

## Module Outline

<b>Professional Qualification:</b>	Associate Compliance Professional (ACOP)
<b>Programme Title:</b>	Advanced Certificate for ECF on Compliance
<b>Module Title:</b>	Ethics and Corporate Governance in the Banking Industry (M1)
<b>Credit:</b>	10 (15 contact hours, 1.5 examination hours and about 83.5 self-study hours)
<b>Teaching/Training Activities:</b>	Training Class
<b>Pre-requisite:</b>	N.A.
<b>Remarks:</b>	<ol style="list-style-type: none"><li>1. Module 1 is identical for both ECF on Operational Risk Management and ECF on Compliance. Hence, an RP who has completed Module 1 will not be required to complete the same module when he/she undertakes the training programme under the other ECF stream.</li><li>2. Benchmarked at QF Level 4</li><li>3. Exemption will be granted for practitioners who have passed the following related training programme(s)<ul style="list-style-type: none"><li>• Certified Professional Risk Manager of Asia Risk Management Institute; or</li><li>• Certification in Risk Management Assurance of the Institute of Internal Auditors; or</li><li>• International Diploma in Governance, Risk and Compliance of International Compliance Association; or</li><li>• Professional Ethics and Compliance module under the Advanced Diploma for Certified Banker (Stage I) of the HKIB; or</li><li>• Bachelor's or higher degree in law of Universities in Hong Kong or overseas; or</li><li>• Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants (HKICPA); or</li><li>• Full member of Association of Chartered Certified Accountants (ACCA); or</li><li>• Members 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)</li></ul></li></ol>

## Professional Qualification Objective

This Professional Qualification has been developed with the aim to nurture a sustainable talent pool of compliance 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 compliance function that take up majority of responsibility in this function.

## 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 non-compliance issues encountered by different business units of the AI
PQIO 3:	Interpret the requirements of compliance monitoring activities and how to execute these activities
PQIO 4:	Analyse compliance vulnerabilities/risks within different business units and implement controls to adequately mitigate such risks
PQIO 5:	Examine compliance breaches and prepare compliance reports to escalate compliance matters to relevant stakeholders
PQIO 6:	Apply different compliance tools to manage and control compliance risk
PQIO 7:	Apply compliance knowledge in the support and delivery of compliance related training
PQIO 8:	Execute Regtech adoption in performing compliance and risk management functions

## 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, 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 organisational structures and exercise the requirement under the regulatory landscape in building an effective risk management framework to effective compliance	107408L4 107409L4
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	109329L3/ 107398L3

## 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

Pass mark: 70%

## QF-recognized ACOP Certification Requirement

- Completion of both training and examination of Module 1 to Module 2 of the ECF on Compliance/ ECF on Operational Risk Management (Core Level) programme and Module 3 of ECF on Compliance (Core Level) programme; and
- Currently a Relevant Practitioner

# Syllabus

## Chapter 1: Business Ethics

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

## Chapter 2: Ethics and the Corporation

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| 1 | - Introduction <ul style="list-style-type: none"><li>• Introduction: Corporate social responsibility, corporate accountability and corporate citizenship</li></ul>  |
| 2 | - Corporate Social Responsibility <ul style="list-style-type: none"><li>• International consensus</li><li>• The pros and cons of implementing corporate social responsibility</li><li>• The impact of globalisation</li></ul>   |
| 3 | - Social environmental issues facing Banks <ul style="list-style-type: none"><li>• Environmental, Social Responsibility, Governance (“ESG”)</li><li>• Equator principles on project financing</li><li>• Case study: “The Sustainability Report: The role of Bank on Sustainability”</li></ul> |
| 4 | - Understanding Reputational Risk <ul style="list-style-type: none"><li>• Key drivers of reputation</li><li>• Public perception and reputation risk</li><li>• Case studies: The Bank Runs</li></ul>   |

