Boardroom Pulse in the Financial Services Sector

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Contents

Foreword

New trends have emerged with the rapid development of fintech and digital finance. However, financial institutions are facing increasingly complex business and compliance environments. The balance between financial innovation and financial stability has become a key issue against this backdrop. The board of directors, which is at the centre of a financial institution's strategic decision-making, needs to pay attention to this balance. To this end, leading practices have been established for financial institutions to drive innovation in business models, technical processes and financial products and effectively manage risks. These practices include enhancing the construction of digital finance infrastructure and taking advantage of the "regulatory sandbox" so that fintech innovations can be deployed in a safer and more convenient environment.

This Boardroom Pulse publication is intended to help financial institutions' boards monitor changes in the regulatory environment and the market in a timely manner and gain insights into hotspots and emerging risks in the financial sector. This edition of Boardroom Pulse also describes advanced management practices that have been adopted by domestic and foreign financial institutions, and provides suggestions for financial institutions on how to ensure robust operations and continuous development.

The effective performance of the board is key to improving corporate governance

The performance of duties by the board of directors has become a focus for financial institutions and an important compliance target

In recent years, international organizations (e.g. the Basel Committee and the Organisation for Economic Co-operation and Development) and national regulators have issued a number of regulatory principles and requirements pertaining to the performance of duties by the boards of financial institutions. Within this context, relevant stakeholders have higher expectations with regard to the role that the board should play when it comes to important issues such as corporate governance and strategic development.

The *OECD Principles of Corporate Governance* issued by the OECD in 1999 sets out the main roles and responsibilities of the board of directors in financial institutions' corporate governance, and it has became an international standard for global policymakers, investors, companies and other stakeholders when discussing a board's basic responsibilities. In its 2015 revision, the OECD further clarified the key responsibilities of the board of directors and emphasized the importance of the evaluation of the board's activities. In the revised version, the board's responsibilities include:

- Reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
- Monitoring the effectiveness of the company's governance practices and making changes as needed.
- Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
- Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.
- Ensuring a formal and transparent board nomination and election process.
- Monitoring and managing potential conflicts of interest of management, board members and shareholders, including the misuse of corporate assets and abuse in related party transactions.
- Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
- Overseeing the process of disclosure and communications.

From the perspective of domestic regulations, boards are facing an array of performance obligations that require a high degree of professionalism to fulfill. Regulators have been introducing and improving the regulatory requirements for financial institutions' corporate governance, from building a sound corporate governance structure to clarifying the performance requirements and performance evaluation system for boards.

These changes have provided more clarity regarding the requirements on the comprehensiveness of the board's rights and obligations and on the effectiveness of checks and balances. In order to achieve excellent corporate governance, the board must perform its duties efficiently and diligently. In terms of regulatory scrutiny, the performance requirements for the board of directors in risk management can serve as an illustrative example.

As of the end of 2019, among the currently effective regulatory documents issued by major financial regulators such as the People's Bank of China (PBOC), the China Banking and Insurance Regulatory Commission (CBIRC), and the State Administration of Foreign Exchange (SAFE), more than 40 include risk management performance requirements for the board of directors and its relevant committees.

Specifically, these regulations include nearly 200 performance requirements in areas such as enterprise risk management, specific risk stream management, core business operation and risk management. In terms of activities, the performance requirements cover the construction of organizational structures and systems, the formulation of policy systems, the review and approval of basic systems and important strategies, the provision of supervision and guidance on a regular and ad hoc basis, and other tasks.

In summary, as the board fulfills its strategic leadership role, it needs to perform duties that cover multiple areas, such as "establishment and formulation," "review and approval," "day-to-day supervision" and "participation and provision of guidance." As the business and compliance environments become increasingly complex, the boards of financial institutions are facing significant challenges in terms of how to fully meet these performance requirements in a professional manner.

