Financial Services Risk and Regulation

Regulatory updates newsletter | July 2021

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Introduction

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In the last one month, we saw a big push from the Hong Kong regulators on the green finance, climate risk and environmental, social and governance (ESG) agenda. While the Green and Sustainable Finance Cross-Agency Steering Group announced the next steps to focus on climate-related disclosures and sustainability reporting, carbon market opportunities and the launch of the new Centre for Green and Sustainable Finance, the HKMA and SFC issued a consultation and a circular, respectively, to provide guidance to the industry on their approach to climate risks and enhanced disclosure requirements for ESG funds. We have discussed these updates in detail in this newsletter.

In further good news, the SFC's annual Asset and Wealth Management Activities Survey found that the asset and wealth management business in Hong Kong recorded a 21% year-on-year increase in assets under management (AUM) to $34,931 billion (US$4,505 billion) as at the end of 2020.

For this edition of the newsletter, we discuss the following regulatory developments:

- On 15 July, 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 the financial ecosystem towards carbon neutrality.
- On 20 July 2021, the HKMA issued a consultation to the banking industry on a draft Supervisory Policy Manual (SPM) module GS-1 on "climate risk management".
- On 29 June, the SFC issued a circular to provide guidance to management companies of SFC-authorised unit trusts and mutual funds on enhanced disclosures for funds which incorporate environmental, social and governance (ESG) factors as a key investment focus.
- On 20 July 2021, the HKMA issued a revised version of the Supervisory Policy Manual (SPM): CS-1 "Group-wide Approach to Supervision of Locally Incorporated Authorized Institutions" as a guidance note.
- On 28 June, the SFC issued a circular to set requirements for LCs in the operation of their bank accounts, driven by some unsatisfactory practices noted by the regulator during the course of supervision.
- On 9 July 2021, the HKMA issued a letter to consult the banking industry on the draft Financial Institutions (Resolution) Ordinance (Cap. 628) (FIRO) Code of Practice chapter ST-1 on contractual recognition of suspension of termination rights.
- LIBOR updates: HKMA circular on reform of interest rate benchmarks; FCA consultation on synthetic LIBOR; and LIBOR transition in Mainland China.
- Other regulatory updates: HKMA circular on Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules; HKMA SPM: IB-1 "Supervision of Insurance Intermediary Business of Authorized Institutions"; HKMA Guideline on Anti-Money Laundering and Counter Financing of Terrorism (For Stored Value Facility Licensees); HKMA Circular: Update on Enhanced Competency Framework on Private Wealth Management (ECF-PWM); HKMA Circular: Update on Enhanced Competency Framework on Private Wealth Management (ECF-PWM); SFC Circular to intermediaries – Notification to the SFC of suspected ramp and dump scams involving market manipulation in the shares of companies listed on the Stock Exchange of Hong Kong; and IA circular on Continuing Professional Development ("CPD") Requirements CPD Compliance Reporting for Combined Assessment Periods 2019/20 and 2020/21 Detailed instructions for reporting by principals to the IA.

We hope you find our summary of these regulatory updates useful. We look forward to your feedback.

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The Green and Sustainable Finance Cross-Agency Steering Group Announces Next Steps to Advance Hong Kong's Green and Sustainable Finance Strategy

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On 15 July, 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 the financial ecosystem towards carbon neutrality.

The key priorities that the Steering Group will focus on includes:

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 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

- As an international financial centre, Hong Kong is in a unique position to play a strategic role as China's gateway and mobiliser of capital to facilitate the national carbon neutrality goal.
- 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 also launched the Centre for Green and Sustainable Finance on 15 July.
- 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 has identified talent and data as the priority areas of action. Accordingly the Centre has 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.

Key Takeaways

"Hong Kong can lead the way in climate reporting by adopting the first set of global sustainability standards to ensure that consistent, comparable and reliable information is available to help investors understand the extent to which their portfolios are exposed to climate risks and they are financing emissions." said Mr Ashley Alder, the SFC's Chief Executive Officer and Co-Chair of the Steering Group.

