



2021 Financial Services Asia Pacific Regulatory Outlook

CENTRE *for*  
**REGULATORY  
STRATEGY**  
**ASIA PACIFIC**

# Key drivers of change in the Asia Pacific region

## *The macroeconomy in motion*

- The Asia Pacific (AP) region is entering 2021 in a comparatively better position, relative to other parts of the world
- As vaccination programmes start to roll out, the impact of COVID-19 in the AP region for the medium-term will likely centre on changes to the business landscape, rather than managing economic conditions

## *Lower interest rates and fiscal policy*

- For the foreseeable future, fiscal policy in AP will need to be more agile than in the past, driven by the continuing trend of ‘lower for longer’ interest rates, which has left policy makers with little monetary policy space to address future economic downturns
- Economic recovery will also largely depend on the ability of policymakers to continue to extend support, and any rollback of economic stimulus or support measures will need to be carefully monitored to help mitigate any further shocks
- Financial services (FS) firms will need to consider how their business models and risk profile are impacted by the above

## *Accelerated uptake of technology and cost pressures*

- 2020 saw significant changes to ways of working, driven by the pandemic and increased technological investment; however, this rapid digitalisation has corresponding risk (e.g. heightened cyber threats) that need to be assessed and managed
- The costs associated with this rapid digital transformation in a subdued economic environment may see an increase in ‘operational efficiency’ programs being implemented at FS firms in the back half of 2021

## *Geopolitical tensions and rising national sentiment*

- Coronavirus disease 2019 (COVID-19) has exacerbated existing geopolitical tensions, and has accelerated the trend of ‘balkanisation’ globally, as well as in the AP region
- Growing nationalism can make cooperation difficult in a region where there has always been a diversity of approaches to and opinion about public policy; examples of this include regulatory approaches to data and privacy, re-onshoring of key services, and where accountable senior leadership should be located

## *Impact on talent models and AP as a competitive region*

- FS firms will need robust regional and international networks supported by flexible talent models in key locations to deliver services in future areas of growth, such as green/sustainable financing or developing China mainland’s capital markets
- FS firms may find this challenging given increasing competition to attract talent, divergent approach to public policy, and rising national sentiment in the AP region

# Financial and Systemic Resilience

Maintaining financial and systemic stability will be top of mind for both financial regulators and other policy makers throughout 2021. FS firms will need to pay close attention to how policy makers balance the level and duration of monetary, fiscal, and regulatory support

There is a general consensus among international bodies, central bankers, and financial regulators that the post GFC framework has held up well under the stress of COVID-19

In response to COVID-19, policy makers extended an unprecedented amount of fiscal support; as of September 2020, \$11.7 trillion USD of fiscal measures had been announced – representing 12% of the global GDP

An accommodative (although temporary) regulatory stance has allowed FS firms to continue to support the wider economy

## Important areas to monitor as policy support is rolled back

### 01 The ability and appetite of sovereigns to continue to supply policy support to the real economy

Economies may struggle with high debt burdens and the political appetite to continue providing high levels of stimulus may wane over time



**GDP growth forecasts for AP are robust** and there appears to be **fiscal headroom remaining** in the region; AP may instead be more impacted by economic downturns in the US/EU

### 02 The timing of the rollback

Policy makers are aware that the timing of the rollback of support is important - they will look to gradually taper back support in a way that does not pose a threat to economic recovery



The **rollback of stimulus will be uneven in the region**, but it is likely that some **AP jurisdictions will wind back stimulus more quickly** than the rest of the world

### 03 Mis-matched risk appetites between policy makers and financial regulators/central banks

Prolonged fiscal stimulus and a loose monetary policy could lead to a build-up of risk in the financial system; differing opinions or risk appetite among policy makers could trigger uncertainty throughout 2021



Similar to the timing of stimulus rollback, any **disagreement or lack of consistency** between policy makers **will be exacerbated by the number of geographies in AP**

