2Q2017

Asia Pacific Regulatory Summary

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REGULATION

Highlights

- China Regulators Reaffirm Reform Push after MSCI Decision
- HK SFC to Review Short-Selling Rules
- RBI, Sebi Step-up NSE Algo Probe, Top Officials Under Scanner

ASIA-PACIFIC

IMPACT

Low ● ● ○ High

SOURCE

https://www.regulationasia.com/apac-regulators-welcome-global-fx-code/

APAC Regulators Welcome Global FX Code

MAY 22, 2017

Regulators from Australia, Hong Kong, India, Korea and Singapore extended a positive welcome to the FX Global Code of BIS (the Bank for International Settlements).

The Code - developed by BIS's Global Foreign Exchange Committee - imposes no legal or regulatory obligations on forex market participants, but should instead be regarded as an "essential reference".

The Code has six main sections, covering ethics; governance; execution; information sharing; risk management and compliance; and confirmation and settlement processes.

It is intended to cover the buy and sell sides, non-bank liquidity providers, e-trading platforms, "and other entities providing brokerage, execution, and settlement services."

The ethics section contains clauses on honesty, fairness and integrity, and suggests responsibility for this falls on financial institutions, their senior and front-line management, and other personnel, who should "report and/or escalate issues of concern to appropriate parties internally or externally."

On conflicts of interest, which also falls under the ethics section, the Code suggests these can be avoided in several ways including "segregation of duties and/or reporting lines; establishing information barriers (for example, physical segregation of certain departments and/or electronic segregation) ... establishing declaration policies and/or records for identified conflicts of interest and personal relationships ... and having policies and controls on Personal Dealing."

However, it also notes conflicts of interest cannot always be avoided, but, if they cannot be avoided, should at least be pointed out to the parties to a transaction or service, giving them the opportunity to take their business elsewhere.

On governance, the Code says market participants should "expect senior management to be highly visible to relevant personnel of the Market Participant in articulating and modelling the desired practices, values, and conduct," echoing requirements under Hong Kong's upcoming MiC (Managers in Charge) regime and the Senior Managers and Certification Regime of the UK FCA (Financial Conduct Authority).

It also suggests remuneration and promotion policies should encourage the right behaviour through taking into account factors such as "the mix of pay components, such as fixed and variable; the form and timing of payment for the variable pay component; [and] how such structures align the interest of relevant personnel with the interests of the firm over both short- and long-term horizons," can be taken into account when doing so.

AUSTRALIA

IMPACT

Low ● ● ○ High

SOURCE

https://www.regulationasia.com/asic-flags-fund-manager-compliance-failures/

ASIC Flags Fund Manager Compliance Failures

JUNE 15, 2017

ASIC (the Australian Securities and Investments Commission) issued recommendations to improve conduct in the funds management sector, citing several failures found during a recent series of inspections.

In a statement, the regulator's commissioner John Price said the surveillance found funds are falling short in managing conflicts of interest; breach reporting; custody; risk management systems; rewards and incentives; and whistleblowing.

On breach reporting, the report states that 19 of the entities surveyed found failures in the 12 months before ASIC started to surveil them, with six having 10 or more "breaches or incidents". On risk management, it notes: "We found that the risk management systems of the four responsible entities that did not review their system annually did not meet the requirements of international standards governing risk management." Furthermore, the same four funds "do not have compliance measures that meet international standards governing effective compliance."

Turning to conduct and culture, the report says ASIC is "concerned that in a number of entities' boards have delegated the responsibility for approval of these to other parties within the entity." This mirrors concerns about intermediaries in Hong Kong that, rather than take responsibility for their firm's actions, many are simply appointing junior staff as responsible officers instead.

Among the recommendations contained in the report, ASIC said fund managers ensure top management are accountable for disputes, and review and strengthen their "cyber resilience measures." Furthermore, it said, fund managers should start to align their remuneration, rewards and incentive schemes "with the values of the responsible entity." Meanwhile, ASIC will conduct more targeted surveillance work on the underperforming institutions, and has asked several firms to rectify their failings.

The regulator surveilled 28 fund managers with more than AUD49 billion (USD37.29 billion) in assets under management across 336 investment schemes.

AUSTRALIA

IMPACT

Low ● ○ ○ High

SOURCE

https://www.regulationasia.com/australia-eyes-stronger-powers-asic/

Australia Eyes Stronger Powers for ASIC

JUNE 29 2017

The Australian Treasury issued a trio of proposals to enhance the enforcement powers of ASIC (the Australian Securities Investments Commission), including removing a requirement it must forewarn suspected malfeasants when it acquires a search warrant, and new measures on entity licensing and industry codes.

