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Content Dashboard

Regulatory Updates	Page Number	Banking and Capital Markets	Asset Management	Insurance
HKMA circular on Implementation Arrangements for the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area	4	✓	✓	
SFC concludes Consultation on Proposed Amendments to the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) and the Prevention of Money Laundering and Terrorist Financing Guideline for Associated Entities	5		✓	
SFC circular on Roadmap for Implementing the Hong Kong Investor Identification Regime and the Over-the-counter Securities Transactions Reporting Regime	6	✓	✓	
HKMA issued Observations from Reviews on Sale of Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme Products, and Referral Arrangement of Tax Deductible Voluntary Contributions	7	✓		✓
IA circular on Enhancing the Guideline on Sale of Investment-Linked Assurance Scheme Products	8			✓
Other Regulatory Updates:	9			
HKMA circular on Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights - Banking Sector) Rules		✓		
SFC circular to licensed corporations in relation to list of prescribed persons who have reached the clearing threshold under the clearing and record keeping rules for the OTC derivatives regime		✓	✓	
IA signed Memorandums of Understanding on Fintech Co-operation with the China Banking and Insurance Regulatory Commission and the Monetary Authority of Macao				✓
SFC circular to licensed corporations engaged in asset management activities: questionnaire on asset management activities relating to private funds (other than hedge funds) and managed accounts			✓	
IA circular on launch of Cybersec Infohub Private Group for insurance sector				✓
HKMA circular on Interest Rate Benchmarks Reform		✓	✓	✓
IA circular on extension of Phase 2 of the Temporary Facilitative Measures to tackle the outbreak of COVID-19				✓
IA issued FAQs on CPD Penalty Framework and CPD Compliance Reporting				✓

Introduction

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This month the banking industry received a long-awaited announcement: the HKMA promulgated the implementation details for the Cross-boundary Wealth Management Connect Pilot Scheme (Cross-boundary WMC) in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), providing supervisory guidance for the industry.

As highlighted by Mr Eddie Yue, the Chief Executive of the HKMA, the official launch of the Cross-boundary WMC will enable individual investors in GBA to invest in more diversified wealth management products across the boundary. The scheme will not only offer more investment options but also create new opportunities for the banking and wealth management industry in GBA. It also will promote the cross-boundary circulation and use of the renminbi (RMB), thereby further consolidating Hong Kong's role as the global hub for offshore RMB.

Apart from the Cross-boundary WMC, the key regulatory developments discussed in this edition are:

- On 15 September, the SFC issued consultation conclusions on proposed amendments to the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) and the Prevention of Money Laundering and Terrorist Financing Guideline issued by the Securities and Futures Commission for Associated Entities.
- On 13 September, the SFC issued a circular in relation to the roadmap for implementing the Hong Kong Investor Identification Regime and the Over-the-counter (OTC) Securities Transactions Reporting Regime.
- On 14 September, the HKMA issued a circular to all authorised institutions in relation to the desktop reviews on the practices in selling qualifying deferred annuity policy and voluntary health insurance scheme products, and referral arrangement of tax deductible voluntary contributions.
- On 31 August, the IA issued a circular in respect of adding new Q&As to the Interpretation Notes relating to the Guideline on Sale of Investment-Linked Assurance Scheme Products, drawing special attention to Investment-Linked Assurance Scheme Products with Open Architecture.

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

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

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HKMA Circular on Implementation Arrangements for the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area

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On 10 September, the HKMA issued a circular to all registered institutions in Hong Kong, setting out the implementation arrangements and specific regulatory requirements of the pilot Cross-boundary wealth management connect scheme (Cross-boundary WMC) between the nine Mainland cities in the Greater Bay Area (GBA), Macau and Hong Kong.

The Cross-boundary WMC consists of the Southbound Scheme and the Northbound Scheme. The Southbound Scheme refers to eligible residents in the Mainland GBA cities investing in wealth management products distributed by banks in Hong Kong and Macao via designated channels. The Northbound Scheme refers to eligible residents in Hong Kong and Macao investing in wealth management products distributed by Mainland banks via designated channels.

