Financial Services Risk and Regulation

Regulatory updates newsletter | January 2022

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Introduction

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Happy New Year 2022!

As everyone was preparing for 2022, a number of regulatory updates and guidance were issued by the regulators in late December 2021 and in January 2022. In this edition of the newsletter, we discuss the following regulatory developments:

- On 21 December 2021, the HKMA issued a circular to all AIs to set out the enhanced measures that AIs should adopt in respect of real-time fund transfers made by customers.
- On 22 December 2021, the HKMA issued a letter to consult the banking industry on the proposed revisions to the SPM module OR-1 Operational Risk Management.
- On 22 December 2021, the HKMA issued a letter to consult the banking industry on the new SPM module OR-2 Operational Resilience which sets out the supervisory approach to operational resilience and provide AIs with guidance on the general principles which they are expected to consider when developing their operational resilience framework.
- On 22 December 2021, the HKMA issued a letter to consult the banking industry on the proposed revisions to the SPM module TM-G-2 "Business Continuity Planning".
- On 22 December 2021, the HKMA issued Code of Practice Chapter ST-1 on Contractual Recognition of Suspension of Termination Rights (Code of Practice) issued under Financial Institutions (Resolution) Ordinance (FIRO).
- On 28 December, the IA issued a note to formalise the green light process for assessment on Investment-Linked Assurance Scheme (ILAS) products, and introducing Protection Linked Plans (PLP), a new category of ILAS with embedded high level of insurance protection.
- On 30 December, the HKMA issued SPM module GS-1 on "Climate Risk Management".
- On 13 January 2022, the HKMA issued a letter to consult the banking industry on the draft FIRO Code of Practice chapter on Liquidity and Funding in Resolution (LFIR).

There are also other regulatory updates from the HKMA and SFC in this period, which are highlighted in this edition.

We hope you find our summary of these regulatory updates useful. We

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HKMA Issued Circular on Enhanced Measures on Real-Time Fund Transfers Made by Customers

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On 21 December 2021, the HKMA issued a circular to all AIs to set out the enhanced measures that AIs should adopt in respect of real-time fund transfers made by customers.

Faster Payment System (FPS) and intra-bank fund transfer systems of some AIs enable fund transfers to be effected on a real-time basis. This offers greater convenience and better efficiency of fund transfers to bank customers. However, from time to time, some bank customers make errors when they input their transfer instructions in Internet banking platforms and mobile applications. In particular, there are situations where a bank customer (payer) erroneously inputs the bank account number of the intended recipient (payee), which is used as the identifier for effecting the fund transfer. Once the erroneous fund transfer is effected, it is not likely that the payer can stop the fund transfer.

The HKMA expects AIs to adopt the following enhanced measures to reduce chances of incorrect fund transfers made by customers:

Coverage

- The enhanced measures are applicable to fund transfers effected on a real-time basis through “Type C1 credit transfers” of FPS and intra-bank fund transfers of similar nature, in situations where a payer inputs the payee’s bank account number which is used as the identifier for effecting the fund transfer;

Enhanced Measures

- AIs acting as payee institutions are required to conduct mandatory name matching process. Transfer instructions that cannot pass the mandatory name matching process will be rejected by the payee institutions, and the payer institutions should inform the payer that the transfer instruction is unsuccessful or rejected. In particular:
  - Fund transfers of HK$10,000 or above are required to be subject to mandatory name matching process;
  - For fund transfers below HK$10,000, while name matching process is not mandatory, individual AIs acting as payee institutions may opt to also conduct name matching process taking into account various factors (such as customer needs and risk appetite) specific to the AIs; and
  - For intra-bank fund transfers, instead of name matching process, AIs may choose to adopt similarly effective measures, such as displaying partially-masked payee name of the inputted bank account to the payer before the fund transfer is confirmed, to achieve the same purpose; and

Customer Reminder

- After payers have inputted the payment instructions in Internet banking platforms or mobile applications, AIs acting as the payer institutions should display a reminder to the payers in a clear and prominent manner before a fund transfer is confirmed.