Establishment & formulation	Review & approval	Day-to-day supervision	Participation & provision of guidance
• Set the tone at the top, establish the organization's control environment and governance structure, and assume ultimate responsibility for the organization's management results, including building and promoting corporate culture, management concepts, and values	• Review and approve business and management matters that are beyond management's authority, including major matters related to corporate strategy, business transformation, risk management policies, risk appetite, stress testing, large-scale business transactions, related-party transactions, information disclosure, and other areas	• Supervise and evaluate management's day-to-day activities and how well they are implemented, including management of various risks, capital management, high-risk business operations, and other areas	• Fully understand and actively participate in the organization's high-risk and new development areas, including information technology planning and security management, financial innovation, etc., and use professional capabilities to provide guidance

Boards face many challenges when it comes to performing their duties effectively

Currently, boards often perform inadequately or poorly in areas including top-level strategy and transformation design, regulatory compliance and risk management, finance, business performance and long-term development. They play a very limited role in terms of leadership, and regulatory authorities have imposed administrative penalties as a result of issues related to boards' performance. Boards exhibit performance issues in the following ten respects:

1. **Boards fail to efficiently generate strategic value**: Systems governing the performance of duties by boards have not been implemented in practice. Boards often spend a disproportionate amount of time on low-value tasks such as procedural compliance and budgeting, and fail to perform high-value-added functions (e.g. leading strategic transformations and value-based risk management) in a timely manner.

2. **Inefficient strategy development and decision-making**: Boards find it difficult to design top-level strategic plans due to deficiencies in professional capabilities, the absence of in-depth analysis of business data, and lack of support from external professional service providers.

3. **Difficulties in monitoring and implementing strategies:** The lack of involvement of professionally qualified directors in strategy formulation and implementation leads to problems with monitoring and implementing strategies. In addition, evaluations are not effectively performed on the results of strategic transformation.

4. **Inadequate value mining:** Risk management activities are still carried out with a focus on compliance. "Value-based" comprehensive risk management systems that focus on maximizing risk-adjusted returns have not been established.

5. **Management and monitoring mechanisms are not in place**: Effective reporting and review mechanisms have not been created to link management with those charged with governance, resulting in an inadequate amount of useful information for the decision-making process.

6. **Lack of professionalism and participation**: Directors are not from sufficiently diverse backgrounds and are not equipped with the necessary professional capabilities and industry experience to perform their duties. They are unable to effectively participate in decision-making, management and supervisory activities.

7. **Lack of an effective communication mechanism**: Board meetings are held infrequently and at regular intervals, and the meetings are not able to meet rapidly evolving market needs. This makes it impossible for directors to deeply understand, assess, and monitor market needs and make related decisions.

8. **Unclear governance structure**: Responsibilities are not clearly divided between the board of directors and management, making it impossible to generate synergies.

9. **Outdated information technology:** Boards do not make sufficient use of information technology and do not have sufficient technical support when performing their supervisory functions.

10. Lack of time and energy to perform duties: Directors should have an in-depth understanding of how business activities are implemented. In many cases, they need to expend more time and energy to effectively perform their supervision and management responsibilities.

We performed a thorough analysis of the issues described above, and we have summarized their three root causes:

Root cause 1: The key points of the duties that boards are responsible for have not been comprehensively analyzed and interpreted from a professional perspective, which has led to the boards' ineffective performance.

Clarifying these key points is the first step toward effective performance. The key performance requirements for the boards of Chinese financial institutions are set out in regulatory documents and relevant national laws and regulations. These requirements cover everything from strategic planning, renumeration assessment, related-party transaction management, and risk management to consumer protection, information disclosure and technological development. Without comprehensive analysis and interpretation of the duties set out in regulatory rules, financial institutions may find themselves unable to implement the key aspects of boards' day-to-day management and supervisory tasks. This often leads to ineffective performance, a lack of key decision-making processes, and failure to effectively monitor important matters.

Root cause 2: Boards have not implemented an independent supervisory mechanism; communication channels are not diversified; and boards lack an objective and comprehensive basis for the performance of duties.

An independent supervisory mechanism provides the foundation for a board to effectively perform its duties. In the course of performing its duties, the board of directors in a domestic financial institution can only carry out limited independent research, supervision, and evaluation. In addition, this work is often not very detailed, and it is subject to certain limitations in terms of coverage, depth and independence. Except for executive directors, most directors rely on regular reporting by management to understand the organization's implementation of strategies and operations management. However, board members need access to additional information channels. Boards cannot effectively fulfil their independent supervision and strategic leadership roles if they are performing their duties and making management decisions based on insufficient information.

Root cause 3: Board members do not have sufficient professional expertise, and independent directors have not effectively fulfilled their professional supporting role.