The key implementation arrangements for the Cross-boundary WMC are summarised as follows:

- **Eligible investors**: Eligible investors under the Northbound Scheme are Hong Kong residents who hold a Hong Kong identity card. Eligible investors the Southbound Scheme are residents of the nine Mainland cities in the GBA who meet the requirements prescribed by the Mainland regulatory authorities.
- **Eligible wealth management products**: Under the Northbound scheme, eligible products include low- to medium-risk public funds and public fixed income wealth management products and equity wealth management products. Under the Southbound scheme, eligible wealth management products include deposits (i.e. not including structured deposits), Hong Kong domiciled funds authorised by the SFC and bonds which are assessed as low- to medium-risk and non-complex.
- **Eligible banks**: Eligible banks should partner with other eligible banks in the other market to embark on Cross-boundary WMC activities. Each bank is allowed to have more than one partnering bank.
- **Account opening arrangements**: Investors should open a dedicated Cross-boundary WMC remittance account in their place of residence, paired with a dedicated Cross-boundary WMC investment account in the other market. Each investor should maintain only one dedicated remittance account in their place of residence and one dedicated investment account in the other market.
- **Remittance arrangements**: Cross-boundary remittances should be conducted in Renminbi (RMB) between the dedicated investment account and its paired dedicated remittance account.
- **Quota**: The Northbound and Southbound schemes each will be subject to an aggregate quota of RMB 150 billion and an individual investor quota of RMB 1 million. All quotas are calculated on a net cross-boundary remittance basis.
- **Investor protection**: The relevant Hong Kong and Mainland regulatory authorities will supervise banks' Cross-boundary WMC activities according to the principle of territorial administration.

As part of the circular, the HKMA also set out specific regulatory requirements and Frequently Asked Questions on the Southbound Scheme and the Northbound Scheme for eligible banks in Hong Kong.

Hong Kong banks should ensure that their business activities under the Cross-boundary WMC comply with the requirements on investor eligibility, account opening, cross-boundary remittance, quota management, product due diligence, promotion and sale, controls and supervision, staff knowledge and training, complaint handling mechanism, reporting obligations and other relevant requirements.

Additional Reading

Implementation Arrangements for the Cross-boundary Wealth

Management Connect Pilot Scheme in the Guangdong-Hong Kong Macao Greater Bay Area

HKMA Promulgates Implementation Details for Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area

Cross-boundary Wealth Management Connect in the Guangdong-Hong Kong-Macao Greater Bay Area

HKMA welcomes Southbound Trading under Bond Connect

SFC Concludes Consultation on Proposed Amendments to the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) and the Prevention of Money Laundering and Terrorist Financing Guideline for Associated Entities

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On 15 September, the SFC issued consultation conclusions on proposed amendments to the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) (AML/CFT Guideline) and the Prevention of Money Laundering and Terrorist Financing Guideline issued by the Securities and Futures Commission for Associated Entities (Guideline for AEs).

The SFC's responses to major comments are summarised below:

- **Institutional risk assessment**: The SFC clarified that the two-year review cycle set out in paragraph 2.9 of the AML/CFT Guideline is the baseline. Licensed corporations (LCs) are welcome to conduct reviews more frequently as they deem appropriate.
- **Risk indicators for institutional and customer risk assessments**: When conducting risk assessments, a LC should holistically take into account all relevant risk factors, rather than any single risk factor in isolation. The examples set out in Appendix A to the AML/CFT Guideline are considered as generally acceptable but not exhaustive.
- **Due diligence for cross-border correspondent relationships**: The correspondent institution is required to apply additional due diligence and risk mitigating measures to address specific risks arising from the lack or incompleteness of information about the respondent institution's underlying customers and transactions.
- **Simplified and enhanced measures under a risk-based approach**: In relation to paragraphs 2(c) and 2(d) of Appendix C to the AML/CFT Guideline, LCs should take further steps to corroborate the additional information obtained using available sources.
- **Red-flag indicators of suspicious transactions and activities**: In line with the "SAFE" approach promulgated by the Joint Financial Intelligence Unit, a transaction or activity displaying a red-flag indicator should not automatically be deemed suspicious. However, LCs should take further steps and obtain additional information to assess if the apparently suspicious transaction or activity is in line with the LC's knowledge of the customer.
- **Third-party deposits and payments**: The facilitative guidance permitting delayed third party deposit due diligence was introduced to address the industry's concerns about practical difficulties in completing the due diligence process prior to settling transactions with deposited funds. LCs are only permitted to do so under exceptional situations where there is no suspicion of money laundering and terrorist financing (ML/TF) and where appropriate risk management policies and procedures are in place.
- **Person purporting to act on behalf of the customer**: The SFC clarified that "ML/TF risks associated with the business relationship" does not replace the existing factor of "ML/TF risks associated with the roles and activities that a person is authorised to conduct on behalf of the customer", but rather complements it.

