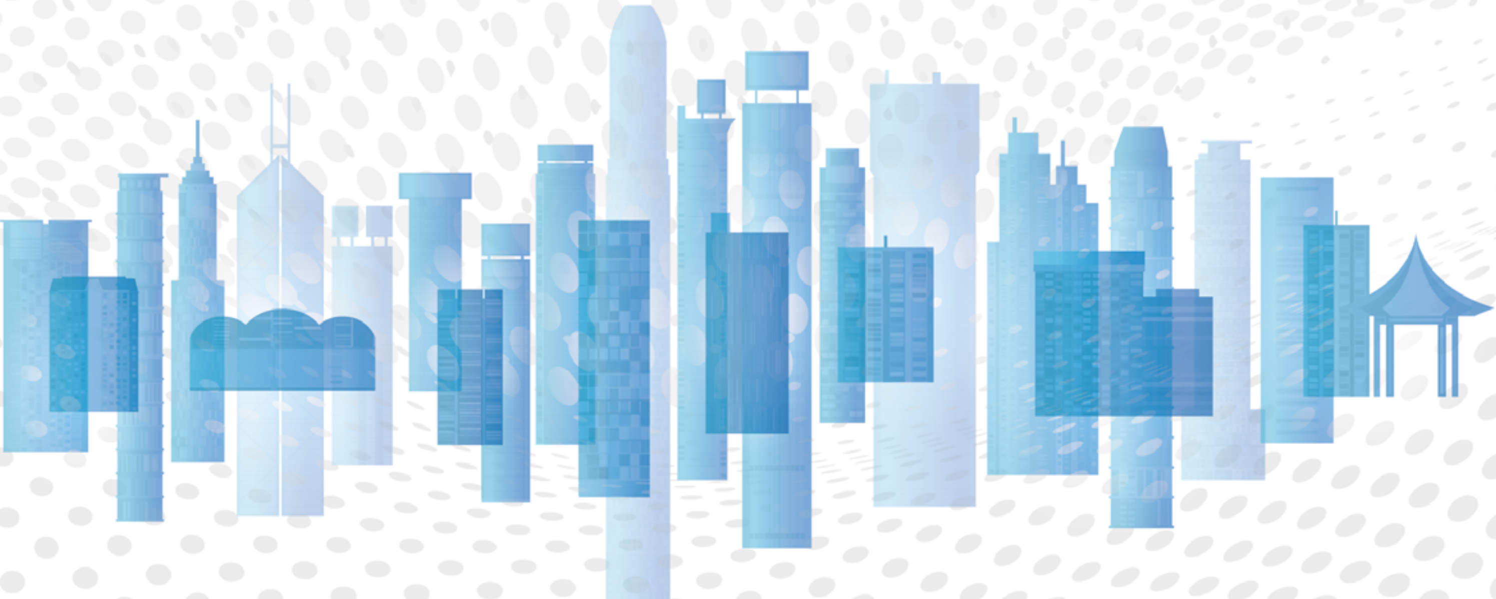
Compliance Challenges and Solutions for Hong Kong's Financial Services Sector



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Contents

01
Foreword

Ben Richmond
Founder & CEO, CUBE.

Hong Kong's financial services sector is a dynamic and vibrant market undergoing profound change driven by digitalisation and a purposeful regulatory agenda.

Against this backdrop, I am delighted to introduce this report, developed in collaboration with experts from the PwC Hong Kong Financial Services Consulting team.

At CUBE, we believe AI-driven technology can be a game-changer, enabling firms to stay ahead of regulatory change with greater precision and agility.

This report explores the key regulatory trends shaping the industry, and demonstrates how intelligent technologies are revolutionizing compliance, driving efficiency, mitigating risk, and fostering sustainable growth.

Philip Chan
Partner, Consulting, PwC China.

PwC Hong Kong is pleased to jointly develop this paper with CUBE to share compliance thought leadership in the industry.

We recognise the challenges financial institutions in Hong Kong face with regulatory compliance, now more than ever, and have been actively involved in providing various advisory support such as compliance function operating model design and implementation, regulatory review and implementation, Regtech solution adoption, process optimization etc.

With this paper, we look forward to engaging conversations with industry players, discussing compliance challenges and solutions, and contributing to enhancing regulatory compliance and operational excellence across the industry.

Happy to hear your thoughts on the topic and thank you for reading.

02
Executive Summary

Hong Kong's position as a leading international finance centre has been forged through effective and transparent regulation.