AIs should implement the above measures by end-December 2022.

Upon the implementation of the enhanced measures, AIs are encouraged to conduct appropriate customer communication to facilitate customers’ understanding on the name-matching process adopted by the industry on the relevant fund transfers, including the following:

- When a payer makes a real-time fund transfer through FPS, the payer should carefully verify the payment details, including, among others, the payee’s name and account number, etc. It is not likely that the payer can stop a transfer after it has been effected;
- Where (i) a payer inputs the payee’s bank account number as the identifier and (ii) the payee institution is a retail bank, fund transfers of HK$10,000 or above will generally be subject to AIs’ own name checking process; and
- In other cases such as fund transfers of less than HK$10,000 or the payee institution is not a retail bank, name checking process may not be conducted.

Additional Reading

Enhanced Measures on Real-Time Fund Transfers Made by Customers

HKMA Issued Consultation on Proposed Revisions to SPM Module OR-1 Operational Risk Management

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On 22 December 2021, the HKMA issued a letter to consult the banking industry on the proposed revisions to the SPM module OR-1 Operational Risk Management.

The previous version of the OR-1 module had been published in 2005 to set out the supervisory approach which the HKMA will adopt in the supervision of AIs' operational risk, and to provide guidance to AIs on the key elements of effective operational risk management. The proposed revised version will supersede the 2005 version.

The proposed changes to the SPM are based on the Basel Committee Banking Supervision (BCBS)'s "Revisions to the Principles for the Sound Management of Operational Risk" issued in March 2021. The proposed revisions to the module provide further guidance for the AIs' implementation of the principles, cover other important sources of operational risk, reflect the new operational risk framework in the Basel III reforms, and emphasize the importance of the principles in ensuring operational resilience of banks.

Under the revised module, an effective operational risk management framework (ORMF) shall consist of:

- Risk governance (including Board and senior management oversight) and risk culture;
- Risk management structure made up of three lines of defence;
- Operational risk management strategy, policies and procedures;
- Operational risk management process to identify, assess, monitor, control/mitigate and report operational risk;
- Specific aspects of operational risk management; and
- Disclosure.

The key proposed changes include:

- Operational resilience: It refers to the ability of an AI to deliver critical operations through disruptions. In considering its operation resilience, an AI should assume that disruptions will occur, and take into account its overall risk appetite and tolerance for disruption under a range of severe but plausible scenarios;
- Additional guidance on AIs' board oversight for operational risk management and senior management's responsibilities: The board should approve and periodically review: i) the ORMF; and ii) the risk appetite and tolerance statement and risk limits for operational risk. Senior management is responsible for implementing the ORMF approved by the Board through the development of specific policies, processes and procedures;
- Additional guidance in relation to the three lines of defence, including business unit management, operational risk management function and independent assurance;
- Additional guidance on operational risk management process: The revised module has incorporated a number of tools which are commonly used for identifying and assessing operational risk (e.g. event management, operational risk event data, control monitoring and assurance framework, scenario analysis and etc.);
- Additional guidance on specific aspects of operational risk management, including:
  - Change management;
  - Information communication and technology; and
  - Business continuity management and disaster recovery plan; and
- Additional guidance on regulatory disclosure requirements: AI should publicly disclose information on its operational risk management and should disclose relevant operational risk exposure information to its stakeholders (including significant operational loss events).

The consultation on the SPM module will end on 4 February 2022.

Additional Reading

HKMA consultation on proposed revision of SPM OR-1

HKMA Issued Consultation on SPM Module OR-2 “Operational Resilience”

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On 22 December 2021, the HKMA issued a letter to consult the banking industry on the new SPM module OR-2 Operational Resilience which sets out the supervisory approach to operational resilience and provide AIs with guidance on the general principles which they are expected to consider when developing their operational resilience framework.

