

Module Outline

ECF on Compliance (COM)

Module 1 “Ethics and Corporate Governance in Banking Industry”

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| Benchmarked HKQF Level: | 4 |
| No. of Credits: | 10 |
| Total Notional Learning Hours: | 100 |
| a) Class contact hours: | 15 hours (3-hour per session x 5) |
| b) Self-study hours: | 83.5 hours |
| c) Assessment hours: | 1.5 hours |
| Pre-requisite: | N/A |

Module Objective

This module aims to provide the candidates with essential knowledge related to major areas of professional ethics, risk and compliance in the context of corporate governance. The respective ethical and compliance aspects and issues encountered by individuals or corporations in the second line of defence in the context of the boarder risk environment is to be explained.

Module Intended Outcomes (MIOs) and Units of Competencies (UoCs)

Upon completion of the Module 1, candidates should be able to:

| MIOs | Intended Outcomes / Competence | *Unit of Competencies (UoCs) |
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| MIO-1 | Identify and apply the principles, requirements, and management of business ethical situations in the second line of defence in the context of broader risk environment encountered in the banking industry. | 107395L4 107398L3 / 109329L3 107408L4 107409L4 |
| MIO-2 | Explain the organisational structures and exercise the requirement under the regulatory landscape in building an effective risk management framework to effective compliance. | |
| MIO-3 | Identify different roles associated in building a culture for effective management of governance, risk, and compliance in financial institution. | |
| MIO-4 | Apply regulatory requirement and effective compliance control on daily duties by demonstrating an understanding of and adopting the requirement related to corporate governance. | |

**Note: For the details of the UoCs, please refer to the Specification of Competency Standards (SCS) of [Retail Banking](#) and [Corporate & Commercial Banking](#) which were developed by HKCAAVQ.*

Assessment

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| Examination duration: | 1.5 hours |
| Examination format: | Multiple Choice Questions (MCQ) with 50 questions |
| Pass mark: | 70% |

Syllabus

| Chapter 1: Business Ethics | |
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| 1.1 | Definition of Compliance and Operational Risk and the linkage with Ethics and Law |
| 1.2 | Overview of Business Ethics |
| 1.2.1 | - What is Business Ethics |
| 1.2.2 | - The importance of Business Ethics |
| 1.2.3 | - Approaches to Normative Ethics: Absolutism and Relativism |
| 1.3 | Ethics and the Individual |
| 1.3.1 | - Code of Conduct |
| 1.3.2 | - Understanding Ethical Decision-making Process |
| Chapter 2: Ethics and the Corporation | |
| 2.1 | Introduction: Corporate social responsibility, Corporate accountability and Corporate citizenship |
| 2.2 | Corporate Social Responsibility |
| 2.2.1 | - International Consensus |
| 2.2.2 | - The pros and cons of implementing corporate social responsibility |
| 2.2.3 | - The impact of Globalisation |
| 2.3 | Social Environmental Issues Facing Banks |
| 2.3.1 | - Environmental, Social Responsibility, Governance (“ESG”) |
| 2.3.2 | - Equator Principles on Project Financing |
| 2.3.3 | - Case study: “The Sustainability Report: The role of Bank on Sustainability” |
| 2.3.4 | - Local ESG authorities |
| 2.3.5 | - Green financing |

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| 2.4 | Understanding Reputational Risk |
| 2.4.1 | - Key drivers of Reputation |
| 2.4.2 | - Public Perception and Reputation Risk |
| 2.4.3 | - Case studies: The Bank Runs |
| Chapter 3: Risk Management: Principles and Concepts | |
| 3.1 | Introduction: The importance of risk management as the key to effective compliance |
| 3.2 | Definition of Risk |
| 3.2.1 | - Definition of Risk |
| 3.2.2 | - Different types of Risk in Banking (HKMA approach) |
| 3.2.3 | - Other approaches to categorise risk |
| 3.3 | The Basic of Risk Management Framework |
| 3.3.1 | - Enterprise Risk Management Framework – the Three Lines of Defence |
| 3.3.2 | - Key Elements of Effective Risk Management (ISO 31000: 2018 Risk Management Guideline) |
| 3.3.3 | - The Three Lines of Defence (SPM IC-1 and Basel Requirement) |
| 3.3.4 | - Organisational structure for an effective Risk Management Framework |
| 3.4 | An Overview of Key Risk Management Process |
| 3.4.1 | - Risk Identification |
| 3.4.2 | - Risk Measurement, Risk Analysis and Evaluation |
| 3.4.3 | - Risk monitoring and reporting |
| 3.4.4 | - Risk mitigation |
| 3.4.5 | - Methodologies and Governance of an Effective Risk Management Framework |
| Chapter 4: The Regulators, Law and Regulation | |
| 4.1 | Introduction: The Prudential Approach |
| 4.2 | Key Functions of Financial Regulators |
| 4.2.1 | - The Hong Kong Monetary Authority (“HKMA”) |
| 4.2.2 | - The Securities and futures Commission (“SFC”) |
| 4.2.3 | - The Insurance Authority (“IA”) |
| 4.2.4 | - The Mandatory Provident Fund Schemes Authority (“MPFSA”) |
| 4.3 | Regulatory Requirements |
| 4.3.1 | - An Overview |

