

FINANCIAL SERVICES SECTOR UPDATES June-July 2021 Issue



To maintain the financial stability and facilitate the economic growth of Hong Kong, regulators have been reviewing different regulations and guidelines regularly. Regulators and financial institutions around the globe may have new developments. For the past months, the following incidents have happened:

Revised Basel III implementation timeline

On 10 June 2021, the Hong Kong Monetary Authority (HKMA) released a revision on Basel implementation timeline. In order to provide the industry with additional time to prepare for the implementation of the revised capital standards in the Basel III final reform package amid competing priorities, the HKMA informed the industry about their intention to revise the target effective dates of the standards in Hong Kong as follows:

- Revised frameworks on credit risk, operational risk, output floor and leverage ratio
These frameworks will take effect as minimum requirements from 1 July 2023 (instead of 1 January 2023).
- Revised market and CVA risk frameworks
The industry will be provided with an additional six-month time window. This means locally incorporated AIs will be required to implement the new market and CVA risk frameworks for reporting purposes by 1 July 2023. The new frameworks will take full effect from a date no earlier than 1 January 2024. Its timing will be fixed at a later stage taking into account the implementation progress observed in major jurisdictions. During the reporting-only period, locally incorporated AIs will still be required to calculate their regulatory market and CVA risk capital charges based on the existing Banking (Capital) Rules.

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- Revised disclosure framework

The disclosure requirements associated with the above revised frameworks will take effect according to the effective dates of the corresponding frameworks described above.

HKMA aims to substantially complete the drafting of the rules by the end of 2022 in order to enable AIs to make use of the lead time to finalise the necessary system changes (eg for return reporting, etc) prior to the effective dates.

Read more from the source:

<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210610e1.pdf>

The HKMA unveils 'Fintech 2025' strategy

On 8 June 2021, the Hong Kong Monetary Authority (HKMA) unveiled 'Fintech 2025', its new strategy for driving fintech development of Hong Kong. Mr Eddie Yue, Chief Executive of the HKMA, in a fintech seminar organised by the Hong Kong Association of Banks, outlined the new fintech strategy, which aims to encourage the financial sector to adopt technology comprehensively by 2025, as well as to promote the provision of fair and efficient financial services for the benefit of Hong Kong citizens and the economy. The five focus areas put forward by the strategy are:

i. All banks go fintech

Leveraging the solid foundation for fintech adoption established by the Smart Banking Era Strategy announced in 2017, the HKMA will continue to promote the all-round adoption of fintech by Hong Kong banks and encourage them to fully digitalise their operations, from front-end to back-end. To take this forward, the HKMA will roll-out a tech baseline assessment to take stock of banks' current and planned adoption of fintech in the coming years, to identify fintech business areas or specific technology types which may be underdeveloped, and would benefit from HKMA support. The HKMA will issue further supervisory guidance to facilitate the uptake of novel technologies and continue to 'walk the talk' by digitalising its supervision of banks through the use of advanced technologies.

ii. Future-proofing Hong Kong for central bank digital currencies (CBDCs)

The HKMA will strengthen its research work to increase Hong Kong's readiness in issuing CBDCs at both wholesale and retail levels. In addition to the continued effort on wholesale CBDCs, the HKMA has been working with the Bank for International Settlements (BIS)

Innovation Hub Hong Kong Centre to research retail CBDCs and will begin a study on e-HKD to understand its use cases, benefits, and related risks. The HKMA will also continue to collaborate with the People's Bank of China in supporting the technical testing of e-CNY in Hong Kong with a view to providing a convenient means of cross-boundary payments for both domestic and mainland residents.

iii. Creating the next-generation data infrastructure

To unleash Hong Kong's potential for the next generation of banking, the HKMA will take the lead in enhancing the city's existing data infrastructure and building new ones, including Commercial Data Interchange, digital corporate identity, and DLT-based credit data sharing platform, to facilitate consent-based data sharing.

iv. Expanding the fintech-savvy workforce

To increase the supply of fintech talent, the HKMA aims to collaborate with various strategic partners to groom all-round fintech talent, both students and practitioners, through various initiatives, including developing fintech-specific training programmes and qualifications, as well as promoting joint projects between the industry and the academia. An example of such initiatives is the Industry Project Masters Network (IPMN) scheme. It will be piloted this September to provide internship opportunities to postgraduate students to work on banks' fintech projects on federated learning and other artificial intelligence technologies.

v. Nurturing the ecosystem with funding and policies

A new Fintech Cross-Agency Co-ordination Group will be established by the HKMA and various industry key players to formulate supportive policies for the Hong Kong fintech ecosystem. In addition, the HKMA will continue the preparatory work for the Hong Kong Growth Portfolio, which seeks to reinforce Hong Kong's status as a financial, commercial and innovation centre. It will also enhance its Fintech Supervisory Sandbox and is exploring with the Innovation and Technology Commission the possibility of providing funding support to qualified fintech projects.

