

Financial Services Regulatory Risk and Compliance Digest

March 2025

Welcome to the latest edition of our [Financial Services Regulatory and Risk and Compliance Digest](#) newsletter! This newsletter provides you with an update on key regulatory changes in the financial services industry in Singapore impacting banks, insurers, asset managers and other regulated entities. We hope this summary will help you to keep abreast of these emerging themes, and we welcome any opportunity to discuss these with you.

Here's what you can expect in this edition:

No.	Topic	Description	Who it affects
New updates to regulations, notices, guidelines, or circulars			
1	Artificial intelligence (AI) model risk management	Information paper on AI model risk management (MRM), outlining good practices that were observed during a recent thematic review.	Financial institutions
2	Guidelines to MAS Notice 134 on recovery and resolution planning	Guidelines for notified insurers and notified DFHCs (Licensed Insurers) on recovery and resolution planning requirements under MAS Notice 134.	Notified insurers and notified DFHCs (Licensed Insurers)
3	Commercialisation of asset tokenisation	Press release announcing plans to support commercialisation of asset tokenisation.	Financial institutions
4	Good disclosure practices for retail environmental, social and governance (ESG) funds	Information paper which sets out good disclosure practices that ESG funds may adopt.	Retail ESG funds
5	Notice SFA02-N05 to AEs and RMOs on AML/CFT	Notice which stipulates the obligations of AEs and RMOs in AML/CFT.	Approved exchanges (AEs) and registered market operators (RMOs)
Industry updates			
6	Phased commencement of the Anti-money Laundering and Other Matters Act	Ministry of Home Affairs (MHA) announced a phased commencement of Anti-Money Laundering (AML) and Other Matters Act.	Whole of society

Warm regards,

Kwok Wui San

Partner, Regulatory Risk and Compliance Leader

New updates to regulations, notices, guidelines, or circulars

1. Artificial intelligence (AI) model risk management

Who it affects: Financial institutions

In a nutshell

On 5 December 2024, MAS published an information paper on artificial intelligence (AI) model risk management (MRM), outlining good practices that were observed during a recent thematic review of selected banks. While the use of AI can enhance internal operational efficiency amongst financial institutions, they can also increase risk exposures if not deployed/developed responsibly. This information paper recommends incremental efforts required to ensure the responsible use of AI in the financial sector.

Key Areas of Focus:

i) AI governance and oversight

Building a **robust AI governance framework** via maintaining timely risk management policies and procedures, establishing cross-functional oversight forums to **ensure responsible use of AI** and articulating clear mission statements and guiding principles surrounding fair, ethical and accountable use of AI.

ii) Key risk management systems and processes

Identifying existing AI usage across the banks, in order to **assess materiality of AI-related risks** using key risk dimensions. This leads to effective application of relevant controls to address risks posed by AI.

iii) Development and deployment of AI

Establishing **updated standards and processes for development, validation and deployment of AI** to address key risks posed by AI.

What this means for financial institutions (FIs)?



1. FIs are encouraged to reference the **good practices** when deploying and developing AI to support internal operational processes, to safeguard against potential risks posed by AI, such as **financial risks, operational risks, regulatory risks, reputational risks**.
2. As the AI landscape continues to evolve, FIs are advised to **regularly review and update AI MRM frameworks** and scale up risk management efforts based on the state of AI used.



New updates to regulations, notices, guidelines, or circulars

2. Guidelines to MAS Notice 134 on recovery and resolution planning

Who it affects: Notified insurers and notified DFHCs (Licensed Insurers)

In a nutshell

On 26 December 2024, MAS published a Guideline to MAS Notice 134 on Recovery and Resolution Planning, to provide guidance to notified insurers (limited to those that MAS has designated as Domestic Systemically Important Insurers (“DSIIs”) and notified designated financial holding company (DFHCs (Licensed Insurer(s))) on recovery and resolution planning requirements.

The guideline covers the following main areas:

1. Recovery planning (RCP)

Alignment between Group RCP and notified insurer’s RCP is necessary to avoid inconsistent recovery options, trigger frameworks and governance frameworks between the group and legal entity plan. A notified insurer and a notified DFHC may **leverage on the tools within the enterprise risk management (ERM)** framework when developing RCP.