The city rebounded slowly from the economic damage of COVID-19 and has been uniquely affected by lingering geopolitical tensions, but the stability of its regulatory framework has helped to nurture strong shoots of recovery.

Using all the tools at their disposal, supervisory agencies have significantly increased their scrutiny of markets in recent years. Regulators such as the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC), Insurance Authority (IA), and the Mandatory Provident Fund Schemes Authority (MPFA) are becoming more intrusive in their oversight, having shown a fresh willingness to open and pursue enforcement cases.

Research from CUBE's inventory of global regulatory issuances reveals a significant jump in the volume and complexity of regulatory issuances in recent years; far outstripping previous activity from Hong Kong's regulators.

The broadening regulatory perimeter is putting firms under greater levels of scrutiny, whilst advances in technology fuel competition and a need to improve operations to keep up.

The responsibility of balancing the need to remain compliant while enabling businesses to forge ahead with innovative technologies falls squarely on the compliance function.

However, resource constraints and knowledge gaps inside firms are undermining the ability of compliance executives to meet their goals.

This report explores the following key themes:

- **The accelerating pace of regulatory change.**
- **Weaknesses in systems, controls, and processes.**
- **Unique challenges within banking, insurance, wealth management, funds, and trustees.**
- **How intelligent technology is transforming regulatory change.**

This report is designed for compliance professionals, risk managers, and senior executives working in Hong Kong's financial services industry.

By providing insights into the latest trends and industry practices, it aims to empower compliance teams to navigate the complex regulatory landscape and drive business success.

03
The Accelerating Pace of Regulatory Change

The most critical compliance challenge facing Hong Kong's financial services sector is managing the pace of regulatory change.

Since August 1, 2020, Hong Kong's financial regulators have made **1,152 actionable issuances,** reflecting a sustained surge in regulatory activity.[1]

The number of issuances grew sharply from **90 across 2020–2021** to a peak of **426 in 2022–2023,** before a slight year-on-year decline of **416 in 2023–2024.**

From August 2024 to February 2025, **127 additional issuances** have been published requiring a response from compliance teams, indicating continued momentum, albeit at a moderated pace as supervisors shift gear.

Expansion of regulatory perimeters has been a consistent theme, with regulators increasingly aggressive in their enforcement of non-compliance.
Against a backdrop of global economic uncertainties, supervisory work to support the city's status as a premier financial centre is clear across several key regulatory themes appearing from this data.

Intensifying activity

Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT)

Regulators have intensified their focus on ensuring compliance with international AML/CFT standards. This includes stricter customer due diligence requirements, enhanced transaction monitoring, and increased reporting obligations.

Virtual Assets and Fintech

The SFC and HKMA are working to establish a clear regulatory framework for virtual assets and fintech activities. This includes licensing requirements for virtual asset trading platforms, guidance on risk management for fintech firms, and measures to protect consumers.

Climate Risk and Sustainable Finance

Regulators have introduced initiatives to promote sustainable finance and address climate-related risks. Covered are disclosure requirements for listed companies, guidance on managing climate-related risks for financial institutions, and incentives for sustainable investments.

[1] Data from CUBE RegPlatform Enterprise

Addressing the challenges

Forward-thinking financial institutions are adapting their compliance strategies to address the enormous uptick in regulatory compliance obligations.

They are investing in intelligent tools, implementing automated solutions to streamline processes and reduce the risk of errors, and bringing in experts to calibrate compliance programs to extract maximum value.

Firms at the start of their journey must tap into a deeper pool of regulatory experts and develop a team of compliance professionals with extensive knowledge of the regulatory landscape.

Adopting a proactive approach to compliance, rather than relying solely on reactive measures, will position institutions to better manage the increasingly onerous regulatory landscape and mitigate the risks associated with non-compliance.

Key takeaways:

- Regulatory overload is the main challenge for compliance functions.
- Supervisors are expanding their regulatory perimeter, opening more enforcement cases, and increasing scrutiny of institutions.
- Stricter compliance requirements result in more rigorous regulatory inspections.
- The pace of regulatory change is becoming unmanageable with manual-heavy processes.

04
Ensuring Effective Risk Controls

The majority of Hong Kong's financial services industry remain dragged down by manual processes, despite their enthusiasm for automation within the compliance function.

Cloud computing and automated processing are on the rise, but there is a strong traditionalist approach towards spreadsheets in the city; old school Excel is the dominant program and traders are often loathe to move on from what they know.