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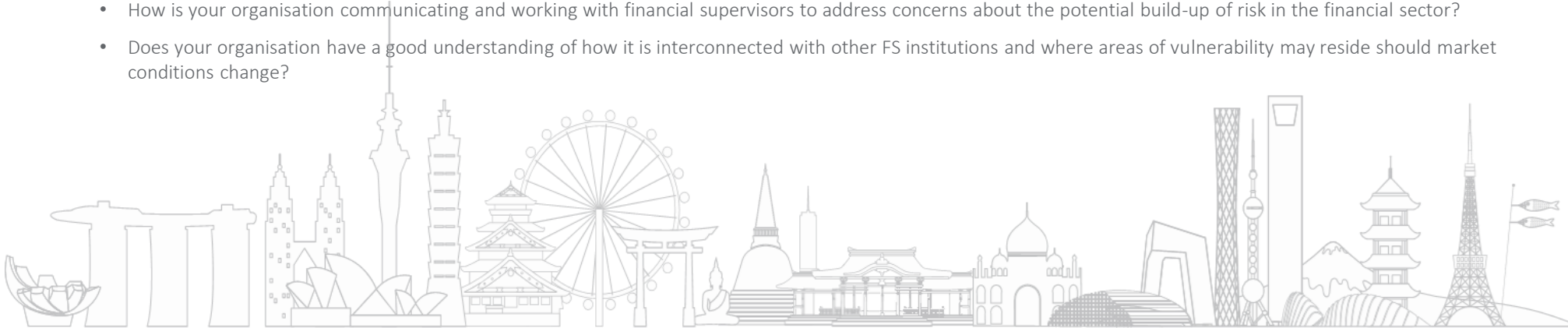
Financial and systematic stability will be closely watched by regulators in 2021. If FS firms are overly aggressive while stimulus and support measures are rolled back, risks such as excessive leverage or an increase in zombie companies may materialise. However, if FS firms are overly conservative and reduce the flow of support prematurely, we may see a self-fulfilling prophecy in the guise of an economic downturn

## ✓ Understanding the shifting landscape

- Is your organisation able to closely track the rollback of policy support around the globe/region as this happens in a staggered manner?
- AP geographies may be among the first to begin this rollback. Does your organisation have a plan to take advantage of first mover opportunities (e.g. implying a stronger economic recovery relative to the rest of the world) and mitigate any disadvantages (e.g. policy makers in the region will have less opportunity to learn from actions of global peers, which could lead to some missteps in rollback)

## ✓ Build up of risk

- How is your organisation tracking the potential build-up of risk across multiple market actors?
- How is your organisation investigating and accounting for areas of weakness that may currently be masked by policy support?
- How is your organisation communicating and working with financial supervisors to address concerns about the potential build-up of risk in the financial sector?
- Does your organisation have a good understanding of how it is interconnected with other FS institutions and where areas of vulnerability may reside should market conditions change?



# Role of Financial Services in the Recovery

As 2021 wears on, the FS industry will need to respond to the diverging expectations of regulators, policy makers, shareholders, customers, and the wider community. The landscape in 2021 will be dynamic, and FS firms may need to play a more active role in understanding and meeting societal needs.



**Jurisdiction-specific concerns:** Types and needs of 'vulnerable customers' will vary by jurisdiction (e.g. asset rich pensioner in Japan vs young woman in rural India), and the FS industry will need to consider these nuances when developing responses to the recovery



**Time-bound vulnerabilities:** A sudden and unexpected change in circumstances (such as job loss, illness, intermittent lockdowns etc.) may plunge a person or business into a period of vulnerability

## Areas of customer vulnerability to consider

- **Ensuring correct distribution/allocation of government stimulus** – FS firms have acted as a conduit to deliver relief programmes, but will need to be able administrators in order to provide good outcomes for customers, and minimise their own reputational risk
- **Understanding which customers may be entering a period of vulnerability** – due to government support programmes it may be more difficult to understand a customer's financial health
- **Managing conduct issues within FS firms' own organisations** – as more customers face financial difficulties, FS firms will need to be more alert to market misconduct as well as consider when it is appropriate to stop extending certain services

FS firms will need to be **agile** to meet the dynamic expectations of the region

- **Pay attention to developments outside the FS sector** – e.g. government policy, shifts in public sentiment, and further developments in the public health situation
- **Mixed messaging from official sources** – e.g. differing opinions between governments bodies; consider how to augment horizon-scanning and government relations teams to track developments
- **Finding balance** – e.g. managing financial and operational risks with customer outcomes; recognise that mistakes may be made due to the high-intensity and dynamic nature of the current business environment

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# Role of Financial Services in the Recovery – Key takeaways

As key members of the wider community, FS firms will be expected to contribute to the recovery in a meaningful way, beyond business as usual. It is therefore important for FS firms to understand what is expected of them, and where they are best positioned to make an impact.



