

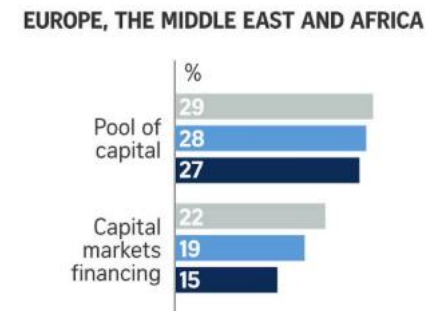
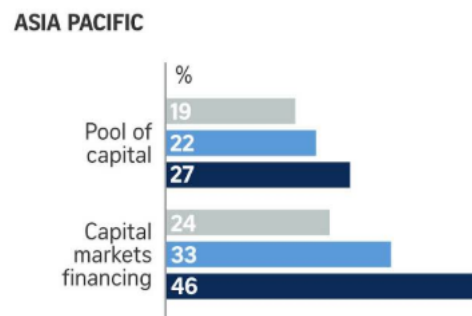
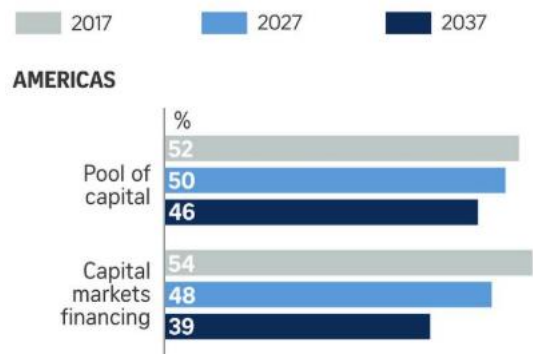


We are taking a closer look at Asia Pacific fund management and FX broker dealer space, summarising regulations, restrictions and specific challenges the global firms are facing today and are expected to continue facing in near future. Dynamic regulation is set to assist firms to finding suitable solutions to provide for a sustainable growth and in this article, we point out to latest shift in financial supervision, slowly moving towards jurisdictional protectionism, with firms concentrating their efforts to assure an effective cross-border compliance.

WHY do we need to hear about Asia-Pacific?

ASIAN markets have the **greatest growth opportunity** and could gain the largest share of global capital markets over the next few decades. The average global share of Asian capital markets is expected to increase from 31 per cent in 2017 to as much as 49 per cent in 20 years, making Asia-Pacific growth three times faster than the Americas and Europe, the Middle East and Africa (EMEA).¹

The changing face of capital markets



HOW is capital market share being relevant to FX industry?

FX market share is directly impacted by its participants and growing number of financial professionals and HNWI's. Wealth management remains one of the best-performing businesses for capital markets globally. While much of the profitability might still come from the high-net-worth (HNW) segment, asset growth from digital platforms and low-cost service offerings should add to the revenue mix.

FX market is unique and attractive due to its huge trading volumes, is geographically dispersed, representing a largest asset class in the world leading to high liquidity.

The forex market, according to the 2016 Triennial Central Bank Survey of FX and over-the-counter (OTC) derivatives market reporting guidelines, had an impressive daily turnover of \$5.1 trillion.² We look forward to see 2019 figures, out this December.

Geographical distribution of turnover

According to bis 2016 report, Asian financial centres, namely Tokyo, Hong Kong SAR and Singapore, increased their combined share of intermediation to 21%, from 15%. The share of foreign exchange trading in the United Kingdom declined to 37% in April 2016, from 41% and United States share was virtually unchanged relative to the previous survey, at 19% in 2016.

Asian FX markets can essentially be divided into two categories:

1. jurisdictions with large FX trading volumes, limited local regulatory restrictions, high cross-border activity and G10 currency volumes
2. markets with onshore regulatory barriers, lower volumes, lower cross-border and G10 volumes. This category includes India, South Korea and, notably, China, which has swiftly emerged as the leader in terms of volume despite being a relatively recent entrant.

Asian FX markets remain dominated by inter-dealer activity, which accounts for 70 percent of regional activity compared to 52 percent in the UK and only 37 percent in the US.

Forex is a true global marketplace, meaning that the role of applied key regulations and G20 reforms will continue to shape up the capital requirements, trade reporting central clearing, data privacy considerations for FX products OTC offerings within local and **cross border jurisdictions requirements**.