Operational disruptions (including those due to pandemics, cyber incidents, technology failures and natural disasters) can affect the viability of individual financial institutions, and in turn, the stability of the wider financial system. This underscores the significance of operational resilience as a supervisory focus and has motivated HKMA to issue guidance that aims to improve the operational resilience of AIs.

The HKMA expects all AIs in Hong Kong to be operationally resilient. The HKMA will consider an AI to be operationally resilient if it is able to satisfy the following requirements:

- Identify and mitigate risks that may threaten delivery of critical operations;
- Continue to deliver critical operations when disruptions occur, including under severe but plausible scenarios;
- Resume normal operations in a timely manner after disruptions occur; and
- Absorb learnings from disruptions or near-misses to continually improve its ability to prevent, adapt to and recover from risks and disruptions to critical operations delivery.

An AI should develop an operational resilience framework which includes the following components:

Mechanism for determining the operational resilience parameters

The parameters consist of critical operations, tolerance for disruption and severe but plausible scenarios. When identifying the critical operations, AIs should consider i) AI’s viability; and ii) the AI’s role in the Hong Kong financial system and A tolerance for disruption should be set for each critical operation. AIs should identify a range of scenarios of different nature, severity and duration relevant to its business and risk profile.

Mapping exercises

The exercise enables an AI to develop a detailed understanding of the interconnections and interdependencies that underlie critical operations delivery, and in turn, identify what risks or events may affect or disrupt critical operations delivery. AIs should identify and document: (i) the people, processes, technology, information, facilities; and (ii) the interconnections and interdependencies among these factors that are necessary for the AI to deliver its critical operations.

Risk management policies and frameworks

The framework helps an AI prepare for and manage the various risks with potential to affect critical operations delivery in an integrated and holistic way. HKMA expects AIs should, at a minimum take into consideration the following risk management components with respect to operational resilience: (i) Operational risk management; (ii) Business continuity planning and testing; (iii) Third-party dependency management; and iv) Information and Communication Technology including cyber security.

Scenario testing

AIs should conduct regular testing of their operational resilience framework to ensure that they are able to continue delivering their critical operations through disruptions, including under severe but plausible scenarios.

Incident management programme

The incident management programme should be supported by an inventory of internal and third party resources to enable prompt incident response and recovery. It should also reflect the lessons learned from previous incidents, including those experienced by others.

The consultation on the SPM module will end on 4 February 2022.

Additional Reading

HKMA consultation on new SPM OR-2

HKMA Issued Consultation on Proposed Revisions to SPM Module TM-G-2 Business Continuity Planning

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On 22 December 2021, the HKMA issued a letter to consult the banking industry on the proposed revisions to the SPM module TM-G-2 "Business Continuity Planning".

The previous version of the TM-G-2 module was published in 2002. It set out the HKMA's supervisory approach to business continuity planning and the sound practices which the HKMA expects AIs to take into consideration in this regard. The proposed revised version will supersede the 2002 version.

The key proposed revisions are summarised below:

Development of business continuity plan

- It is specified that an effective BCP is forward-looking, and should be validated for a range of severe but plausible scenarios which contain disruptive events and incidents. The BCP should identify critical operations as well as the key internal and external dependencies supporting these critical operations. It should incorporate business impact analysis, recovery strategies, testing programmes, training and awareness programmes, communication strategies and crisis management processes. An AI's BCP for the delivery of critical operations, including those reliant on critical third-party services, should be consistent with its operational resilience framework. The same consistency requirement also applies to BCPs which may be contained within an AI's recovery and resolution plans;
- It provides additional guidance that the overall crisis management process should contain the process for establishing the roles and responsibilities for managing operational disruptions and clear guidance regarding the succession of authority in the event of a disruption that impacts key personnel;

Testing and rehearsal of business continuity plan

- It provides additional guidance that testing of BCP should be conducted and validated for a range of severe but plausible scenarios that incorporate disruptive events and incidents; and
- It is specified that the scope of testing should be cover interdependencies with third parties and intragroup entities.

The consultation on the SPM module will end on 4 February 2022.

