Rethink risk, regulation and compliance to drive strategy, capabilities and performance

Risk, regulation and compliance in the asset and wealth management industry

March 2021

Singapore's financial sector has been resilient to the economic and financial impact of COVID-19. While the economy is expected to pick up in 2021, the risk of financial stress remains during this protracted recovery period. Organisations are looking to cultivate a new trait: resilience. Risks that once seemed remote and improbable have also become the norm. Continual focus on risk and compliance matters remain warranted.

In this issue, we dive into the Monetary Authority of Singapore's (MAS) efforts to promote and cultivate trust and ethics in the financial industry. The five outcomes-based accountability guidelines aim to strengthen accountability and proper conduct in financial institutions (FIs).

Also, we look into recent enforcement actions imposed by MAS, as a learning point on how we can continue to be viewed as regulatory high performers by the regulators; and the latest terrorism financing national risk assessment report.

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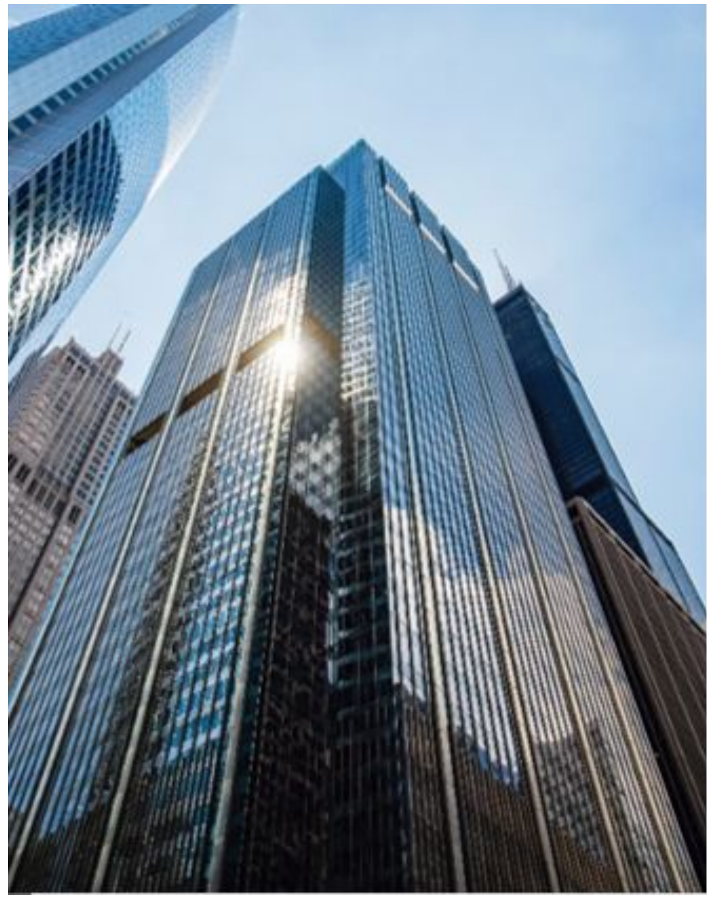
Environmental risk management

On 8 December 2020, MAS published the finalised Guidelines on Environmental Risk Management (Guidelines) for asset managers, following consultation papers issued earlier in the year. The Guidelines apply to all holders of a capital markets services licence for fund management and real estate investment trust (REIT) management, and to registered fund management companies.

These guidelines aim to enhance the resilience of funds (including REITs) and segregated mandates that are managed by asset managers by setting out sound environmental risk management practices that asset managers can adopt. It is crucial for asset managers to ensure the resilience of their customers' assets against the impact of environmental risk. Asset managers can also play a key role in the transition towards an environmentally sustainable economy by channelling capital through their green investment activities and support international and national environmental policies.