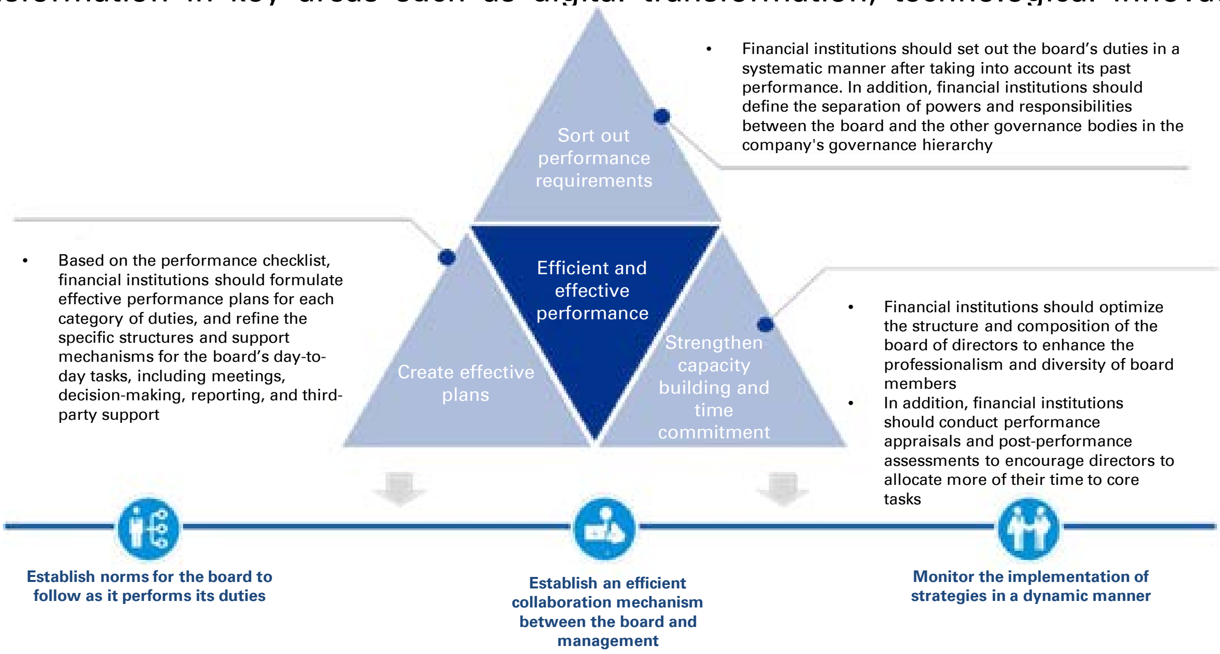
In order for a board to perform effectively, the directors need to have sufficient professional capabilities and be willing to commit significant energy to their duties. Even if a sound mechanism has been established to enable the board to perform its duties and a management reporting mechanism is in place, the board members and special committee members will not be able to effectively perform their review and decision-making duties with respect to important matters if they are not from sufficiently diversified backgrounds and if they do not have the right professional expertise. Under these conditions, the deliberation and decision-making procedures become mere formalities. For example, if board members have a capability deficit in important areas such as strategic transformation, development strategy, and risk appetite, the board cannot play its leadership role effectively.

How should boards perform their duties efficiently and effectively under the New Reality?

With the digital revolution brought about by technological innovation, China's financial services sector will see both opportunities and challenges in the future as economic conditions evolve rapidly both at home and abroad. The boards of financial institutions will no longer be able to respond to the challenges and opportunities that accompany industry changes by merely meeting the minimum requirements for compliance.

Against this backdrop, it is imperative for boards to leverage professional governance mechanisms in order to deepen their participation in business decision-making and strategy implementation. Financial institutions need to establish and consolidate the "three pillars" of effective board performance and create norms for the board to follow as it performs its duties and collaborates with management.

With these tools, the board will be able to effectively play a leading role in top-level decision-making and lead the organization in adopting a forward-looking perspective. In addition, the board will be able to help the institution embrace opportunities and drive transformation in key areas such as digital transformation, technological innovation, risk



Pillar 1: Create a well-rounded performance checklist to ensure that there are no "dead-ends"

Financial institutions should set out the board's duties in a systematic manner after taking into account its past performance. In addition, financial institutions should define the separation of powers and responsibilities between the board and the other governance bodies in the company's governance hierarchy.

They should sort out and produce a checklist of the board's duties based on regulatory rules and based on the goal of ensuring that the board's performance aligns with the institution's long-term sustainable development objectives. They should also classify and interpret the key points of the duties and implement the management measures that are key to the board's performance of duties on a one-by-one basis to ensure that there are no dead-ends and to make the board more effective.