Additional Reading

HKMA consultation on proposed revision of SPM TM-G-2

HKMA Issued Code of Practice Chapter ST-1 on Contractual Recognition of Suspension of Termination Rights under the Financial Institutions (Resolution) Ordinance (Cap. 628)

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On 22 December 2021, the HKMA issued Code of Practice Chapter ST-1 on Contractual Recognition of Suspension of Termination Rights (Code of Practice) issued under Financial Institutions (Resolution) Ordinance (FIRO).

The chapter provides guidance on how the HKMA, as resolution authority in relation to banking sector entities (Resolution Authority), intends to exercise certain discretionary power under, and on the operation of certain provisions in the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules (Cap. 628C) (Stay Rules). Each section of this chapter corresponds to, and provides guidance in relation to, a particular provision of the Stay Rules.

The key clarifications and guidance of the Code of Practice include:

Obligation of a related company under a financial contract that is guaranteed or otherwise supported by an AI incorporated in Hong Kong or an HK holding company in the same group of companies (rule 2)

- For the purpose of the definition of covered contract, “support” is that which is relevant in the context of early termination risk of financial contracts in a resolution. Given that the Stay Rules are concerned with financial contracts, the Resolution Authority generally expects that “support” would be financial in nature, though support is not confined to such in the Stay Rules;

Covered contracts entered into before the initial day (rule 3)

- What constitutes a material amendment of a pre-existing contract will vary depending on the nature of the contract and the particular facts. Whether a contract has been materially amended is expected to involve consideration not only of the amendment itself but also the nature of the right or obligation that may be affected by the amendment;

Systems of control and record keeping (rule 8)

- A covered entity is required to have adequate systems of control to ensure, and is required to keep sufficient records to demonstrate, its compliance with the requirement under rule 3(1), and any conditions of an extension or an exemption granted by the Resolution Authority under the Stay Rules. Sufficient records must also be kept to demonstrate its compliance with the aforesaid requirement of having adequate systems of control. These requirements apply to a covered entity at all times, i.e. not limited to in business-as-usual but also in crisis situations, including the lead up to and during resolution;

Legal opinion (rule 9)

- A covered entity is required to ensure the legal enforceability of a suspension of termination rights provision that is contained in a covered contract for complying with the requirement and, for that purpose, should undertake an assessment which may be supported by a legal opinion as appropriate; and

Financial contracts (rule 2 and Schedule)

- The financial contracts listed in the Schedule to the Stay Rules reflect the Resolution Authority’s policy intention to adopt a broad approach to the scoping of financial contracts under the Stay Rules. These financial contracts, irrespective of the mode of settlement (e.g. cash or physical settlement) or trading venue (e.g. exchange or over-the-counter), will be within the scope of the Stay Rules if they meet the other criteria of a covered contract under rule 2.

Additional Reading

Circular on FIRO Code of Practice Chapter ST-1 on Contractual Recognition of Suspension of Termination Rights

FIRO Code of Practice Chapter ST-1 on Contractual Recognition of Suspension of Termination Rights

Insurance Authority Formalises the Green Light Process for Assessment of Investment-Linked Assurance Scheme Products and Ushers in Protection Linked Plans

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On 28 December, the IA issued a note to formalise the green light process for assessment on Investment-Linked Assurance Scheme (ILAS) products, whilst ushering in Protection Linked Plans (PLP), a new category of ILAS with embedded high level of insurance protection.

The note aims to formalize the process by which an ILAS product which is to be marketed to the public is assessed against certain requirements in GL15 by the IA, before the authorized insurer may apply for authorization for the ILAS product from the SFC. This process is referred to in the note as the "green light process". In formalizing the green light process, the note builds on and provides further information in respect of the requirements under paragraph 5 (Product Design), paragraph 6 (Provision of Adequate and Clear Information), paragraph 9 (Appropriate Remuneration Structure) and paragraph 11 (Clients' Investments and Assets) of GL15.