## Scope of expectations

- It will be challenging to articulate the scope of this contribution and there will likely be competing expectations from customers, governments, regulators, shareholders, and the public at large
- Opaque expectations will therefore pose a challenge to tracking changes in the wider landscape – ‘too wide’ and the information intake is unwieldy, ‘too narrow’ and critical information may be missed; effort must be expended to find the ‘just right’



## Reading the changing landscape – important place to start

- Closely track the pace of recovery around the globe/region as it will be uneven and official messaging may be mixed
- Focus on agility – can your organisation successfully pivot when new information becomes available or expectations change?
- Where possible, adopt a coordinated approach throughout your organisation to monitor the landscape. Important areas will be:
  - Understanding developments outside the traditional financial services ecosystem
  - Relationship building with financial regulators or other policy makers/government departments



## Preparing for difficult fallout

- Financial risk will need to be balanced against customer outcomes; your organisation will need to prepare for an increase in defaults as well as pay close attention to capital provisioning. However, continued support for customers and deferral of shareholder distributions (perhaps beyond regulatory expectations) may also need to be considered
- Hope for the best but plan for the worst – is there a plan in place if something should go awry? How have the needs of vulnerable customers been accounted for?



## Impact to business model

- The environment and changing expectations put pressure on the traditional business model; this is an important time to invest in the right capabilities and tools to transform. But, your organisation will need to invest in the right capabilities and tools while being pragmatic about what change is practicable. It will be important to give thought to long-term business model sustainability

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# Holistic Approach to Non-financial Risk (NFR) Management

NFR management remains a challenge for FS firms, and we expect that 2021 will see an acceleration of programmes already in place to better manage NFR as well as interest from regulators in more holistic approaches to NFR management. As a primer, NFRs...



Often originate outside the financial sector and connect across multiple sectors



Remain difficult to codify and quantify



Are data hungry and insight starved



Require an integrated and collaborative approach

## Areas of interest to regulators

### Building a picture of non-financial risk management at a firm level

Higher expectations from regulators are demanding increased accountability and attestation from senior managers

- Regulators may **strengthen data already collected** through current regulatory reporting – **greater scrutiny on the underlying logic, rigour, and processes** involved in data collection and assessment
- Opportunity for regulators and FS firms to **enhance existing data collection and reporting capabilities**

### Demonstrating commitment to the approach

Regulators will be interested to see how FS firms are developing additional skills among their employees to address NFRs, as well as to build a culture where employees throughout the organisation recognise the importance of managing NFR

- Regulators are keen to **understand the approach** and investment of FS firms to **integrate NFR management** in their operating environment, talent models, and risk culture
- This may be similar to FS firms' approaches towards embedding technology risk management into operating models

### Board and Senior Leadership structure, capability, and engagement

Regulators increasingly expect Senior Leadership that is equipped with the competence, capability, and information to ask tough questions and respond appropriately

- Individual accountability shift – **is the accountable person accountable person actively working to make things better** and not just to prevent things from going wrong?
- Appropriate knowledge to manage NFR** - structural changes to Board and Senior Leadership or investment in their education
- FS firms may need to **actively engage external experts**, including independent directors, to raise sensitivity and understanding of NFR

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Preventing operational losses, adhering to regulatory expectations, and identifying strategic value opportunities are three major drivers of robust NFR governance. Raising awareness and initiating change across all levels in an organisation will require introspection and robust self-assessment



## Governance

- Is NFR being integrated into the overall strategic planning process? Is the Board and Senior Leadership conscious of NFR?
- Does Senior Leadership have adequate information to make informed decisions, including perspectives or views from outside experts?
- Does Senior Leadership have the right skillset/training to make informed decisions?
- Is there commitment at the Senior Leadership level to make the necessary investments (e.g. data, skills) to improve NFR management?