Pillar 2: Establish a performance evaluation system for the board of directors, and formulate clear, detailed and actionable plans for it to follow when performing its duties

Based on the performance checklist, financial institutions should formulate effective performance plans for each category of duties, and refine the specific structures and support mechanisms for the board's day-to-day tasks, including meetings, decision-making, reporting, and third-party support. In addition, they should consider creating a performance evaluation system for the board of directors whereby the board of supervisors or a third-party periodically evaluates whether the board of directors has effectively performed its duties in order to identify areas of concern. Regarding the board's day-to-day tasks:

Meetings and decision-making: Financial institutions should improve the board's organizational structure and decision-making process, establish a collaboration mechanism for decision-making in different areas of expertise, and fully leverage the capabilities of the special committees under the board of directors. The board and its special committees should provide professional opinions only after adequately communicating about the topics that have been submitted to the board. Afterwards, they can meet to decide on and approve these matters. Measures such as these should improve the effectiveness of the board's performance.

Reporting mechanism: Financial institutions should enhance the forms of information that are provided to the board and improve the board's information acquisition and internal communication channels. By maintaining regular communication with management, the internal audit function and the external auditor, directors can gain independent, comprehensive and timely access to management information in various forms, including special subject reports, customized reports, information regarding key matters, and third party surveys. This information can then be used to support decision-making and improve the board's performance.

Third-party support: For important management matters, such as the implementation of strategic transformation, the effectiveness of the comprehensive risk management system, and the impact of emerging risks on the organization, the board of directors and its special committees can hire third-party entities to carry out special evaluations on a regular or as-needed basis. These third parties should report to the board of directors and its special committees. In this way, the board can leverage external professional resources to enhance its ability to perform its duties.

Pillar 3: Strengthen the board's capacity building and time commitment

Capacity building: Financial institutions can supplement the board and its special committees with independent directors that have the necessary industry experience or that have backgrounds in finance, investment, financing, or law so as to enhance the professionalism and diversity of the board members. In addition, regular professional trainings, inspections and studies can be performed to help directors (especially independent directors) understand the organization's operations and risk management in a more timely and in-depth manner.

Time commitment: Depending on whether a board member works full-time or part-time for the organization, performance appraisals and post-performance assessments can be conducted to encourage directors to put more time into their duties and allocate more of their time to core tasks such as strategy discussions, risk management, corporate transformation, and value creation. Measures such as these will help ensure that board members satisfy basic performance requirements such as meeting attendance.

Data governance is the foundation for digital transformation in financial institutions

Data governance is one of the key ways to uncover business value

Data has become one of the most important assets and strategic resources for financial institutions, as well as one of their key factors of production. In the data-driven information age, financial institutions can only maximize their business value by exerting better control over their core business data. By improving control over core business data, they can optimize product management, explore new opportunities in the market, and enhance their own competitiveness. In this way, data governance is key to digging out business value.

Financial institutions' data governance refers to governance of their data assets. Not all the data owned by financial institutions can be categorized under data assets. Only those data resources that involve material commercial interests fall within the scope of data governance. Important data resources can generate significant profits for financial institutions, so these resources are a key component of financial institutions' corporate assets.

Financial institutions' governance of data assets is part of their corporate governance, so issues that commonly appear in corporate governance are also common in data governance. For example, a common issue in corporate governance is that asset owners are almost never the asset operators, and the same goes for data governance. Data assets are also owned and operated by different entities, and the issue of ownership is subject to heated debate.

Similar to corporate governance, data governance needs to be strategically launched in financial institutions in a top-down manner. The roll-out process for data governance is dynamic and involves establishing an organizational structure; clarifying the responsibilities and requirements of the board of directors, the board of supervisors, senior management, and various departments; developing and implementing effective systems, procedures and methods; ensuring centralized data management and efficient data operations; and generating value through business management.

On 21 May 2018, the China Banking and Insurance Regulatory Commission (CBIRC) issued the *Guidelines on Data Governance of Banking Institutions*. These guidelines require banking institutions to include data governance in their scope of corporate governance, and establish a top-down, coordinated and consistent system for data governance. Banking institutions are also required to evaluate corporate governance based on their performance in data governance, and their performance in this regard is even linked to their regulatory ratings.

In a world that is rapidly digitalizing, digital transformation has become a priority for financial institutions, and it is one that they need to address sooner rather than later.

