

Module Outline

Revised

Professional Qualification:	Associate Operational Risk Management Professional (AORP) (QF Level 4)
Programme Title:	Advanced Certificate for ECF on Operational Risk Management (ORM)
Module Title:	Ethics and Corporate Governance in Banking Industry (M1)**
Credit:	10 (15 contact hours, 1.5 examination hours and about 83.5 self-study hours)
Teaching/Training Activities:	Training Class
Pre-requisite:	N.A.
Remarks:	<ol style="list-style-type: none">Exemption will be granted for practitioners who have passed the following related training programme(s)<ul style="list-style-type: none">Certification in Risk Management Assurance of the Institute of Internal Auditors; orBachelor's or higher degree in law; orProfessional Ethics and Compliance module under the Advanced Diploma for Certified Banker (Stage I) of the HKIB; orCertified Professional Risk Manager of the Asia Risk Management Institute (ARIMI); orCertified Public Accountant of the Hong Kong Institute of Certified Public Accountants (HKICPA); orFull member of Association of Chartered Certified Accountants (ACCA); orMembers of overseas accountancy bodies which are eligible for full exemption from the qualification programme for membership admission at the HKICPA under the HKICPA's reciprocal membership and mutual recognition agreements (as listed on its website)**Pitched at QF Level 4

Professional Qualification Objective

This **Professional Qualification** has been developed with the aim to nurture a sustainable talent pool of operational risk management practitioners in the banking industry. Candidates will acquire technical skills, professional knowledge and conduct for entry-level and junior level of job roles in the operational risk management function that take up a majority of responsibility in the operational risk management and business function risk and control.

Professional Qualification Intended Outcomes(PQIOs) (for M1, M2 and M3

Upon completion of the Professional Qualification, candidate should be able to:

PQIO 1:	Comply with business ethics and understand their place within modern financial institutions; understand ethical questions encountered in the second line of defence in the context of the broader risk environment
PQIO 2:	Assess the regulatory landscape as per defined guidelines and procedures and identify operational risks encountered by different business units of the AI
PQIO 3:	Apply the principles and methodologies of operational risk management for conducting operational risk monitoring duties according to the AI's policies and guidelines
PQIO 4:	Analyse operational risks within different business units and effectively measure the likelihood and impact of such risks
PQIO 5:	Apply appropriate techniques and requirements of operational risk assessments within different business units
PQIO 6:	Understand the typical types of controls used in the banking industry
PQIO 7:	Implement appropriate controls that effectively mitigate operational risks within different business units
PQIO 8:	Examine operational risk matters and report to relevant stakeholders
PQIO 9:	Analyse operational risk metrics and use operational risk reporting and dashboards to identify the potential operational risks

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) & Units of Competencies (UoCs)

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

MIOs	Intended Outcome/Competence	Unit of Competencies (UoCs)
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	107408L4 107409L4
MIO 2:	Explain the organizational structures and exercise the requirement under the regulatory landscape in building an effective risk management framework to effective	107408L4 107409L4

	compliance	
MIO 3:	Identify different roles associated in building a culture for effective management of governance, risk, and compliance in financial institution	107395L4
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	107398L3/ 109329L3

Assessment Activity

Type of Assessment Activity	PQIO/MIO	Weighting (%)
Examination	MIO 1 - 4	100%

Examination Format and Duration

Time allowed: 1.5 hours

The examination consists of: 50-60 Multiple Choice Questions

Examination passing rate: 70%

AORP Certification Requirement

Completion of Module 1-3 of the ECF on ORM (Core Level) training and successfully passed all the following examinations and currently as a Relevant Practitioner.