The green light process streamlines the relevant regulatory application procedures through enhanced coordination between the IA and the SFC. Under the enhanced mechanism, once an insurer has obtained the green light from the IA, it may then submit its application to SFC for authorization.

In tandem with issuing the note, the IA has also made several consequential updates to Appendices 1 and 2 to the GL26 Interpretation Notes, including:

- Additional disclosure under the "Important Facts Statement" for ILAS products with an embedded high level of insurance protection; and
- Clarification for the calculation methodology and disclosure of remuneration provided to licensed insurance intermediaries.

Authorized insurers are reminded that whilst GL15 and GL26 do not have the force of law, in the sense that they are not subsidiary legislation and should not be interpreted in a way that would override any provision of law, a non-compliance with their requirements may reflect on the IA's view of the continued fitness and properness of (i) the directors, controllers and key persons in relevant control functions of authorized insurers to which GL15 and GL26 apply; and (ii) the licensed insurance intermediaries to which GL26 applies and their directors, controllers, and responsible officers. The IA may also take guidance from GL15 and GL26 in considering whether there has been an act or omission likely to be prejudicial to the interests of policyholders or potential policyholders.

Additional Reading

Green light process for assessment of Investment-Linked Assurance Scheme (ILAS) products and ushers in Protection Linked Plans

Note on the Green Light Process for Assessment of Investment-Linked Assurance Scheme ("ILAS") Products against Standards in Guideline on Underwriting Class C Business (GL15) and the consequential updates to the Interpretation Notes for the Guideline on Sale of Investment-Linked Assurance Scheme ("ILAS") Products ("GL26 Interpretation Notes")

HKMA Issued SPM Module GS-1 on Climate Risk Management

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On 30 December, the HKMA issued SPM module GS-1 on Climate Risk Management. It provides high-level guidance to AIs to build climate resilience by incorporating climate considerations into governance, strategy, risk management and disclosure.

The requirements of the SPM GS-1 module embed a few key attributes:

- **Proportionate -** AIs are expected to adopt approaches that are proportionate to their size, structure and business;
- **Progressive and evolving –** with the existing challenges such as data gaps and fast evolving market and regulatory developments, risk management approaches and AIs' capacity will need to adapt and be enhanced over time.
- **Balancing risks and opportunities –** Climate risk is a source of risk which may manifest itself into the different traditional risk types. When developing strategy to manage the risks, it is also an opportunity for AIs to explore potential business opportunities and avenues to support their clients and society in transiting to a low carbon economy and addressing other environmental and sustainability-related issues.

This SPM module is applicable to all AIs. International banking groups operating in Hong Kong (whether in the form of a local subsidiary or a branch) should have a framework in addressing climate-related issues appropriate for their Hong Kong operations. If certain processes are centralised at the group or regional level, the AI should assess whether such processes are appropriate for the local circumstances.

The SPM module is summarised below:

Governance

- **Responsibilities of the board and senior management**: The board has primary responsibility for the oversight of an AI's approach to managing climate risks and opportunities, which is fundamental to an AI's climate resilience;
- **Oversight**: The board should exercise oversight of the development and implementation of the AI's strategy in addressing climate-related issues, including embedding climate-related risks into the AI's risk management framework;

Strategy

- **Formulation**: AIs should embed climate considerations throughout the current strategy formulation process, from strategic assessment to action plan development;
- **Implementation**: AIs should ensure the effective implementation of their strategy for addressing climate-related issues by properly aligning internal resources and processes, and managing relevant changes. Organisational structures, business policies, processes and resources availability should be reviewed;