First and foremost, financial institutions need to develop a data strategy before launching their digital transformation. A data strategy defines the vision, purposes, goals and principles that an organization's data work will be based on. The data strategy is the principle that guides an organization as it engages in data activities, and it ensures that a financial institution moves in the right direction in terms of data governance.

A financial institution needs to devise a clear plan when developing its data strategy, i.e. by clarifying its vision and goals for data management. Then, a financial institution needs to ensure that the data strategy is feasible and practical. When planning the implementation path, the institution should determine its strategic tasks based on a gap analysis of the difference between the current status and its vision. Subsequently, quantitative and qualitative measurements should be used to review and evaluate the degree to which the data strategy has been completed.

Data asset stocktaking — data governance preparation

Data asset stocktaking is a key part of the preparatory work for data governance. Data asset stocktaking aims to learn what data assets an entity has. Armed with this information, institutions can then determine which data assets to use and how to use them. When conducting data asset stocktaking, an entity should have four goals: First, sort out key systems and data resources to generate a data asset log. Second, promote data integration, sharing and standardization. Third, analyze data assets' current status and issues for the purposes of data governance and data quality enhancement. Fourth, step up the use of data assets to maximize data value. Data asset stocktaking should be focused on stocktaking, standardization, enhancement and application, as described below:

Stocktaking: When taking stock of its data assets, a financial institution can start with its existing business system and data. Institutions need to answer three questions—"what do we want," "what do we have" and "where are the assets located"—in order to form a framework and log for data assets. The answers to these questions can also help the institution devise a data asset map that covers its entire organization.

Standardization: Financial institutions should, in a target-oriented manner, identify four "compliance gaps" with respect to their data specifications. The four gaps are as follows: Scope gap—identify the data asset gap from the perspective of business value and peer adoption. Standardization gap—determine whether there is any non-compliance with data specifications. Quality gap—determine whether data assets meet quality control requirements. Automation gap—determine whether any data is manually recorded.

Enhancement: Financial institutions should develop a phased plan for data quality enhancement based on the "compliance gaps" and the current status of data management.

Application: Financial institutions should plan and design application models and scenarios in order to fully realize the value of data.

Data specifications — sharing data by breaking down data silos

"Data specifications" refers to the development of standards and requirements that are customized for the specific types of data that a financial institution has. Similar to a dictionary, data specifications clearly identify and define data so that people from different fields can understand concepts in the same way. In this way, data specifications serve as a basis for effective communication. Data specifications are similar to traffic rules in that they minimize clashes and conflicts between data and promote the interaction, integration and application of data. A unified and standard system for all data provides the foundation for data sharing and application.

Currently, most financial institutions still face issues related to "system silos." This term refers to systems that support business operations in an isolated manner, where there is little interaction between the systems except for some necessary functional interaction. System silos represent a significant barrier to realizing the full value of data. To address this issue, financial institutions need to build a centralized platform to summarize and consolidate data.

Financial institutions can mitigate their lack of data specifications in two ways:

First, financial institutions should develop centralized and authoritative data specifications, i.e. data standards. Data standards define data classifications, data standard names, business definitions, value ranges, data types, data lengths and the departments that are responsible for defining data based on three attributes: business attributes, technical attributes and management attributes. In this way, data standards clarify "what data should be."

Second, financial institutions should apply data standards when developing their systems to ensure that the data generated by the new systems complies with the requirements of data specifications. This process includes three stages:
- Data requirements stage: review whether data requirements comply with data standards;
- System design and development stage: ensure strict compliance with data standards when designing and developing systems;
- Testing stage: conduct data specification testing to test the implementation of the data specifications. By ensuring control over technical processes as described above, financial institutions can ensure that the data in their newly built systems complies with data specifications. For data that does not comply with data standards in existing systems, financial institutions should promptly re-engineer their systems in order to implement data standards across their systems and ensure that the new data that is generated by the existing systems is compliant. Existing data should be rectified as required.

Building three lines of defense for data governance and establishing closed-loop control

The "three lines of defense for data governance" provide the organizational structure that enables comprehensive and systematic data management. The "three lines of defense" are increasingly recognized by leading financial institutions as a best practice for data governance.

The first of the "three lines of defense" is the business management line. This line is responsible for conducting data governance in the different areas of business management in order to control data sources. The business management line is also responsible for the development, implementation, daily review and continuous improvement of relevant business systems, and for managing data sources within different business areas to control data quality.