## Iterative approach to NFR management

- Is your organisation equipping its people with the right skills?
- Is talent able to adjust NFR management as needed – is there room for them to experiment as needed?
- Does your remuneration system reward or punish an iterative approach?
- Are you looking for clusters or places of overlap (e.g. cybersecurity, conduct and financial crime)?



## Risk management

- Do you have a NFR risk inventory? Have you established a methodology for the measurement and monitoring of NFRs?
- Does the Risk Appetite Statement approved by the Board include consideration of NFRs? Is it linked to strategic objectives?
- Is the Board and Senior Management aware of and involved in management of NFRs?
- Have you defined a three lines of defence model for managing NFRs?
- Should you differentiate / have you differentiated the management structure for financial risk management and NFR?



## Data

- What data do you need, what data do you have access to and where are the gaps?
- How can you better connect the data you already have – is your data feeding into the right management systems/structures?
- Is it feasible to capture new data with current systems or is a new solution needed?
- Does your event log capture NFRs? Does it include external sources of data?

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# Business Model Transformation

FS firms will need to consider the impact of the rapid changes to their operating models in response to the pandemic, as well as what this bodes for their business as usual (BAU) activities going forward. Pressures on FS firms to transform their business models are not a new issue, however long-term trends have been accelerated.

In 2021, we see **three areas** where firms in AP may look to adapt their business models

## Team location

Location is less of a technical barrier:

- Competition for top talent from new challengers like FinTech/BigTech may cause firms to revisit outsourcing and best-shoring designs
- Consideration of how the location of their talent helps or hinders their operational resilience

## Changes to ‘ways of working’

Increased adoption of technology could change the way we work by:

- Increasing remote work and meetings
- Supporting the development of new products and services, or increase the ‘value-add’ of existing products and services
- Helping to increase the effectiveness of BAU activities through automation and digitisation of regulatory activities

## Operating model shifts

Moving towards an asset light model could:

- Increase the use of outsourcing, pay per use, licensing, and partnerships in the marketplace
- Cause firms to revisit appetite for use of any or all of these services

Regulators may be particularly concerned with

## Key aspects of location

- Ensuring **Senior Leadership accountability in cross-border teams**
- Effectiveness of **remote leadership**; impact on the risk culture management in an organisation
- Impact to **location-bound activities** e.g. trading
- Assessing **location as part of data storage** considerations

## New technologies

- Effectiveness of **new technology solutions to meet operating and compliance requirements**
- The **ethical use** and **auditability** of new technology
- **How, why, and with whom** data is shared
- The **robustness** of a **digital onboarding** process

## Resiliency

- A **build-up of concentration risk** from an increase in 3<sup>rd</sup> party providers
- How firms factor in **risks borne by their 3<sup>rd</sup> party providers** in their own **risk assessment**
- How firms respond to **differences in data privacy laws across jurisdictions**

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# Business model transformation – Key takeaways

FS firms are already operating in a difficult environment and face increased pressures to transform business models. There is a need to assess how things have already shifted and how the use of new technologies and operating models will interact with the web of regulatory requirements and expectations.



## COVID-19 changes

- Does your organisation fully understand the changes to your business model brought on by COVID-19, and what areas need to continue to transform? How has it changed your previous transformation plans? What new opportunities have emerged?
- What is the purpose of your organisation under the new normal? Is this a change compared with the pre-pandemic strategy?
- Have the risks associated with how your business model has already changed due to COVID-19 been assessed and managed?
- What are the risks involved with further changes? Do you understand what pushback your organisation may receive from regulators? Do you understand what this pushback will look like in different geographies in the region?
- How are you thinking about long-term sustainability of the business model - both from a profitability and risk management perspective?



## Wide scope of potential changes

- Do you have the resources in place to accurately capture and understand the appetite for regulators to sign-off on significant changes to your organisation's business model? Have you considered systemic stability or resilience issues? And how is continued access to services for vulnerable customers ensured?
- How are you looking at and addressing regulatory concerns – what is the plan to 'bring the regulator along'?
- How are you understanding the different approaches across different jurisdictions – can your new model work in all the geographies in which you operate?