MAS guidelines

Governance and strategy

- Establish Board and senior management oversight of environmental risk management policies and practices
- Incorporate environmental considerations into strategies, business plans and product offerings
- Set clear roles and responsibilities, with adequate resources allocated to managing environmental risk

Research, portfolio construction and portfolio risk management

- Embed relevant environment risk considerations, considering both physical and transition risk, into the research and portfolio construction process
- Monitor, assess and manage potential and actual impact of environment risks on individual investments and portfolios on an ongoing basis
- Develop capabilities in scenario analysis to assess the impact of environment risk on the portfolios
- Equip staff with adequate expertise to assess, manage and monitor environmental risk in a rigorous, timely and efficient manner

Stewardship

- Exercise sound stewardship to help shape the corporate behaviour of investee companies positively through engagement, proxy voting and sector collaboration

Disclosures

- Disclose approach to managing environmental risk, and impact of material environmental risk
- Take reference from international reporting frameworks, including task force on Climate-related Financial Disclosures (TCFD) recommendations
- Analyse disclosures regularly to improve thoroughness, clarity and relevance

With an 18 month transition period given to assess and implement the Guidelines, asset managers need to consider some fundamental questions on the adequacy of their environmental risk management process:

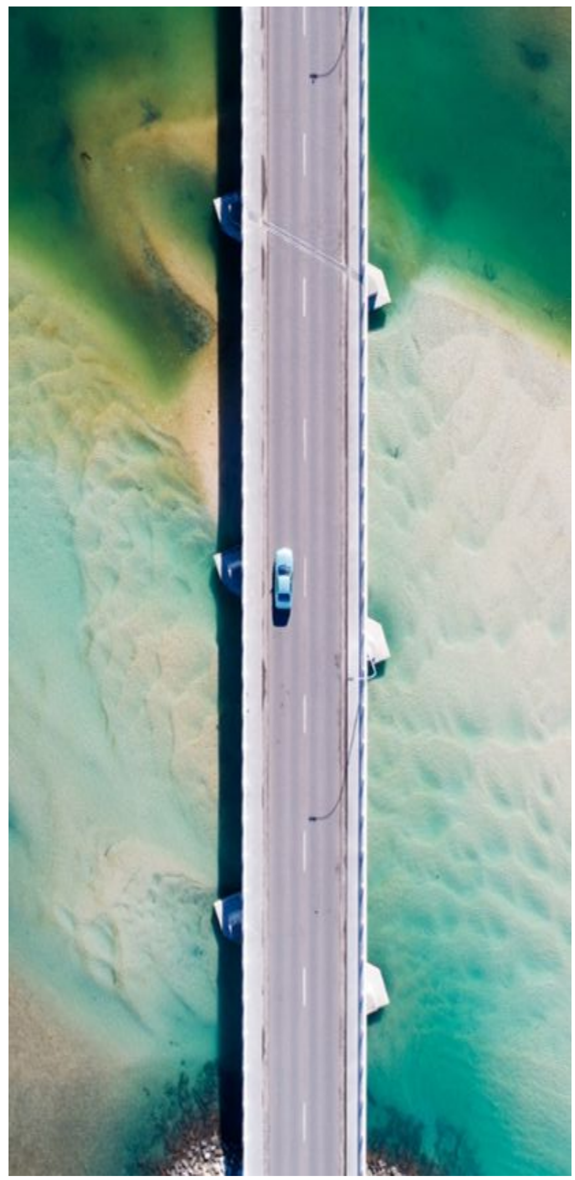
1. Does your board and management committee have adequate oversight and accountability over your portfolio level environmental risks?

2. Are there risk management processes in place for identifying and assessing the impact of environmental risks on your funds/mandates?

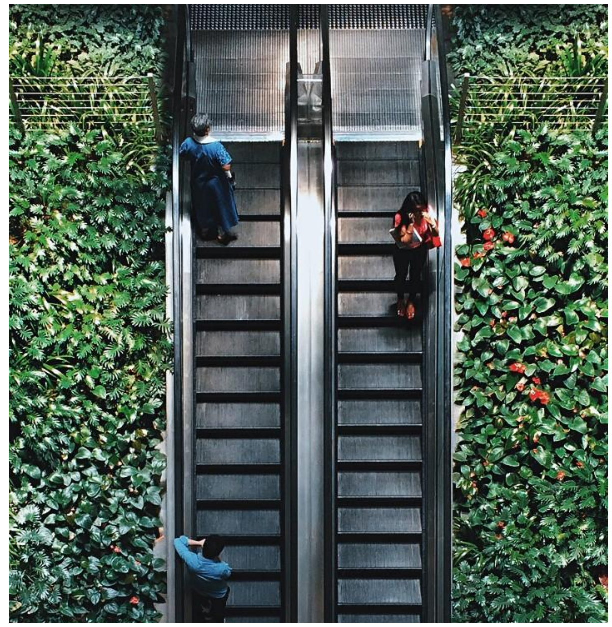
3. Do you have the right data, processes and capabilities in place to measure your portfolio level exposures to environmental risks and to perform scenario analysis?

