

Module Outline

ECF on Compliance (COM)

Module 3 “An Effective Compliance Function”

Benchmarked HKQF Level:	4
No. of Credits:	20
Total Notional Learning Hours:	200
a) Class contact hours:	18 hours (3-hour per session x 6)
b) Self-study hours:	179.5 hours
c) Assessment hours:	2.5 hours
Pre-requisite:	NA

Module Objective

This module aims to provide candidates with fundamental concept and knowledge in relations to the element of an effective compliance function. Basic principles and the components of compliance framework associated with the three lines of defence. Roles and responsibilities of the HKMA in the banking supervisory function are also discussed. Compliance programmes and common compliance tools are introduced to enable candidate to apply in their daily job tasks as a compliance professional. The role of technology in compliance is also introduced.

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

Upon completion of the Module 3, candidates should be able to:

MIOs	Intended Outcomes / Competence	*Unit of Competencies (UoCs)
MIO-1	Assess the key elements of the compliance function and its relationship with other parties in an Authorized Institution	107398L3 107408L4 109310L4 109327L4 109345L5 107622L4
MIO-2	Analyse the key principles and requirements of an effective compliance function as a second line of defence of an Authorized Institution	
MIO-3	Examine the interaction between the HKMA and bank when the HKMA is executing its supervisory function	
MIO-4	Analyse the duties, roles and responsibilities of the compliance function	
MIO-5	Apply common compliance tools and various compliance programme designed to manage and control compliance risks	
MIO-6	Evaluate the organization structure and reporting line that enable an authorized institution to drive a sound compliance culture	

MIO-7	Analyse challenges faced by the compliance function in an authorized institution, current and in the foreseeable future	
MIO-8	Execute Regtech adoption in performing compliance and risk management functions	

**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

Examination duration:	2.5 hours
Examination format:	Multiple Choice Questions (MCQ) with 80 questions
Pass mark:	70%

Syllabus

Chapter 1: Key Elements of Effective Compliance Function	
1.1	Introduction
1.2	Compliance Function in an Authorized Institution
1.2.1	- Purpose of Regulation
1.2.2	- Nature and Scope of a Compliance Function
1.2.3	- Key risks from banking activities and Compliance Risk
1.3	The Myths and Misunderstandings of Compliance Function
1.3.1	- Why Regulate (Protection, Promotion, Registration, Restriction, and Standard)
1.3.2	- The Role of a Compliance Function
1.3.3	- Conflicts of Interest, Market Misconduct, Corruption and Bribery
1.4	Key Elements of a Compliance Function in an Authorized Institution
1.4.1	- Independence
1.4.2	- Formal Status
1.4.3	- No Conflict of Interest
1.4.4	- Access to Information and Personnel
1.4.5	- Adequate Resources
1.4.6	- Rapport Building
1.4.7	- Prevention and Detection of Financial Crimes
1.4.8	- Code of Conduct
Chapter 2: Principles and Components of Compliance Frameworks and Internal Controls	
2.1	Introduction
2.2	Requirements for an Effective Compliance Function
2.2.1	- Compliance as Part of Risk Governance: Internal Control, Compliance, and Risk Management
2.2.2	- The Human Factor
2.3	Compliance Function as an Internal Risk Control Function
2.3.1	- What is an Internal Control System?
2.3.2	- Types of Internal Control

2.3.3	- Identifying Issues
2.3.4	- Limitation of Internal Controls (Judgment, Breakdowns, Management Override, Collusion, Costs and Benefits and Usual Transactions)
2.4	The Risk Management Process
2.4.1	- The Relationship between Risk Management and the Compliance Function
2.4.2	- Risk Assessment
2.4.3	- Risk Analysis
2.4.4	- Risk Evaluation
2.4.5	- Risk Reporting and Communication
2.4.6	- Risk Treatment
2.5	Relationship between Compliance and Internal Audit Function
2.5.1	- Monitoring and Review of the Risk Management Process
2.5.2	- Structure and Administration of Audit Programmes
2.5.3	- Audit Opinion
2.6	Relationship between Operations, Operational Risk Management, and Compliance Function
Chapter 3: Roles and Responsibilities of The HKMA in its Banking Supervisory Function	
3.1	Introduction
3.2	Different Regulatory Approaches in Overseeing Banking Activities
3.2.1	- Licensing
3.2.2	- Self-regulation
3.2.3	- Law Enforcement
3.3	Roles and Responsibilities of Bank Departments in Banking Supervisory Functions
3.3.1	- Organisational Structure
3.3.2	- Roles and Responsibilities in the First Line of Defence
3.3.3	- Roles and Responsibilities in the Second Line of Defence
3.3.4	- Roles and Responsibilities in the Third Line of Defence
3.4	Supervisory Approach and Framework
3.4.1	- Law and Regulation: Principle-based Approach
3.4.2	- Inspections and Examinations
3.4.3	- Law Enforcement
3.4.4	- The Role of the HKMA and its Collaboration with other Regulatory Bodies
Chapter 4: Roles and Responsibilities of a Compliance Function	
4.1	Introduction
4.2	Risk Oversight and Assessment
4.2.1	- Credit Risk
4.2.2	- Market Risk