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# Operational Resilience

Operational resilience has been a regulatory focus area well before the COVID-19 pandemic and will remain an important topic in 2021 and beyond. Supervisors at the supranational and national level have announced intentions to revisit, extend, and delay operational resilience or business continuity regulations in order to include lessons learnt from the pandemic

Leading practice for operational resilience is under development and currently being explored by supranational and national regulators

Influential organisations in this space are likely to be the Basel Committee on Banking Supervision (BCBS) and UK Prudential Regulation Authority (PRA); we expect that AP regulators will look to these peer organisation when creating their own approaches

## Key topics to consider in 2021 when updating operational resilience plans

### Risk-based approach to designing a resilience programme

- Many resilience programs are **reactive and organised around past crises**
- See shift to **forward-looking risk measured approach**
- Plans should be **flexible and adaptable to fast-changing situations**

### The culture of the organisation impacts the approach to resilience

- Resilience can be **hampered by an attitude of ‘not my problem’**
- Vast **majority** of FS firms report that they will **revisit their resilience planning** in the coming year
- FS firms should be questioning their approach – **‘are we doing enough?’, ‘what could we have done better?’**

### Active involvement of Senior Leadership

- Leadership should be **proactive in breaking apart operational silos** to take a holistic view on challenges and opportunities
- How **management information informs the decision making of senior leaders may need to be revisited**

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# Operational Resilience – insights from EMEA & US

## LIBOR reforms

- The EUR and CHF London interbank offer rate (LIBOR) look set to **cease at the end of 2021**. Some tenors of GBP and JPY look set to remain, although possibly with revised methodologies. **One week and two month USD LIBOR will likely cease, with other tenors set to remain in place until 2023**
- We expect a degree of **ongoing uncertainty around whether and how the Financial Conduct Authority (FCA) will use its new powers to change the LIBOR methodology to facilitate the resolution of tough legacy products**, though clarification may follow in 2021 H2
- We do not anticipate an early statement of intent from the FCA around specific methodological changes while it continues to explore available options. **Firms can nevertheless expect supervisory pressure to cease issuance of new LIBOR-linked products over the course of the year, with US authorities in particular indicating that entering into USD LIBOR contracts after the end of the year ‘would create safety and soundness risks’**. Indeed, these issues will be present for all currency tenor pairs that survive beyond end-2021

## Brexit

- We expect **differences in the prudential framework between the EU and the UK to become increasingly stark**, in terms of the timing of implementation and the substance and form of the rules they adopt
- We expect **more banks to begin thinking about their post-relocation optimisation transformation projects**, driven by the business need to optimise EMEA operations.
- We expect **increased EU regulatory and supervisory pressure for certain UK clearing activity to migrate to the EU**, even in advance of formal regulatory equivalence decisions
- The last several years have seen **banks establishing or expanding entities in the EU, to ensure continued access to EU markets and meet European Central Bank (ECB) supervisory expectations**
- **Brexit projects have in many cases introduced (or increased) operational, capital and liquidity inefficiencies through duplication**; with the macroeconomic environment remaining challenging, firms will be looking to address inefficiencies promptly
- The **search for efficiency gains in market risk and capital allocation** across entities, and in outsourcing arrangements, **will be key in firms’ post-relocation optimisation transformations**





# Operational resilience – Key takeaways

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## Regulatory fragmentation in the region

- How do different approaches to operational resilience within the region impact your organisation's ability to create a holistic programme across all jurisdictions in which it has operations?



## What is considered operational resilience

- Are firms able to deal with the tendency of regulators to address operational resilience on a topic-by-topic basis as issues arise? (e.g. technology and cybersecurity risk + third party risk + business continuity risk = operational resilience)
- Has your organisation considered how best to thread the needle for a holistic approach when the regulators themselves may be siloed?



## Wide scope of potential changes

- How can your organisation overcome a failure of imagination in resilience planning?
- What are the key skills needed throughout your organisation to build a nimble approach?