"The lack of globally aligned standards, as well as capacity and data constraints, are hindering the growth of green and sustainable finance, not just in Hong Kong but also globally. The Steering Group has been coordinating the efforts across stakeholders in Hong Kong and the region in meeting these challenges, while exploring ways to capitalise on the enormous opportunities resulting from the transition to a greener world, such as in the capital and carbon markets. With the launch of the Centre, we hope to create a focal point to bring together policy makers, financial market professionals, the academia and other stakeholders for deeper exchange and collaboration." said Mr Eddie Yue, the HKMA's Chief Executive Officer and Co-Chair of the Steering Group.

Additional Reading

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

HKMA Consultation on a Draft SPM Module GS-1 on "Climate Risk Management"

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On 20 July 2021, the HKMA issued a consultation to the banking industry on a draft Supervisory Policy Manual (SPM) module GS-1 on "climate risk management".

As climate risk drivers would translate into one or more of the inherent risks assessed under the HKMA's risk-based supervisory process, the main objectives of the HKMA's supervisory approach in respect of climate risks are to assess

(i) the risk profile of AIs in respect of the vulnerability to climate risks, including the level and trend and

(ii) the adequacy and effectiveness of AIs' risk management framework in addressing climate risks, noting the distinctive characteristics of climate change and the material level of uncertainty surrounding it.

Key highlights of the SPM are:

Governance

- While the board remains ultimately responsible for the AI's climate resilience, it may delegate authority to board-level committees.
- The senior management is responsible for the proper functioning of the AI's risk management framework and for driving necessary changes in addressing climate related issues.
- 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.
- The board is responsible for setting the AI's overall risk appetite and approving the risk appetite statement (RAS) recommended by senior management.
- The RAS should be reviewed at least annually, taking into account the evolving physical and transition impacts arising from climate-related issues, as well as the circumstances of the AI such as data availability and capability in the assessment.

Strategy

- AIs should embed climate considerations throughout the current strategy formulation process, from strategic assessment to action plan development.
- 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

- AIs should incorporate climate-related risk considerations into their risk management framework, and establish effective risk management processes to identify, measure, monitor, report, control and mitigate climate-related risks.
- 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. AIs should also formulate plans to build capabilities to address any information and data gaps.
- AIs should adopt the techniques of climate-focused scenario analysis and stress testing to regularly assess vulnerability under different plausible climate scenarios having adverse impacts on them.
- 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

- AIs should develop an appropriate approach to disclosing climate-related information to enhance transparency. As a minimum, AIs should make climate-related disclosures aligned with TCFD recommendations.

Key Takeaways

The HKMA will allow a 12-month period for the implementation of the requirements set out in this module. Recognising AIs are at varying stages of development in addressing climate-related risks and that there is no "one-size-fit-all" approach given the differences among AIs in terms of size, structure and business, the HKMA will adopt a proportionate approach in applying the guidance set out in this module.

While this module focuses on climate risk management, AIs should not overlook the risks and opportunities brought by other environmental and sustainability related issues. This would better enable an AI to deal with the challenges posed by increasing expectation of its stakeholders and the public on this front.

This module should be read in conjunction with other relevant modules of the Supervisory Policy Manual, e.g. IC-1 on risk management framework, IC-5 on stress-testing and the various modules on the effective management of the relevant inherent risks such as RR1 on reputational risk and SR-1 on strategic risk.

Additional Reading

Supervisory Policy Manual GS-1 (Consultation):Climate Risk Management

SFC Circular to management companies of SFC-authorized unit trusts and mutual funds – ESG funds

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On 29 June, the SFC issued a circular to provide guidance to management companies of SFC-authorised unit trusts and mutual funds on enhanced disclosures for funds which incorporate environmental, social and governance (ESG) factors as a key investment focus (ESG funds).

The circular supersedes a previous version issued in 2019.