HKMA continually supports the growth and adoption of new fintech solutions. In the same time, all AIs should ensure they are in-compliance with up-to-date regulatory requirements and proactively take into account risk management of emerging risks and evolving regulation posed by fintech.

Read more from the source:

<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/06/20210608-4/>

Cross-Agency Steering Group announces next steps to advance Hong Kong's green and sustainable finance strategy

On 15 July 2021, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) announced the next steps to advance its collaborative strategy to bolster Hong Kong's position as a leader in green and sustainable finance and help transition in the financial ecosystem towards carbon neutrality. As priorities, the Steering Group will focus on climate-related disclosures and sustainability reporting, carbon market opportunities and the launch of the new Centre for Green and Sustainable Finance (Centre).

Climate-related disclosures and sustainability reporting

Making progress towards mandating climate-related disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework by 2025 across relevant sectors, the Steering Group supports the efforts by the International Sustainability Standards Board under the International Financial Reporting Standards Foundation (IFRS Foundation) to develop a new standard which would be built on the TCFD framework. The Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEX) will collaborate with the Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants to work on a roadmap to evaluate and potentially adopt the new standard.

Carbon market opportunities

Mainland China and key overseas markets are dedicated to transitioning to a green, low-emission and climate-resilient economy and the global carbon market is expected to grow significantly.

The Steering Group is seeking to capitalise on this opportunity and has set up a Carbon Market Work Stream (CMWS) co-chaired by the SFC and HKEX to assess the feasibility of developing Hong Kong as a regional carbon trading centre to strengthen collaboration in the Guangdong-Hong Kong-Macao Greater Bay Area. The CMWS will actively explore opportunities presented by both the cap-and-trade carbon market and the voluntary carbon market in China and overseas.

Centre for Green and Sustainable Finance

The Steering Group launched the Centre for Green and Sustainable Finance to help the financial industry manage the risks and capture the opportunities presented by climate change. The Centre is a cross-sector platform which coordinates the efforts of financial regulators, government agencies, industry stakeholders and academia in capacity building, thought leadership and policy development. It will

also serve as a repository for resources, data and analytics which support the transition to a more sustainable development pathway.

The Steering Group identified talent and data as the priority areas of action. Accordingly the Centre established working groups to develop strategies and roadmaps to promote capacity building and develop data repository and analytics capability. The working groups will consult other stakeholders when formulating their recommendations. The Steering Group will continue to take forward the other action points announced in its December 2020 strategic plan, including participating in the work of the International Platform on Sustainable Finance on taxonomy and promoting climate-focused scenario analysis.

By adopting the sustainable finance strategy, the company can have a consistent, comparable and reliable information to help investors understand the extent to which their portfolios are exposed to climate risks and they are financing emissions. With the launch of the Centre, it could create a focal point to bring together policy makers, financial market professionals, the academia and other stakeholders for deeper exchange and collaboration.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=21PR75>

SFC reprimands and fines Deutsche Securities Asia Limited HK\$2.45 million over incorrect prime brokerage client statements

On 24 June 2021, the Securities and Commission (SFC) reprimanded Deutsche Securities Asia Limited (DSAL) and fined it HK\$2.45 million for issuing incorrect statements to its prime brokerage (PB) clients and delaying reporting its failures to the SFC.

The SFC found that between 2006 and October 2018, due to a design defect of its front office system, DSAL issued incorrect periodic statements to its PB clients when they were holding positions regarding their entitlements to bonus shares of listed companies that had not yet become tradable by the clients.

It appears that one of DSAL's PB clients relied on the incorrect statements and oversold bonus shares issued by three Hong Kong-listed companies in July 2018. Although DSAL discovered within the same month that incorrect statements had been issued to this client and became aware in the following month that the errors were caused by a system design defect, it did not report the failures to the SFC until February 2019 when its internal investigation was complete.

The SFC is of the view that DSAL's above-mentioned failures constitute breaches of the code of conduct. In deciding the sanction, the SFC took into account all relevant circumstances, including the finding that DSAL's failures lasted for 12 years, DSAL's remedial actions and cooperation with the SFC in resolving the SFC's concerns.

A licensed corporation should ensure compliance controls making complete, true and correct information; it must act honestly, fairly, and in the best interest of its clients and the integrity of the market.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=21PR66>

How can BDO help?

It is important for financial institutions and listed corporations to raise awareness on the growing market of financial technology and green finance, and ensure compliance to the relevant regulatory requirements. We, BDO have a dedicated team of experienced consultants who have up-to-date knowledge on regulatory requirements, and are able to provide help companies solutions to establish better corporate governance framework. We also assisted clients reviewing internal policies and procedures, and our team can provide consulting service on improvements on internal controls procedures over compliance, identify and improve any internal control weaknesses. Get in touch with us to see how we can help your company!

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