From monitoring regulatory change updates, updating alert and review processes, to generating regulatory reports and filings for the SFC and HKMA, resource-intensive tasks are becoming a burden on compliance functions with tight resources.

"Hong Kong's financial sector is moving beyond obsolete systems, with compliance teams starting to leverage automation to address inefficiencies and errors, marking the onset of a broader transformation."

Philip Chan
Partner, Consulting, PwC China.

Continued reliance on manual-entry spreadsheets is likely to lead to inefficiencies, increased risks, decreased operational efficiency, and undermined compliance.

Moreover, the use of outdated technology might pose significant security risks as pre-cloud systems were not built to withstand the demands of the current compliance landscape. Legacy systems may be vulnerable to cyberattacks and could lead to exposing sensitive customer data to unauthorised access.

The time and resources needed to support these systems, along with the potential for financial losses due to errors or breaches, can significantly affect a financial institution's bottom line.

Overreliance on manual processes

Manual processes and dated technologies hinder critical compliance tasks such as risk assessments, regulatory reporting, and customer due diligence may likely face problems such as:

Inefficiencies:
Manual processes can be time-consuming and labour-intensive, leading to reduced operational efficiency.

Manual error:
Human fallibility is a common occurrence in manual processes, increasing the risk of compliance breaches and financial losses.

Delays:
Manual processes can create delays in regulatory reporting and other critical compliance activities.

Addressing the challenges

Innovative financial institutions are implementing machine learning technologies within the regulatory change management process to get ahead of risk and reduce manual errors.

Automation of key compliance processes can streamline operations, improve data accuracy, and enhance risk management.

"Firms may transform their compliance posture through automation. We see firsthand every day how automatically generated regulatory reports can likely make an enormous difference to the working life of a compliance officer. In turn, they often become more efficient, strengthen their own reputation, along with the business, and help to build trust with customers and key stakeholders." Marco Sablone, APAC Senior Business Manager, CUBE.

However, the adoption of new digital solutions alone is not sufficient.

It is also essential to make use of human intelligence around the technologies to ensure the effectiveness and robustness of compliance systems.

This requires deep industry experience and ongoing monitoring to find and address weaknesses. Compliance consultants deliver valuable insights and help in developing and implementing effective control frameworks.

Leveraging the expertise of seasoned consultants can help businesses bridge the gap between legacy compliance architecture and more dynamic systems able to better position the business to respond to regulatory change and scrutiny.

Expert-Managed Control Enhancement

For the most optimal compliance systems and controls, financial institutions often seek consultancy guidance. Outside expertise
helps to:

- **Identify areas of improvement in systems and controls.**
- **Perform regulatory mapping of obligations to controls and policies / procedures.**
- **Develop tailored improvement plans to address identified weaknesses.**
- **Assist in the implementation of industry practices for compliance management.**

Key takeaways:

- Common compliance system and process deficiencies are evident in the Hong Kong market.
- Root cause analysis reveals that manual processes and outdated technology are at the core of many of these weaknesses.
- Effective tools, combined with consultancy expertise, can significantly improve operational efficiency, and reduce risk exposure.

05
Surging Regulatory Activity

While business continues to revive in the post Covid-era, Hong Kong's regulators have also increased their stringency and boundaries.

Compliance, business, and management lines across all financial institutions are under significant strains to keep up with the ever-evolving regulatory landscape and imposition.

Different financial institutions including banks, asset managers, depositaries / trustees, securities firms, insurance companies etc. are subject to different regulations from multiple regulators for various lines of business.

"We have observed many new regulatory expectations and changes from the regulators in recent years, ranging from introducing new regulations, making changes to existing requirements, to regulating new business scopes,"

Philip Chan
Partner, Consulting, PwC China.

Here are a few recent examples of key regulatory changes:

- The HKMA has introduced new requirements on operational resilience and resolution planning, BASEL III final reform package implementation etc.; made changes to existing regulations on e.g., HKTR reporting and banking returns; and has expanded its regulatory parameter to trustees which are subsidiaries of locally incorporated banks.
- The SFC has recently implemented new licensing regimes for virtual asset businesses and depositary businesses, with upcoming licensing regimes for over-the-counter derivative (OTCD) dealing and clearing.
- The Insurance Authority (IA) has recently put in place the risk-based capital regime, particularly Pillar 1 and 3.
- The Mandatory Provident Fund Schemes Authority (MPFA) has issued various guidelines in view of the launch of eMPF Platform.

