

# Financial industry internal audit Regulatory policy and activities in Mainland China and Hong Kong - Q1 2025

10 April 2025

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The better the question.  
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In Q1 2025, the financial industry continued to face a complex and volatile economic environment, along with increasingly stringent regulatory requirements. Internal audit plays a key role in risk prevention, ensuring stable business operations and compliance for financial institutions.

This article aims to provide insights and highlights on regulatory requirements and focuses related to internal audits in the financial industry in the Mainland China and Hong Kong. It also covers the activities of international and Chinese internal audit associations in Q1 2025, providing a point of reference for chief audit executives and internal audit teams.

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## Mainland China financial industry regulations

### Main topics of internal audit related regulations:

- Regulatory rating on insurance companies
- Regulatory rating on financial leasing companies
- Risk prevention and oversight management on trust companies
- Micro-lending companies management
- Green finance
- Personal information protection compliance audit
- Insurance concentration risk
- Derivatives trading business
- Agency sales business of commercial banks
- Corporate governance
- Securities companies risk management
- Product suitability management

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## Mainland China financial industry regulatory enforcements and internal audit focus

### Major areas:

- Corporate governance and internal control (Overall financial industry)
- Anti-money laundering (Overall financial industry)
- Loan and credit business (Banking)
- Investment banking and sponsorship business (Securities)

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## Hong Kong financial industry regulatory updates

### Regulations and regulatory activities:

- Protection of Critical Infrastructure (computer systems) Bill
- Stablecoins Bill
- Proposed enhancements to the Banking Ordinance
- Good industry practices for implementing operational resilience framework
- Roadmap for global virtual asset hub

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## Hong Kong financial industry enforcements

### Major areas:

- Misconduct in selling practices of investment products
- Internal control failures over securities margin financing

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# 1. Mainland China financial industry regulations

In Q1 2025, regulators continued to improve the regulatory framework, in accordance with the spirit of the Central Economic Work Conference and the National Financial System Work Conference. The State Council, Cyberspace Administration of China, National Financial Regulatory Administration (NFRA), People's Bank of China (PBOC), China Securities Regulatory Commission (CSRC), Securities Association of China (SAC), China Futures Association (CFA) and other regulators and self-regulatory organizations have issued new regulations or self-regulatory rules for banking and insurance, securities, futures, trusts, financial leasing and other sectors.

Key regulations related to internal audit as well as matters that internal audit need focus on in Mainland China are shown as below:



## Regulatory rating on insurance companies

- In January, the NFRA issued the *Measures for the Regulatory Rating of Insurance Companies*, to strengthen differentiated regulatory supervision on insurance companies, allocate supervisory resources appropriately, and drive high-quality development within the insurance sector. These measures clarify rating indicators and methodology, establish regulatory rating levels, and outline principles for differentiated supervision. The document clearly states that insurance companies are accountable for the authenticity and accuracy of the data and information they provide, and any feedbacks from regulators should be reported to the Board of Directors (BOD) and senior management in a timely manner. The areas covered by regulatory rating are also key points that need to be highlighted during internal audit work.



## Regulatory rating on financial leasing companies

- In January, the NFRA issued the *Measures for the Regulatory Rating of Financial Leasing Companies*, to optimize original rating mechanism, rationally allocate regulatory resources, effectively implement differentiated regulatory supervision and promote high-quality development of financial leasing companies. The main revisions cover the appropriate adjustment on rating indicators, optimization of regulatory rating levels, and clarification on application of rating results and actions, which need be focused during internal audit work.



## Risk prevention and oversight management on trust companies

- In January, the State Council forwarded the *Several Opinions on Strengthening Regulation, Preventing Risks, and Promoting the High-quality Development of the Trust Sector* issued by the NFRA, to further strengthen ongoing and end-to-end process supervision, prevent and mitigate risk, jointly promote standardized development of the trust industry. The document clarifies supervision on market entry for trust companies, differentiated supervision and on-site inspections, etc., and emphasizes early warning and assessment on risks and improvement of triggering condition and implementation process for early intervention, etc. It provides reference for the risk assessment during internal audits.



## Micro-lending companies management

- In January, the NFRA issued the *Interim Administrative Measures for the Supervision on Micro-lending Companies*, which further strengthen regulatory regime framework for micro-lending companies, refine micro-lending business operating standards, clarify scope of business and requirements on loan concentration ratio for micro-lending companies, enhance consumer rights and interests protection, define exit mechanism and supervision. These measures emphasize corporate governance and risk management, including but not limited to corporate governance structure, asset risk classification and risk reserve, capital management, related-party transactions management, cooperating institution management, information security, anti-money laundering and anti-terrorist financing, etc., which are all key areas for internal audit work.



## Green finance

- In January, the NFRA issued the *Implementation Plan for the High-quality Development of Green Finance in the Banking and Insurance Sectors*, to guide the banking and insurance industry to develop green finance, increase support for the green, low-carbon and circular economy, prevent environmental, social and governance risks, and improve environmental, social and governance performance. The document provides guidelines for banks and insurance companies to improve the green finance, support the development of green and low-carbon industries and green financial products and services, and strengthen risk management. Internal audit needs to understand the abovementioned implementation plan details during the green finance related audits.