Risk management

- **Risk identification and measurement**: AIs are expected to have sufficient understanding of how climate risks could be transmitted into the traditional risks faced by them and assess the potential impacts on their business (including their lending and investment portfolios, as well as its own operations). Where appropriate, AIs should also formulate plans to build capabilities to address any information and data gaps;
- **Scenario analysis and stress testing**: AIs should build capability to measure climate-related risks using various methodologies and tools. AIs should adopt the techniques of climate-focused scenario analysis, including stress testing, to regularly assess vulnerability under different plausible climate scenarios having adverse impacts on them. Proper documentation should also be maintained;
- **Monitoring and reporting**: AIs should implement processes to monitor and report exposures to climate-related risks to ensure that such exposures are consistent with their risk appetite. Quantitative and qualitative tools and metrics should be considered to facilitate monitoring, and to provide early warning signals for necessary actions;
- **Control and mitigation**: AIs should implement processes to monitor and report exposures to climate-related risks to ensure that such exposures are consistent with their risk appetite;

Disclosure

- **Approach to disclosure**: AIs should develop an appropriate approach to disclosing climate-related information to enhance transparency. AIs are expected to make their first TCFD disclosures no later than mid-2023 and full TCFD disclosures by 2025.

The HKMA will allow a 12-month period for the implementation of the requirements set out in this module.

Additional Reading

Supervisory Policy Manual GS-1: Climate Risk Management

Green and sustainable banking: Supervisory Policy Manual GS-1 on climate risk management

HKMA Issued Consultation on FIRO Code of Practice Chapter on Liquidity and Funding in Resolution

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On 13 January 2022, the HKMA issued a letter to consult the banking industry on the on the draft FIRO Code of Practice chapter on Liquidity and Funding in Resolution (LFIR).

A potential impediment to the orderly resolution of an AI relates to its inability to assess funding needs and access funding in resolution. In order to address this potential impediment to resolution, an AI should, in business as usual (“BAU”), have the capabilities and arrangements (“LFIR capabilities and arrangements”) such that, in the lead up to and during resolution, it may:

- Reasonably anticipate its liquidity and funding needs in resolution;
- Appropriately monitor, manage and report on, its liquidity position (including the amount and nature of available liquid assets); and
- Effectively identify and mobilise collateral and monitor aggregate asset encumbrance levels.

The HKMA expects an AI to be able to demonstrate that it has in place the LFIR capabilities and arrangements. An AI’s LFIR capabilities and arrangements developed in line with this Code of Practice are expected to take into account, as appropriate, the various phases including:

- The lead up to resolution;
- The stabilization phase; and
- The post-stabilization restructuring phase.

The key requirements of the draft FIRO Code of Practice chapter on LIFR are summarised below:

- The HKMA expects an AI to identify the entities of the AI’s group which are considered material for liquidity and funding in resolution purposes (“material LFIR entities”). In this regard, the AI is expected to assess materiality in the context of the preferred resolution strategy determined by the MA and may consider the "material entities" identified pursuant to CI-1 as a starting point;
- An AI is expected to have in place a documented methodology for estimating ex ante the liquidity and funding needed in order to facilitate an orderly resolution;
- An AI is expected to have capabilities to measure, monitor and report on liquidity and funding needs and available liquid assets in resolution;
- An AI is expected to have in place, and be able to demonstrate, the capability to assess the potential need to rely on third-party funding providers in resolution. An AI is also expected to have in place, in BAU, capabilities to identify and mobilise (including to value, manage, monitor and deploy) the types of assets that the AI has assessed to be eligible, or likely to be eligible, as collateral for funding from potential third-party funding providers in resolution;
- An AI is expected to have in place appropriate governance arrangements, including oversight, decision-making and organisational arrangements, to support the ability to meet liquidity and funding needs in resolution. The governance arrangements and processes should be embedded into the AI’s overarching governance and organisational arrangements in place to support the HKMA’s resolution planning process; and
- An AI should ensure and demonstrate that its LFIR capabilities and arrangements are fit for purpose through regular testing and validation. The scope for testing and validation should cover the AI’s methodology, capabilities and governance for LFIR, including the decision-making processes, related playbooks or other documentation.

The consultation on LFIR will end on 14 March 2022.

Additional Reading

HKMA consultation on Resolution Planning – Liquidity

Other Regulatory Updates

HKMA Circular on Preparation for Participation in the Credit Reference Platform

On 17 December 2021, the HKMA issued a circular to remind AIs of timely preparation for participation in the Credit Reference Platform (CRP) which is scheduled for launch by the end of 2022.