<b>Chapter 3: Risk Management: Principles and Concepts</b>	
1	- Introduction <ul style="list-style-type: none"> <li>• Introduction: The importance of risk management as the key to effective compliance</li> </ul>
2	- Definition of Risk <ul style="list-style-type: none"> <li>• Definition of Risk</li> <li>• Different types of Risk in Banking (HKMA approach)</li> <li>• Other approaches to categorise risk</li> </ul>
3	- The Basic of Risk Management Framework <ul style="list-style-type: none"> <li>• Enterprise Risk Management Framework – the Three Lines of Defence</li> <li>• Key Elements of Effective Risk Management (ISO 31000: 2018 Risk Management Guideline)</li> <li>• The Three Lines of Defence (SPM IC-1 and Basel Requirement)</li> <li>• Organisational structure for an effective Risk Management Framework</li> </ul>
4	- An Overview of Key Risk Management Process <ul style="list-style-type: none"> <li>• Risk identification</li> <li>• Risk measurement, analysis and evaluation</li> <li>• Risk monitoring and reporting</li> <li>• Risk mitigation</li> <li>• Methodologies and Governance of an Effective Risk Management Framework</li> </ul>
<b>Chapter 4: The Regulators, Law and Regulation</b>	
1	- Introduction <ul style="list-style-type: none"> <li>• Introduction: The prudential approach</li> </ul>
2	- Key functions of financial regulators <ul style="list-style-type: none"> <li>• The Hong Kong Monetary Authority (“HKMA”)</li> <li>• The Securities and Futures Commission (“SFC”)</li> <li>• The Insurance Authority (“IA”)</li> <li>• The Mandatory Provident Fund Schemes Authority (“MPFSA”)</li> </ul>
3	- Regulatory requirements <ul style="list-style-type: none"> <li>• An overview: <ul style="list-style-type: none"> <li>- Hong Kong Association of Banks</li> <li>- Code of Conduct – HKMA</li> <li>- Code of Conduct – SFC and SFO</li> <li>- The International Standard: Basel</li> </ul> </li> <li>• Know Your Customers / Due Diligence <ul style="list-style-type: none"> <li>- Anti-money Laundering (“AML”) and Counter-Financing of Terrorism (“CFT”)</li> <li>- Sanction risk</li> <li>- Tax Evasion and The Foreign Account Tax Compliance Act (“FATCA”)</li> <li>- Case studies: AML / CFT</li> </ul> </li> <li>• Suitability Obligations and Mis-selling <ul style="list-style-type: none"> <li>- Suitability Obligations</li> <li>- Mis-selling Claim</li> <li>- Case Study: Suitability Obligations and Mis-selling</li> </ul> </li> <li>• Market misconduct under the Securities and Futures Ordinance <ul style="list-style-type: none"> <li>- Insider Trading</li> <li>- Price Rigging</li> <li>- Stock Market Manipulation</li> <li>- Disclosure of Information about prohibited transaction (s. 276, s. 297)</li> <li>- Case Study: Mis-selling claim</li> </ul> </li> <li>• Protecting the Customers <ul style="list-style-type: none"> <li>- Treat Customer Fairly Charter</li> <li>- Personal Data (Privacy) Ordinance <ul style="list-style-type: none"> <li>• Bank marketing</li> <li>• Customer Complaint Management</li> <li>• Customers Information Management</li> </ul> </li> <li>- Case Study: Data Management in Banks</li> </ul> </li> </ul>