4. Are you able to explain these risks and the steps you have taken in managing environmental risks to your stakeholders, including investors and regulators?

Read more about our perspectives on environmental risk here.



Technology risk management



Advances in technology mean that organisations are increasingly dependent on information to meet the needs of customers. However, the ways of securing and protecting this information have not kept pace or extended to information that third parties may have.

On 18 January 2021, MAS released the revisions to the Technology Risk Management (TRM) guidelines for FIs. Cyber security assessment and cyber surveillance and security operations are two new sections that have been introduced. Five sections have undergone significant revisions and, three new annexes have been added focusing on application security testing and device security (BYOD and mobile application security).

MAS TRM guidelines

1. Technology risk governance and oversight which articulates the need for members of board and senior management to have necessary skills and understanding of technology risks, having distinct roles & responsibilities, with an emphasis on a sound and robust technology risk management framework through effective information asset management and third party services management.

2. IT project management and security-by-design – Establish standards and procedures for vendor evaluation and selection, monitor vendors' controls, implement safeguards and put in place source code escrow agreement in the event that the vendor is unable to support the FIs. Establish a framework to manage its system development life cycle (SDLC) based on the security-by-design principles. Quality assurance performed by an independent quality assurance function to assess whether project activities and deliverables comply with the FI's policies, procedures and standards

3. Software development and management which advocates the adoption of secure software development best practices in relation to Agile, DevSecOps, and APIs.

4. Access management.

5. Management of operational infrastructure security risks arising from emerging technologies such as Internet of Things (IoT) and virtualisation.

6. Defence-in-depth approach to strengthen cyber resilience which includes collecting, processing and analysing cyber-related information for its relevance and potential impact to the FI's business and IT environment. Additionally, carrying out regular scenario-based cyber exercises, and performing an adversarial attack simulation exercise.

FIs should consider:

- Assessing their ability to meet the new requirements from the TRM guidelines.
- Determining key actions that commensurate with the level of risk and complexity of the financial services offered and the technologies supporting such services to adhere to the new requirements.
- Where technology services are outsourced (to intra-group entities or other third party service providers), assessing their ability to meet the new TRM requirements.

Read more about our perspectives on technology risk here.

Individual accountability and conduct

The Guidelines on Individual Accountability and Conduct (Guidelines on IAC) was issued by the MAS on 10 September 2020.

Since 2018, MAS has been discussing how to foster a culture of ethical behaviour and responsible risk-taking in the financial industry. It is widely acknowledged that rules and regulations alone are insufficient in influencing behaviour. MAS strives to shift the industry away from mechanistic compliance with rules and a box-ticking mentality, and elevate the industry beyond doing what is permitted or legal to doing what is right and ethical.

The Guidelines on IAC focuses on measures FIs should implement in promoting individual accountability of senior managers, strengthening oversight over material risk personnel, and reinforce standards of proper conduct among all employees.

The Guidelines on IAC have left many FIs with a concern that they could drown in paperwork. But paperwork alone won't ensure compliance. A strong governance structure is important to enable clear direction and oversight of culture and conduct across the FI.

Getting prepared for the Guidelines on IAC

The fundamentals of good governance are straightforward. There is a need to have a governance framework so that decisions can be taken in an appropriate manner to allow the FI to meet its objectives and act in line with its values. This means that there should be clearly defined roles and responsibility for each core management function, which is understood by all stakeholders. Each function needs to have the right resource in place, with the right skills, to manage the risks. Escalation routes need to ensure that issues are brought to the attention of the Board and senior management in a timely manner. Whilst the fundamentals are straightforward, identifying and addressing weaknesses in governance frameworks is not.

Changes in governance and accountability framework often need time – engaging people in the thought process and getting them to buy-in. Functions need to work together – Human Resource, Risk and Compliance all have a key part to play in implementing and building IAC, ranging from job description, performance and consequence management to management reporting.

The Guidelines on IAC will come into effect on 10 September 2021. MAS has in place existing legislation and guidelines that address accountability and conduct regimes. The Guidelines on IAC supplement the existing framework to strengthen the accountability of senior managers and promote ethical conduct at all levels of the organisation. MAS has said that it will adopt a consultative approach in assessing FIs' compliance with the Guidelines on IAC in the initial phase of implementation.