The SFC will provide a six-month transition period (from the date of gazettal of the Revised AML/CFT Guideline) for LCs to implement the policies, procedures and controls for the new requirements for cross-border correspondent relationships stipulated in paragraphs 4.20 of the AML/CFT Guideline. Other amendments which either incorporate existing guidance from circulars or do not require substantial adjustments to LCs' existing AML/CFT policies, procedures and controls will become effective on the date of gazettal.

Additional Reading

Consultation Conclusions on Proposed Amendments to (1) the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) and (2) the Prevention of Money Laundering and Terrorist Financing Guideline issued by the Securities and Futures Commission for Associated Entities

SFC Circular on Roadmap for Implementing the Hong Kong Investor Identification Regime and the Over-the-counter Securities Transactions Reporting Regime

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On 13 September, the SFC issued a circular in relation to the roadmap for implementing the Hong Kong Investor Identification Regime (HKIDR) and the Over-the-counter Securities Transactions Reporting Regime (OTCR). This Circular aims to provide guidance to licensed corporations (LCs) and registered institutions (RIs) subject to the HKIDR and OTCR (Relevant Regulated Intermediaries) on their main obligations under the HKIDR and the OTCR, and a roadmap and timeline for the implementation of the HKIDR and the OTCR.

Hong Kong Investor Identification Regime

Under the HKIDR, Relevant Regulated Intermediaries would have to:

- Ensure that a unique identification code, namely the "Broker-to-Client Assigned Number" (BCAN), be assigned to "Relevant Clients" who have placed or propose to place an on-exchange order or an off-exchange trade reportable to the Stock Exchange of Hong Kong (SEHK) under its rules, in securities listed or traded on SEHK's trading system (except for odd lots traded on SEHK's odd lot/special lot market).
- Ensure that up-to-date client identification data (CID) has been collected from each Relevant Client and is submitted along with the client's BCAN (by way of putting the BCAN and CID into a "BCAN-CID Mapping File") to a data repository to be maintained by SEHK by a prescribed time.
- Ensure that the Relevant Client's BCAN has been included in the order information for each on-exchange order as well as each off-exchange order and included in all reporting of off-exchange trades to SEHK, and report any BCAN error of a matched and executed trade as soon as possible to SEHK by submitting a prescribed error notification form.
- Adopt relevant data privacy and security measures to safeguard the data collected, transmitted and stored, including obtaining express consent from clients for the collection and handling of their personal data in compliance with data privacy laws.

The HKIDR will be implemented tentatively during the second half of 2022 at the earliest. Before the regime commences, Relevant Regulated Intermediaries are expected to:

- Seek appropriate client consent;
- Update individual and corporate clients' CID;
- Enhance the order management system;
- Assign BCANs to clients;
- Prepare and submit of BCAN-CID Mapping File; and
- Participate in system test and market rehearsals.

Over-the-counter Securities Transactions Reporting Regime

Under the OTCR, Relevant Regulated Intermediaries would be required to report to the SFC the following activities relating to ordinary shares and real estate investment trusts (collectively referred to as "shares" for the purpose of the OTCR) listed on SEHK in circumstances where:

- A Relevant Regulated Intermediary makes a transfer of shares in connection with a transaction not recorded by SEHK as an on-exchange order or required to be reported to SEHK as an off-exchange trade in respect of which stamp duty is chargeable in Hong Kong, except where: a) the transaction is granted stamp duty relief (whether in full or in part) from the Inland Revenue Department, or b) the transfer of shares is made in accordance with the terms of a structured product or a derivative, or for the conversion of a depository receipt into shares or vice versa.
- There is a deposit to or withdrawal from the Relevant Regulated Intermediary, whether as principal or agent, of physical share certificates.

Subject to the market readiness, the OTCR will be implemented tentatively during the first half of 2023. Before the regime commences, Relevant Regulated Intermediaries are expected to :

- Seek appropriate client consent;
- Update individual and corporate clients' CID;
- Enhance internal system for OTCR; and
- Participate in system test in connection with the OTCR.