Recent Regulatory Hot Topics in Hong Kong

HKMA

- Operational Resilience and Resolution Planning
- Hong Kong Trade Reporting (HKTR) Reform
- Granular Data Reporting (GDR)
- Implementation of Basel III Final Reform Package & Revised Banking Returns (2024)
- Liquidity Monitoring Tools
- Revised Code of Banking Practice (2023)
- SPM TB-1 'Regulation and Supervision of Trust Business' (2023)
- Revised SPM CG-6 'Competence and Ethical Behaviour'
- Wealth Management Connect 2.0
- Climate-related Risk Governance
- Sale and Distribution of Green and Sustainable Investment Products
- Use of Generative Artificial Intelligence
- Cryptoasset Disclosure Requirements and Standard
- Major Enhancements on Protection of Payment Card Customers (2023)
- Enhancements on Security of Electronic Banking Services (2023)

SFC

- Type 13 Regulated Activity on Depositary Business (2024)
- Type 11 / 12 Regulated Activity on Over-The-Counter Derivatives (OTCD) Dealing & Clearing (Upcoming)
- Virtual Asset Trading Platform / Virtual Asset Service Providers Licensing Regime (2023)
- Tokenization of SFC-Authorized products (2024)

Insurance Authority

- Risk-based Capital Regime – Pillar 1 & 3
- Good Practices on Technology Risk Management

MPFA

- New policies and regulatory framework regarding the eMPF Platform Project
- Disclosure of new requirements for ESG themed MPF funds (2024)

Other Regulators / International Standards

- Adoption of the International Sustainability Standards Board (ISSB)'s standards
- Adoption of the IFRS Sustainability Disclosure Standards
- IFRS 17, 18 & 19, Amendments to IFRS 9 and 7
- Amendments to IAS21 and IAS 7
- Increased Deposit Protection Limit and revisions to related requirements

The above summary provides just a small glimpse into the recent regulatory hot topics, sorted by regulators, that we know are posing compliance and operational challenges to many financial institutions. There are many more in practice and just from the above list, we can already see the scale of impact of these regulations can be firm-wide, affecting potentially multiple stakeholders from business to operations, risk management, IT, compliance etc.

With the heavy volume of regulations and the constant regulatory changes, coupled with the need to deep dive into the complexity of regulatory interpretation and assessment, as well as ownership mapping, a great deal of focus is required to stay compliant.

Firms need to:

- Continuously monitor and track regulatory changes.
- Accurately interpret requirements.
- Effectively perform applicability and impact assessments.
- Revisit their governance, internal controls, business and operational processes.
- Ensure documentation (including policies and procedures) and proper mapping.
- Perform on-going control testing, monitoring, and enhancement, along with the necessary management and regulatory reporting.

All of these are just the basics to ensure minimum regulatory compliance.

In practice, financial institutions also need to figure out the ownership of the requirements and related controls, as well as consider the operational implications of the design of the internal controls and the implementation into business and operations processes.

“We often see controls are implemented without expert oversight, posing operational challenges and burdens on efficiency and customer experience,”

Philip Chan
Partner, Consulting, PwC China.

Revisiting headcounts and organizational structure, redesigning process and leveraging automation tools and RegTech solutions are some of the ways to help address these concerns.

06
Transforming Compliance with Intelligent Automation

A common struggle facing compliance professionals in Hong Kong is the battle to achieve more with fewer resources.

Each issue identified by executives in this report carries a cost, which if left unaddressed can escalate into serious compliance risks.

Key budgetary concerns include:

- **The growing volume of rules and regulations affecting financial services firms.**
- **The exponential increase in data generation and the complexities of managing it.**
- **The rising demands of regulatory reporting, legal notices, and corporate governance standards.**
- **Staffing and talent acquisition costs.**
- **The need for updates, upgrades, and replacements of legacy technology.**

The Evolving Risk Landscape

As Hong Kong's economy continues its rapid recovery, new risks are emerging.

Businesses are facing increased competition, venturing into uncharted territories, and navigating volatile trading environments.

These factors can put pressure on compliance teams, as senior management may prioritize short-term financial goals over long-term compliance initiatives.

Cutting corners on compliance is not only risky but also costly. Regulatory penalties have become more severe, and organizations with a history of non-compliance face even greater financial burdens. One of the most significant drivers of increased compliance spending has been the rise of privacy regulations. As organizations manage larger and more diverse sets of personal data, they must also defend against increasingly sophisticated cyberattacks. The stakes are high, and the cost of non-compliance can be substantial.