In the paper on search warrant powers, the Financial System Division of the Treasury proposed to remove "impairments such as the need under some Acts for ASIC to effectively 'forewarn' entities of its intention to seek evidential materials by first issuing a notice to produce."

It also proposed ASIC's warrant powers be extended to include "the search, seizure and copying of data on electronic equipment," which is currently only allowed in criminal investigations.

The second paper proposes giving ASIC powers "to refuse to grant, or suspend or cancel a licence where applicants or existing licensees (or those who control them) are not assessed by ASIC as being fit and proper to be licensees." Among the other proposals, ASIC would gain powers to remove a license from a business if it does not commence operations within six months of being authorised.

In the third paper, the Treasury proposed to require that all industry codes in Australia's financial sector be approved by ASIC, and that "Approved codes should be binding on and enforceable against subscribers by contractual arrangements with a code monitoring body."

AUSTRALIA

IMPACT

Low ● ○ ○ High

SOURCE

http://www.regulationasia.com/content/asic-confirms-further-asx-review

ASIC Confirms Further ASX Review

APRIL 19, 2017

ASIC (the Australian Securities and Investments Commission) confirmed it will conduct an in-depth review of "operational and technological risk management" at ASX (Australian Securities Exchange) Group later this year.

In its market integrity report covering the second half of 2016, the securities regulator notes that in an initial report on last September's ASX outage, it identified the Exchange as "a single point of failure in [Australian] equities markets."

Elsewhere in the report, ASIC says it will pay particular attention to four main areas in 2017 - conduct and culture risk; handling of confidential information and conflicts of interest; technology risk and cyber resilience; and market innovation.

"Over the next year, we are building on the cultural indicators in our risk-based surveillances and using our findings to better understand how culture is driving conduct. Where we think there may be a problem, we will ask questions and dig deeper," the report says.

"We will be reviewing the technological and operational risk management of our stakeholders, focusing on critical infrastructure providers," it adds.

"As part of this work we will continue to collate and analyse cyber resilience information from our regulated population and engage with other government agencies and industry bodies to improve cyber resilience across our financial markets."

CHINA

IMPACT

Low ● ● ● High

SOURCE

https://www.regulationasia.com/china-regulators-reaffirm-reform-push-msci-decision/

China Regulators Reaffirm Reform Push after MSCI Decision

JUNE 23, 2017

China's securities and foreign exchange regulators, central bank and CIPS (the China International Payments System) signaled their intention to introduce further measures that will open up the country's capital markets in the aftermath of MSCI signaling it will include 222 large-cap stocks in its Emerging Markets Index

In comments carried by the official Shanghai Securities Journal, CSRC (China Securities Regulatory Commission) vice chairman Fang Xinghai said will look at further reforms to attract more international investors to the market – including possible changes to QFII (the Qualified Foreign Institutional Investor) programme – and support development of new products including derivatives. The securities regulator will seek to improve the quality of companies listed on China's stock exchanges and could eventually allowing non-Chinese firms to list, he said.

Chinese stock markets are typically volatile. This was particularly evident during April and May this year, brooking criticism from institutional investors. Under chairman Liu Shiyu, the CSRC has targeted enhanced supervision to fix governance and structural issues, including market malpractice and manipulation.

Meanwhile, the head of SAFE (the State Administration of Foreign Exchange), Pan Gongsheng, said it would seek to further open up financial markets and continue to implement foreign exchange reforms. CIPS, whose first phase was launched in October 2015, could play a major role in these developments, as it is looking to soon launch its second phase, according to PBOC (People's Bank of China) governor Zhou Xiaochuan, although he did not give details of what this phase would involve. So far, CIPS has attracted 28 direct and 574 indirect participants.

CHINA

IMPACT

Low ● ● ○ High

SOURCE

https://www.regulationasia.com/csrc-eyes-education-halt-market-malpractice/

CSRC Eyes Education to Halt Market Malpractice

JUNE 19, 2017

CSRC (the China Securities Regulatory Commission) kicked off the second phase of its campaign to educate investors about market malpractice.

In the second phase of the programme, which was initiated in early May, investors will be warned off market manipulation via swing and limit-up trading, marking the close, chicanery in the futures market, and scalping. The first phase of the programme focused on insider trading, disseminating “four typical cases” and “regulatory knowledge” about the issue, and receiving a strong response in Chinese media, including dissemination via WeChat, the CSRC said.

Meanwhile, as well as using the ‘carrot’ of its investor education programme, the CSRC has also been taking a much harder line against market malpractice itself. According to a report by the official news agency Xinhua, it has issued more in fines during the first five months of this year than it did during the whole of 2016.