Key highlights include:

Name of fund

- In line with the existing requirements set out in the Code on Unit Trusts and Mutual Funds (UT Code), an ESG fund's primary investments and/or strategy should reflect the particular ESG focus which the fund name represents.
- The reference to ESG or similar terms in the fund's name and marketing materials should accurately and proportionately reflect the ESG features against other features of the fund and should not overstate or over-emphasize the ESG features.

Disclosure in offering documents: An ESG fund should disclose in its offering documents:

- The ESG focus of the fund: a description of the fund's ESG focus (e.g. climate change, green, low carbon footprint, etc.); and a list of ESG criteria (e.g. filters, indicators, ratings, etc.) used to measure the attainment of the fund's ESG focus.
- The ESG investment strategy:
  - a description of the investment strategy(ies) adopted by the ESG fund, the binding elements and significance of that strategy(ies) in the investment process, and how the strategy(ies) is(are) implemented in the investment process on a continuous basis;
  - a summary of the process of consideration of ESG criteria; and
  - a description of whether an exclusion policy is adopted by the ESG fund and the types of exclusion.
- Asset allocation: the expected or minimum proportion of securities or other investments that are commensurate with the fund's ESG focus.
- Reference benchmark: Where an index is designated as a reference benchmark for the purpose of attaining the ESG focus of an ESG fund:
  - where the fund is tracking an ESG benchmark, details of the benchmark being tracked including the characteristics and general composition of the benchmark; or
  - where the fund seeks to measure its ESG focus against a designated reference benchmark, an explanation of how the designated reference benchmark is relevant to the fund.
- Risks: a description of risks or limitations associated with the fund's ESG focus and the associated investment strategies.

Periodic assessment and reporting: An ESG fund should conduct periodic assessment, at least annually, to assess how the fund has attained its ESG focus.

Application of this circular on UCITS funds: Having considered the European regulation on sustainability-related disclosures in the financial services sectors (SFDR), UCITS funds will be ESG funds in Hong Kong if they incorporate ESG factors as their key investment focus and reflect such in the investment objective and/or strategy (UCITS ESG funds). This is irrespective of whether they are classified as falling under Article 8 or Article 9 of the SFDR.

Ongoing monitoring: Fund managers of ESG funds should regularly monitor and evaluate the underlying investments to ensure the ESG funds continue to meet the stated ESG focus and requirements set out in this circular.

Effective date and implementation: This circular will take effect and will supersede the 2019 Circular on 1 January 2022

Key Takeaways

"Making sustainability-related disclosures more transparent, comparable and consistent will help investors identify suitable ESG funds and reduce opportunities for greenwashing. Hong Kong's financial market is where global capital connects with Mainland enterprises, so what we do here can have an outsized influence on global developments in green and sustainable finance." said Mr Ashley Alder, the SFC's Chief Executive Officer.

A database of SFC-authorised ESG funds is available on the SFC website. To enhance transparency for these funds, their key features will also be listed in the database after the new circular takes effect on 1 January 2022.

Additional Reading

SFC Circular to management companies of SFC-authorized unit trusts and mutual funds - ESG funds

Illustrative examples of ESG funds

Confirmation from management companies of the ESG fund(s)

HKMA Issued Revised SPM CS-1 on "Group-wide Approach to Supervision of Locally Incorporated Authorized Institutions"

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On 20 July 2021, the HKMA issued a revised version of the Supervisory Policy Manual (SPM): CS-1 "Group-wide Approach to Supervision of Locally Incorporated Authorized Institutions" as a guidance note.

The SPM module was revised primarily to:

1) reflect the current supervisory approach and practices adopted by the HKMA in relation to a locally incorporated authorized institution where it forms part of a banking, financial or commercial group;

2) incorporate relevant principles in international standards concerning the supervision of financial conglomerates; and

3) cater for consequential changes arising from amendments to the Banking Ordinance, relevant rules made under the Ordinance and supervisory guidelines.

