January 2017

Asia Pacific Regulatory Summary

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REGULATION

Highlights

- Hong Kong SFC Cites Algo Trading Risk Mitigation Weaknesses
- HK Launches Best Execution Review
- Korea FSC Gets Tough on Short-selling

AUSTRALIA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/asic-steps-surveillance

http://www.regulationasia.com/content/asic-details-enforcement-drive

ASIC Steps Up Surveillance

NOVEMBER 11, 2016

ASIC's (Australian Securities and Investments Commission) annual report revealed it has stepped up surveillance efforts, resulting in the completion of 1,441 "high-intensity" surveillance projects over 2015/16 and AUD210.5 million (USD160.64 million) in compensation and remediation.

In his notes, ASIC chairman Greg Medcraft said the regulator will continue to increase its surveillance efforts.

On a related note, ASIC also issued the terms of reference and membership details of its Enforcement Review Taskforce. Minister for Revenue and Financial Services Kelly O'Dwyer said the taskforce will "assess the suitability of the existing regulatory tools available to ASIC" and determine if there is a need to strengthen the regulator's "enforcement toolkit".

The taskforce, chaired by The Treasury, is set to report on strengthening ASIC's regulatory tools by 2017.

CHINA

IMPACT

Low ● ● ● High

SOURCE

http://www.regulationasia.com/content/csrc-said-remove-qfii-asset-allocation-limit

CSRC Said to Remove QFII Asset Allocation Limit

OCTOBER 04, 2016

CSRC (the China Securities Regulatory Commission) removed guidelines on QFII (Qualified Foreign Institutional Investor) asset allocation, Bloomberg reported, citing unidentified sources.

The regulator is said to have told market participants that QFIIs are no longer required to have at least 50 percent of their assets under management in stocks. A rule requiring QFIIs to have a cash ratio of at least 20 percent was also removed.

China has already eased several capital requirements to boost foreign investors' access to domestic markets after the decision earlier this year by MSCI to delay the inclusion of China's equity markets in its indexes.

CHINA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/csrc-warns-5-brokers-compliance

CSRC Warns 5 Brokers on Compliance

DECEMBER 28, 2016

CSRC (the China Securities Regulatory Commission) urged five brokers to tighten compliance after inspections found weaknesses in internal risk control and other factors.

The five companies include Guotai Junan Securities and Guosen Securities, who were also said to have weaknesses in due diligence and supervision.

The three other firms—New Times Securities, Zhongtai Securities and Dongguan Securities—were asked to fix a variety of issues within a certain period.

CSRC also said it would more closely monitor asset managers and brokerages, with a spokesman saying some asset managers have "severely deviated from work ethics" and become "rats cast aside by the market.

CHINA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/csrc-punishes-investor-illegal-stock-connect-trading

CSRC 'Punishes' Investor for Illegal Stock Connect Trading

NOVEMBER 19, 2016

CSRC (the China Securities Regulatory Commission) said it "punished" an investor for illegal trading via the Shanghai-Hong Kong Stock Connect programme.

The regulator gave no details except that the trades were worth more than CNY40 million (USD5.8 million).

In October it warned of potential cross-border stock market manipulation due to increased connections with Hong Kong.

CSRC also said it had held a joint training session with its Hong Kong counterpart and issued a statement citing the threat of highly-leveraged funds and multiple domestic and overseas accounts held in Hong Kong.

The Hong Kong's Securities and Futures Commission also asked licensed corporations to check and enhance their systems in advance of the launch of the Shenzhen-Hong Kong Stock Connect programme.

SFC said in a notice that corporations must inform their clients on the rules, arrangements, and risks associated when trading; enhance systems and controls; and ensure regulatory compliance.

CHINA

IMPACT

Low ● ● ○ High

SOURCE

http://www.chinadaily.com.cn/business/2016-10/18/content_27089909.htm

China Tightens Individuals' Stock Accounts Limit

OCTOBER 18, 2016

China Daily reported that CSDC (China Securities Depository and Clearing), a state-owned clearing service company, reduced the number of A-share stock accounts individuals are allowed to hold from 20 to three.

CSDC said the reason for the restriction is to better regulate and monitor activity in the stock market.

"The utilization rate for investors with more than three accounts is very low. The accounts have taken up too many technical resources," it said in a statement.

"Meanwhile, some investors have taken advantage of multiple accounts to engage in illegal market activities," it added.

The new regulation is effective immediately. The company said that investors can continue to use their existing accounts if they are properly registered and meet a real trading need.

The CSDC has a 'black list' of irregular and illegal trading activities. It has fined 70 holders of more than 500 stock accounts since introducing a policy last April to allow investors to have multiple stock accounts.