The sheer volume of regulations and reporting requirements can divert significant resources away from core business activities, hindering operational efficiency and profitability. Outdated technologies and manual processes can further complicate operations, introducing unnecessary bureaucracy and stretching budgets.

"The longer a business waits to commit to a data management transformation, the larger, more onerous, and costly the project is likely to be. Catching up becomes a lot harder, with a lesser chance of success. A modern operating model is likely to deliver so much more from data and technology."

Marco Sablone
Senior Business Manager, APAC at CUBE.

Addressing the challenges

The growing volume of regulations and reporting requirements often forces companies to divert resources from core business functions.

The complexity of compliance can add unnecessary layers of bureaucracy, complicating operations and stretching budgets, especially when outdated technologies demand constant updates.

Investing in intelligent tools that automate regulatory processes can significantly alleviate these pressures.

Automated Regulatory Intelligence (ARI) solutions empower compliance teams to anticipate regulatory changes and efficiently adjust internal controls. By automating tasks like obligation management and policy mapping through machine learning, compliance staff can focus on higher-value activities, optimizing resource allocation.

Another way to manage rising compliance costs is by adopting a risk-based approach. This strategy moulds compliance requirements to the specific risk profile of each institution, moving away from a one-size-fits-all, tick-box approach.

By prioritizing resources toward high-risk areas, institutions can allocate their efforts more effectively. Regulators are increasingly advocating for risk-based frameworks, and forward-thinking institutions are investing in data analytics and risk management capabilities to accurately assess their risk profiles.

To control compliance spending, organizations should integrate AI into their regulatory change management processes, redefining the compliance function as a key driver of financial stability and business protection.

Key takeaways:

- The rapidly evolving regulatory landscape presents budgetary challenges.
- Compliance systems, controls, and processes must be modernised to address the growing complexity of regulatory requirements.
- Intelligent technology can help streamline compliance processes and reduce costs.
- Investing in compliance can mitigate risks and drive business success.

07
Conclusion:
Thriving Amid Hong Kong's New Compliance Landscape

The accelerating rate of regulatory change is creating substantial operational challenges for financial services firms in Hong Kong.

Workloads are increasing as regulatory issuances grow in number, adding to the volume of tasks and data compliance teams must manage. There is a requirement to constantly update knowledge and adapt existing processes as rules become more prescribed and complex, causing resources to be strained.

In the face of this disruption and uncertainty, experts interviewed by CUBE identify three key trends shaping the future of compliance:

- **Regulatory Change Management:**
  The increasing pace, volume, and complexity of regulations are overwhelming teams that still rely heavily on manual processes.
- **Event-Driven and Proactive Compliance:** Regulators are moving toward tailored compliance requirements based on the specific risk profiles of institutions.
- **Automated Regulatory Intelligence (ARI):** Advancing machine learning solutions are offering more efficient and scalable ways to meet compliance demands.

Implementing change during Hong Kong's economic recovery may seem daunting.

However, this period of dynamism presents an opportunity to adopt a more strategic approach to regulatory compliance, repositioning the function as a value-add service to senior management.

Those who embrace these changes and look for innovative solutions are primed to become stronger, with future-proofed compliance functions capable of managing intense regulatory shifts.

A key element in this transformation is the effective integration of AI, where machine learning tools handle vast amounts of data and detect patterns, and human expertise ensures accurate interpretation of complex regulations and strategic decision-making.

By adopting the strategies and technologies outlined in this report, compliance functions can effectively navigate regulatory complexities, safeguard business interests, and foster trust and stability within the financial ecosystem.

08
About CUBE

CUBE provides a highly comprehensive and robust source of classified, and meaningful AI-driven regulatory data to power its Automated Regulatory Intelligence (ARI) and Regulatory Change Management (RCM) solutions. CUBE's purpose-built regulatory technology including its AI engine (RegBrain) and software platform (RegPlatform) tracks, analyses, and monitors laws, rules, and regulations in every country and in every published language to create an always up-to-date regulatory footprint that transforms visibility and compliance capability for customers across the globe.

With operations across Europe, Middle East, North America, Canada, Asia, and Australia, CUBE serves a diverse and global base of customers and partners including the largest financial institutions in the world who leverage CUBE's platform to streamline their complex regulatory intelligence and change management processes.

Following the strategic partnership with Hg in March 2024, CUBE announced the acquisitions of US-based Reg-Room and the Thomson Reuters Regulatory Intelligence and Oden businesses in May 2024.

In addition, CUBE announced the acquisition of Acin, a London-headquartered RegTech and global operational risk AI and technology provider for the financial services sector in June 2025.