The aim of this guideline is to outline the group-wide approach currently adopted by the HKMA to supervising AIs where they form part of a financial or a commercial group, either as the head of the group (i.e. in the case of a financial group), or as one of the member companies of the group (i.e. in the case of a financial or a commercial group).

Key Takeaways

In line with the Core Principles for Effective Banking Supervision (BCP), when the HKMA supervises an AI, it takes account of the consolidated risks of that AI's banking group (typically, its immediate holding company, offices, subsidiaries, affiliates and joint ventures, both domestic and foreign). When the AI's banking group is part of a wider group, with other group companies (both financial and non-financial) ultimately headed by a common holding company, the risks that could be posed to the AI by these group companies are also considered.

Additional Reading

SMP CS-1: Group-wide Approach to Supervision of Locally Incorporated Authorized Institutions

HKMA Circular: Supervisory Policy Manual (SPM): CS-1 "Group-wide Approach to Supervision of Locally Incorporated Authorized Institutions"

SFC Circular to Licensed Corporations on Operation of Bank Accounts

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On 28 June, the SFC issued a circular to set requirements for LCs in the operation of their bank accounts, driven by some unsatisfactory practices noted by the regulator during the course of supervision.

The SFC has shared examples in the circular.

Key highlights of the expected standards include:

Senior management responsibilities

- An LC's senior management should designate at least one responsible officers (ROs) or Managers-in-Charge of Core Functions (MICs) to be responsible for each of the following areas:
  a) adequately safeguard client assets;
  b) promptly discharge settlement or margin obligations to clearing houses and trading counterparties;
  c) ensure the availability of the financial resources needed for the proper performance of the LC's business activities10; and
  d) fully comply with the financial resources requirements under the Securities and Futures (Financial Resources) Rules (FRR) at all times.
- The LC's board of directors should delegate sufficient authority to the designated ROs or MICs and empower them.
- All authorised signers should adhere to the governance framework established by the LC's senior management and comply with the policies, procedures and internal controls implemented by the designated ROs or MICs.
- The designated ROs or MICs should also have the authority to hold each authorised signer to account for any operation of the LC's bank accounts which is not consistent with these policies, procedures and internal controls.

Authorised signer arrangements

- The SFC expects that the authorised signers20 for effecting any form of payments out of an LC's house bank accounts should be:
  a) RO(s), MIC(s) or his / her delegate(s); or
  b) Any other person(s), provided that such person(s) can only effect payment jointly with RO(s), MIC(s) or his / her delegate(s).
- To enhance the protection of client money, the SFC expects that the authorised signers for effecting any form of payments out of an LC's client bank accounts should only be RO(s), MIC(s) or his / her delegate(s).

Timely and effective access to information in relation to bank accounts

The designated ROs or MICs responsible for each area mentioned above should also have timely and effective access (to all information about the operation and activities of the LC's house and client bank accounts, ensuring the adequacy of financial resources or fully complying with the financial resources requirements under the FRR at all times, according to their designated responsibilities.

Key Takeaways

The unsatisfactory practices noted by the SFC undermined LCs' ability to properly safeguard client money, promptly discharge their liabilities and fully comply with the financial resources requirements under the FRR at all times.

The SFC noted cases where LCs did not implement effective controls in relation to their bank account operations and authorised bank account signatory (authorised signer) arrangements to ensure that the LC's ROs or MICs, who were involved in the day-to-day management of its regulated activities, have sufficient ability to direct, and sufficient oversight of, the deployment of the LC's cash resources. In some cases, an LC's ROs, MICs and their delegates did not have proper access to information about the activities of its house and client bank accounts and adequate measures were not in place to monitor activities in these accounts.

The SFC expects LCs to develop and implement effective policies, procedures and internal controls in relation to the operation of their bank accounts.

Additional Reading

SFC Circular on Operation of Bank Accounts

HKMA Consultation on the draft FIRO Code of Practice chapter ST-1 on contractual recognition of suspension of termination rights

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On 9 July 2021, the HKMA issued a letter to consult the banking industry on the draft Financial Institutions (Resolution) Ordinance (Cap. 628) (FIRO) Code of Practice chapter ST-1 on contractual recognition of suspension of termination rights.