There were about 110 million investors in China's A-share market as of August, according to CSDC data."

HONG KONG

IMPACT

Low ● ● ● High

SOURCE

http://www.regulationasia.com/content/hong-kong-sfc-cites-algo-trading-risk-mitigation-weaknesses

Hong Kong SFC Cites Algo Trading Risk Mitigation Weaknesses

DECEMBER 13, 2016

Hong Kong's SFC (Securities and Futures Commissioned) issued a circular on the results of its review of algorithmic trading, citing five weaknesses in risk mitigation.

Although firms have moved to implement governance frameworks, the SFC said it found not enough management and control personnel are involved in governance of algorithmic trading, and "insufficient pre-trade controls to prevent the generation of algorithmic orders which might adversely affect market integrity".

It also cited inadequate due diligence on third-party systems, a lack of contingency plans for emergencies, and an "absence of policies and procedures concerning testing requirements.

HONG KONG

IMPACT

Low ● ● ● High

SOURCE

http://www.regulationasia.com/content/hk-launches-best-execution-review

HK Launches Best Execution Review

NOVEMBER 05, 2016

Hong Kong's SFC (Securities and Futures Commission) launched a review of best execution and client facilitation among licensed institutions.

The review will look at industry compliance with related requirements, and aim to understand the market development and challenges the industry faces, with the results providing input into policy formulation.

"During the course of SFC's routine inspections on the LCs in the past years, we note areas for improvement in their practices of best execution, client facilitation, and other related areas. The principal trading activities, including client facilitation, continue to evolve in global institutions," it said.

Specifically, the review will look at: inadequate controls to avoid conflict of interest; lack of priority to client orders over principal orders; and deficiencies in monitoring issue of indications of interest.

"A benchmarking exercise of the SFC regulatory requirements and market practices in Hong Kong against requirements of major financial services regulators and other relevant market practices will also be conducted," the regulator added.

HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/hong-kong-expands-short-position-reporting-rules

Hong Kong Trials Short Position Reporting Rules

DECEMBER 20, 2016

Hong Kong's SFC (Securities and Futures Commission) piloted its expanded short position reporting regime, which cover all securities able to be shorted under Stock Exchange of Hong Kong rules.

It has also revised the reporting threshold for collective investment schemes of HKD30 million (USD3.86 million). The stock-based threshold is unchanged.
The rules are expected to come into effect on 15 March 2017.

HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/hk-introduce-key-manager-regime

HK to Introduce Key Manager Regime

NOVEMBER 29, 2016

Hong Kong's SFC (Securities and Futures Commission) will introduce a regulation requiring the registration of key managers at financial firms including brokers and hedge funds, Reuters reported.

Sources said the regulation will cover "hundreds of executives in support functions including IT, operations, compliance, legal and risk management".

"The initiative is aimed at helping the SFC obtain up-to-date management structure information from licensed corporations and prompt the awareness of senior management to their obligations under the existing regulatory framework," a spokesperson for the regulator said.

Firms will have several months to comply with the regulation once it is introduced.

HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/hk-regulator-tighten-asset-manager-rules

HK Regulator to Tighten Asset Manager Rules

NOVEMBER 23, 2016

Hong Kong's SFC (Securities and Futures Commission) proposed stricter regulation of asset managers. The regulator said it would revise the Fund Manager Code of Conduct, and Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission in an effort to further protect investors' interests and ensure market integrity

Key areas of enhancements are in respect of securities lending and repurchase agreements, custody of fund assets, liquidity risk management, and disclosure of leverage by fund managers. The proposed changes to the Code of Conduct aim to address the potential conflicts of interest in the sale of investment products and enhance disclosure at the point-of-sale

The consultation closes on 22 February next year.

HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/hk-launches-brokerage-cybersecurity-review

HK Launches Brokerage Cybersecurity Review

OCTOBER 13, 2016

Hong Kong's SFC (Securities and Futures Commission) launched a review of brokers' cybersecurity management and preparedness, after reports from security brokers revealed compromised or unauthorised transactions in excess of HKD100 million (USD12.89 million) via internet and mobile trading systems.

The review consists of questionnaires to assess cybersecurity features; on-site inspections; and benchmarking the SFC's regulatory requirements and market practice against those elsewhere.

SFC suggested brokers "critically review and enhance their controls to combat cyberattacks, suspicious activities so as to stop further unauthorised trading where security has been compromised".

HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/hk-sfc-forms-specialist-teams-key-risk-areas

HK Regulator to Form Specialist Probe Teams

OCTOBER 08, 2016

Hong Kong's SFC (Securities and Futures Commission) will create specialist teams to investigate market irregularities and speed up open investigations, Bloomberg reported.