During the period, it issued RMB6.14 billion (USD902.56 million) in fines violations and suspended 29 people from trading in the securities sector. In 2016, it issued RMB4.28 billion in fines, which was itself an increase of 288 percent from the previous year.

Earlier this year, the CSRC issued a 20-point statement detailing cases of market manipulation and other misconduct via stock connect links with Hong Kong.

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CHINA

IMPACT

Low ● ● ○ High

SOURCE

http://www.caixinglobal.com/2017-05-30/101095982.html

CSRC Tightens Rules on Stock Sales by Major Shareholders

MAY 30, 2017

CSRC has issued new rules on the percentage of equity that major stockholders of listed companies can sell and imposed limits on the timing of sales, in a bid to reduce market volatility and encourage long-term investment.

The new restrictions take effect immediately, barring major stockholders (those owning more than 5 percent of a listed company's equity) from dumping their stakes in an intensive and massive manner, or using another party for a sell-off.

In January, the CSRC capped stake sales by major shareholders at 1 percent of a company's total shares every three months, also warning against false disclosures, insider trading and stock market manipulation.

The new policy elaborates that the 1 percent cap also applies to IPOs, share placements, pledging of stock as loan collateral, and issuance of convertible bonds. The holdings of major shareholders who act in concert with associated parties will be counted together, the CSRC said.

Major shareholders are also barred from transferring more than 2 percent of a company's equity to a third party via privately negotiated block trades. Buyers of shares through block trades are not permitted to sell again within six months.

The CSRC requires that major shareholders disclose their stake-selling plans 15 trading days in advance, as well as report on progress and results of such sales.

CHINA

IMPACT

Low ● ● ○ High

SOURCE

http://www.scmp.com/business/companies/article/2086980/csrc-may-cut-profit-periods-help-more-companies-sell-stocks

China to Ease Profitability Requirements for Listing

APRIL 12, 2017

CSRC is considering revising its listing requirements to lower the profitability threshold for companies to qualify for a listing on the main board of the Shanghai and Shenzhen exchanges, potentially making it easier for new businesses to raise capital.

The plan to revise listing requirements will enable companies with at least two consecutive years' profit track record to sell shares on the main board, shorter than the current three years.

The regulator will also be using its approvals to restructure the composition of listed companies. Companies involved in the movie, entertainment and culture industries will be discouraged from share placements or restructuring plans.

Internet-related companies engaged in consumer services will need to get prior approvals by the Cyberspace Administration of China, in addition to the CSRC's approval.

Before this move, CSRC had already given a one-year profitability allowance since 2014 to ChiNext to allow startup companies and new businesses to raise funds.

CHINA

IMPACT

Low ● ○ ○ High

SOURCE

http://www.scmp.com/business/china-business/article/2088222/chinese-stock-market-regulator-steps-war-speculators

CSRC Scrutinises New Listings, Xiongan Plays amid 'Over-Speculation'

APRIL 18, 2017

CSRC has escalated its war on speculators, pledging to increase "real-time" supervision of trading in newly listed and so-called 'Xiongan concept' shares.

Speaking at a members meeting at the SZSE, CSRC chairman Liu Shiyu reiterated that bourses have the power and the responsibility to conduct real-time oversight and restrict abnormal trading.

The CSRC and SSE say they will particularly focus their attention on preventing speculation in newly-listed small-cap firms and Xiongan concept stocks – those seen as likely to benefit from the development of the planned special economic zone in Hebei province.

SSE warned that it will ask companies to accurately explain the impact the Xiongan New Area will have on their business, and order them to suspend trading should they detect over-speculation.

About a dozen Xiongan-related stocks tumbled on Monday April 18th, as they resumed trading after they were earlier required to halt trading the past two trading days to conduct self-checking of information disclosures.

The SSE also said it had suspended intraday trading for 13 investors and issued warnings to 130 accounts for ramping up their holdings in Xiongan-related stocks.

CHINA

IMPACT

Low ● ○ ○ High

SOURCE

http://www.shanghaidaily.com/business/finance/CSRC-vows-to-punish-stingy-iron-roosters/shdaily.shtml

CSRC Chief Urges Listed Companies to Pay Dividends

APRIL 10, 2017

The chairman of CSRC (the China Securities Regulatory Commission) said listed companies should pay out cash dividends to investors, advocating them as “the ultimate source of a stock’s intrinsic value” and criticising those that don’t pay out as “iron roosters”.

In a speech published on the CSRC website, Liu Shiyu also criticised some companies for blindly raising money for investment and having complicated share structures that could mask market malpractice.

“Steady and stable cash dividend payout often signals healthy financial and operational conditions of a listed company,” Liu said. “On the contrary, if a company doesn’t pay dividends with no proper reasons, it could be the signal of accounting fraud or mismanagement.”

HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

https://www.regulationasia.com/hk-sfc-review-short-selling-rules/

HK SFC to Review Short-selling Rules

JUNE 27, 2017

Hong Kong's SFC (Securities Futures Commission) will conduct a review of short-selling rules amid a sharp increase in the number of research reports setting extremely low target prices for stocks, according to Secretary for Financial Services and the Treasury, KC Chan.

Chan was replying to a question from Christfund Securities CEO and Legislative Council member Christopher Cheung in the Legislative Council, in which Cheung said several short sellers have in recent months published research reports citing problems in governance, finances and business prospects as reason for shorting a stock.

Cheung asked questions including whether the SFC investigated short selling institutions joining hands with speculators to short shares before publishing a negative report.

"There is usually a statement in this kind of report declaring that the authors of the report may have a short interest in the relevant stock and stand to realise significant gains if the price of the stock declines. The SFC investigations, therefore, usually focus on whether there has been any manipulative trading or naked short selling which is illegal," Chan explained, adding that only one case has so far been brought against the author of a report.

In Hong Kong, only covered short selling for certain designated securities is permitted. A full audit trail must be kept for covered short sales, meaning clients must provide documentary confirmation to their brokers or agents that the sale is shorted and covered. In June 2012, the SFC introduced a short position reporting regime with a requirement that institutions report their positions each week.

The short position reporting regime was expanded in March 2017 to cover all securities eligible for short selling to further enhance the SFC's monitoring of short selling activities and improve market transparency. Breaches of these statutory requirements may result in criminal prosecution. Apart from the statutory requirements, the Stock Exchange of Hong Kong requires that short selling be executed only on its trading system at or above the best current ask price (the so-called "tick rule").

In addition, HKSCC (Hong Kong Securities Clearing Company Limited) has implemented measures to safeguard brokers from late delivery. If a broker fails to deliver securities to settle its short transactions on the settlement day (i.e. T+2), the HKSCC will execute compulsory buy-in.

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HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

https://www.regulationasia.com/hong-kong-sfc-targets-real-time-regulation/

Hong Kong SFC Targets 'Real Time' Regulation

JUNE 14, 2017

Hong Kong's SFC (Securities and Futures Commission) released its 2016/17 annual report on June 14th, saying it intends to move towards a more "front loaded and 'real time' regulatory approach", and citing a sharp increase in the number of cases it completed over the year.

Technology and cross-border market connections between Hong Kong and mainland China are two of several "rapid changes which are affecting the financial industry" in the Special Administrative Region, the report notes. "Across the board, we will be more transparent and rapid in explaining the reasons for many of our actions. And more timely, impactful enforcement sends a strong deterrent message to achieve better regulatory outcomes as well as shape future market behavior," it adds.

Elsewhere, the report reveals the SFC completed 591 investigations during the year, an increase of 36 percent from 2015/16. Last May the Hong Kong regulator appointed Thomas Atkinson, former head of enforcement at the Ontario Securities Commission, to lead its charge against misconduct. The SFC report also reveals that on his watch, the number of investigations started fell substantially from a year earlier, declining from 515 to 414, or 19.6 percent.

Figures on the breaches noted by the SFC during its on-site inspections are also telling, with a surge in the number of these related to conduct. The number of breaches of the code of conduct for SFC licensees increased from 388 to 441, up 13.7 percent, and breaches of the fund managers' code of conduct were up more than 46 percent from 56 to 82. Both sharply outpaced the overall increase in breaches found, which was up only 4.2 percent.

The report also gives some hints about the SFC's regulator priorities over the coming year.

Specifically, it notes that it is discussing MRF (mutual recognition of funds) arrangements "with a number of other European authorities", following on from its deal with the Swiss financial markets regulator, and is discussing allowing exchange-traded funds under the Hong Kong-Mainland China stock connect schemes. "We are conducting a holistic review of the Code on Unit Trusts and Mutual Funds in order to align the regulatory requirements governing SFC-authorised funds with international benchmarks. In light of heightened attention on protecting investors' assets globally, we are reviewing our regulatory regime governing trustees and custodians of client assets," the report adds.

Turning to capital markets, SFC says it is "working with HKEX to enhance its clearing risk management processes in view of the expansion of its business and the latest international regulatory developments, as well as to address regulatory issues arising from its latest strategic plan."

"In addition, we are implementing our enhanced supervisory approach to HKEX, focused on conducting regular on-site inspections of HKEX's non-listing related operations," the report adds.