Additional Reading

Circular to Intermediaries Roadmap for Implementing the Hong Kong Investor Identification Regime and the Over-the-counter Securities Transactions Reporting Regime

Circular to intermediaries on obtaining client consent under the Hong Kong Investor Identification Regime (HKIDR) and Over-the-counter Securities Transactions Reporting Regime (OTCR)

HKMA issued Observations from Reviews on Sale of Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme Products, and Referral Arrangement of Tax Deductible Voluntary Contributions

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On 14 September, the HKMA issued a circular to all authorised institutions (AIs) in relation to the desktop reviews on the practices in selling qualifying deferred annuity policy (QDAP) and voluntary health insurance scheme (VHIS) products, and referral arrangement of tax deductible voluntary contributions (TVC). The circular aims to share with AIs some key observations from reviews, clarify the relevant expected standards by the HKMA in the selling process, and remind AIs of the need to comply with the relevant regulatory requirements.

The desktop reviews revealed that the AIs concerned generally have in place policies and procedures to comply with the relevant regulatory requirements on suitability assessment and product disclosure in their sale of QDAP and VHIS products. The desktop reviews also revealed that the referral arrangement of TVC were generally simple and straightforward, albeit some variations among the selected AIs in their practices and extents of involvement.

The desktop reviews identified room for improvement in a few areas, including suitability assessment and product disclosure, as well as the customer referral process. Expected standards in these areas are summarised as follows:

Suitability assessment

- AIs are required to perform appropriate suitability assessment and have in place policies and procedures to comply with the relevant specific regulatory requirements on suitability assessment.
- For long term insurance products that are exempt from or not subject to the financial needs analysis requirement and individual medical insurance products, the level of suitability assessment should be proportionate and reasonable, taking into account the customer's circumstances and the nature and complexity of the products concerned.
- AIs should exercise adequate management oversight on their insurance intermediary businesses.

Product disclosure

- AIs should have policies and procedures to require their staff to provide adequate disclosure and explanation of the nature, and key features and risks of QDAP and VHIS products to the customers during the selling process, and comply with the relevant requirements on product disclosure as issued by the IA and the HKMA from time to time.

TVC referral arrangement

- AIs should ensure that the customer's consent and signature are obtained before transferring a customer's personal data to the relevant Mandatory Provident Fund (MPF) principal intermediary.
- AIs should provide, in written form, details of the referral arrangement to customers during the referral process, such as the role and involvement of the AI; its relationship with the relevant MPF principal intermediary; and any remuneration receivable. AIs should also keep proper record of the referral process.

Additional Reading

Observations from Reviews on Sale of Qualifying Deferred Annuity Policy ("QDAP") and Voluntary Health Insurance Scheme ("VHIS") Products, and Referral Arrangement of Tax Deductible Voluntary Contributions ("TVC")

IA Circular on Enhancing the Guideline on Sale of Investment-Linked Assurance Scheme Products

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On 31 August, the IA issued a circular in respect of adding new Q&As to the Interpretation Notes (IN) relating to the Guideline on Sale of Investment-Linked Assurance Scheme (ILAS) Products (Guideline), drawing special attention in relation to ILAS Products with Open Architecture (OA ILAS Products).

Key highlights of the new Q&As include:

- To ensure the new OA ILAS policies are sold only to professional investors (PIs), licensed insurance intermediaries who sell such policies must possess the necessary knowledge and expertise to determine if a customer is truly a PI. Authorized insurers must put into place adequate controls to ensure that licensed insurance intermediaries possess the necessary knowledge and expertise.
- Licensed insurance intermediaries should perform analysis on the customer's insurance, financial and investment needs and carry out adequate due diligence to establish that: a) the customer is a PI who has oversea residency, b) the customer may be subject to tax obligations because of his/her overseas residency and c) the OA ILAS product which the customer seek to procure for his/her investment and tax/estate planning purpose is suitable in relation to his/her specific investment and tax/estate planning objectives. Authorized insurers shall establish controls and procedures to verify these information with proper documentation in support.
- All investments made under new OA ILAS policies should be restricted to SFC-authorized funds, listed securities, rated bonds, funds authorized or registered with financial regulators in jurisdictions which have entered into mutual recognition of funds arrangements with the SFC or schemes as set out in the list of Recognized Jurisdiction by the SFC.
- Authorised insurers should perform due diligence for investments under both new and existing OA ILAS policies. Enhanced due diligence shall be performed if the top-up or switching-in investments under the existing policies do not fall into the categories mentioned in the preceding paragraph.
- Authorised insurers should establish an investment policy which specifies the details in relation to its OA ILAS products, including the assessment and due diligence that the authorized insurers must perform on investments, the limitations on the investments the authorized insurers would accept, etc.
- Enhanced risk disclosure requirements shall be adopted on OA ILAS products and authorized insurers should explicitly highlight in their marketing that: a) all investment choices are not operated or managed by the authorized insurers nor recommended by them, b) customers should bear all the risks in relation to the investment they choose including the investment return and c) authorized insurers are tasked with executing customers' investment instructions and have the right to reject any assets. However, the authorised insurers will bear the responsibility to explain the risks to the customers and proper documentation shall be maintained.
- Risk management framework, policies and governance arrangements shall be in place for the authorised insurer in response to the nature, scale and complexity of the risks associated with the OA ILAS business.

