

FINANCIAL SERVICES SECTOR UPDATES Issue 1/2022



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:

Report on Operational Resilience and Remote Working Arrangements

On 4 October 2021, the Securities and Futures Commission (SFC) published the 'Report on Operational Resilience and Remote Working Arrangements'. The report lays down operational resilience standards and required implementation measures which supplement the SFC's existing guidance. Also, it aims to provide intermediaries with a better understanding of the regulatory standards and required implementation measures for operational resilience. In addition to providing suggested techniques and procedures, the report shares case examples and lessons learned drawn from the SFC's review of some licensed corporations' operational resilience measures during the COVID-19 pandemic and other disruptive events. It also explains the major possible risks of remote working and provides suggested techniques and procedures for risk mitigation.

The suggested techniques and procedures in the report that can provide guidance on practices for operational resilience and various aspects of remotoring working environment, including information security, cybersecurity, record keeping, notification obligation and working-from-home arrangements. Intermediaries are recommended to review and enhance, if necessary, their current operational resilience and remote working arrangements, especially on their policies and procedures,

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business continuity plans and controls to ensure that they meet the standards as described in the report.

Read more from the sources:

Circular

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/in-termediaries/supervision/doc?refNo=21EC41>

Report

https://www.sfc.hk/-/media/EN/files/COM/Reports-and-surveys/Report_Operational-resilience-and-remote-working-arrangements_Oct-2021_EN.pdf

Green and Sustainable Finance Cross-Agency Steering Group reaffirms commitment to develop Hong Kong as a green finance hub

On 5 November 2021, the Green and Sustainable Finance Cross-Agency Steering Group (the Steering Group) expressed support on the 2021 United Nations Climate Change Conference (COP26) and reaffirmed its commitment to strengthening Hong Kong's financial ecosystem for a greener and more sustainable future and reiterates its support for Hong Kong's Climate Action Plan 2050 of the Government. The Steering Group will monitor international developments in green and sustainable finance and support international initiatives, contributing to efforts to promote climate-related disclosures and climate-focused scenario analysis through active participation.

We observed that the Green and Sustainability Finance initiatives are trends that can no longer be ignored, both internationally and locally. It will be adopted not only for carbon trading and obtaining finance for green projects, but

may become part of the reporting standards for say corporation reporting under IFRS (or HKFRS). This means every corporation reporting under those accounting standards will be affected.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/corporate-news/doc?refNo=21PR112>

The Monetary Authority takes disciplinary actions against four banks for contraventions of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance

On 19 November 2021, the Hong Kong Monetary Authority (HKMA) announced that it had completed investigations and disciplinary proceedings for four banks under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong). The Monetary Authority (MA) imposed pecuniary penalties of a total of HK\$44,200,000 against China Construction Bank (Asia) Corporation Limited, CTBC Bank Co., Ltd., Hong Kong Branch, Industrial and Commercial Bank of China (Asia) Limited and UBS AG, Hong Kong Branch.

Banks and other financial institutions should make reference to these cases as examples to review their AML/CFT practices which should include data quality and transaction monitoring system effectiveness, and take appropriate risk mitigating measures on an ongoing basis.

Read more from the source:

<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/11/20211119-5/>



HKMA publishes the results of the pilot climate risk stress test

On 30 December 2021, the Hong Kong Monetary Authority (HKMA) published the results of its pilot climate risk stress test (CRST). The CRST, launched in January 2021, aims to assess the climate resilience of the Hong Kong banking sector as a whole and facilitate the capability building of banks for measuring climate risks. Participating banks assessed their climate risk exposures under three scenarios: a physical risk scenario involving a worsening climate situation and two scenarios envisaging orderly and disorderly transitions to a low-emission economy.

The CRST results showed that the extreme climate scenarios assumed in the exercise would lead to a material reduction in the participating banks' profitability due to an upsurge in expected credit losses from their exposures directly affected by climate change, such as residential mortgages and lending to high-emitting industries. Climate change could also weaken the banks' capital positions.

Read more from the sources:

Circular

<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/12/20211230-3/>

Report

https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/Pilot_banking_sector_climate_risk_stress_test.pdf

How can BDO help?

It is important to develop and maintain effective internal controls in order to operate accordance to its business objectives and regulatory requirements. Institutions have to be aware of development of green-finance trends and AML and other regulatory environment to excel in the competitive environment nowadays.

BDO has a dedicated team of experienced consultants who have up-to-date knowledge on internal controls and regulatory requirements. We assisted clients reviewing their corporate governance structure, ESG standard, AML practices and internal control procedures. Get in touch to see how we can help your company!

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