INDIA

IMPACT

Low ● ● ● High

SOURCE

http://economictimes.indiatimes.com/markets/stocks/news/rbi-sebi-step-up-nse-algo-probe-top-officials-under-scanner/articleshow/58880879.cms

RBI, Sebi Step-up NSE Algo Probe, Top Officials Under Scanner

MAY 29, 2017

RBI (the Reserve Bank of India) and the country's securities regulator continue their investigations into alleged favouritism at the colocation facility of NSE (National Stock Exchange).

An official said SEBI (the Securities Exchange Board of India) plans to summon top management to personal hearings on the issue, and executives who have not already resigned over the controversy are under pressure to leave their posts. Indian law states that authorities "can take appropriate action including removal or termination of the appointment of any director, after providing him a reasonable opportunity of being heard" if directors of a recognised stock exchange or clearing corporation don't abide by "regulations or code of ethics or in case of any conflict of interest."

The case relates to some brokers allegedly getting preferential access to NSE via early login and 'dark fibre' - which increases speed of access to an exchange's trading feed.

SEBI is also investigating complaints that a forensic investigation by Deloitte was biased because it was supervised by management including Ravi Narain, the CEO of NSE when the alleged favouritism was happening.

RBI is also looking into potential effects on exchange traded currency and interest rate derivatives markets. NSE grants faster access to trading members if they have a server on the exchange premises.

INDIA

IMPACT

Low ● ○ ○ High

SOURCE

http://economictimes.indiatimes.com/markets/stocks/news/sebi-sets-up-panel-on-strengthening-cyber-security/articleshow/58474769.cms

SEBI Sets Up Panel on Strengthening Cyber Security

MAY 2, 2017

SEBI has set-up a high level panel on cyber security to suggest measures to safeguard the capital markets from attacks.

The four-member committee will be chaired by SEBI member Madhabi Puri Buch, and will oversee and provide overall guidance on cyber security initiatives to SEBI and for the entire capital market.

It will advise on developing and maintaining cyber security and cyber resilience requirements which are aligned with global best practices and industry standards, and identify measures to improve cyber resilience and related business continuity and disaster recovery processes.

The committee will study major cyber-attack incidents related to financial markets domestically and abroad to identify gaps in the existing cyber security and cyber resilience framework.

The panel will also periodically review the mandate and functioning of Security Operations Centres and will guide SEBI in setting up its Cyber Lab/Cyber Center of Excellence for the securities market.

JAPAN

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/japan-finalises-stewardship-code

Japan Finalises Stewardship Code

MAY 29, 2017

A council set up by Japan's FSA (Financial Services Agency) and Tokyo Stock Exchange issued the final version of the country's Principles for Responsible Institutional Investors.

The Code covers institutional investors who manage funds and invest in companies, and "institutional investors as asset owners", with the latter "expected to disclose their policies on fulfilling their stewardship responsibilities and contribute to the enhancement of the corporate value of investee companies through their own actions and/or the actions of the asset managers, to which they outsource their asset management activities."

It is designed on a 'comply or explain' basis, and is not legally binding, although the final version adds a clause which states: "In order for institutional investors to earn sufficient understanding from their clients and beneficiaries, in the process of complying with the principles, it is considered beneficial for institutional investors to proactively explain their specific implementation activities,"

If an institution does sign up to the code, it should publicly disclose its intent to accept the Code's terms, policy on how stewardship responsibilities are fulfilled, and an explanation of why it does not comply with one or more of the Code's principles.

A new clause in the Code's principles section says large asset owners should, rather than "mechanically" accepting their asset managers' policies on stewardship, "proactively consider and clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, keeping in mind their positions and roles in the investment chain."

Elsewhere in the Code, a clause has been inserted which states institutional investors should disclose their voting records on each of their invested companies, and; "If there is a reason to believe it inappropriate to disclose such company-specific voting records on an individual agenda item basis due to the specific circumstances of an investor, the investor should proactively explain the reason."

MALAYSIA

IMPACT

Low ● ● ○ High

SOURCE

http://www.regulationasia.com/content/malaysia-ease-etf-regulations

Malaysia to Ease ETF Regulations

MAY 19, 2017

A task force led by Malaysia's SC (Securities Commission) recommended a slew of new regulatory measures to foster growth of ETFs (exchange-traded funds).

The task force, which also included representatives of Bursa Malaysia, recommended that the minimum capital requirement for ETF issuers be reduced from MYR10 million (USD2.31 million) to MYR2 million and change the issuance process to reduce time to market.

It also recommended that financial institutions, online platforms and financial planners be allowed to offer ETFs via stockbrokers, to provide "greater access to a more diverse range of products at a lower entry cost."

On product innovation, the taskforce recommended that futures and commodity-based as well as leveraged and inverse ETFs be allowed.