4.2.3	- Interest Rate Risk
4.2.4	- Liquidity Risk
4.2.5	- Operational Risk
4.2.6	- Reputation Risk
4.2.7	- Legal Risk
4.2.8	- Strategic Risk
4.2.9	- Other Emerging Risks
4.3	Implementing a Compliance Programme
4.3.1	- Establish, Implement and Review Policy and Procedures
4.3.2	- Provide Training and Education
4.3.3	- Risk Measurement, Monitoring and Managing Reporting Systems
4.3.4	- Compliance Incidents Occurring or being Uncovered – Reporting (Whistleblowing) and Investigations
4.4	Compliance Breach Investigation
4.4.1	- What is an Internal Investigation
4.4.2	- Purpose and Benefits of an Internal Investigation
4.4.3	- When to Conduct an Internal Investigation
4.4.4	- Process of an Internal Investigation
4.5	Remedial Steps and Reporting
4.5.1	- Determining Remediation
4.5.2	- Report Writing and Escalation Process
4.5.3	- Report to Regulators
Chapter 5: Understanding Compliance Tools	
5.1	Introduction
5.2	Policies and Procedures
5.2.1	- Locating Regulatory Reference
5.2.2	- Identifying the Right Guidance
5.2.3	- Reading HKMA Regulation (Supervisory Policy Manual)
5.3	Monitoring
5.3.1	- Reading HKMA Updates: Circulars
5.3.2	- Reading HKMA Updates: Frequently Asked Questions
5.3.3	- Designing Forms
5.4	Training
5.4.1	- Function
5.4.2	- Goal Setting
5.4.3	- Communication Tool
5.4.4	- Dissemination of Compliance Requirement

5.5	Governance, Risk and Compliance (GRC) Tools
5.5.1	- Performance Indicators
5.5.2	- Access to Information by Compliance Functions
5.5.3	- Authority to Request Further Information
Chapter 6: Put into Practice – Sound Compliance Culture Development and its Challenges	
6.1	Introduction
6.2	A Sound Compliance Culture: Definition and the Essentials
6.2.1	- Definition of Organisational Culture
6.2.2	- Elements of a Good Compliance Culture
6.2.3	- Diversity, Equity and Inclusion
6.3	Challenges on Compliance Development
6.3.1	- Conduct and Ethics
6.3.2	- Fintech and Regtech
6.3.3	- ESG Agenda
6.4	Put into Practice - How to Implement ECF-Compliance Requirements
6.4.1	- Policies and Procedures
6.4.2	- Human Resources
6.4.3	- Corporate Culture
6.4.4	- Monitoring and Review
Chapter 7: Regtech: Overview and Emerging Trend of Development (Adapted from ECF-Fintech M2)	
7.1	Introduction to Regtech
7.2	Evolution of Regtech
7.3	Importance of Regtech to the Banking Industry
7.4	Regtech's Underlying Technologies
7.5	Regtech's Application
7.6	Regtech: Current State and Government Initiatives
7.7	Regtech Adoption in Hong Kong: Opportunities and Challenges
7.8	Case Studies and Insights: Regtech Applications in Banks
7.9	Suptech and HKMA's Adoption of Suptech
7.10	Future of Regtech
Chapter 8: Legislative Framework and Regulatory Technology (Regtech) Overview (Adapted from ECF-Fintech M11)	
8.1	Regtech Taxonomy, LoNG PESTEL, BIDT
8.2	Why Banking is under regulation?
8.3	History of Regtech
8.4	Regtech 1.0, 2.0,

8.5	Regtech – Digital Identity, Digital Signature
8.6	Managing Trust and Managing Risk
Chapter 9: Data, Financial Intelligence, and Customer Protection (Adapted from ECF-Fintech M11)	
9.1	Data Governance in Open Banking Regtech – Ownership, Stewardship, Custodian
9.2	Digital (Computer) Forensics in Regtech
9.3	Corporate Strategy, Data Governance and Incident Response