# Digital Risk

Managing the digital risks associated with operational resilience or new applications of technology will be a challenge in 2021. While managing these risk can be daunting, they are ultimately knowable and many firms have the existing talent to address them

## Three key areas when considering digital risks for the future

### What's old is new again

- Often something 'new' and 'emerging' is an **advancement to an older concept**
- Many organisations **already possess significant institutional knowledge to address digital risk** and may only require marginal investment to understand technological evolutions

### Efficacy versus efficiency

- The **distinction between efficacy and efficiency is often muddled** as advancements in technology have begun to open up exciting new applications
- Organisations need to **make careful decisions on where and what to invest in relative to their needs**

### Talent with an adaptable skill-set

- Organisations will need to spend time developing **talent that can successfully bridge gaps between old and new skill-sets**
- FS firms may need to **hire talent with a wider range of capabilities** or **provide opportunities for current talent to pick up new skills**



# Cybersecurity

Increased digitisation throughout the financial services operating model has ensured that cybersecurity continues to remain a prominent part of operational resilience and will be in focus for regulators into 2021 and beyond



Underlying cybersecurity threats post-pandemic remain the same – criminals looking to exploit system and human vulnerabilities; people are the weakest link in cybersecurity



The rapid deployment of technologies, remote working, and split-team arrangements have exacerbated human vulnerabilities as firms play ‘catch-up’ to educate employees



Third-party providers and outsourcing arrangements have grown in popularity; increased external linkages results in greater concentration risk

## Cybersecurity and resilience

### New technology use

- FS firms face questions on **governance, controls, faith in unsupervised technologies**, the **training** of staff and supervisors, and the **balance between cost and effectiveness**

### Regional cooperation

- **Cross-border information sharing amongst regulators could help to identify cybersecurity threats** more quickly – this could be an important **source of data for cybercrime prevention**

### Transparency and consent

- **Transparency of data use** and the **consent of the data subject** will grow in importance as **new solutions are leveraged**
- **Diversity of thought** in AP **about the principles that govern data usage and consent**

### Data localisation

- Data localisation is a familiar issue in the context of the novel application of technology
- **New ways of working have increased scrutiny on where data is located**



# Cybersecurity – Key takeaways

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## Increased use of technology and appetite for innovation

- How willing are supervisors to allow FS firms to innovate with regard to cybersecurity?
- How effective are some of the new technologies that are available to monitor the threat landscape? Should they be adopted quickly or is there more value in waiting for further developments?
- Is your organisation innovating as quickly as the attack actors? How can your organisation get ahead of the curve?



## Regional coordination and divergence

- How are regulators and industry bodies coordinating their efforts within the region and beyond?
- In areas where there are philosophical differences in regulatory approach, how is your organisation managing compliance requirements?



## Upskilling of supervisors, staff and customers

- What skillsets are needed and how are they being developed?
- Are initiatives in line with industry and stakeholder expectations?
- Which areas does your organisation prioritise when tackling this issue?



## Focus on accountability, transparency, consent and privacy

- As the expectations around accountability, transparency, consent, and privacy evolve and becoming increasingly important how is your organisation integrating these topics into your operations?
- How is your organisation managing the evolving definitions of these topics?



# Financial Crime

Combatting financial crime is a core tenet of financial supervision. In 2021 we expect to view this field through the lens of operational resilience and respond to new typologies through increased collaboration

## Operational resilience

**COVID-19 has amplified operational pain points that existed pre-pandemic:**

**Changing Typologies** – rapidly changing customer and criminal behaviour put pressure on FS firms to adapt and respond to developing trends

**New Technologies** – the adoption of digital of customer onboarding and identity confirmation created new vulnerabilities; the application of advanced technology such as machine learning and artificial intelligence (ML/AI) could be limited by historical data sets, ML and AI may struggle to respond to rapid changes in customer or criminal behaviour

**Differing regulatory appetites by jurisdictions**

- AP regulators have been generally pragmatic in responding to the pain points amplified by COVID-19
- There will be differing regulatory appetite to integrate extraordinary measures into BAU
- Important factors in this decision are: desire to expand financial inclusion; demands from customers now acclimated to digital-only processes; internal analysis as to the efficacy of the current extraordinary measures; and the regulator's ability to properly supervise and assess current measures

## Challenges on the horizon

**Coordination between government bodies** – Financial crime is governed by a number of different arms of government; there may be many competing interests between these arms, legal frameworks also take time to catch up with new developments, which can hamstring enforcement activities