The Hong Kong Association of Banks, the Hong Kong Association of Restricted Licence Banks and Deposit-Taking Companies and the Hong Kong S.A.R. Licensed Money Lenders Association Ltd. (collectively as "Industry Associations") have been working on the initiative of introducing more than one credit reference agency (CRA) for consumer credit data in Hong Kong (i.e. Multiple CRAs Model) with a view to enhancing the service quality of consumer CRAs and reducing the operational risk of having only one consumer CRA in the market.

Whereas the revised version of the SPM module IC-6 will be issued in due course, AIs are reminded to follow the advice of the Industry Associations issued from time to time and work closely with Hong Kong Interbank Clearing Limited, the CRP Platform Operator, to achieve the key milestones in the coming months in the run-up to the target launch date of the CRP.

HKMA Circular on Global Code of Conduct Standards and Practices for the Wholesale Foreign Exchange Market

On 17 December 2021, the HKMA issued a circular to provide guidance on steps for AIs to follow the Global Code of Conduct Standards and Practices for the Wholesale Foreign Exchange Market (FX Global Code) which was published by the Global Foreign Exchange Committee (GFXC) on 15 July 2021.

The updates in the FX Global Code have strengthened the guidance on areas including anonymous trading, algorithmic trading and transaction cost analysis, disclosures and settlement risk.

It is expected that all AIs take appropriate steps to (i) review their practices in light of the updated FX Global Code and ensure that they maintain adequate systems of control to support their observance of the FX Global Code; and (ii) demonstrate such status by issuing or renewing the Statement of Commitment and providing it to the Treasury Markets Association on or before 15 July 2022.

SFC Circular on Revised Financial Return Form and New Electronic Submission Platform

On 17 December 2021, the SFC issued a circular to LCs on the revised version of the financial return form and new electronic submission platform.

With effect from 1 February 2022, the electronic version of the revised form shall be used for submitting a return in respect of any period ending on or after 24 January 2022. However, the SFC will accept financial returns submitted by LCs using the superseded form for periods ending on or before 7 January 2022.

HKMA Circular on Reform of Interest Rate Benchmarks

On 23 December 2021, the HKMA issued a circular to remind AIs with outstanding contracts referencing LIBOR settings which require remediation before the close of the year should complete residual contract re-negotiation work as soon as practicable.

The HKMA also reminded AIs that they should not enter into new LIBOR contracts after the end of 2021. If AIs expect their customers to have foreign currency financing needs in early 2022, they should approach the customers early and assist them in making suitable financing arrangements.

Additionally, the HKMA will switch the reporting frequency of the Survey on Reform of Interest Rate Benchmarks from monthly back to quarterly from January 2022.

IA Circular on Prescribed Scenarios for Long Term Insurance Business in relation to GL21

On 24 December, the IA issued a circular to announce the updates in the Prescribed Scenarios for long term insurance business in relation to Guideline on Enterprise Risk Management.

IA Circular on Early Adoption of Risk-based Capital Regime for Long Term Business

On 28 December, the IA issued a circular to provide updates to the progress of Risk-based Capital (RBC) Regime, including:

- The parameters for the capital requirements under Pillar 1 of the proposed RBC regime have now been largely concluded;
- The IA have been developing regulatory returns to enable timely submission of information to the IA for supervision purposes; and
- The process for preparing the enabling legislation to implement the RBC regime has also been commenced.

Regulators Join Hands to Launch a Mystery Shopping Programme

On 29 December 2021, the IA, MPFA and HKMA issued circulars announcing a mystery shopping programme (MSP) for understanding the selling practices of intermediaries in respect of Qualifying Deferred Annuity Policies (QDAP) and Mandatory Provident Fund Tax-deductible Voluntary Contributions (TVC) in Hong Kong.