Figure 1. Summary of the key regulations applying to the FX markets in the APAC region

	CAPITAL			IMPACT OF G20 OTC DERIVATIVES REFORM ON FX PRODUCTS				CURRENCY RESTRICTIONS		Other Local Regulations			
	Basel 2.5	Basel III	FRTB	G20 Trade Reporting Initiatives	Central Clearing	Platform Trading	Margin	Convertible	Deliverable Offshore	Local onshore system required?	Central Bank Transaction Reporting	Supporting documents required to be filed	Data privacy/ secrecy impacting reporting
Australia	Adoption is not / has not been planned	Adoption is planned / in progress	Delayed	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Partially Convertible	Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Japan	Adoption is not / has not been planned	Adoption is planned / in progress	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Partially Convertible	Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Singapore	Adoption is not / has not been planned	Adoption is planned / in progress	Delayed	Adoption is not / has not been planned	Voluntary	Adoption is not / has not been planned	Adoption is not / has not been planned	Partially Convertible	Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Hong Kong	Adoption is not / has not been planned	Adoption is planned / in progress	Delayed	Adoption is not / has not been planned	Voluntary	Adoption is not / has not been planned	Adoption is not / has not been planned	Partially Convertible	Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
China	Adoption is not / has not been planned	Adoption is planned / in progress	Adoption is not / has not been planned	Adoption is not / has not been planned	Voluntary	Adoption is not / has not been planned	Adoption is not / has not been planned	Restricted	Not Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
India	Adoption is not / has not been planned	Adoption is planned / in progress	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Restricted	Not Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Korea	Adoption is not / has not been planned	Adoption is planned / in progress	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Partially Convertible	Not Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Taiwan	Adoption is not / has not been planned	Adoption is planned / in progress	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Restricted	Not Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Indonesia	Adoption is not / has not been planned	Adoption is planned / in progress	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Restricted	Not Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Malaysia	Adoption is not / has not been planned	Adoption is planned / in progress	Potentially Delayed	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Restricted	Not Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Thailand	Adoption is not / has not been planned	Adoption is planned / in progress	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Restricted	Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place
Philippines	Adoption is not / has not been planned	Adoption is planned / in progress	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Adoption is not / has not been planned	Restricted	Not Deliverable	Requirement in place	Requirement in place	Requirement in place	Requirement in place

Capital & impact of G20 reforms		Currency restrictions		Other local regulations
Adoption is not / has not been planned	Restricted	Deliverable	Requirement in place	
Adoption is planned / in progress	Partially Convertible	Not Deliverable		
Rules in force	Fully Convertible			

Source: KPMG, The Asia Pacific FX Markets Opportunities for Growth, 2017³

Inevitably, there are **CHALLENGES**

1. In the growing crypto world, newly established exchanges do seek ecosystem partners in traditional custodians and transfer agents. However, most market participants seek **regulatory clarity**, especially on **asset custody** and **investor protection**, before jumping in. We do not expect regulators to “come to the rescue”, market participants will have to look to their own resources to “rise to the challenge of competition”.
2. **Technology Upgrades:**
 - In response to the increased capital required to operate across multiple jurisdictions, firms will need to innovate to reduce costs, and leverage evolving utilities. FIs actively developing and marketing its platforms and will be able to take advantage of big data analytics generated from client trading behaviour and machine learning to drive greater internalisation, efficiencies and insights.
 - Current elaborate system of checklists helps avoiding overlooking minor flows, compliance annual checks will no doubt improve firm’s internal control, however does it allow to take **initiative to innovate**?
3. **Regulatory Equivalence:**
 - Global initiatives that have been implemented with local variations add complexity and cost to the design and build of technological solutions to facilitate compliance
 - Anti-Money Laundering (AML) and Know Your Customer (KYC): Requirements frequently vary from country to country adding to the administrative burden of entities operating across multiple jurisdictions and leading to inefficiencies in the client on-boarding process and impacting service quality. KYC requirements vary widely across the region, making client on-boarding processes costly and time-consuming, which adversely affects service to customers. These processes are also often duplicated across firms negatively impacting customers that often have to provide the same information to numerous counterparties.
4. **Geopolitical and regulatory uncertainties impacting Forex Markets:**
 - forewarned by the WTO that impact of full-blown trade war will be worse than that during the Great Recession of the late 2000s.
 - Hong Kong: the protests have inflicted a serious damage to business continuity and still threaten world markets. According to a [triennial survey](#) conducted by the Bank for International Settlements, Hong Kong \$437 billion share in FX transactions in 2016 was the second-largest foreign exchange market in Asia and the fourth largest in the world that year.⁴
International businesses and investors with activities in Hong Kong or in mainland China via Hong Kong would have to reassess those exposures if the Hong Kong Policy Act were to come under renewed scrutiny.
 - With continuing uncertainty of political strategies and approaches, it is expected that regulators across sectors to remain highly vigilant to the risks of economic downturn and market shocks.

WHAT are regulatory expectations across APAC?