**Appetite for enforcement** – There is a spectrum of experience in AP, each jurisdiction will have its own approach to the prosecution of financial crime

**Partnerships** – Traditionally, there has been limited information sharing between government bodies and FS firms; while financial crime is often global, close cooperation may be limited by a lack of incentives or legal restrictions on the sharing of data

**Capability of global and local governing bodies** – Regulators are developing their own capability and expertise to supervise areas like the application of new technologies and we expect that regulators in AP will endeavour to embed these capabilities within their own teams

# Financial Crime – insights from EMEA & US

## EMEA

- Regulators in EMEA will increasingly endorse industry-driven data-sharing programmes in order to address concerns around higher levels of financial crime following the pandemic, by making the requirements to share personal data for the purposes of financial crime monitoring more explicit, **giving firms a stronger lawful basis for processing personal data under General Data Protection Regulation**
- The UK's FCA has indicated an expectation that **'office and working from home arrangements should be equivalent'**, while Germany's Federal Financial Supervisory Authority expects firms **to have market abuse monitoring systems and procedures 'even in changes working and market conditions'**
- Where there are **specific concerns**, and **if supervisors identify similar shortcomings across firms**, this will lead to **more specific expectations being articulated around activities being undertaken at home**. In the UK this could mean using the Senior Managers and Certification Regime to assign oversight of the remote working control environment to a Senior Management Function

## US

- In **December 2020, the Anti-Money Laundering Act of 2020 (AML Act)** was included as an amendment to the National Defense Authorization Act for Fiscal Year 2021. **The AML Act reinforces and codifies in law a risk-based approach to AML/CFT programmes**
- The AML Act requires the **Financial Crimes Enforcement Network (FinCEN)** to establish **'Strategic AML Priorities'** (Priorities) for FIs to incorporate into their AML programmes, and for regulators and examiners to incorporate these Priorities into their rules, guidance and examinations
- The **AML Act also requires millions of business entities to reveal their beneficial owners** to the US federal government. This would help deter criminals from using anonymous shell companies to evade AML rules
- Finally, the **AML Act directs FinCEN to establish and maintain a national registry of beneficial ownership** information that banks could rely on when complying with customer due diligence requirements





# Financial crime – Key takeaways



## Rightsizing your approach

- Is your approach to financial crime appropriate for your organisation and its footprint?
- Is there an adequate focus on transparency, explainability, and auditability? Being at the knife edge of innovation may not be suitable for every organisation
- How are these decisions being governed within the organisation?



## Understanding the role of technology

- Are existing technology solutions the right fit for your organisation? Does the current skillset and talent in your financial crime team allow it to effectively evaluate and use new technology solutions?
- Is talent encouraged to think creatively about what insights can be derived from the data and tools that already exist within the organisation? Is exploration and innovation encouraged when working with technology solutions?
- Would the implementation of (for example) a machine learning or artificial intelligence solution generate better results than current practice? How would technology solutions support intended outcomes?
- What are the current obstacles to implementing such solutions?
- What is your organisation's plan for monitoring and determining the appropriate time for investment/implementation?



## Understanding the wider role of your organisation in the financial crime landscape

- Are there collective action issues in your geography, such as lack of shared databases or sharing of crime typologies that make combatting financial crime difficult?
- How robust are private-public partnerships in your operating geographies?
- Can your organisation play a role in solving some of these issues - is there appetite for this within the organisation?



## Understand the world outside financial services

- Are there sufficient resources devoted to understanding how criminal behaviour is changing or other macro drivers of change in both financial services and the wider local/global economy?
- Is there a culture of forward-looking analysis?
- Is talent enabled with technology (or alternative process) to undertake horizon and signal scanning?

# Climate Change

Policy makers have emphasised a green recovery from COVID-19 – to ‘build back better’ and tackle climate change. Multiple jurisdictions have carbon net-zero commitments as well as new Environment, Social, and Governance (ESG) disclosure and climate risk management requirements.

From an FS perspective, there are **three** key areas to watch in 2021

## Disclosures

There is growing **momentum to unify ESG disclosures**; strong convergence around the **TCFD framework**. Climate accounting standards are also beginning to be developed, strengthening of narrative-based disclosures.