The new regulations are expected by the end of this year, the Commission said.

MALAYSIA

IMPACT

Low ● ○ ○ High

SOURCE

http://www.regulationasia.com/content/malaysia-launches-automated-portfolio-management-regime

Malaysia Launches Automated Portfolio Management Regime

MAY 9, 2017

Malaysia's SC (Securities Commission Malaysia) introduced new licensing and conduct requirements for automated discretionary portfolio management services.

In a brief statement, the regulator said the new regime "aims to provide investors with a more convenient, affordable and accessible channel to manage and grow their wealth."

Boards of digital investment management businesses should ensure that: "The requisite technology capabilities are in place including identification of competent person within the company who has sufficient understanding of the risks and rules of the algorithm applied; [and] The risk management framework is sufficiently robust to manage risks associated with the offering of automated discretionary portfolio management services including cyber security resilience."

They must also ensure: "The outcomes produced by the algorithm are consistent with the digital investment manager's strategy; and Written policies are in place to monitor and regularly test the algorithm employed."

SINGAPORE

IMPACT

Low ● ● ○ High

SOURCE

http://www.mondaq.com/article.asp?articleid=595318&

Singapore Consults on Changes to Securities and Futures Act

MAY 23, 2017

MAS issued a consultation paper inviting comments on proposed new regulations that implement some of the key changes to the regulatory framework of the Securities and Futures Act, following the passage of the Securities and Futures (Amendment) Act 2017 on 9 January 2017.

The proposals in the consultation paper covered the following:

1) Revised regulations in relation to MAS regulation of markets under Part II of the SFA – stipulates the minimal base capital requirements for entities seeking admission as approved exchanges (AE) or recognised market operators (RMO), sets out key admission criteria for applications for AE or RMO status, and their ongoing compliance requirements.

2) New framework for regulation of financial benchmarks under the new Part VIAA – sets out new requirement to be authorised by MAS as a benchmark administrator, criteria for authorisation, and ongoing compliance obligations

3) Amendments to Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 – proposes to include investment policy, constituent documents, fund oversight, as additional factors for recognising a foreign fund for retail investors.

SINGAPORE

IMPACT

Low ● ○ ○ High

SOURCE

http://www.tnp.sg/news/business/sgx-regco-focus-meaningful-regulation

SGX RegCo to Focus on Meaningful Regulation

MAY 11, 2017

Singapore Exchange Regulation (SGX RegCo), mooted a year ago and officially established last month, is now preparing to take over all of SGX's regulatory functions by August.

According to its chief Tan Boon Gin, the new unit is not looking to put in place more rules; instead the focus will be on meaningful regulation.

Listing the factors which make meaningful regulation, Tan says SGX RegCo needs to balance its role as a watchdog, protecting investors against market failure, with its role as a market shaper, to grow and develop the markets. Its policymaking should also be informed by views from all market participants, he said, adding that SGX RegCo aims to be more proactive in listening to feedback from all segments. Finally, in order for regulation to be meaningful to all market participants, the regulator must be willing to be more open and transparent.

"We know that the market is sensitive to regulatory changes, and we will endeavour to signal major changes clearly and well in advance to give the market time to react. So from now on, the market can expect greater certainty," he added.

Tan also said the pace of global regulatory change in the last few years has been "unrelenting" and regulators have to continue evolving to keep up.

MARKET STRUCTURE

Highlights

- At Last, MSCI Says 'Aye' to A-shares
- CFETS, HKEX Set up Bond Connect JV
- HKEX to Introduce Second Phase of Closing Auction Session

AUSTRALIA

IMPACT

Low ● ● ○ High

SOURCE

http://www.smh.com.au/business/markets/highfrequency-trading-dark-pools-and-asic-20170423-gvqot6.html

ASIC Chair Unconcerned about High-frequency Trading, Dark Pools

APRIL 22, 2017

In recent years, retail investors have criticised high frequency trading and the use dark pools, saying they squeeze out local traders with less computing power and distort fair price discovery.

However, according to ASIC chairman Greg Medcraft, the regulator has closely examined these innovations and has developed mechanisms to detect market misconduct and preserve market integrity. At a speech at Oxford University, Medcraft outlined ways in which the regulator is alleviating some of the concerns surrounding high frequency trading and dark pools.

After a review in 2012, ASIC changed its rules to improve disclosures and transparency around "crossing systems", which match buy and sell orders electronically without first routing the order to a public exchange. And in 2015, another review found that the current level of trading was not distorting the market nor influencing its role in facilitating the economy.

According to Medcraft, ASIC has developed tools to monitor new innovations sweeping into the market and is leveraging the onslaught of data collected. "We are now also increasingly looking to overlay behavioural economics principals across our market surveillance work," Medcraft said.