A transitional period till 30 June 2022 will apply in respect of the enhanced requirements on OA ILAS products as set out in new Q&As. During the transitional period, authorized insurers and licensed insurance intermediaries should continue to comply with the requirements as set out in the circular dated 20 September 2019 providing IN relating to the Guideline.

Additional Reading

Class C (Linked Long Term) Product with Open Architecture ("OA ILAS Products")

Insurance Authority ("IA") Circular providing interpretation notes ("Circular") relating to the Guideline on Sale of Investment-Linked Assurance Scheme ("ILAS") Products

Guideline on Sale of Investment-linked Assurance Scheme ("ILAS") Products

Other Regulatory Updates

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

On 26 August, the HKMA issued a circular to inform all authorized institutions that the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights - Banking Sector) Rules (Stay Rules) would come into operation from 27 August 2021.

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).

SFC circular to licensed corporations in relation to list of prescribed persons who have reached the clearing threshold under the clearing and record keeping rules for the OTC derivatives regime

On 31 August, an updated list of prescribed persons who have reached the clearing threshold under the Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules has been posted on the website of the SFC.

IA signed Memorandums of Understanding on Fintech Co-operation with the China Banking and Insurance Regulatory Commission and the Monetary Authority of Macao

On 1 September, the IA has entered into Memorandums of Understanding on Fintech Co-operation with the China Banking and Insurance Regulatory Commission and the Monetary Authority of Macao respectively. Such collaboration between Hong Kong, the Mainland and Macao will help accelerate the innovation in financial services and open up possibility for future joint innovation projects on the application of novel financial technologies.

SFC circular to licensed corporations engaged in asset management activities: questionnaire on asset management activities relating to private funds (other than hedge funds) and managed accounts

On 6 September, the SFC issued a circular to announce that, given that the industry data on private funds (other than hedge funds) and managed accounts presently available to the SFC is limited, it will introduce a questionnaire for selected licensed corporations to collect data and information about the business activities of non-hedge fund managers, the types of private funds and managed accounts they manage and their sizes, investments, types of investors, leverage and risk management.

In late September 2021, selected licensed corporations will receive an email from the SFC with the questionnaire and guidance notes for completion. The completed questionnaire should be returned to the SFC by 1 November 2021.

IA circular on launch of Cybersec Infohub Private Group for insurance sector

On 9 September, the IA issued a circular to notify all authorized insurers that the Cybersec Infohub is open for registration. The Cybersec Infohub is a reliable platform for cybersecurity information exchange which allows its members to:

- Collaborate with wide range of cybersecurity professional;
- Access private groups and exchange information on specific topics of common interest;
- Collect threat intelligence through application programming interfaces;
- Receive trending cyber threat insights of the day by e-mail; and
- Join member-exclusive activities, such as seminars, technical workshops, industry-specific meetings, networking events, etc.

HKMA circular on Interest Rate Benchmarks Reform

On 14 September, the HKMA issued the circular to notify authorized institutions on an information note jointly published by the Asia Pacific Loan Market Association and the Treasury Markets Association. The information paper aims to assist bank customers, particularly smaller corporate, to transition away from US dollar LIBOR. It sets out various key options available in the loan market for replacing US dollar LIBOR with the Secured Overnight Financing Rate and the characteristics of each of these options.

IA circular on extension of Phase 2 of the Temporary Facilitative Measures to tackle the outbreak of COVID-19

On 13 September, the IA issued a circular to notify authorized insurers that the temporary facilitative measures will be extended by six months to 31 March 2022 (based on policy application date) unless otherwise varied by the IA.

IA issued FAQs on CPD Penalty Framework and CPD Compliance Reporting

On 17 September, the IA issued a set of frequently asked questions and accompanying answers to address the common questions on the Continuing Professional Development Requirements in relation to the submission of CPD Declaration Forms and grace period for individual licencees.

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