### Developments in disclosures:

- Major ESG disclosure framework bodies announced intention to **work more closely together**
- Deloitte, other big 4 firms, and World Economic Forum released an **ESG disclosure framework**
- **Climate accounting standards** consulted on by the IFRS foundation

**New Zealand** announced Task force on Climate-related Financial Disclosures (TCFD)-aligned disclosure requirement **for all listed corporations as early as 2023**. **UK** and **Hong Kong SAR** (FS sector only) have made similar plans to be implemented **by 2025**.

## Risk Management

Climate risk management is a growing practice with a **focus on climate stress testing**.

The Network for Greening Financial System (NGFS) is publishing guidance on how to undertake climate stress testing with sample scenarios and in-depth case studies.

**UK** and **France** are to **undertake stress testing in 2021**. **Pilot programmes** have been announced in **Hong Kong SAR** and **Japan for 2021**, whilst **Australia** and **Singapore** are also expected to announce programs also in the near future.

Financial regulators are not the only bodies championing climate-related risk management; **the emphasis, strategic approach, and operational considerations of climate risk measures will depend on the body leading jurisdictional initiatives**.

## Government programmes

FS Firms will need to **pay close attention to the direction governments take in climate policy**.

Governments have directed some of their **COVID-19 stimulus into projects that support the transition to a low-carbon economy**.

There have also been a number of **net-zero commitments** made in 2020 by jurisdictions: New Zealand (2050), China mainland (2060), Japan (2050), South Korea (2050), and Hong Kong SAR (2050).

Momentum continues to increase, with many policy announcements **expected at or following the UN’s Climate Change Conference (COP26) in November 2021**.

# Climate Change – insights from EMEA & US

## EMEA

- **European banks** (and, in the UK, also insurers) face **two immediate deadlines**:
  - The **ECB’s Guide on climate-related and environmental risks**, which took effect from 2020 and,
  - The **UK’s PRA** expects **banks and insurers** to have **fully incorporated climate-related risks into their overall risk management frameworks** by the end of 2021
- **Banks** subject to the ECB’s Guide **will undertake a self-assessment exercise in early 2021** as mandated by the ECB, and we expect **many will find significant gaps in their current practices relative to the ECB’s expectations**
- The **investment management sector will continue to play a prominent role** in developing indicators of **ESG factors** and **availability of data**, responding to mounting investor and regulatory pressure to disclose climate-related risks
- **Asset managers and advisers** will also **need to respond to a number of significant initiatives over the course of 2021**, including the Disclosures and Taxonomy Regulations and the EU Delegated Acts amending Undertakings for the Collective Investment in Transferable Securities, Alternative Investment Fund Managers Directive, and Markets in Financial Instruments Directive

## US

- In September 2020, the Climate-Related Market Risk Subcommittee of the Commodity Futures Trading Commission published a report on managing climate risk. **The report called for strengthening regulators’ capabilities, expertise, and data analytics to better monitor, analyse, and quantify climate-related risks.** The report found that existing legislation already provides US financial regulators with “wide-ranging and flexible authorities that could be used to start addressing financial climate-related risk”
- In October 2020, the **New York Department of Financial Services became the first US financial regulator to set forth expectations on addressing climate-related risks**
- The **Federal Reserve Bank’s (FRB) November 2020 Financial Stability Report highlighted for the first time the risks to the financial system posed by climate change.** In December 2020, **the FRB also joined the NGFS** – a major shift towards global alignment on supervision.





# Climate change – Key takeaways



## Understanding the intensity and the origin of the momentum

- Is your organisation able to effectively monitor activity across different policy spaces?
- Does your organisation know which government bodies and other stakeholders are driving climate change conversations?
- Does your organisation understand the various obligations and expectations – what is the plan to manage disclosures, risk management, and other intersectional areas?



## Right skills at the right level

- How is your organisation investing to ensure talent and leadership have the appropriate skills to tackle climate-related risks?
- How are climate-related risks integrated into your organisation's governance and strategy?



## Making a wider impact

- Does your organisation understand the threats and opportunities of climate-related risks?
- How is your organisation managing stakeholder expectations, which includes public sentiment? How are impact, geographical, and temporal boundaries addressed?



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Contact