengthen the prudential framework that protects firms from large losses due to the default of a single counterparty or connected groups.
Key proposals include:

- removing the use of internal models for Securities Financing Transactions (SFTs),
- mandating a substitution approach for Credit Risk Mitigation (CRM), and
- restricting firms from exceeding large exposure limits for trading book exposures to third parties.

The PRA also suggests allowing firms to exceed limits for intragroup exposures, simplifying capital requirements, and removing exemptions for UK deposit guarantee scheme exposures. Other changes involve removing the use of immovable property as CRM and adjusting requirements for exposures to certain French counterparties. The PRA also proposes merging relevant rules and updating supervisory statement SS 16/13 to reflect these changes.

Source: BOE

FCA cracks down on illegal finfluencers

20 finfluencers are being interviewed under caution by the FCA, as it launches targeted action against finfluencers who may be touting financial services products illegally. The FCA also issued 38 alerts against social media accounts operated by finfluencers which may contain unlawful promotions.
Increasing numbers of young people are falling victim to scams, and finfluencers can often play a part. Nearly two-thirds (62%) of 18- to 29-year-olds follow social media influencers, 74% of those said they trusted their advice and 9 in 10 followers were encouraged to change their financial behaviours based on their advice.

Source: FCA

The end of LIBOR

On September 30, 2024, the final synthetic London Interbank Offered Rate (LIBOR) settings were published, All 35 LIBOR settings have now permanently ceased.
The transition away from LIBOR, once referenced in $400 trillion of financial contracts, has enhanced market stability and modernised the financial system. For over a decade, UK regulators, global counterparts, and market participants have worked to adopt risk-free rates (RFRs) based on robust data.
Synthetic LIBOR served as a temporary solution to facilitate a smooth transition of legacy contracts to alternative RFRs. The successful phase-out of LIBOR is attributed to extensive international collaboration.

Source: FCA

SEC Adopts Rule Amendments and New Rule to Improve Risk Management and Resilience of Covered Clearing Agencies

The Securities and Exchange Commission (SEC) has adopted new rule amendments and a rule aimed at enhancing the resilience, recovery, and wind-down planning of covered clearing agencies. These changes include requirements for intraday margin collection and the use of reliable substantive inputs in risk-based margin models. Specifically, clearing agencies must now have policies to monitor intraday exposures continually, make intraday margin calls when necessary, and document decisions not to make such calls. They must also have procedures for using reliable data and alternative inputs when primary data is unavailable or unreliable.