- a) **Recovery trigger framework** : Importance of having leading indicators to serve as an alert of emerging signs of stress.
- b) **Recovery options**: Comprehensive range of recovery options should be considered, together with consideration of qualitative impact of recovery options.
- c) **Communication**: Insurers can leverage on communication strategies developed for Business Continuity Plan purposes, but they should be tailored according to respective stress scenarios and recovery options.

2. Resolution planning

Notified Insurers or Notified DFHC **is expected to inform MAS of a material change** to its business or structure **immediately**. Resolution planning is done **before an FI enters financial distress**.

3. Management information systems (MIS)

Notified Insurers and Notified DFHCs are expected to establish MIS that are able to produce information **necessary for recovery and resolution planning, resolvability assessment** and the **conduct of resolution in a timely manner**.

4. Operational continuity

Operational continuity is relevant to both recovery and resolution scenarios. Where appropriate, notified insurers and notified DFHC can leverage on their Business Continuity Plan.

What this means for notified insurers and notified DFHCs (licensed insurers)?

- 1. Notified Insurers and Notified DFHCs are advised to consider the Guidelines during the formulation process of Recovery and Resolution Planning Framework- where appropriate resolution actions can be taken during times of financial distress, without imposing severe systemic disruption to critical functions and services.



New updates to regulations, notices, guidelines, or circulars

3. Commercialisation of asset tokenisation (1/2)

Who it affects: Financial institutions

In a nutshell

On 4 November 2024, MAS announced its plans to advance tokenisation in financial services. The press release focused on two industry frameworks- namely [Guardian Fixed Income Framework \(GFIF\)](#) and [Guardian Funds Framework \(GFF\)](#), developed by Project Guardian industry group members.

Brief background on Project Guardian:

Project Guardian is a collaborative initiative between policymakers and the financial industry to enhance liquidity and efficiency of financial markets through asset tokenisation. To know more about this initiative, click [here](#).

Focus Areas:

1) Open and interoperable networks

Leverage open, interoperable networks to enable digital assets to be traded across platforms and liquidity pools

2) Trust anchors

Establish a trusted environment through a common trust layer of independent trust anchors with risk management discipline to screen and onboard entities.

3) Asset tokenisation

Represent securities in the form of digital bearer assets and tokenised deposits issued by financial institutions.

4) Institutional grade financial protocols

Implement regulatory safeguards and controls into financial protocols to mitigate against market manipulation and operational risks.



New updates to regulations, notices, guidelines, or circulars

3. Commercialisation of asset tokenisation (2/2)

Who it affects: Financial institutions

In a nutshell

Key highlights:

1. Developing ecosystem of market infrastructures to facilitate seamless cross border transactions

MAS launched the Global Layer One (GL1) initiative in 2023 to foster the development of foundational digital infrastructures, upon which commercial networks could be deployed. Since the launch, a core group of global banks, have been leading efforts to define the business, governance, risk, legal and technology requirements of the GL1 Platform.

- To build on this, GL1 is expanding its scope to support the development of an ecosystem of compatible market infrastructures, enabling tokenised assets to be traded seamlessly across borders. Specifically, GL1 will undertake the following additional activities:
 - a) **Control Principles** – Alignment on governance, risk management controls and settlement arrangement conventions for cross border transactions. This provides clarity on roles, responsibilities and controls needed to safeguard market integrity and financial stability.
 - b) **Specifications** – Development of specifications for market infrastructures and asset lifecycle. This encourages interoperability between diverse systems.
 - c) **Compliance by Design** – Creation and provision of templates including programmable compliance checks to build an ecosystem of compatible service providers. This accelerates onboarding for new participants.