In addition, business management is responsible for meeting the requirements of data governance, and for collecting data issues and data requirements across various business management lines. Finally, this line is responsible for dynamically adjusting the systems, processes and data controls, and for providing recommendations to improve the data governance system and data management.

The second line of defense is the data governance and management line. This line is responsible for building the data governance system, and for coordinating and implementing data management mechanisms. This line is also responsible for developing and implementing the systems, processes and approaches for designing, managing, controlling, guiding and overseeing frontline functions, with the goal of achieving centralized data management and effective data operations. Furthermore, this line is responsible for promoting the role of data in financial institutions' business operations and management. The second line of defense also identifies, measures, monitors and controls risks in data governance and management. Finally, this line integrates data governance into business processes, product innovation and daily management in order to enhance the penetration of data risk control.

The third line of defense is the audit supervision line. Audit supervision aims to achieve the financial institution's business goals and data strategy; enhance data-oriented internal audit and inspection; and examine key business and management areas to disclose material data issues that violate laws and regulations and pose significant data risks. In addition, this line re-evaluates the data governance status of the financial institution. The third line of defense also re-evaluates and monitors the management measures implemented by the first and second lines of defense, as well as the effects of those measures. The personnel who are in charge of the third line of defense should provide independent recommendations and report to the board of directors and senior management. In this way, the third line of defense can establish a continuous rectification and tracking mechanism and more effectively leverage audit findings.

For the "three lines of defense for data governance" to be effective, the functions and personnel in the financial institution's front, middle and back offices need to work together as one team across the three lines by taking up their respective responsibilities, communicating and interacting effectively, and sharing information with each other. They also should be assigned a reasonable scope of work. In this way, the three lines can evolve into an effective and comprehensive data governance system, enhance the level of data management, and fully realize the value of data.

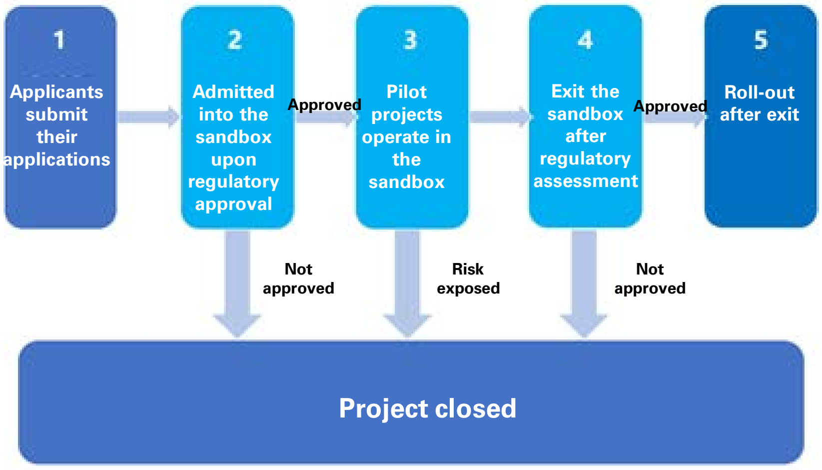
The roles and responsibilities of the board of directors, the board of supervisors, senior management, and various departments should be made clear so that the "three lines of defense" structure effectively spans and connects multiple organisational levels. As the highest decision-making body for data governance, the board of directors assumes the ultimate responsibility for data governance. Senior management should be responsible for constructing the data governance system, formulating and implementing an accountability and incentive mechanism, evaluating the effectiveness and implementation of data governance, ensuring resources are allocated to data governance and reporting to the board of directors on a regular basis. Lastly, a data governance committee and chief data officer (CDO) position should be established under the board of directors or senior management to approve the data strategy and any other material issues related to data governance.

In addition to robust management systems and processes, financial institutions also need technical data control tools to support daily data governance and management operations and enhance asset management and data operations. Currently, the trend across different industries is to apply visualization, self-service analytics, intelligent technologies, micro-service architecture, and cloud computing in data control; and financial institutions can borrow from their experiences in this regard.

The rise of regulatory sandboxes in China

The birth of the “regulatory sandbox” and its development in China

The idea of a “regulatory sandbox” was first put forward by the UK's Government Office for Science (GO-Science) in March 2015. The regulatory sandbox aims to provide a safe and controlled environment for financial services innovators to experiment with their products, services and business models without regulatory consequences. Essentially, a regulatory sandbox is a privilege granted by the government to fintech enterprises. In the regulatory sandbox, enterprises are given significant flexibility and room to innovate, and they are subject to minimal regulation. At the same time, there is no risk to consumer interests. The regulatory sandbox operates as shown below. It features a complete set of processes for entry, operation and exit; and tests can be terminated if a project fails to pass the audit and when risks are exposed.