While ASIC closely watches the evolution of high-frequency trading and dark pools, it has moved to shut down practices that undermine the integrity of the ASX.

CHINA

IMPACT

Low ● ● ● High

SOURCE

https://www.regulationasia.com/last-msci-says-aye-shares/

At Last, MSCI Says 'Aye' to A-shares

JUNE 21, 2017

Index provider MSCI has at last decided to include Chinese A-shares in its products after three years of rejecting them, saying the decision is primarily due to a loosening of regulations over the past year.

In a statement, MSCI noted: "the positive impact on the accessibility of the China A market of both the Stock Connect program and the loosening by the local Chinese stock exchanges of pre-approval requirements that can restrict the creation of index-linked investment vehicles globally."

Since last year's review of A-shares' inclusion in MSCI indexes, which ultimately led to a third rejection, Chinese regulators have also resolved barriers to the repatriation of funds as well as removing QFII (Qualified Foreign Institutional Investor) and RQFII (its renminbi-denominated equivalent) programme quotas.

The inclusion of 222 large cap China A-shares will mean they represent 0.73 percent of MSCI's Emerging Markets Index. The inclusion will take place in two tranches. "The first inclusion step would coincide with the May 2018 Semi-Annual Index Review followed by the second step which would take place as part of the August 2018 Quarterly Index review," MSCI said.

However, it also said it "reserves the right to revise the planned implementation to a single phase should the daily limit on Stock Connect be abolished or significantly expanded before the scheduled inclusion dates," hinting at what it regards as the major barrier to greater inclusion.

Meanwhile, market watchers suggest the move is only a small, even largely symbolic, step towards greater foreign investment in Chinese stocks. Indeed, one attendee at an ASIFMA (Asia Securities Industry and Financial Markets Association) event in Hong Kong earlier this month said it could take 10 years before foreign participation in China equities reaches 15 percent. Even then it will not match most other markets, which typically see non-domestic investors hold participation of 20 percent to 40 percent of market cap.

In a statement, ASIFMA said it welcomed the decision, attributing it to "substantive improvements [Chinese authorities] have brought about in Chinese financial markets over the past two years." However, according to another attendee at its event, there are still "more questions than answers" around foreign investors access to Chinese stocks.

According to a statement from US fund manager T Rowe Price: "The initial impact on the composition of regional and global indices will be extremely modest. However, over the long term, assuming further liberalisation and regulatory reform of the mainland stock markets, the depth of China's A-share market could mean China gains substantial weight within those broader indices.

"As this market opens further, global investors will need to dedicate increased time to understanding the unique attributes of this market, and the deep pockets of opportunity that it offers."

CHINA / HONG KONG

IMPACT

Low ● ● ○ High

SOURCE

https://www.regulationasia.com/cfets-hkex-set-bond-connect-jv/

CFETS, HKEX Set up Bond Connect JV

MAY 11, 2017

CFETS (the China Foreign Exchange Trade System) and HKEX (Hong Kong Exchanges and Clearing) announced the formation of a Hong Kong-based joint venture to support the anticipated 1 July launch of the Bond Connect programme between Hong Kong and mainland Chinese markets.

The programme, which was confirmed by the Hong Kong Monetary Authority and People's Bank of China in mid-May, will begin with northbound (Hong Kong to China) trading only. According to media reports, it could take up to two years for southbound (China to Hong Kong) trading to kick off.

The new company will "support and assist admission and registration for Northbound investors, and liaise closely with the global access platforms through which Northbound investors will trade CIBM (China Interbank Bond Market) instruments," according to a statement.

HKEX chairman CK Chow commented: "This is a ground-breaking scheme that will give foreign investors direct, convenient access to China's vast bond market for the very first time … Once again, Hong Kong is playing a critical role in connecting the international investment community with China."

The market appears less enthused by the new development, with some commentators saying it may not be as important as the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programmes. Institutional investors have been able to access the Chinese inter-bank bond market since March 2016, and are likely to favour that more direct mode of investment. The Shenzhen-Hong Kong equity trading link, which kicked off in December last year, has itself not set the world alight, with just HKD1.1 billion (USD141.07 billion) of northbound trade and only CNY2 billion (USD294.32 million) going in the opposite direction during its first full quarter after launch, according to HKEX data.

Custody and settlement for the programme will be provided by SCH (Shanghai Clearing House) and the Hong Kong Monetary Authority's CMU (Central Moneymarkets Unit). Overseas investors will hold bonds under a nominee holding arrangement, subject to legal agreements between SCH and CMU. SHCH provides settlement on a delivery-versus-payment and gross settlement basis.