- A. Innovation** is not new to financial services. Advances in technology have made financial crime more complex and regulators are putting significant resources into creating a regulatory environment that promotes technological advancement but still protects customers. They are also **questioning traditional methods of risk management** and regulators are “starting to shift away from point in time supervision towards a dynamic model that allows them a more holistic picture of a firm’s activities”.⁵
- B. Conduct and Governance:** a spotlight is being shone in our region through the Australian Royal Commission and has drawn significant attention. The Australian situation will prompt other regulators to take a close look at **sales practices, incentives, product design and risk management, and the roles of senior executives and Boards**. Individual accountability is already a reality in some countries and is likely to continue to figure prominently as a topic across the region in 2019-2020. Learning the lessons of recent years has unsurprisingly brought into question the traditional three lines of defence model, and while the concept will likely remain, a greater emphasis on the first line and better integration and oversight will be a focus in the coming year.

A greater expectation will be placed on industry participants to demonstrate that governance and culture reforms are being made, embedded, and monitored. The true test would be in how “accountable persons understand and oversee their areas of accountability in practice...having the paperwork in good shape is not enough.”⁶

- C. Technology:** Firms are encouraged to leverage new technology to collect data to track impact of current schemes or any future changes. MAS has credited the role that technology and analytics have played in improving identification of suspicious activity and is in general very supportive of financial institutions adopting new technologies. Given the recent regulatory developments, firms will need to consider the following when addressing misconduct:
- Develop a database on misconduct cases from within and without the firm as well as regulatory developments to help track the future trajectory of the issue;
 - Utilise RegTech where appropriate to analyse and monitor the front office/firm-wide operations, behaviour, enhancing the quality precision and timeline of the processes. The role of emerging technologies such as machine learning, Robotic Process Automation (RPA) and AI, unavoidably, will continue shaping enhancements to identification, financial crime mitigation and prevention processes, creating an intelligence where “various pieces of the jigsaw puzzle can be put together”⁷
- D. KYC:** In October 2018, the SFC and HKMA issued revised guidelines on AML/CFT (HKMA Supervisory Approach on Anti-Money Laundering and Counter Financing of Terrorism (19 October 2018)⁸ This comes as Hong Kong is set to undergo a mutual evaluation to assess the effectiveness of its implementation of FATF standards. The revised guidelines will:
- Provide a framework for **flexibility to use technology in non-face-to-face customer identification and verification**

- Expand the list of politically exposed persons (PEPs) to include international organization PEPs
- Provide new guidance to determine whether to apply or continue to apply the additional measures to a high risk relationship with a domestic or international organization PEP who ceases to hold a prominent (public) function
- **Remove the mandatory requirement to conduct a company search for corporations**
- **Drop proof of address requirements**

The JFSA has taken a similar stance in the abovementioned “Guidelines on AML/CTF.” Firms that implement new technologies like AI, blockchain, or RPA to improve AML/CFT controls are “expected to examine the benefits of new technologies and proactively explore the possibility for leveraging them for sophistication and streamlining of AML/CFT controls, taking into account the practices of other financial institutions and issues surrounding the introduction of new technologies.”⁹

Lastly, **WHAT does that mean for firms?**

Take a targeted approach: Global firms are having not only to comply with “divergent” rules in the different jurisdictions in which they operate, but also to optimise their local governance structures, operating models, legal entity structure, and booking models. “Rules and standards cannot replace judgement. Good instincts and technical competence are required to discover, scrutinize and evaluate key risks”.¹⁰

Please contact us for a review of your operating model, your AML/CTF frameworks to ensure alignment not just to your internal risk strategy, but development in the legal, regulatory environments with possibility to effectively match the needs with a right set of available fintech tools.

Endnotes

¹ The business times, Jan 14, 2019

² https://www.bis.org/statistics/triennialrep/2019survey_guidelinesturnover.pdf

³ <https://home.kpmg/cn/en/home/insights/2017/09/the-asia-pacific-fx-markets.html>

⁴ <https://edition.cnn.com/2019/09/06/perspectives/hong-kong-protest-downturn/index.html>

⁵ Deloitte, <https://www2.deloitte.com/au/en/pages/financial-services/articles/asia-pacific-financial-services-regulatory-outlook-2019.html>

⁶ Wayne Byres, Chairman of APRA on Helping regain the trust, 4 September 2018 <https://www.apra.gov.au/media-centre/speeches/helping-regain-trust>

⁷ Bank Negara Malaysia Governor Datuk Nor Shamsiah Mohd Yunus, Ibid

⁸ <https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/SPMAML-1.pdf>

⁹ JFSA, Guidelines for AML/CFT, 2018

¹⁰ Ong Chong Tee, Deputy Managing Director (Financial Supervision), Monetary Authority of Singapore