Recommended Readings

Essential Readings:

1. HKIB Study Guide of ECF-COM: Module 3 An Effective Compliance Function. (2025).

Supplementary Readings

Chapter 1-6

1. HKMA Supervisory Policy Manual SA-1 Risk-based Supervisory Approach
2. HKMA Supervisory Policy Manual IC-1 Risk Management Framework
3. HKMA Supervisory Policy Manual CG-1 Corporate Governance of Locally Incorporated Authorized Institutions
4. HKMA Supervisory Policy Manual CG-3 Code of Conduct
5. HKMA, Supervisory Policy Manual CG-6, "Competence and Ethical Behaviour"
6. HKMA Supervisory Policy Manual IC-4 Complaint handling procedures and redress
7. HKMA Supervisory Policy Manual OR-1 Operational risk management
8. HKMA Supervisory Policy Manual OR-2 Operational Resilience
9. HKMA Supervisory Policy Manual SR-1 Strategic Risk Management
10. HKMA Supervisory Policy Manual RR-1 Reputation Risk Management
11. HKMA, Supervisory Policy Manual GS-1 Climate Risk Management
12. HKMA Circular dated 07 Jan 2022 – Self-Assessment of Code of Banking Practice
13. HKMA Circular dated 27 Sep 2022 – Enhanced Competency Framework on Compliance

Chapter 7

14. Hong Kong Monetary Authority (HKMA) (2021, Jan 21) Circulars & Guidance Papers. Circulars. Report on "AML/CFT Regtech: Case Studies and Insights" Encl. AML/CFT Regtech: Case Studies and Insights. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210121e1a1.pdf>
15. Hong Kong Monetary Authority (HKMA) (2020, Nov). Transforming Risk Management and Compliance: Harnessing the Power of Regtech. <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2020/20201102e3a1.pdf>
16. Hong Kong Monetary Authority (HKMA) (2019, Nov 12). Inaugural Issue of Regtech watch. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20191112e1.pdf>
17. Hong Kong Monetary Authority (HKMA) (2019, Nov 12). Regtech Watch Issue No. 1. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20191112e1a1.pdf>
18. Hong Kong Monetary Authority (HKMA) (2020, Mar 16). Regtech Watch Issue No. 2. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200316e2a1.pdf>
19. Hong Kong Monetary Authority (HKMA) (2020, Jun 12). Regtech Watch Issue No. 3. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200612e3a1.pdf>

- <circular/2020/20200612e1a1.pdf>
20. Hong Kong Monetary Authority (HKMA) (2020, Sep 18). Regtech Watch Issue No. 4. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200918e2a1.pdf>
 21. Hong Kong Monetary Authority (HKMA) (2020, Dec 16). Regtech Watch Issue No. 5. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20201216e1a1.pdf>
 22. Hong Kong Monetary Authority (HKMA) (2021, Mar 19). Regtech Watch Issue No. 6. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210319e1a1.pdf>
 23. Hong Kong Monetary Authority (HKMA) (2021, Jun 17). Regtech Watch Issue No. 7. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210617e1a1.pdf>
 24. Hong Kong Monetary Authority (HKMA) (2021, Jun 17). Seventh and Final Issue of Regtech Watch. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210617e1.pdf>
 25. Hong Kong Monetary Authority (HKMA) (2021, Jul 26). Second Issue of Regtech Adoption Practice Guide: Anti-Money Laundering/Counter-Financing of Terrorism. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210726e1a1.pdf>
 26. Hong Kong Monetary Authority (HKMA) (2021, Sep 27). Third Issue of Regtech Adoption Practice Guide: Governance, Risk and Compliance. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210927e1a1.pdf>
 27. Hong Kong Monetary Authority (HKMA) (2021, Jun 08). HKMA Unveils "Fintech 2025" Strategy. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/06/20210608-4/>
 28. Hong Kong Monetary Authority (HKMA) (2021, Jun 17). HKMA launches the Regtech Adoption Practice Guide series. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/06/20210617-5/>
 29. Hong Kong Monetary Authority (HKMA) (2021, Jun 30). HKMA hosts its flagship Regtech event - "Unlocking the Power of Regtech". <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/06/20210630-9/>
 30. Hong Kong Monetary Authority (HKMA) (2020, Nov 03). HKMA developed a two-year roadmap to promote Regtech adoption. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/11/20201103-3/>
 31. Barberis J., Arner D., Buckley R. (2019). The Regtech Book: The Financial Technology Handbook for Investors, Entrepreneurs and Visionaries in Regulation. Wiley.
 32. Arner D. W., Barberis J. , and Buckley R. P. (2017) FinTech, Regtech and the Reconceptualization of Financial Regulation. Northwestern Journal of International Law & Business Vol. 37 Issue 3. <https://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1817&context=njilb>
 33. Fintech Adoption: Progress and Future Directions, HKMA (2025). <https://brdr.hkma.gov.hk/eng/doc-ldg/docId/getPdf/20250716-3-EN/20250716-3-EN.pdf>
 34. The Hong Kong Fintech Ecosystem Report, Invest Hong Kong, Business School of the