This publication is a chapter of the Code of Practice. The purpose of this chapter is to provide guidance on how the Resolution Authority intends to exercise certain discretionary powers under, and on the operation of certain provisions in, the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules ("Stay Rules").

Entities which are subject to requirements under the Stay Rules are:

(a) AIs incorporated in Hong Kong;

(b) HK holding companies; and

(c) related companies of AIs incorporated in Hong Kong.

Each of these entities is a covered entity in the Stay Rules.

Resolution planning involves gathering information from the relevant AI and its group companies, setting a preferred resolution strategy, developing a resolution plan, assessing resolvability, and addressing firm-specific impediments to the effective implementation of the strategy and plan. The disorderly early termination of financial contracts is a potential impediment to orderly resolution.

In this regard, section 90(2) of the FIRO provides for a resolution authority, by way of provision in a Part 5 instrument, to suspend for up to two business days a termination right of a counterparty (other than a counterparty that is a financial market infrastructure) that becomes exercisable under a qualifying contract ("temporary stay").

Earlier on 25 June 2021, the HKMA issued a circular to inform all AIs that the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules ("Stay Rules") were published in the Gazette.

The Stay Rules would have been tabled before the Legislative Council for negative vetting on 7 July 2021. Subject to the views of the Legislative Council, the subsidiary legislation should come into operation on 27 August 2021.

An initial period of 24 or 30 months (depending on the counterparty types) beginning on the day on which the Stay Rules come into operation is provided for covered entities to achieve compliance with the Stay Rules.

Key Takeaways

AIs are recommended to review this draft and corresponding documents carefully to assess the impact on their operations and regulatory obligations.

The guidance in this chapter is intended to be general and does not take into account the particular circumstances of any individual covered entity. In case of any conflict between this chapter and the Stay Rules, the Stay Rules prevail. As such, covered entities must read this chapter in conjunction with the Stay Rules and not in place of them.

This chapter should not be regarded as, or be considered as a substitute for obtaining, independent professional advice. A covered entity should consider obtaining such advice before taking action on any matters covered by this chapter, particularly if it has any doubt as to how any aspect of the Stay Rules might apply to it.

Additional Reading

HKMA Consultation on the Draft Resolution Planning – Contractual Recognition of Suspension of Termination Rights

HKMA Circular: Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules

LIBOR Reform Updates

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HKMA circular on reform of interest rate benchmarks

The HKMA issued a circular on 8 July 2021 to all authorized institutions requesting them to help promote the corporate sector's awareness of the LIBOR transition by distributing a leaflet jointly developed by the HKMA and the Treasury Markets Association (TMA) to their corporate customers.

To ensure a smooth transition, bank regulators around the world, including the HKMA, have required banks to cease entering into new LIBOR contracts after 2021. Taking into account the recent developments, the HKMA and the TMA have updated the Q&As and developed a leaflet to enhance the corporate sector's awareness of the transition and its implications for them.

Key Takeaways

The HKMA is requesting AIs to distribute the leaflet to all their corporate customers which have outstanding LIBOR-linked contracts with them by 31 July 2021.

AIs need to send an email confirmation to bsdmarketrisk@hkma.gov.hk after they have completed this exercise.

FCA consultation on synthetic LIBOR

The FCA issued its next consultation on the use of its powers to compel the publication of a synthetic LIBOR. The consultation details the agency's proposal to require the continued publication of the 1M, 3M and 6M tenors of GBP and JPY LIBOR once panel bank submissions are scheduled to end on December 31, 2021. Rather than relying on submissions, synthetic LIBOR would be calculation-based, derived from forward-looking RFR term rates plus ISDA's spread adjustment values for the respective settings. The consultation will remain open until August 27, 2021.

Key Takeaways

Other than the announcement of selected RFR term rate providers, the FCA's consultation doesn't include much new information. The greatest source of uncertainty for market participants stems from yet-to-be-resolved questions on exactly what contracts would be permitted to reference synthetic LIBOR and how any restrictions would be enforced.