HONG KONG

IMPACT

Low ● ● ● High

SOURCE

http://www.hkex.com.hk/eng/newsconsul/hkexnews/2017/170526news.htm

HKEX to Introduce Second Phase of Closing Auction Session

MAY 29, 2017

HKEX has announced that it plans to implement Phase 2 of its securities market's Closing Auction Session (CAS) in the early Q3, 2017, subject to relevant regulatory approvals by the SFC.

In 2015, HKEX concluded after a public consultation that the CAS would be rolled out in two phases to ensure a smooth transition.

Phase 1 launched on 25 July 2016, covering all constituents of the Hang Seng Composite LargeCap and MidCap indices, H shares which have corresponding A shares listed on a Mainland exchange and all ETFs.

Phase 2 will expand this to include constituents of the Hang Seng Composite SmallCap Index and allow regulated short-selling orders to be placed during the CAS at a price not lower than the CAS Reference Price.

"The results of our review of Phase 1 show the CAS being a very effective way to facilitate execution at close. It does not only help reduce tracking errors for index funds and benefit fund investors, but also has no adverse impact on market integrity, non-fund investors or other market participants," said Roger Lee, HKEX Head of Markets. "In view of positive feedback, we will implement Phase 2 as planned to further meet institutional investors' need for execution at close."

Following Phase 2 implementation, about 680 stocks and ETFs will be included in the CAS.

KOREA

IMPACT

Low ● ● ○ High

SOURCE

https://www.regulationasia.com/korea-introduces-derivatives-bond-omnibus-accounts/

Korea Introduces Derivatives, Bond Omnibus Accounts

MAY 29, 2017

Korea's FSC (Financial Services Commission) from Monday (June 26) started to allow foreign investors to use omnibus accounts for trading derivatives, meeting conditions for the country to joint MSCI (Morgan Stanley Capital International) developed market indexes.

The same day, the regulator also started to allow individual investors to set up hedging accounts specifically for spot assets such as ETFs, as well as individual stock futures and options.

As of 29 June it will allow omnibus accounts for bond trading, having introduced them for foreign stock markets participants in March this year.

Korea was in 2012 used by MSCI as an example of how it classifies markets. Although the country met requirements on market size and liquidity, MSCI said the lack of omnibus accounts and other features "results in complex processes for [asset] managers and leads to higher costs and fees for the end investor."

DERIVATIVES

CHINA

IMPACT

Low ● ○ ○ High

SOURCE

http://www.chinadaily.com.cn/business/2017-05/26/content_29503762.htm

China Considers Allowing Foreign Participation in Future Market

MAY 29, 2017

Authorities are considering allowing foreign investors to participate in futures trading in China, according to CSRC vice-chairman Fang Xinghai.

He made the remarks at a conference on the derivatives market in Shanghai addressing the importance of market building, opening the market up, liquidity, innovation and compliance.

According to Fang, China's futures market has been developing steadily amid reforms, but still needed to enhance its capabilities and market tools. Trading of quite a few products had not been active in recent months, and wildly volatile prices could affect the risk management of companies, Fang said.

He said that China will continue to prepare for the launch of stock index options, and eventually the introduction of more commodity futures, including those covering agricultural products and resources.

By the end of this year, the Shanghai International Energy Exchange will launch China's first crude oil futures product, using international trading standards.

Fang also said that regulators are actively studying allowing commercial banks to participate in the treasury futures market.

CHINA / HONG KONG

IMPACT

Low ● ○ ○ High

SOURCE

http://www.reuters.com/article/us-lmeweek-asia-qianhai-idUSKBN1870DJ

HKEX Mainland Commodity Platform to Support Futures Trading

MAY 13, 2017

HKEX chief Charles Li said the bourse's upcoming commodity platform in mainland China would support futures trading at other Chinese exchanges.

The Qianhai platform, called the Qianhai Mercantile Exchange, is expected to trade metals such as copper and nickel and is the HKEX's biggest attempt to build a presence on China's futures exchanges (Shanghai, Dalian and Shenzhen).

The spot trading platform is intended to connect with other mainland exchanges as well as the LME, as HKEX hopes to replicate its success after buying LME around five years ago.

The head of the new platform, Xiaoli Guo, said that China's industry needed to develop derivatives and clearing to help the country's manufacturers manage their risk. The aim is to develop a benchmark price in China that, like its London counterpart, is tied to the physical market through delivery, supported by a warehousing and logistics network.

It remains unclear when the platform will begin operating, as it would wait to launch after Beijing has finished its clean-up of the industry, Li said, without giving further details on the time line to launch.

He also said the exchange was yet to make a final decision on which commodities it would launch.

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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