MAS steps up enforcement actions against market abuse and financial misconduct

MAS has taken several strong actions against FIs and individuals for market abuse, financial misconduct, and control breaches related to money laundering. The MAS issued an Enforcement Report in November 2020, covering the period January 2019 to June 2020 detailing various enforcement actions taken for breaches of MAS regulations and requirements.

2019/2020 enforcement outcomes

Actions taken on breaches of MAS-administered Acts, Regulations and Notices.

- 9 criminal convictions
- $11.7 million in civil penalties
- $3.4 million in financial penalties and compositions
- 25 prohibition orders
- 3 license revocations
- 23 reprimands
- 124 warnings
- 76 letter of advice
- 282 supervisory reminders

Ms Peggy Pao, Executive Director (Enforcement), MAS said “Rigorous investigation and tough enforcement are necessary to deter financial misconduct, protect consumers, and maintain investor confidence.”

MAS’ enforcement priorities looking ahead include the following:

- pursue serious and complex cases of disclosure breaches;
- deepen capability to proactively detect potential mis-selling of financial products;
- continue to focus on FIs which lack rigorous systems and processes for combatting money laundering and countering terrorism financing;
- update enforcement-related powers to better detect, investigate, and take action against misconduct; and
- enhance focus on senior management accountability for breaches by their FIs or subordinates.

MAS issues Terrorism Financing National Risk Assessment (2020)

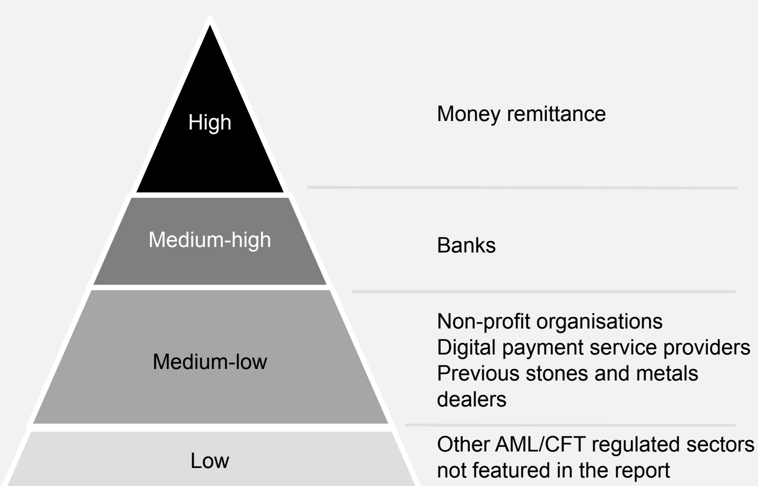
MAS issued the Terrorism Financing (TF) National Risk Assessment (NRA) on 30 December 2020. This is a product of Singapore's ongoing review of TF risks, and updates the earlier Anti-Money Laundering, Countering the Financing of Terrorism (AML/CFT) NRA published in 2014.

Singapore recognises the need to remain vigilant to existing and emerging threat as well as vulnerabilities in relation to terrorism and TF. As such, a comprehensive whole-of-government approach to identify, monitor and mitigate TF risks has been developed and implemented. Given the global nature of terrorism and TF, Singapore will continue to maintain close working relationships with overseas law enforcement, intelligence, regulatory and supervisory counterparts, and contribute actively to regional and international forums.

Based on 2014 guidance published by the Financial Action Task Force (FATF), outcomes of the TF NRA were generated through:

1. Examination of the overall threat
2. Evaluation of TF risks of various sectors
3. Examination of the overall threat

Key areas of at risk being exploited by terrorism financing



The latest TF NRA report issued in 30 December 2020 addresses key risk areas exploited for Terrorism Financing. It addresses high risk areas on the following sectors:

1) Money remittances
2) Digital payment service providers
3) Precious stones and metal dealers

