

SFC Key Risk Indicator Survey

A new approach for regulatory oversight of trends in risk and risk mitigation



SFC Key Risk Indicator Survey ("KRI")

In August 2019 the Securities and Futures Commission ("SFC") issued a circular requiring in-scope licensed corporations (LCs) to complete the Key Risk Indicator Survey with data relating to their **business operations, conduct and prudential risk exposure**. Initially, 22 global financial institutions, considered systemically important are in-scope. The SFC's goal is to enhance regulatory oversight by **leveraging Supervisory Technology (SupTech) and data analytics capabilities**. As highlighted in the circular, the scope of data collection will be expanded and additional LCs will be included going forward.



In-scope financial institutions

The **LCs of 22 global financial institutions** (in first batch)



Data submission timeline

The first submission of data to be made on or before **31 Jan 2020**



Data submission frequency

The data is required to be submitted on a **monthly, quarterly** and **annual** basis



Data submission method

Data to be submitted **electronically via WINGS**, SFC's proprietary data submission portal



Impacted entities

LC-level specific data should be distinguished from global or regional level in order to address the SFC's asks



Impacted divisions

Multiple, including Legal, Compliance, Internal Audit, Market Risk, Credit Risk, Operational Risk, Cyber Security and Technology



Key Considerations:

- How are you populating the KRI?
- Where is the data coming from and how do you ensure consistency in what you are reporting?
- Are these reliant on global systems, methodologies and/or process?
- What are you currently doing with this data as part of your governance, supervision and 3LOD control environment?
- What is your overall LC risk trend?
- How do you rank across your peer group?
- Is the information you are submitting accurately capturing the data from all regulated activities conducted in Hong Kong regardless of where the risk positions from the regulated activities are ultimately booked?



Key Risk Indicators - what is your data telling you and the regulator?

Examples:

- Name of counterparties and percentage of total exposure for the top five credit exposures
- Total number of breaches of or exceptions to client-level, counterparty credit risk, liquidity risk and market risk hard limits for the regulated activities (RAs) conducted in Hong Kong
- Total number of operational risk and cybersecurity events related to RAs conducted in Hong Kong and the total amount of losses caused to the LC

Considerations:

- Risk systems need to be configured to report risk on a regulated activity rather than legal entity basis

Examples:

- Number of internal alerts related to non-compliance with internal policy by LRs, particularly on personal account dealing, trader mandate, conflicts of interest, best execution policy and information security
- Disciplinary actions or other actions taken against LRs

Considerations:

- Risk analytics and feedback loop
- Governance and commitment decisions on outliers – compensation committees
- Use of supervisory dashboards internally and integrity of data and reporting
- Rolling bad apples program

Examples:

- Revenue generated from all business lines in the course of conducting RAs in Hong Kong
- Revenue and cost transferred into or out of the LCs
 - Number of risk management and compliance staff covering the RAs conducted in Hong Kong
 - Percentage of risk management and compliance staff on Executive Committee

Considerations:

- Legal Entity footprint considerations, remote booking arrangements and licensing of the various offshore individuals contributing to revenue generation
- Transfer pricing considerations including SLAs
- Use of technology and AI tools to augment compliance / risk coverage factors

Examples:

- Total number of alerts related to non-compliance with anti-money laundering (AML) requirements
- Number of client complaints about LRs or the LCs related to RAs conducted in Hong Kong
- Number of internal whistleblowing incidents related to the RAs conducted in Hong Kong





15 questions to help you assess your readiness for the KRI Survey

01 DATA	<ol style="list-style-type: none"> 1. Are your existing processes ready to comply with KRI requirements? 2. Do you understand how the SFC will analyze and monitor your LC after data submission? 3. Do you know how to correctly use the additional remarks box in your KRI response? 	
02 PROCESS	<ol style="list-style-type: none"> 4. Has gap analysis been conducted to identify which processes need to be enhanced? 5. Have you established a mechanism to regularly review the submission process and monitor future updates of KRI? 6. Do you have controls in place that monitor the data that will be submitted to the SFC? 	
03 TECHNOLOGY	<ol style="list-style-type: none"> 7. Will your systems be ready considering the strict implementation timeline? 8. Have you assessed the impact of KRI related changes on your technology stack and data repositories? 9. Has end-to-end regression testing been performed to the systems impacted? 	
04 PEOPLE	<ol style="list-style-type: none"> 10. Have all impacted stakeholders and senior executives been made aware of requirements and implications? 11. Have you identified who will give the final sign offs for the KRI data submission? 12. Do you have a plan to provide regular training to the impacted stakeholders regarding future KRI updates? 	
05 BUSINESS OPERATION	<ol style="list-style-type: none"> 13. Have you considered that data to be submitted needs to cover all regulated activities conducted by the LC and its licenced representatives in Hong Kong, regardless of where the risk is booked and hence may involve multiple entities due to complex legal entity arrangements? 14. Have you considered cross-divisional efforts that particular KRI data requirements may involve? 15. How will you manage the need to distinguish LC-level from regional or global level? 	



How can KPMG help you?

Understand KRI	Assess impact	Implementation	Review & test
<ul style="list-style-type: none"> Summarize business and technical requirements to support end-to-end KRI data submission flow and regulatory interpretation 	<ul style="list-style-type: none"> Conduct gap analysis to identify the opportunity of uplifting the existing systems and processes in order to meet with KRI data submission requirements 	<ul style="list-style-type: none"> Identify and map business flows and build an end-to-end detailed plan of action based on the results of impact assessment 	<ul style="list-style-type: none"> Perform post-implementation review with a focus on processes, controls, accuracy, timeliness and completeness, of KRI data submission across the end-to-end data validation and submission flow

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Contact us



James O'Callaghan
Partner, IT Advisory
KPMG China
T: +852 2143 8866
E: james.ocallaghan@kpmg.com



Tom Jenkins
Partner, Financial Risk Mgmt.
KPMG China
T: +852 2143 8570
E: tom.jenkins@kpmg.com



Jia Ning Song
Partner, Risk Consulting
KPMG China
T: +852 2978 8101
E: jianing.n.song@kpmg.com



Marie Gervacio
Partner, Risk Consulting
KPMG China
T: +852 2685 7880
E: marie.gervacio@kpmg.com



Susanne Steyn
Director, Risk Consulting
KPMG China
T: +852 2140 2317
E: susanne.stein@kpmg.com



Darren Wan
Associate Director, IT Advisory
KPMG China
T: +852 2826 7127
E: darren.wan@kpmg.com

kpmg.com/cn

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