Hong Kong University of Science and Technology, FinTech Association of Hong Kong, and Financial Services Development Council (2025).

https://www.investhk.gov.hk/media/045ltvdp/202503-21_hong-kong-fintech-ecosystem-report-2025.pdf

Chapter 8-9

35. UNCITRAL Model Law on Electronic Commerce with Guide to Enactment 1996 (full paper). https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/19-04970_ebook.pdf
36. Model Legislation on Money Laundering and Financing of Terrorism <https://www.imolin.org/pdf/imolin/ModelLaw-February2007.pdf>
37. Model Law on Electronic Evidence. https://thecommonwealth.org/sites/default/files/key_reform_pdfs/P15370_7_ROL_Model_Bill_Electronic_Evidence_0.pdf
38. HK Ordinance CAP 8 <https://www.elegislation.gov.hk>
39. ISO 27001 definition: What is ISO 27001? <https://www.itgovernance.co.uk/iso27001>
40. The investigator-centered approach to financial crime: Doing what matters <https://www.mckinsey.com/business-functions/risk-and-resilience/our-insights/the-investigator-centered-approach-to-financial-crime-doing-what-matters>
41. The five largest money laundering scandals of all time... so far. <https://medium.com/kyc-io-scalable-kyc-management-solutions/the-5-largest-money-laundering-scandals-of-all-time-so-far-d30ff4abee10>
42. AML cases. <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210121e1a1.pdf>

Further Readings

Chapter 1-6

1. HKMA Circular dated 02 Mar 2017 – Banking Culture Reform
2. HKMA Circular dated 19 Dec 2018 – Supervision for Bank Culture
3. HKMA Circular dated 22 May 2020 – Report on Review of Self-assessment on Bank Culture
4. HKMA Supervisory Policy Manual CS-1 Group-HKMA wide supervisory approach to supervision of locally incorporated authorized institutions
5. HKMA Supervisory Policy Manual IC-2 Internal audit function
6. HKMA Supervisory Policy Manual RR-1 Reputational risk management
7. HKMA Supervisory Policy Manual AML-1 Supervisory approach on Anti-Money Laundering and Counter-Financing of Terrorists
8. Code of Banking Practice (HKAB)

Chapter 8-9

9. Understanding digital signatures. <https://www.docusign.ca/how-it-works/electronic-signature/digital-signature/digital-signature-faq>
10. UNCITRAL Model Law on Electronic Commerce with Guide to Enactment 1996 (full

- paper). https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/19-04970_ebook.pdf
11. European Commission, “Introduction to the Connecting Europe Facility eID Building Block.”, March 2016.
http://www.esens.eu/sites/default/files/building_block_dsi_introdokument_eid-v1.04_4.pdf
 12. Cloud-based IT security policy template generator allows you generate your security policy template, within minutes, guaranteed. https://www.instantsecuritypolicy.com/it-security-policies.html?keyword=it%20security%20policies&matchtype=e&network=g&adposition=&device=c&qclid=Cj0KCQjw_fiLBhDOARIsAF4khR21_6FWPxr3HwPkHukyA02EjyG1Jok2VyoYSc-PjwH5yzULeU1vKYEaAkPfEALw_wcB
 13. C. Hadnagy, “Social Engineering, Second Edition: The Science of Human Hacking”, 2018 John Wiley & Sons, Inc. (Book, ISBN: 978-1-119-43338-5)
 14. K. Mitnick, “The Art of Deception: Controlling the Human Element of Security”, 2003 Kevin D. Mitnick (P)2009 Tantor Audio. (Book, ISBN: 978-0764542800)
 15. HKMA CFI 2.0 <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/11/20201103-4/>
 16. NIST <https://csrc.nist.gov/Projects/risk-management#:~:text=The%20NIST%20Risk%20Management%20Framework,to%20support%20implementation%20of%20risk>