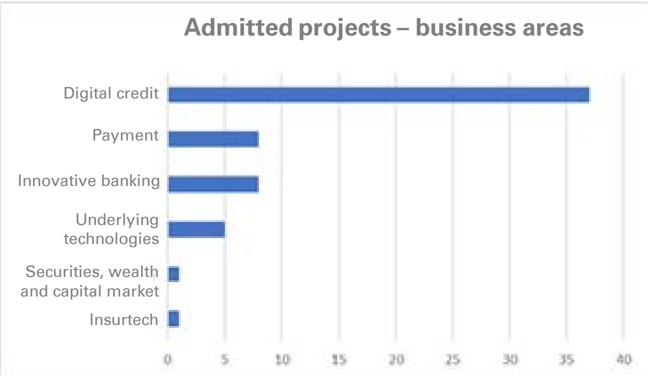


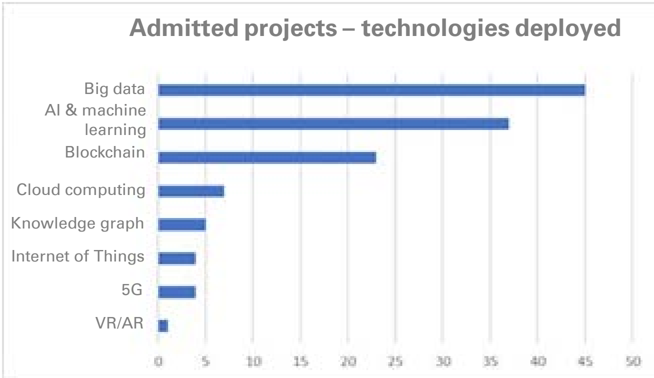
Since the UK's Financial Conduct Authority formally launched its regulatory sandbox in May 2016, many other countries and regions have borrowed the concept and incorporated it into their own fintech development strategies, resulting in the emergence of a number of high-quality localized regulatory sandboxes. In December 2019, the People’s Bank of China (PBOC) formally launched a pilot program for the regulation of fintech innovation, and the introduction of China's version of the regulatory sandbox was a part of this effort.

As of 30 September 2020, the nine pilot cities and areas of Beijing, Shanghai, Shenzhen, Chongqing, Suzhou, Hangzhou, Xiong’an New Area, Chengdu and Guangzhou had released a list of 60 projects that had been admitted into the regulatory sandbox, along with their application documents. The information in the admitted projects’ application documents mainly includes: the project's basic information; information regarding the services offered by the project; assessments of legal and regulatory compliance and technical security; a description of risk prevention, control and rectification measures; a description of the project's complaint response mechanism, and other items.

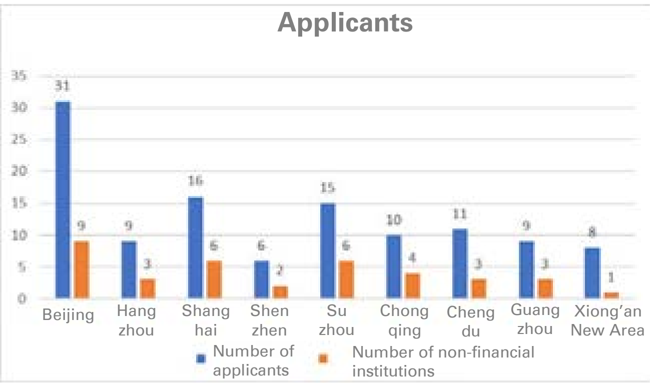
So far, the cities selected for the pilot program have mainly been municipalities directly under the central government and regions where the economy and the financial industry are more developed. According to the 3-year *Fintech Development Plan* released by the PBOC, in the future most provincial capitals and municipalities directly under the central government will be added to the list of pilot cities, and then projects will migrate from the pilot regions to areas where projects or cutting-edge technologies are clustered.