## Chapter 5: Corporate Governance in Banks

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| 1 | - Introduction <ul style="list-style-type: none"><li>• What is Corporate Governance</li><li>• Corporate Governance Principles for Banks (Basel Committee)</li></ul>  |
| 2 | - Agency Theory <ul style="list-style-type: none"><li>• Agency Theory</li><li>• Agency Costs</li><li>• The Public Interest in Financial Stability<ul style="list-style-type: none"><li>- The Economic Significance of Banks</li><li>- The Unique Business Risks Faced by Banks</li><li>- Systemic Risk</li></ul></li><li>• The Misalignment between the Interests of Bank Shareholders and the Public Interest</li><li>• Case Study: Libor Manipulation and subsequent Ethical Ramification: the Emergence of SOFR</li></ul>   |
| 3 | - The Role and Composition of the Board <ul style="list-style-type: none"><li>• Structure of Banks<ul style="list-style-type: none"><li>- Organisational Structure</li><li>- The Board</li><li>- The Specialised Committee</li></ul></li><li>• Stakeholders in Corporate Governance</li><li>• Regulatory Requirement and Implication<ul style="list-style-type: none"><li>- HKMA CG-6 and ECF</li><li>- SFC – Guideline on Competence</li></ul></li></ul>  |
| 4 | - Accountability of Banks <ul style="list-style-type: none"><li>• Introduction<ul style="list-style-type: none"><li>- Corporate Governance in Banking Industry under Basel Requirement</li><li>- Principle 12: Disclosure and Transparency</li></ul></li><li>• Disclosure<ul style="list-style-type: none"><li>- Regulatory Accountability, Prudential Reporting and Regulatory Supervision</li><li>- HKMA Supervisory Policy Manual – IC-2 (Internal audit Function)</li></ul></li><li>• Transparency<ul style="list-style-type: none"><li>- Introduction: Integrated Reporting</li><li>- Environmental, Social and Governance Reporting</li><li>- The International Integrated Reporting Committee Framework of Integrated Reporting</li></ul></li></ul> |

<b>Chapter 6: Remuneration and Appointment of Board Members, Chief Executive and Managers</b>	
1	- Introduction <ul style="list-style-type: none"> <li>• Introduction: The Competence of Board Directors and Chief Executive in Banks</li> </ul>
2	- Principal Forms of Directorial and Executive Remuneration <ul style="list-style-type: none"> <li>• Basic Director's service fee</li> <li>• Executive Salary</li> <li>• Bonus Payments</li> <li>• Shares and Restricted Share Grants</li> <li>• Executive Share Options</li> </ul>
3	- Determination of Remuneration <ul style="list-style-type: none"> <li>• Fundamental Principles: The Guideline from Hong Kong Institute of Directors</li> <li>• The Function of Remuneration Committee</li> <li>• Determination of Non-executive Directors' Remuneration</li> <li>• Guideline on a Sound Remuneration System (CG-5)</li> </ul>
4	- Appointments of Chief Executives and Directors <ul style="list-style-type: none"> <li>• Section 71 of Banking Ordinance</li> <li>• HKMA Requirements (CG-1, s. 6, 7)</li> </ul>
5	- Appointments of Bank Managers <ul style="list-style-type: none"> <li>• Section 72B of Banking Ordinance</li> <li>• HKMA Requirements (CG-2, s. 3)</li> </ul>
<b>Chapter 7: Internal Control and Compliance in Banking</b>	
1	- Introduction <ul style="list-style-type: none"> <li>• Introduction: A Risk Based Approach to Bank Supervision (World Bank Paper Chp.15)</li> </ul>
2	- The Elements of Internal Control System <ul style="list-style-type: none"> <li>• Elements of Internal Control System</li> <li>• Attributes of an Effective Control System</li> <li>• The Three Lines of Defence</li> </ul>
3	- Costs and Benefits of Internal Control <ul style="list-style-type: none"> <li>• Costs</li> <li>• Benefits</li> <li>• Case Study: Manipulation of US GSE Debt Securities Trading before 2008</li> </ul>
4	- Second Line of Defence: The Compliance Function <ul style="list-style-type: none"> <li>• Regulatory Requirement (IC-1)</li> <li>• The Compliance Functions</li> <li>• The Role of Compliance Officer</li> </ul>
5	- The Role of Risk Management Function to Effective Control and Compliance in Banks <ul style="list-style-type: none"> <li>• The Voluntary Boundary</li> <li>• Core Practice</li> <li>• Mandated Boundary</li> <li>• Case Study: An Example from Data Quality Management</li> </ul>

## Recommended Readings

### Essential Readings

1. HKIB Study Guide – M1: Ethics and Corporate Governance in Banking Industry (2023)

### 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