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Chinese Mainland, Hong Kong SAR and Macau SAR

PwC in Chinese Mainland, Hong Kong SAR and Macau SAR work together on a collaborative basis, subject to local applicable laws. Collectively, we have more than 18,000 people in total.

We provide organisations with the professional service they need, wherever they may be located. Our highly qualified, experienced professionals listen to different points of view to help organisations solve their business issues and identify and maximise the opportunities they look for. Our industry specialisation allows us to help co-create solutions with our clients for their sector of interest.

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09
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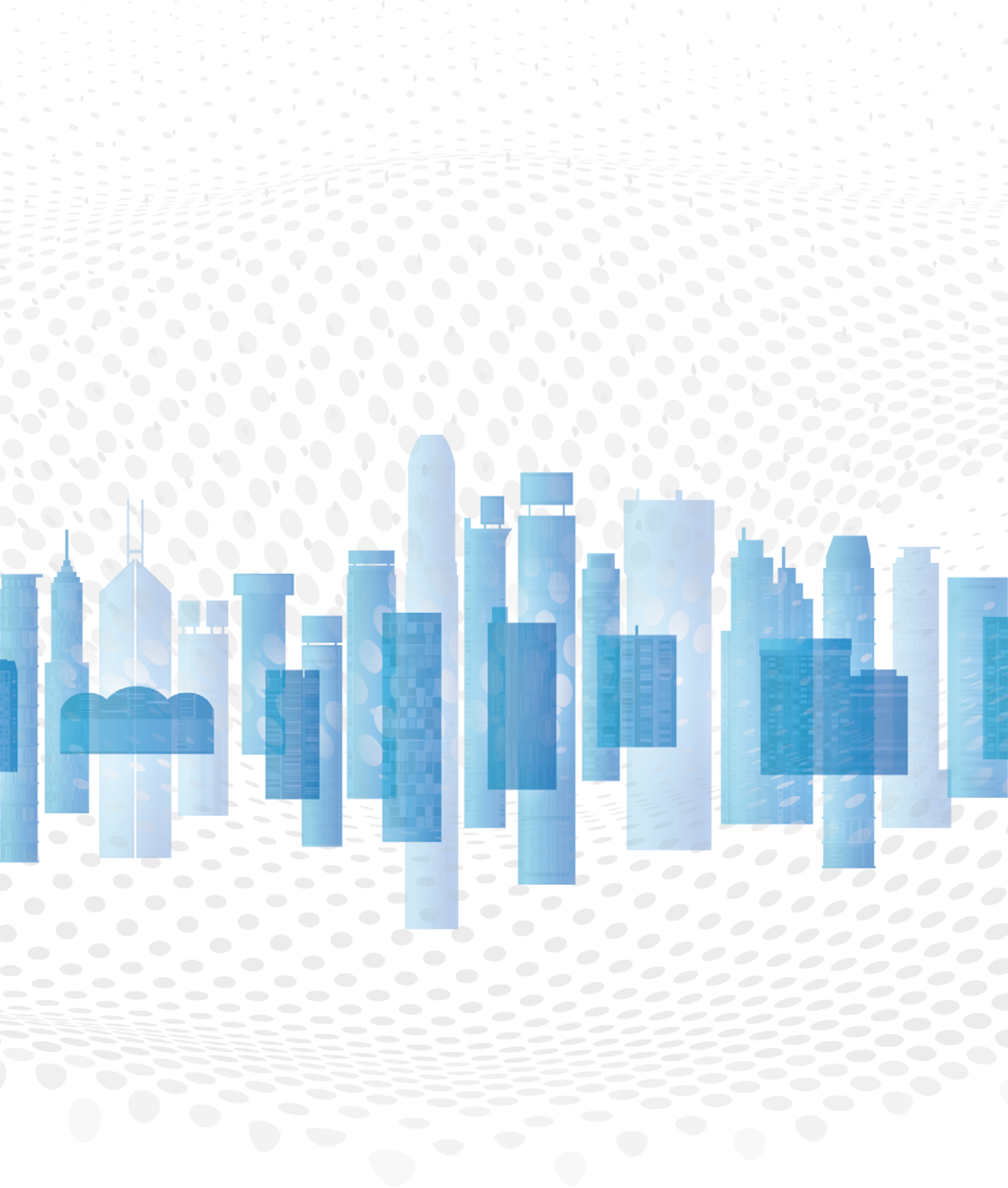

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