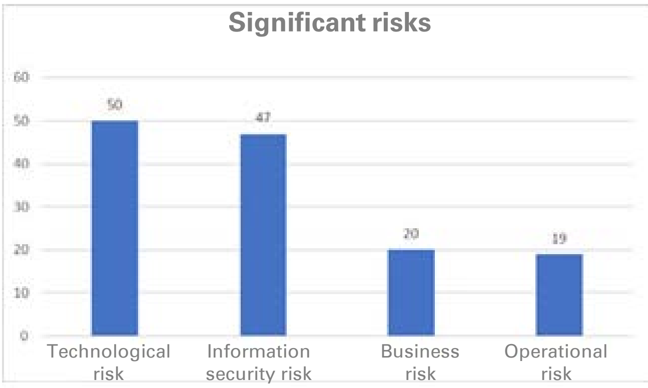
In terms of business areas and technologies, the admitted projects are mainly engaged in banking-related businesses, such as digital credit, payment and innovative banking. The technologies deployed by the projects, such as big data and artificial intelligence (AI), are relatively mature. These technologies are being widely applied in banking and other related industries. The projects' fintech innovations and the technologies applied by the projects may change as the technologies evolve, and more technologies will be applied as time goes on.





Most of the applicants are existing licensed financial institutions. In addition, some applications were jointly submitted by non-financial institutions in conjunction with financial institutions operating in the related business areas. Among the financial institutions that submitted applications, over 75 percent are banking corporations, including large state-owned banks, commercial banks and city commercial banks. Fintech enterprises are still the leading force for technological innovation. For this reason, financial institutions should actively work with and learn from external fintech enterprises and other entities in the fintech ecosystem to accelerate technological innovation and strengthen their own innovation and development capabilities.





At present, the risks faced by the admitted projects include technological risk, information security risk, business risk and operational risk. Nearly 50 projects sent reminders of technological risk and information security risk along with their applications. Though technologies such as big data are quite developed nowadays, their application in actual business scenarios should be handled with care. The technologies deployed by the admitted projects are highly concentrated in the areas of big data and AI, and the huge amount of data acquired and generated during the use of these technologies gives rise to issues related to information security. Compared to business risk and operational risk, the two technology-related risks have garnered more attention in the regulatory sandbox's project selection process.

The role of the regulatory sandbox in the financial ecosystem

In the future, the regulatory sandbox will become an important setting for interaction between participants in the financial ecosystem, and it will help strike a balance between innovation and regulation. In this ecosystem, governments, regulators, enterprises and professional firms are playing an increasingly important role, and there is a growing demand for feedback and countermeasures. By interacting in the regulatory sandbox, ecosystem participants can work together to meet this demand.

Local governments may see the regulatory sandbox pilot program as a way to stimulate local innovation and economic development. It should be noted that a city's inclusion into the regulatory sandbox program is not the end goal, but a natural outcome once the city's fintech ecosystem has reached a certain stage of development. To this end, local governments are accelerating their deployment of financial technologies and making efforts to cultivate innovative enterprises in order to open up their markets and step up internationalization. In addition, they are working to strengthen their fintech infrastructure to foster the growth of fintech brands and representative projects for their cities.

From a supervisory perspective, regulators are focusing on “driving innovations by technology demonstration” and “mitigating financial and technological risks through information transparency and protection.” Regulators should effectively communicate with and guide the applicants, develop regtech, and strengthen technological and information security management and protection.

On the other hand, applicants should understand their own responsibilities, enhance the effectiveness of their communication with regulators, strengthen their protection of financial information to prevent and control financial risks, and construct a system to monitor technological risk and enable more effective risk responses.

Professional service providers are positioned at the forefront of the market, and they have extensive customer resources. For these reasons, they are well-positioned to provide in-depth insights and multi-disciplinary solutions, and they can help establish a platform for professional cooperation and communication. Working closely with intermediaries can significantly increase operational efficiency and help drive better results for all parties involved.

Contact us:

Honson To
Chairman of KPMG China and Asia Pacific
honson.to@kpmg.com

Tony Cheung
Head of Financial Services Advisory,
KPMG China
tony.cheung@kpmg.com

Thomas Chan
Head of Financial Services Assurance,
KPMG China
thomas.chan@kpmg.com

Jessica Xu
Head of Governance and Risk Advisory Services,
Financial Services,
KPMG China
jessica.xu@kpmg.com

Felix Chen
Data Governance Lead Partner,
KPMG China
felix.chen@kpmg.com

Andrew Huang
Fintech Lead Partner,
KPMG China
andrew.huang@kpmg.com

Medivh Luo
Director of Governance and Risk Advisory Services,
KPMG China
medivh.luo@kpmg.com

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