References

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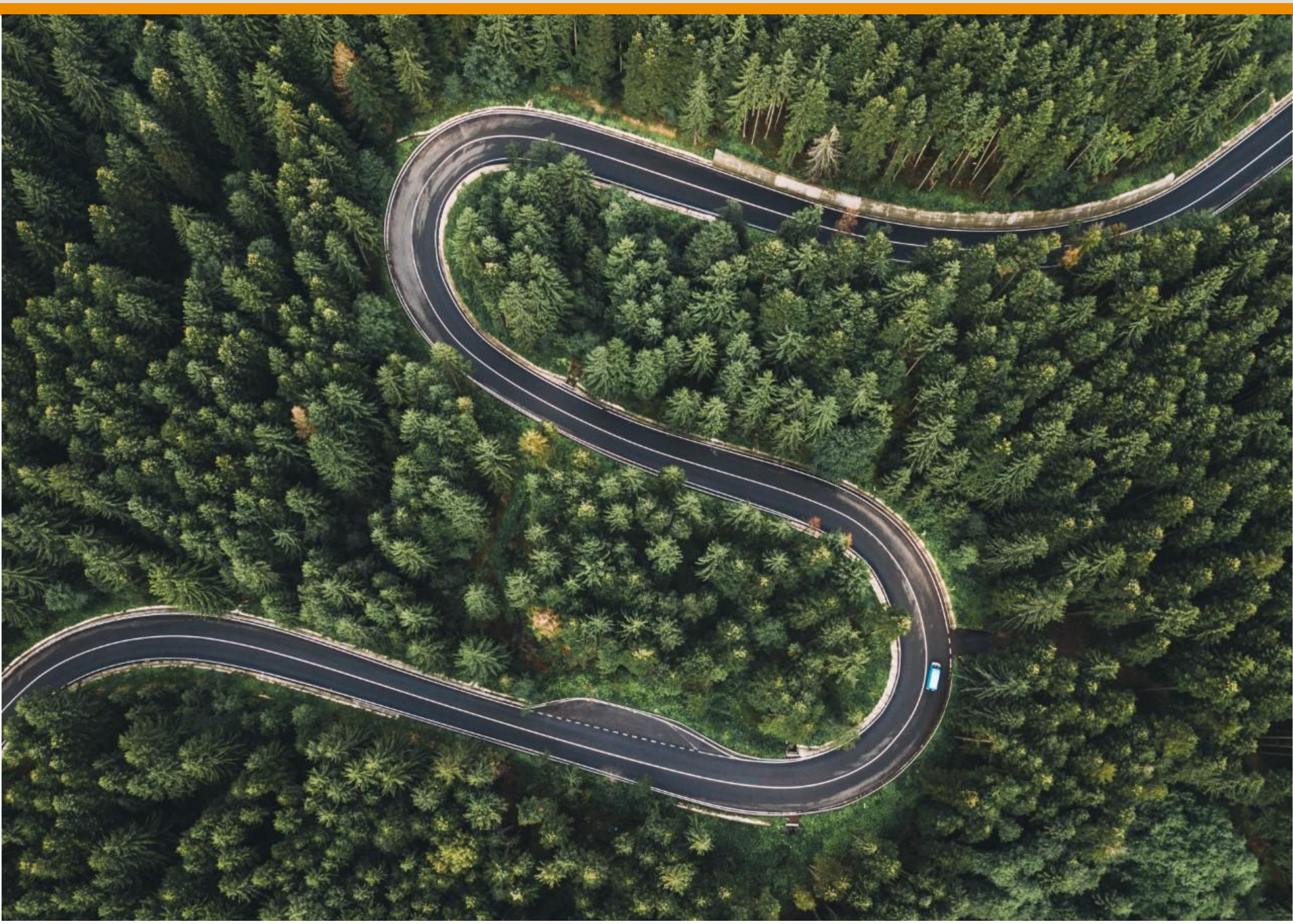

Key contacts

Paul Pak
Singapore Asset & Wealth Management Leader
PwC Singapore
+65 6236 3288
paul.s.pak@pwc.com

Karen Shih
Deputy Head, Asset & Wealth Management
Risk and Controls
PwC Singapore
+65 9818 8240
karen.q.shih@pwc.com

Dave Heng
Deputy Head, Asset & Wealth Management
Regulatory Compliance
PwC Singapore
+65 9673 8716
dave.sh.heng@pwc.com

Chin Shook Han
Manager, Asset & Wealth Management
Risk, Regulations & Compliance
PwC Singapore
+65 9739 4180
shook.han.chin@pwc.com

Get in touch with us

Our team provides a wide array of risks, controls, and compliance services to assist you in managing your risks and regulatory obligations as part of your strategic planning and execution.

For more information on how we can help, please visit our website **here**.