Syllabus

Chapter 1: Business Ethics	
1	- Introduction <ul style="list-style-type: none"> • Introduction: Ethics and Law
2	- Overview of Business Ethics <ul style="list-style-type: none"> • What is Business Ethics • The importance of Business Ethics • Approaches to Normative Ethics: Absolutism and Relativism
3	- Ethics and the Individual <ul style="list-style-type: none"> • Code of Conduct: <ul style="list-style-type: none"> - Bank on Integrity - Conflict of Interest - Protecting Clients' Interests (Code of Banking Practice) • Understanding Ethical Decision-making Process <ul style="list-style-type: none"> - The ETHICS-PLUS Decision-Making Model - CIMA – ETHICS Dilemmas Checklist

	- Ethics in Practice
Chapter 2: Ethics and the Corporation	
1	- Introduction <ul style="list-style-type: none"> • Introduction: Corporate social responsibility, Corporate accountability and Corporate citizenship
2	- Corporate Social Responsibility <ul style="list-style-type: none"> • International Consensus • The pros and cons of implementing corporate social responsibility • The impact of Globalisation
3	- Social Environmental Issues Facing Banks <ul style="list-style-type: none"> • Environmental, Social Responsibility, Governance (“ESG”) • Equator Principles on Project Financing • Case study: “The Sustainability Report: The role of Bank on Sustainability”
4	- Understanding Reputational Risk <ul style="list-style-type: none"> • Key drivers of Reputation • Public Perception and Reputation Risk • Case studies: The Bank Runs
Chapter 3: Risk Management: Principles and Concepts	
1	- Introduction <ul style="list-style-type: none"> • Introduction: The importance of risk management as the key to effective compliance
2	- Definition of Risk <ul style="list-style-type: none"> • Definition of Risk • Different types of Risk in Banking (HKMA approach) • Other approaches to categorise risk
3	- The Basic of Risk Management Framework <ul style="list-style-type: none"> • Enterprise Risk Management Framework – the Three Lines of Defence • Key Elements of Effective Risk Management (ISO 31000: 2018 Risk Management Guideline) • The Three Lines of Defence (SPM IC-1 and Basel Requirement) • Organizational structure for an effective Risk Management Framework
4	- An Overview of Key Risk Management Process <ul style="list-style-type: none"> • Risk Identification • Risk measurement, analysis and evaluation • Risk monitoring and reporting • Risk mitigation • Methodologies and Governance of an Effective Risk Management Framework
Chapter 4: The Regulators, Law and Regulation	

1	- Introduction <ul style="list-style-type: none"> • Introduction: The Prudential Approach
2	- Key Functions of Financial Regulators <ul style="list-style-type: none"> • The Hong Kong Monetary Authority (“HKMA”) • The Securities and futures Commission (“SFC”) • The Insurance Authority (“IA”) • The Mandatory Provident Fund Schemes Authority (“HPFSA”)
3	- Regulatory Requirements <ul style="list-style-type: none"> • An Overview: <ul style="list-style-type: none"> - Hong Kong Association of Banks - Code of Conduct – HKMA - Code of Conduct – SFC and SFO - The International Standard: Basel • Know Your Customers / Due Diligence <ul style="list-style-type: none"> - Anti-money Laundering (“AML”) and Counter-Financing of Terrorism (“CFT”) - Sanction risk - Tax evasion and The Foreign Account Tax Compliance Act (“FATCA”) - Case studies: AML / CFT • Suitability Obligations and Mis-selling <ul style="list-style-type: none"> - Suitability Obligations - Mis-selling claim - Case Study: Suitability Obligations and Mis-selling • Market misconduct under the Securities and Futures Ordinance <ul style="list-style-type: none"> - Insider Trading - Price Rigging - Stock Market manipulation - Disclosure of Information about prohibited transaction (s. 276, s. 297) - Case Study: Mis-selling claim • Protecting the Customers <ul style="list-style-type: none"> - Treat Customer Fairly Charter - Personal Data (Privacy) Ordinance <ul style="list-style-type: none"> ➤ Bank Marketing ➤ Customer complaint management ➤ Customers information management - Case Study: Data Management in Banks
Chapter 5: Corporate Governance in Banks	
1	- Introduction <ul style="list-style-type: none"> • What is Corporate Governance