The current consultation reiterates many of the FCA's previous talking points, suggesting that the permitted use of synthetic LIBOR would be limited to a narrow set of exposures, primarily in cash products. There have, however, been suggestions that the scope could eventually include some uncleared derivative products as well.

LIBOR transition in Mainland China

At a conference on the self-regulatory mechanism of interest rate pricing, major lending institutions were asked to proactively advance the transition for USD loans from USD LIBOR to SOFR. To support the transition, the People's Bank of China (PBC) issued a series of templates, including recommended fallback language for LIBOR-based loans, provisions to transition existing loans to SOFR and a template for new SOFR-based loans (in Chinese). The templates largely align to the ARRC's recommendations on fallback language and RFR conventions for bilateral loans.

The PBC's guidance follows up on a white paper on LIBOR transition released in August 2020, which described China's commitment to participating in global interest rate benchmark reforms.

Key Takeaways

China has generally followed international consensus and best practices, promoting the application of new benchmark interest rates in its domestic market. Chinese banks have made significant progress in the transition away from LIBOR, with several institutions acting as early adopters of alternative reference rates. In October 2019, Bank of China issued Asia's first floating rate bond linked to SOFR. And since April 2020, the China Foreign Exchange Trade System (CFETS) has included RFRs as the foreign currency leg in interest rate swaps used in the domestic interbank funding market. With additional templates now available, we expect China's leading banks to further advance their transition progress. It appears likely that we'll see the launch of additional SOFR cash products in the near future, as well.

Additional Reading

LIBOR Transition - Market update

HKMA Circular: Reform of interest rate benchmarks

HKMA: LIBOR cover note for corporate treasurers

Other Regulatory Updates

HKMA circular on Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules

The HKMA issued this circular on 25 June to inform all AIs that the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules ("Stay Rules") were published in the Gazette.

Under the Stay Rules, covered entities must ensure that covered contracts contain a term or condition (made, or evidenced, in writing) to the effect that the parties agree in a legally enforceable manner that the parties (other than an excluded counterparty) will be bound by any suspension of termination rights in relation to the contract that may be imposed by the Monetary Authority under section 90(2) of the Financial Institutions (Resolution) Ordinance (Cap. 628). An initial period of 24 or 30 months (depending on the counterparty types) beginning on the day on which the Stay Rules come into operation is provided for covered entities to achieve compliance with the Stay Rules.

The Stay Rules will be tabled before the Legislative Council for negative vetting on 7 July 2021. Subject to the views of the Legislative Council, the subsidiary legislation should come into operation on 27 August 2021.

HKMA SPM: IB-1 "Supervision of Insurance Intermediary Business of Authorized Institutions"

On 25 June 2021, the HKMA issued by notice in the Gazette a new Supervisory Policy Manual (SPM) module IB-1 "Supervision of Insurance Intermediary Business of Authorized Institutions" as a statutory guideline under section 7(3) of the Banking Ordinance, following consultation with the Insurance Authority (IA) and the two industry Associations.

The SPM module outlines the HKMA's supervisory and enforcement approaches and provides an overview of the relevant statutory and regulatory requirements in relation to insurance regulated activities of AIs under the statutory regime.

Under the statutory regime for insurance intermediaries of the Insurance Ordinance (IO), the IA has delegated to the MA its inspection and investigation powers in relation to businesses of insurance regulated activities carried on by AIs. In this connection, the HKMA continues to be the frontline supervisor of insurance regulated activities of AIs.

HKMA Guideline on Anti-Money Laundering and Counter Financing of Terrorism (For Stored Value Facility Licensees)

The Guideline on Anti-Money Laundering and Counter Financing of Terrorism (For Stored Value Facility Licensees), that was revised in September 2020, has come into effect on 2 July 2021.