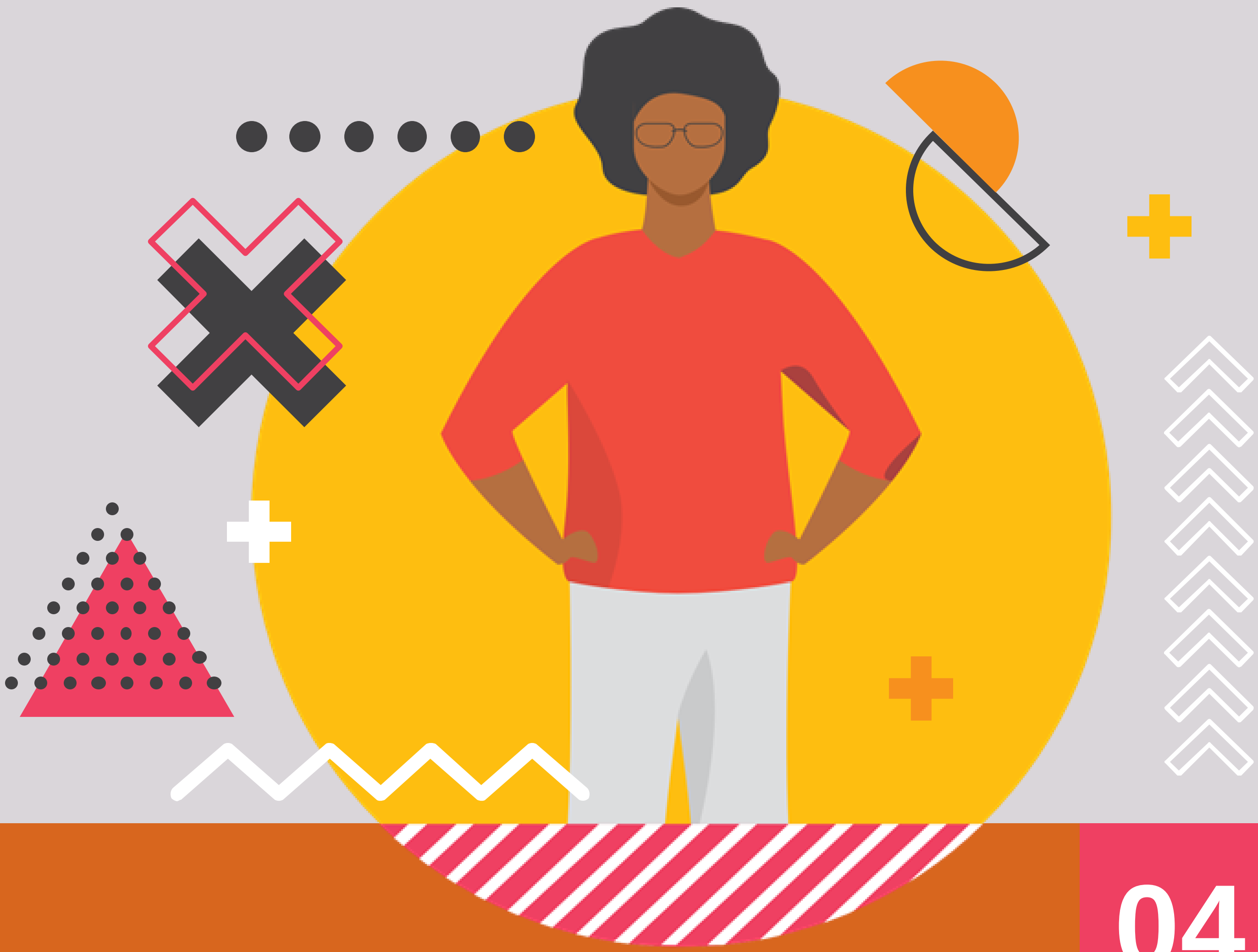
Additionally, the new rule outlines 9 elements that must be included in a clearing agency's recovery and wind-down plan, addressing planning, implementation, testing, and board approval. The compliance dates for these rules are set at 150 days and 390 days after publication in the Federal Register for filing required changes and for those changes to take effect, respectively. SEC Chair Gary Gensler emphasised that these amendments will enhance the stability and continuity of financial markets, benefiting investors and issuers.

Source: SEC

SFC concludes consultation on market sounding guidelines

The Securities and Futures Commission (SFC) has published its finalised guidelines for market soundings, which are commonly seen in block trades. These guidelines outline principles and requirements for licensed or registered persons to protect confidential information during market soundings. The consultation received broad support and the SFC incorporated feedback to refine the guidelines. According to SFC CEO Julia Leung, the guidelines aim to prevent the misuse of confidential information and thus enhance market integrity and investor confidence in Hong Kong's capital markets. The guidelines will be officially published on 1 November 2024 and will take effect on 2 May 2025, with a six-month transitional period for compliance. The SFC has also provided practice guidance and examples through FAQs to help intermediaries implement the guidelines.

Source: SFC



04

PwC Publications

The next wave of hyperautomation in banking includes GenAI

PwC US has released an article on the significant opportunities presented by Generative AI (GenAI) in expanding automation and enhancing efficiency in banking. GenAI goes beyond improving workflow automation by integrating human-like intelligence, thereby transforming what can be achieved with current technologies. Banks need to make strategic decisions regarding technology, architecture, services, workforce, and competitive positioning as they explore GenAI's potential.

Historically, banks have invested in hyperautomation technologies, but GenAI prompts a reevaluation of these investments to achieve greater efficiency and reengineer business processes. The ultimate goal is to increase productivity and reduce costs in traditional support functions.

The article assesses consensus in banking about the current and future state of hyperautomation, through interviewing digital transformation and automation leaders across a range of institutions in the US and Canada to understand the evolution of hyperautomation investments and their future with GenAI. Key themes include the enhanced power of hyperautomation through GenAI, the ongoing relevance of RPA (Robotic Process Automation), the convergence of technologies, the necessity of transforming people and processes, and the roles of “citizen activators” and “citizen developers.”

Recommendations are made for evolving automation investments and integrating them with GenAI strategies, based on insights from these interviews.

See: Publication

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