2	<ul style="list-style-type: none"> • Corporate Governance Principles for Banks (Basel Committee) - Agency Theory <ul style="list-style-type: none"> • Agency theory • Agency costs • The public interest in financial stability <ul style="list-style-type: none"> - The economic significance of banks - The unique business risks faced by banks - Systemic risk • The misalignment between the interests of bank shareholders and the public interest • Case Study: Libor Manipulation and subsequent ethical ramification: the emergence of SOFR
3	<ul style="list-style-type: none"> - The Role and Composition of the Board <ul style="list-style-type: none"> • Structure of banks <ul style="list-style-type: none"> - Organisational Structure - The Board - The Specialised committee • Stakeholders in Corporate Governance • Regulatory Requirement and Implication <ul style="list-style-type: none"> - HKMA CG-6 and ECF - SFC – Guideline on Competence
4	<ul style="list-style-type: none"> - Accountability of Banks <ul style="list-style-type: none"> • Introduction <ul style="list-style-type: none"> - Corporate Governance in Banking Industry under Basel requirement - Principle 12: Disclosure and transparency • Disclosure <ul style="list-style-type: none"> - Regulatory Accountability, Prudential Reporting and Regulatory Supervision - HKMA Supervisory Policy Manual – IC-2 (Internal audit Function) • Transparency <ul style="list-style-type: none"> - Introduction: Integrated Reporting - Environmental, Social and Governance Reporting - The International Integrated Reporting Committee Framework of Integrated Reporting
<p>Chapter 6: Remuneration and Appointment of Board Members, Chief Executive and Managers</p>	
1	<ul style="list-style-type: none"> - Introduction <ul style="list-style-type: none"> • Introduction: The Competence of Board Directors and Chief Executive in Banks

2	- Principal Forms of Directorial and Executive Remuneration <ul style="list-style-type: none"> • Basic Director's service fee • Executive salary • Bonus payments • Shares and restricted share grants • Executive share options
3	- Determination of Remuneration <ul style="list-style-type: none"> • Fundamental principles: the guideline from Hong Kong Institute of Directors • The function of Remuneration committee • Determination of Non-executive Directors' remuneration • Guideline on a sound remuneration system (CG-5)
4	- Appointments of Chief Executives and Directors <ul style="list-style-type: none"> • Section 71 of Banking Ordinance • HKMA Requirements (CG-1, s. 6, 7)
5	- Appointments of Bank Managers <ul style="list-style-type: none"> • Section 72B of Banking Ordinance • HKMA Requirements (CG-2, s. 3)

Chapter 7: Internal Control and Compliance in Banking

1	- Introduction <ul style="list-style-type: none"> • Introduction: A Risk Based Approach to Bank Supervision (World Bank Paper Chp.15)
2	- The Elements of Internal Control System <ul style="list-style-type: none"> • Elements of Internal Control System • Attributes of an effective control system • The Three Lines of Defence
3	- Costs and Benefits of Internal Control <ul style="list-style-type: none"> • Costs • Benefits • Case Study: Manipulation of US GSE debt securities trading before 2008
4	- Second Line of Defence: The Compliance Function <ul style="list-style-type: none"> • Regulatory Requirement (IC-1) • The Compliance functions • The role of Compliance Officer
5	- The Role of Risk Management Function to Effective Control and Compliance in Banks <ul style="list-style-type: none"> • The Voluntary Boundary • Core practice • Mandated boundary • Case Study: An example from Data Quality Management

Recommended Readings

Essential Readings:

1. HKIB Study Guide – Ethics and Corporate Governance in Banking Industry (2021)

Supplementary Readings

1. Mark Hsiao. (2013). Principles of Hong Kong Banking Law. Sweet & Maxwell
2. Iris H.-Y. Chiu, (2015). The Law of Corporate Governance in Banks. ISBN: 9781 78254 885 0

Further Readings

1. John R. Boatright. (2014). Ethics in Finance (3rd ed.). Wiley-Blackwell
2. Bessis, Joël. (2015) Risk Management in Banking. Fourth ed. Chichester, West Sussex: Wiley
3. Hong Kong Monetary Authority: Website and Supervisory Policy Manual
3. Securities and Futures Commission (2017). Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
4. ISO 31000: 2018 Risk management Guidelines