This Guideline sets out the relevant anti-money laundering and counter-financing of terrorism (AML/CFT) statutory and regulatory requirements, and the AML/CFT standards which stored value facility (SVF) licensees (which are not licensed banks) or licensed banks (hereafter referred collectively as "SVF licensees") for the issue of SVF, should meet in order to comply with the statutory requirements under the PSSVFO. Compliance with this Guideline is enforced through the PSSVFO. SVF licensees which fail to comply with this Guideline may be subject to disciplinary or other actions under the PSSVFO for non-compliance with the relevant requirements.

HKMA Circular: Update on Enhanced Competency Framework on Private Wealth Management (ECF-PWM)

On 14 July, the HKMA issued a circular to draw attention to the launch of the Certified Private Wealth Professional Associate (CPWPA) certification by the Private Wealth Management Association (PWMA) to recognise and incentivise staff of PWMA member institutions who are seeking to enhance their skill set and advance their career within the private wealth management industry.

The newly launched CPWPA certification primarily targets Relevant Practitioners who have passed the examinations but have not yet met the work experience requirements for CPWP certification, Client Service Assistants, Assistants to Relevant Practitioners, as well as Middle and Back Office staff involved in the private wealth management business.

In addition, the PWMA, together with the HKMA and the Hong Kong Securities and Investment Institute, has enhanced the syllabus for ECF CPWP Module 1 having regard to industry feedback. The enhanced syllabus better reflects the latest developments and the work of Relevant Practitioners in the private wealth management industry, thereby strengthening its role as an industry benchmark.

The Guide to the ECF-PWM has been updated to reflect the launch of the CPWPA and the enhanced syllabus.

SFC Circular to intermediaries – Notification to the SFC of suspected ramp and dump scams involving market manipulation in the shares of companies listed on the Stock Exchange of Hong Kong

On 29 June, the SFC issued this circular in order to:

- encourage intermediaries to provide information or documents which may facilitate the SFC's immediate assessment of the impact of potential market misconduct, in particular where a ramp and dump scam is suspected;
- remind intermediaries of their existing obligations under paragraph 12.5(f) of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct) to report market misconduct suspected to have been committed by their clients to the SFC in a timely manner; and
- provide intermediaries with guidance on red flags which may arouse the reasonable suspicion of intermediaries or their staff about suspected ramp and dump scams and warrant an assessment of whether the associated trading activities should be reported to the SFC under paragraph 12.5(f) of the Code of Conduct.

Other Regulatory Updates

IA circular on Continuing Professional Development ("CPD") Requirements CPD Compliance Reporting for Combined Assessment Periods 2019/20 and 2020/21 Detailed instructions for reporting by principals to the IA

The key deadlines for the Combined 2019/20 and 2020/21 Assessment Periods are:

- 31 July 2021 – Deadline for individual licensees [i.e. licensed individual insurance agents, technical representatives (agent) and technical representatives (broker)] to complete their CPD hours for the Combined 2019/20 and 2020/21 Assessment Periods.
- 30 September 2021 – Deadline for individual licensees to submit their completed CPD Declaration Forms to their appointing principals (i.e. their appointing authorized insurers, licensed insurance agencies or licensed insurance broker companies).
- 31 October 2021 – Deadline for appointing principals to report CPD compliance status of their appointed individual licensees to the IA.

The CPD lists have been updated by the IA on a monthly basis to keep track of changes in the appointed individual licensees for each principal. Principals should use the CPD list as at 31 July 2021 in reporting the CPD compliance of their appointed individual licensees to the IA.

To access their latest CPD list, it is imperative that principals open a Supervisor Account in the IA's Insurance Intermediaries Connect (IIC) as soon as possible, if they have not already done so. A Supervisor Account in IIC can be opened by submitting a signed Form A2 to the IA.

Each principal, after receiving the completed CPD Declaration Forms from its appointed individual licensees, should report the CPD compliance status of its appointed individual licensees to the IA. This must be done by the principal completing the requested information in its CPD list and uploading it through IIC to the IA by 31 October 2021.

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