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| 4.3.2 | - Know Your Customers / Due Diligence |
| 4.3.3 | - Suitability Obligations and Mis-selling |
| 4.3.4 | - Market misconduct under the Securities and Futures Ordinance |
| 4.3.5 | - Protecting the Customers |
| Chapter 5: Corporate Governance in Banks | |
| 5.1 | Introduction |
| 5.1.1 | - What is Corporate Governance |
| 5.1.2 | - Corporate Governance Principles for Banks (Basel Committee) |
| 5.2 | Agency Theory |
| 5.2.1 | - Agency theory |
| 5.2.2 | - Agency costs |
| 5.2.3 | - The public interest in financial stability |
| 5.2.4 | - The misalignment between the interests of bank shareholders and the public interest |
| 5.2.5 | - Case Study: Libor Manipulation and subsequent ethical ramification: the emergence of SOFR |
| 5.3 | The Role and Composition of the Board |
| 5.3.1 | - Structure of banks |
| 5.3.2 | - Stakeholders in Corporate Governance |
| 5.3.3 | - Regulatory Requirement and Implication |
| 5.4 | Accountability of Banks |
| 5.4.1 | - Introduction |
| 5.4.2 | - Disclosure |
| 5.4.3 | - Transparency |
| Chapter 6: Remuneration and Appointment of Board Members, Chief Executive and Managers | |
| 6.1 | Introduction: The Competence of Board Directors and Chief Executive in Banks |
| 6.2 | Principal Forms of Directorial and Executive Remuneration |
| 6.2.1 | - Basic Director's service fee |
| 6.2.2 | - Executive salary |
| 6.2.3 | - Bonus payments |
| 6.2.4 | - Shares and restricted share grants |
| 6.2.5 | - Executive share options |

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| 6.3 | Determination of Remuneration |
| 6.3.1 | - Fundamental principles: the guideline from Hong Kong Institute of Directors |
| 6.3.2 | - The function of Remuneration committee |
| 6.3.3 | - Determination of Non-executive Directors' remuneration |
| 6.3.4 | - Guideline on a sound remuneration system (CG-5) |
| 6.4 | Appointments of Chief Executives and Directors |
| 6.4.1 | - Section 71 of Banking Ordinance |
| 6.4.2 | - HKMA Requirements (CG-1, s. 6, 7) |
| 6.5 | Appointments of Bank Managers |
| 6.5.1 | - Section 72B of Banking Ordinance |
| 6.5.2 | - HKMA Requirements (CG-2, s. 3) |
| Chapter 7: Internal Control and Compliance in Banking | |
| 7.1 | Introduction: A Risk Based Approach to Bank Supervision (World Bank Paper Chp.15) |
| 7.2 | The Elements of Internal Control System |
| 7.2.1 | - Elements of Internal Control System |
| 7.2.2 | - Attributes of an effective control system |
| 7.2.3 | - The Three Lines of Defence |
| 7.3 | Costs and Benefits of Internal Control |
| 7.3.1 | - Costs |
| 7.3.2 | - Benefits |
| 7.3.3 | - Case Study: Manipulation of US GSE debt securities trading before 2008 |
| 7.3.4 | - Case Study: The integrity of the financial system |
| 7.4 | Second Line of Defence: The Compliance Function |
| 7.4.1 | - Regulatory Requirement (IC-1) |
| 7.4.2 | - The Compliance functions |
| 7.4.3 | - The role of Compliance Officer |
| 7.5 | The Role of Risk Management Function to Effective Control and Compliance in Banks |
| 7.5.1 | - The Voluntary Boundary |
| 7.5.2 | - Core practice |
| 7.5.3 | - Mandated boundary |

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| 7.5.4 | - Case Study: An example from Data Quality Management |
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Recommended Readings

Essential Readings:

1. HKIB Study Guide of ECF-COM: Module 1 Ethics and Corporate Governance in Banking Industry. (2025).

Supplementary Readings

1. Iris H.-Y. Chiu. (2015). The Law of Corporate Governance in Banks. Edward Elgar Publishing.

Further Readings

1. John R. Boatright. (2014). Ethics in Finance (3rd ed.). Wiley-Blackwell.
2. Joël Bessis. (2015). Risk Management in Banking (4th ed.). John Wiley & Sons, Ltd.
3. Hong Kong Monetary Authority. Website and Supervisory Policy Manual.
4. Securities and Futures Commission. (2024). Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.
5. ISO 31000: 2018 Risk management Guidelines