2. To facilitate broad based acceptance and implementation of tokenised assets by financial institutions, two industry frameworks developed by Project Guardian industry group members were published alongside:

- Guardian Fixed Income Framework (GFIF) – GFIF integrates the International Capital Market Association's Bond Data Taxonomy, Capital Markets and Technology Association's Token Standards, and the Global Financial Markets Association's Design Principles for Tokenised Securities. This provides an industry guide to implementing tokenisation in Debt Capital Markets, strengthen industry capabilities and catalyse adoption of tokenised fixed income solutions.
- Guardian Funds Framework (GFF) – GFF provides a set of recommendations for industry best practices for tokenised funds. This includes the Guardian Composable Token Taxonomy to facilitate development of tokenised investment vehicles comprising multiple assets, simplifying the process of incorporating new tokenised funds, and help achieve efficiencies in fund settlement.

What this means for financial institutions (FIs)?

The SGD Testnet (initial test network) would be made available to eligible financial institutions in Project Guardian and Project Orchid, enabling financial institutions to settle transactions with S\$ wholesale central bank digital currency ("CBDC"). The first set of participating financial institutions have been announced by MAS.



New updates to regulations, notices, guidelines, or circulars

4. Good disclosure practices for retail environmental, social and governance (ESG) funds

Who it affects: Retail ESG funds

In a nutshell

On 4 December 2024, MAS published an information paper for Good Disclosure Practices for Retail ESG Funds. This information paper sets out good disclosure practices that ESG funds may adopt in their adherence with paragraphs 11-14 of Circular No. FCF 02/22 on Disclosure and Reporting Guidelines for Retail ESG Funds (ESG Funds Circular), which took effect on 1 January 2023.

Key highlights:

1. Investment focus and strategy

- **Define ESG-related terms upfront** – When subjective ESG-related terms are being used in the description of an ESG Fund (such as "favourable/improving ESG characteristics", "sustainable leaders" or "strong sustainability profile"), it is good practice for managers to clearly define what these terms mean in the context of the respective ESG funds. Clear definitions provided will help to facilitate better alignment of expectations and empower investors to make informed investment decisions.
- **Clearly set out how ESG criteria or metrics are used** – When ESG criteria or metrics (including ESG ratings or scores) are used to measure the attainment of an ESG fund's ESG focus or in its investment selection process, it is good practice to include clear descriptions of such ESG criteria and metrics and the extent to which they are being used. This would facilitate accountability to investors and minimise potential greenwashing by providing clear yardsticks by which investors can assess whether an ESG Fund has met its claims.

2. Reference benchmark

In the case of an ESG Fund which tracks an ESG index or references one for performance measurement purposes, it is good practice to disclose if the manager or its related corporation has any influence on the construction of the index, and the extent of such influence.

3. Risks

Paragraph 11(d) of the ESG Funds Circular provides that the prospectus of an ESG Fund should disclose risks associated with the scheme's ESG focus and investment strategy. In the case of a recognised ESG Fund, while full details of such risks may be set out in the prospectus of the scheme's home jurisdiction, it is good practice to include a summary of such risks in the Singapore "wrapper" for greater saliency to Singapore investors on risks that are unique to an ESG Fund.

What this means for retail ESG funds?

The establishment of good disclosure practices enable retail investors to better understand the key features of an ESG fund, thereby allowing them to make better-informed investment decisions. MAS aims to continue the monitoring of developments in the ESG Fund industry and work with the industry to uplift disclosure practices, towards the purpose of mitigating greenwashing risks.



New updates to regulations, notices, guidelines, or circulars

5. Notice SFA02-N05 to Approved Exchanges and Registered Market Operators on AML/CFT

Who it affects: Approved exchanges and registered market operators

In a nutshell

On 13 January 2025, MAS published Notice SFA02-N05 which stipulates the obligations of Approved Exchanges (AEs) and Registered Market Operators (RMOs) in preventing money laundering and countering the financing of terrorism (AML/CFT). This Notice came into effect on 14th January 2025.

Key highlights:

1. Risk assessment and monitoring

An AE or RMO must take appropriate steps to identify, assess and understand, its money laundering and terrorism financing risks by performing and documenting an enterprise-wide risk assessment (EWRA) at least once every two years. Additionally, an AE or RMO shall put in place adequate policies, procedures and controls to mitigate the ML/TF risks.