The teams will probe wrongdoing such as market manipulation and corporate fraud and brokerage misconduct. The regulator will also enhance its surveillance systems, it said.

HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/sfc-clarifies-broker-requirements

SFC Clarifies Broker Requirements

OCTOBER 01, 2016

Hong Kong's SFC (Securities and Futures Commission) issued guidelines on licensing requirements for brokers and execution brokers after finding some licensed corporations were breaching its Code of Conduct and anti-money laundering guideline requirements.

The circular says introducing brokers should limit their business activities as some were found to have conducted activities beyond their scope, breaching licensing conditions. They are also prohibited from holding client assets, it notes.

"Introducing brokers should carefully assess whether the new business activities or services fall within the restrictions included in their licensing conditions," SFC noted.

Execution brokers must also ensure they certify a client's identification when opening an account with the client not present, it said.

KOREA

IMPACT

Low ● ● ● High

SOURCE

http://www.regulationasia.com/content/korea-reveals-new-short-selling-disclosure-rules

Korea FSC Gets Tough on Short-selling

NOVEMBER 12, 2016

Korea's FSC (Financial Services Commission) tightened short-selling rules to prevent market volatility and enhance monitoring of possible illegal transactions.

Trading will be suspended in stocks it identifies at the close of each business each day as having experienced a heavy influx of short sales and suffered drastic falls.

For a stock to be suspended, short sales will have accounted for more than 20 percent of its daily investment limit, its closing price will have fallen more than five percent day-on-day, and the share of short sales will have been more than double its average level over the preceding past 40 trading days.

The Korea Exchange will also have an automated alert system that will notify a certain stock of overheated demand for shorting.

It will also ban short sellers from buying a stock in a secondary offering if they placed a short position in that stock during the offer period.

The Korea Exchange will also have an automated alert system that will notify a certain stock of overheated demand for shorting.

The FSC will also set a two-day disclosure report deadline on short-sale balances and mandate listed companies to disclose deals on technology transfer and partnership contracts.

SINGAPORE

IMPACT

Low High

SOURCE

http://www.regulationasia.com/content/mas-proposes-short-selling-disclosure-rules

MAS Proposes Short-selling Disclosure Rules

DECEMBER 15, 2016

MAS (the Monetary Authority of Singapore) issued a consultation paper proposing new regulations for short selling.

It would require that some short sellers disclose orders to an exchange and other, larger trades to the regulator.

MAS plans to introduce a reporting system for short positions on its website.

The consultation closes on 27 January 2017.

MARKET STRUCTURE

Highlights

- Shenzhen-HK Stock Connect Opens
- Japan to Tighten HFT Regulations

AUSTRALIA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/asic-review-asx-risk-management

ASIC to Review ASX Risk Management

DECEMBER 21, 2016

ASIC (the Australian Securities and Investments Commission) will review ASX (Australian Securities Exchange) arrangements on technical and operational risk management after the 19 September ASX outage that shortened the exchange's trading session.

According to ASIC's report, the ASX "broadly adhered to its procedures for incident management and its communications protocol."

However, the Commission recommended several steps to enhance equity market resilience including strengthening business continuity management and information technology disaster recovery arrangements; enhancing monitoring of technology, systems, and hardware; and informing participants "in a timely manner".

ASIC also said next year it "may consider requiring an independent evaluation of ASX's arrangements" and consult on market operators' integrity rules regarding technological and operational performance.

AUSTRALIA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/asx-revamps-code-conduct

ASX Revamps Code of Conduct

OCTOBER 10, 2016

ASX has updated its Code of Conduct in response to a pair of statements issued by Australia's CFR (Council of Financial Regulators) covering conduct rules and competition requirements for cash equities clearing and settlement, both areas in which ASX currently has a monopoly.

According to the CFR statement on conduct, ASX is "expected to commit to submitting an annual external audit of its governance, pricing and access arrangements to the Agencies and members of relevant user governance arrangements, benchmarked against the Regulatory Expectations".

ASX will complete its first audit under these conditions by August next year, it said.

CFR expects that "ASX should publicly commit to an appropriate minimum level of transparency of pricing across its range of monopoly cash equity CS services. The pricing of these services should not discriminate in favour of ASX-affiliated entities (except to the extent that the efficient cost of providing the same service to another party was higher)."

Finally, the statement says ASX should offer: "Commercial, transparent and non-discriminatory access to CS services."

In its second statement, CFR sets out a list of minimum conditions for clearing related to regulation/supervision; safeguards; non-discriminatory access; and interoperability between competing central counterparties.