The MSP findings will be used to complement the policies and regulatory work of the regulators and assess the extent to which relevant statutory and regulatory objectives are met. Intermediaries who are regulatees of the IA, MPFA and HKMA which engage in selling or promoting QDAP and TVC in Hong Kong will be the subject of this MSP.

The MSP is expected to commence in January 2022.

Other Regulatory Updates

HKMA Circular on Climate Risk Stress Test

On 30 December, the HKMA issued a circular to share the results of a pilot exercise on climate risk stress test (CRST) completed recently by the HKMA.

The assessment results of the participating banks showed that, overall, the Hong Kong banking sector should remain resilient to climate-related shocks given the strong capital buffers built up by the banks over the years.

In view of the gaps and challenges identified in the pilot exercise, the HKMA will continue to engage the industry to support their capability building and enhance the CRST framework for a more comprehensive assessment of the banking sector’s climate resilience.

HKMA Circular on Self-Assessment of Compliance with the Code of Banking Practice 2021

On 7 January 2022, the HKMA issued a circular to remind AIs that the annual self-assessment of compliance with the Code of Banking Practice (the Code), covering the period from 1 January 2021 to 30 November 2021, which will be due for submission electronically by 29 April 2022.

AIs are reminded that the Code requires compliance by certain subsidiaries and affiliated companies of AIs, which should also be covered by this self-assessment accordingly.

As before, AI are required to commission their internal audit department, compliance department or other equivalent unit to conduct the self assessment and the Chief Executive of Ais should co-sign the report. Where an instance of non-compliance is identified which is a recurrence of similar instances identified in previous exercises, a full account should be provided.

HKMA Discussion Paper on Crypto-assets and Stablecoins

On 12 January 2022, the HKMA issued a discussion paper on crypto-assets and stablecoins, inviting views from the industry and public on the relevant regulatory approach.

The discussion paper sets out the HKMA’s thinking on the regulatory approach for crypto-assets particularly payment-related stablecoins. The approach has taken into account the international recommendations, the market and regulatory landscape locally and in other major jurisdictions, and the characteristics of payment-related stablecoins.

Members of the public and the industry may submit their responses on or before 31 March 2022.

HKMA Issued Revised SPM TA-2 Foreign Exchange Risk Management

On 18 January 2022, the HKMA issued a revised version of the SPM module TA-2 Foreign Exchange Risk Management.

The changes in the revised SPM module are mainly to incorporate the BCBS’ Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions.

The start of full compliance should be commensurate with AIs’ exposures to foreign exchange settlement related risks but not be reached later than one year from the date of the issuance of the circular. As stated on previous occasions, the HKMA encourages AIs to settle foreign exchange transactions through available payment-versus-payment arrangements in an effort to reduce their foreign exchange settlement related risks.

Glossary

AI	Authorised Institutions	ICO	Initial Coin Offering
AML	Anti-Money Laundering	IFRS	International Financial Reporting Standard
BC	Basel Committee	IOSCO	International Organization of Securities Commission
BCBS	Basel Committee on Banking Supervision	IR-1	Interest Rate Risk Management
CFT	Counter-Financing of Terrorism	IRR	Interest Rate Risk
CG-1	Corporate Governance of Locally Incorporated Authorized Institutions	IRRBB	Interest Rate Risk in the Banking Book
FATF	Financial Action Task Force	LC	Licensed Corporation
FinTech	Financial Technology	LIBOR	The London Inter-bank Offered Rate
FMCC	Fund Manager Code of Conduct	MAS	Monetary Authority of Singapore
FI	Financial Institutions	MRF	Mutual Recognition of Funds
FSB	Financial Stability Board	MoU	Memorandum of Understanding
HKMA	The Hong Kong Monetary Authority	RO	Responsible Officer
IA	The Insurance Authority	RE-1	Recovery Planning
IAF	Internal Audit Function	SFC	The Securities and Futures Commission
IC-1	Risk Management Framework	SFO	Securities and Futures Ordinance
IC-2	Internal Audit Function	SPM	Supervisory Policy Manual