2. Customer due diligence (CDD)

In addition to assessing its enterprise-wide risk, an AE or RMO must perform screens and checks for every new customer with which the AE or RMO enters into business relations with. These typically include gathering information on a customer such as full name, unique identification number, address and nationality. AEs and RMOs must also conduct enhanced CDD when ML/TF risks are heightened, such as when the customer is a Politically Exposed Person (PEP) or is from a jurisdiction with a poor AML/CFT reputation.

3. Suspicious transaction reporting (STR)

If or transaction is suspected of being linked to ML/FT, AEs and RMOs must, within 15 business days, report these to the Suspicious Transaction Reporting Office (STRO), Commercial Affairs Department of the Singapore Police Force and maintain records of all transactions referred to STRO. An AE or RMO must also promptly submit reports on suspicious transactions to STRO and extend a copy to MAS for information.

What this means for AEs and RMOs?

In playing a key role to prevent money laundering and countering the financing of terrorism, AEs and RMOs must ensure that their systems, policies and processes are adequate in meeting the requirements of this Notice such as the regular performance of EWRAs, the gathering and storage of information during CDDs and identification and reporting of suspicious transactions.

Additionally, AEs and RMOs are required to develop appropriate compliance management arrangements, maintain a suitable internal audit function, have in place adequate screening procedures for employee hiring, and ensure that employees receive proper AML/CFT training.



Industry updates

This section covers key updates in the industry affecting financial institutions. We provide a summary of the of the latest developments and include our viewpoints to keep you on top of the regulatory agenda.

6. Phased commencement of the Anti-money Laundering and Other Matters Act

Who it affects: Whole of society

In a nutshell

On 13 November 2024, the Ministry of Home Affairs (MHA) announced that the Anti-Money Laundering and Other Matters Act 2024 (the Act) partially came into operation.

Objective of the Act

- To enhance the ability of law enforcement agencies to pursue and prosecute money laundering offences.
- To clarify and improve processes to deal with seized or restrained properties linked to suspected criminal activities.
- To align the anti-money laundering and countering the financing of terrorism framework (AML/CFT) for casino operators with the Financial Action Task Force (FATF) standards.

Details on the provisions of the Act

- Facilitating prosecution of money laundering cases arising from criminal conduct abroad.
- Foreign environmental crimes designated as money laundering predicate offences.
- Cross-agency data sharing for better detection of money laundering, terrorism financing and proliferation financing.
- Dealing with seized properties where the suspect has absconded.

For more details, click [here](#) to read more.

What this means for whole of society?



We are encouraged to stay updated to the latest developments and evolvement of Singapore's AML/CFT efforts. As for FIs, such enforcement of new Acts can serve as vital information to the company's customer due diligence and Know-Your-Customer (KYC) processes.



Further reading

1. Artificial intelligence (AI) model risk management

<https://www.mas.gov.sg/-/media/mas-media-library/publications/monographs-or-information-paper/imd/2024/information-paper-on-ai-risk-management-final.pdf>

2. Guidelines to MAS Notice 134 on recovery and resolution planning

<https://www.mas.gov.sg/-/media/mas-media-library/regulation/guidelines/id/guidelines-to-mas-notice-134/guidelines-to-mas-notice-134.pdf>

3. Commercialisation of asset tokenisation

<https://www.mas.gov.sg/news/media-releases/2024/mas-announces-plans-to-support-commercialisation-of-asset-tokenisation#1-footnote-1>

4. Good disclosure practices for retail environmental, social and governance (ESG) funds

<https://www.mas.gov.sg/-/media/mas-media-library/publications/monographs-or-information-paper/cfc/2024/information-paper-on-good-disclosure-for-retail-esg-funds.pdf>

5. Notice SFA02-N05 to AEs and RMOs on AML/CFT

<https://www.mas.gov.sg/-/media/mas-media-library/regulation/notices/amld/notice-sfa02-n05/notice-sfa02n05-to-approved-exchanges-and-recognised-market-operators-on-prevention-of-money-launder.pdf>

6. Phased commencement of the Anti-money Laundering and Other Matters Act

<https://www.mha.gov.sg/mediaroom/press-releases/phased-commencement-of-the-anti-money-laundering-and-other-matters-act>



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Any feedback or suggestions?

[Let us know](#) what you think of this edition and what you would like to see in the future, so that we can make this newsletter series more relevant to you.

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