In notice issued in April this year, the Australian Treasury said it supported openness to competition in the clearing market for ASX securities and a policy stance to implement legislative change to facilitate "safe and effective competition".

However, market watchers suggested at the time there was little likelihood of actual competition emerging.

CHINA

IMPACT

Low ● ● ● High

SOURCE

http://www.regulationasia.com/content/shenzhen-hk-stock-connect-opens

Shenzhen-HK Stock Connect Opens

DECEMBER 03, 2016

The Shenzhen-Hong Kong Stock Connect programme kicked off in December under an expanded cross-border regulatory regime.

Hong Kong's SFC (Securities and Futures Commission) earlier agreed to expand their cooperation to enable use of real-time surveillance to monitor markets on cross-border illegal activities and market misconduct.

Commenting on the framework, SFC chairman Carlson Tong said: "The expanded trading link will further strengthen mutual access between the Mainland and Hong Kong stock markets. Similar to the arrangements for Shanghai-Hong Kong Stock Connect, the two regulators have established mechanisms to protect the integrity of both markets under Shenzhen-Hong Kong Stock Connect."

According to Nicholas Ronalds, managing director and head of equities at the Asia Securities Industry and Financial Markets Association, the Chinese regulator has "largely addressed concern" about foreign investors' legal claim to A-shares, but the programme's "operational issues are a bit complex".

This is mainly due to China T+0 settlement for stocks, but T+1 for payment.

"This contrasts to the method used in most developed markets, "delivery versus payment" (DVP) where stock and cash settle on the same day, usually on T+2. Brokers and custodians and the HKEX have devised ways that largely overcome the disconnection of settlements, though some operational and counterparty risk remains," Ronalds said.

JAPAN

IMPACT

Low ● ● ● High

SOURCE

http://www.regulationasia.com/content/japan-tighten-hft-regulations

Japan to Tighten HFT Regulations

OCTOBER 19 2016

Japan's FSA (Financial Services Agency) submitted plans to tighten HFT (high-frequency trading) regulations to the country's Financial System Council.

Among the proposals, high-frequency traders would be required to register as such and brokerages would be banned from taking orders from any that are unregistered or which do not have proper risk management.

The regulator said it does not intend to eliminate HFT as it "contributes to smooth market transactions".

Regulators in other jurisdictions have blamed HFT for accentuating market volatility.

SINGAPORE

IMPACT

Low ● ● ● High

SOURCE

http://www.regulationasia.com/content/sgx-finalises-mtp-methodology

SGX Finalises MTP Methodology

DECEMBER 03, 2016

SGX (Singapore Exchange) confirmed its new method for deciding whether a stock meets its MTP (minimum trading price) requirement.

After a review on 1 December, 14 companies which did not trigger the new criteria were removed from the watch-list, reducing it to 54.The next review will be on 1 June 2017.

The MTP is based on volume-weighted average price, or VWAP. Post-share consolidation VWAP will now be determined by a stock's historical prices adjusted in proportion to the consolidation ratio.

The originally proposed method of calculating VWAP was to divide the value of securities traded by volume traded over a 6-month period.

SINGAPORE

IMPACT

Low ● ● ○ High

SOURCE

http://www.straitstimes.com/business/companies-markets/baltic-exchange-offers-strategic-value-says-sgx

SGX Completes Acquisition of Baltic Exchange

OCTOBER 01, 2016

Shareholders of the London- based Baltic Exchange approved SGX's £87 million (S$154 million) buyout offer and the deal, SGX's largest acquisition, moved to completion.

SGX executives said that the acquisition opens up many opportunities, given the Baltic Exchange's range of indices and benchmarks used globally to settle freight contracts and forward freight agreements, a form of derivative used for freight rate hedging.

It will also allow SGX to better serve clients in Asian-Pacific and European time zones.

TAIWAN

IMPACT

Low ● ● ○ High

SOURCE

https://global.krx.co.kr/contents/GLB/02/0203/0203000000/GLB0203000000.jsp

Taiwan Stock Exchange and Korea Exchange Expand Ties with Cross-Listed ETFs

OCTOBER 11, 2016

The Taiwan Stock Exchange (TWSE) and the Korea Exchange (KRX) announced the cross listing of ETFs tracking the benchmark indices of both markets.

The move further expands the growing links and cooperation between the two bourses. Both ETFs will be the first index-based products to track Korean and Taiwanese securities in each market.

The KRX and TWSE intend to continue working together on new projects, which may include jointly compiling new indices of Taiwanese and Korean-listed companies based on themes such as high dividends or prominence in the technology industry.

DERIVATIVES

Highlights

- APRA Finalises Non-Centrally Cleared Derivatives Rules
- China Launches Credit-Default Swaps
- HKEX Delays Derivatives VCM

AUSTRALIA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/apra-finalises-non-centrally-cleared-derivatives-rules

APRA Finalises Non-Centrally Cleared Derivatives Rules

OCTOBER 17, 2016

APRA (the Australian Prudential Regulation Authority) released the final version of regulatory requirements for margining and risk mitigation for non-centrally cleared derivatives.

The regulator said it would not yet announce an implementation date or timetable "to allow APRA regulated institutions with material levels of non-centrally cleared derivatives to actively continue their preparations."

In finalising the requirements, APRA said it had sought to ensure a balance between "financial safety, efficiency, competition, contestability and competitive neutrality".

CHINA

IMPACT

Low ● ● ○ High

SOURCE

http://www.bloomberg.com/news/articles/2016-11-17/china-said-to-plan-trading-platform-for-credit-default-swaps-ivm7kokv

China Launches Credit-Default Swaps

NOVEMBER 19, 2016

China launched its first credit default swaps, Reuters reported, marking another step in Beijing's efforts to address the country's growing debt risks.

Ten institutions conducted 15 CDS transactions on October 31 with a total of CNY300 million ($43.64 million) in nominal principal, NAFMII (the National Association of Financial Market Institutional Investors) said.

Meanwhile, Bloomberg reported, the China Foreign Exchange Trade System, regulator of the interbank market, plans to start a trading platform to boost future development of the CDS market.

CHINA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/china-bans-futures-broker-margin-financing

China Bans Futures Broker Margin Financing

NOVEMBER 10, 2016

CSRC (the China Securities Regulatory Commission) banned futures brokers from providing margin financing in a move to crackdown on speculation and deflate speculative bubbles in the market.

The regulator also asked investors to maintain market stability amid a rise in the volatility of some contracts.

CSRC deputy Fang Xinghai head also called for tighter supervision of agricultural futures which are suspected to be responsible for the unusual price movements.

He also asked the Dalian Commodity Exchange, Shanghai Futures Exchange and Zhengzhou Commodity Exchange to monitor unusual trading, price changes and large capital flows.

CHINA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/shanghai-futures-exchange-adopts-nasdaq-surveillance-platform

Shanghai Futures Exchange Adopts Nasdaq Surveillance Platform

OCTOBER 19, 2016

China's SHFE (Shanghai Futures Exchange) launched a surveillance platform using Nasdaq's SMARTS.

The platform can detect market irregularities in real-time and process a substantial amount of market information, according to a statement from Nasdaq. It has tools that can aid data provision during investigations.

HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/hkex-delays-derivatives-vcm

HKEX Delays Derivatives VCM

NOVEMBER 12, 2016

HKEX (Hong Kong Exchanges and Clearing) delayed the 14 November rollout of a VCM (volatility control mechanism) for the derivatives market due to a "potential technical issue".

HKEX said in a statement the issue is "rare and specific to certain exchange participants, and did not occur in the previous system tests and market rehearsals." It gave no further details, except to say it will conduct more tests to resolve the issue.

The mechanism had been due to apply to spot month and next calendar month contracts in the HSI, Mini-HSI, (HHI) H-shares Index and Mini-HHI futures markets.

A VCM for 81 HKEX-listed stocks was introduced on 22 August.

It limits trading in a covered security to a 'cooling off' band if there is an attempt to trade it at more than 10 percent from its last price. The VCM can only be applied once per stock per trading session.

SINGAPORE

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/sgx-glitch-halts-derivatives-trading

SGX Glitch Halts Derivatives Trading

DECEMBER 09, 2016

A technical snag on a recently installed SGX (Singapore Exchange) trading system delayed trading in some derivatives for about an hour.

The delay, which is the second for the year, affected December-expiring Nikkei 225 futures and several other contracts.

SGX said in a statement: "(The issue) was detected by our monitoring processes and addressed immediately. The affected contracts commenced trading as per normal at 10am."

The exchange's old derivatives system suffered a technical failure in 2014 which also halted trading.

At the start of September, SGX set up a working group on operational resilience in response to a disk malfunction on 14 July which shut the market for half a day.

ABOUT ITG

ITG is an independent broker and financial technology provider that partners with global portfolio managers and traders to provide unique data-driven insights throughout the investment process. ITG helps clients understand market trends, improve performance, mitigate risk, and navigate increasingly complex markets. ITG is headquartered in New York with offices in North America, Europe, and Asia Pacific.

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