## Personal information protection compliance audit

- In February, the Cyberspace Administration of China issued the *Administrative Measures for Personal Information Protection Compliance Audits*, which aims to regulate the activities of compliance audit of personal information protection and to protect the rights and interests of personal information, main aspects of detailed requirements shown below:
  - Obligations of personal information processors in compliance audits
  - Obligations of professional organizations in compliance audits
  - Selection of compliance audit organizations
  - compliance audit activities and reporting
  - Frequency of compliance audits
  - Supervision and management
  - Legal accountability for Violation of Regulations
- In addition, the *Guidelines for Compliance Audit of Personal Information Protection* as annex clarifies the key focus and matters of personal information protection compliance audit, as the reference for conducting personal information protection compliance audit.



## Insurance concentration risk

- In February, to further enhance the risk management and promote stable operation of insurance group, the NFRA issued the *Regulatory Guidelines on Concentration Risk of Insurance Groups*, which clarifies the principles of concentration risk management, development of risk management system, policies and procedures, system and reporting, etc.
- Specifically, the document requires insurance group to incorporate concentration risk management in the scope of internal audit oversight and management, and to carry out internal audit at least once a year to supervise the implementation of the concentration risk management and evaluate the operation and effect of concentration risk management.



## Derivatives trading business

- In February, in order to further strengthen self-discipline management of derivatives trading business in the futures industry, the CFA issued and implemented the *Administrative Rules for Derivatives Trading Business of Futures Risk Management Companies*, which puts forward requirements in terms of trader suitability, transaction management, underlying management, performance guarantee management, internal management and code of conduct, etc.
- The document clearly states that futures risk management companies shall submit audit report on internal control of derivatives trading business within four months from the end of each year in accordance with the requirements of the association. The information reported by the futures risk management companies to the regulator should be authentic, accurate and complete.



## Agency sales business of commercial bank

- In March, the NFRA issued the *Administrative Measures for Commercial Banks' Agency Sales Business* to enhance supervision and management on agency sales business of commercial banks, which regulates the management of cooperating institutions, admission of agency sales products, sales behavior and sales channels.
- The document clearly requires that internal audit, internal control, compliance and business departments should establish and effectively implement internal supervision and rectification mechanism for agency sales business in accordance with correspondent responsibilities.



## Corporate governance

- In March, in order to implement the new *Company Law of the People's Republic of China (Revised in 2023)*, the CSRC issued the *Decision on Amending Some Securities and Futures Regulations and Rules* and the *Decision on Revising and Repealing Certain Securities and Futures Regulatory Documents*, amending 86 documents and repealing 2 documents, and published the amended guidelines on articles of association of listed companies, with following key adjustments related to audit committee and internal audit:
  - Listed companies will no longer establish supervisory boards, audit committee will take over the role and functions of the supervisory board. Rules of procedure for audit committee will be adjusted accordingly.
  - The New *Guideline on Articles of Association of Listed Companies* provide detailed requirements on internal audit, including but not limited to the scope of responsibilities of the internal audit, independence, reporting procedure, internal control assessment and relationship with the external audit, and stipulates that internal audit procedure shall be disclosed after approval by the board.
  - The New *Guideline on Articles of Association of Listed Companies* explicitly requires that audit committee to participate in the performance assessment on head of internal audit.
  - Non-listed public companies and fund management companies shall select the audit committee or supervisory board as the internal oversight body in accordance with the law.



## Securities companies risk management

- In March, the SAC issued the *Regulations for Enterprise Risk Management of Securities Companies (Revised)* and *Guidelines for Market Risk Management of Securities Companies*, to further improve the development of enterprise risk management of the securities industry, and to strengthen and standardize the market risk management of securities companies. Following requirements related to internal audit and audit committee are explicitly stated:
  - Securities companies should incorporate enterprise risk management (ERM) into internal audit scope. Internal audit department shall regularly conduct independent and objective review and assessment on the adequacy and effectiveness of ERM, perform evaluation on culture establishment and development results. The internal audit on ERM should be conducted at least once every three years. For identified issues, internal audit should facilitate rectification by relevant departments and keep track on the implementation of the rectification.
  - Securities companies should incorporate market risk management in the scope of internal audit, and conduct independent and objective review and assessment on the adequacy and effectiveness of market risk management. For identified issues, internal audit should facilitate rectification by relevant departments and keep track on the implementation of the rectification.
  - Where a securities company has not established a supervisory board, 1) the supervisors exercising the authority of the supervisory board or 2) audit committee under board of directors shall assume the supervisory responsibility for enterprise risk management and market risk management.




## Product suitability management

- In March, in order to regulate the suitability management of financial institution products and protect customers' legitimate rights and interests, the NFRA solicited public opinions on the *Measures for the Suitability Management of Financial Institution Products (Draft for Comments)*. These measures regulate obligations of financial institutions for end-to-end process of suitability management, including but not limited to establishment of policies, procedures and systems, personnel qualification management and training, customer rights protection, customer information collection and assessment, customer information protection, suitability match, special protection and prohibited behaviors, etc. The document also states differentiated and dynamic management of investment products and insurance products, strengthen the regulatory supervision on financial institutions. Internal audit should continuously focus on the Measures for preparation of new regulatory requirements in advance, and take these measures as reference during suitability management related audit work.

## 2. Mainland China financial industry regulatory enforcements and internal audit focus

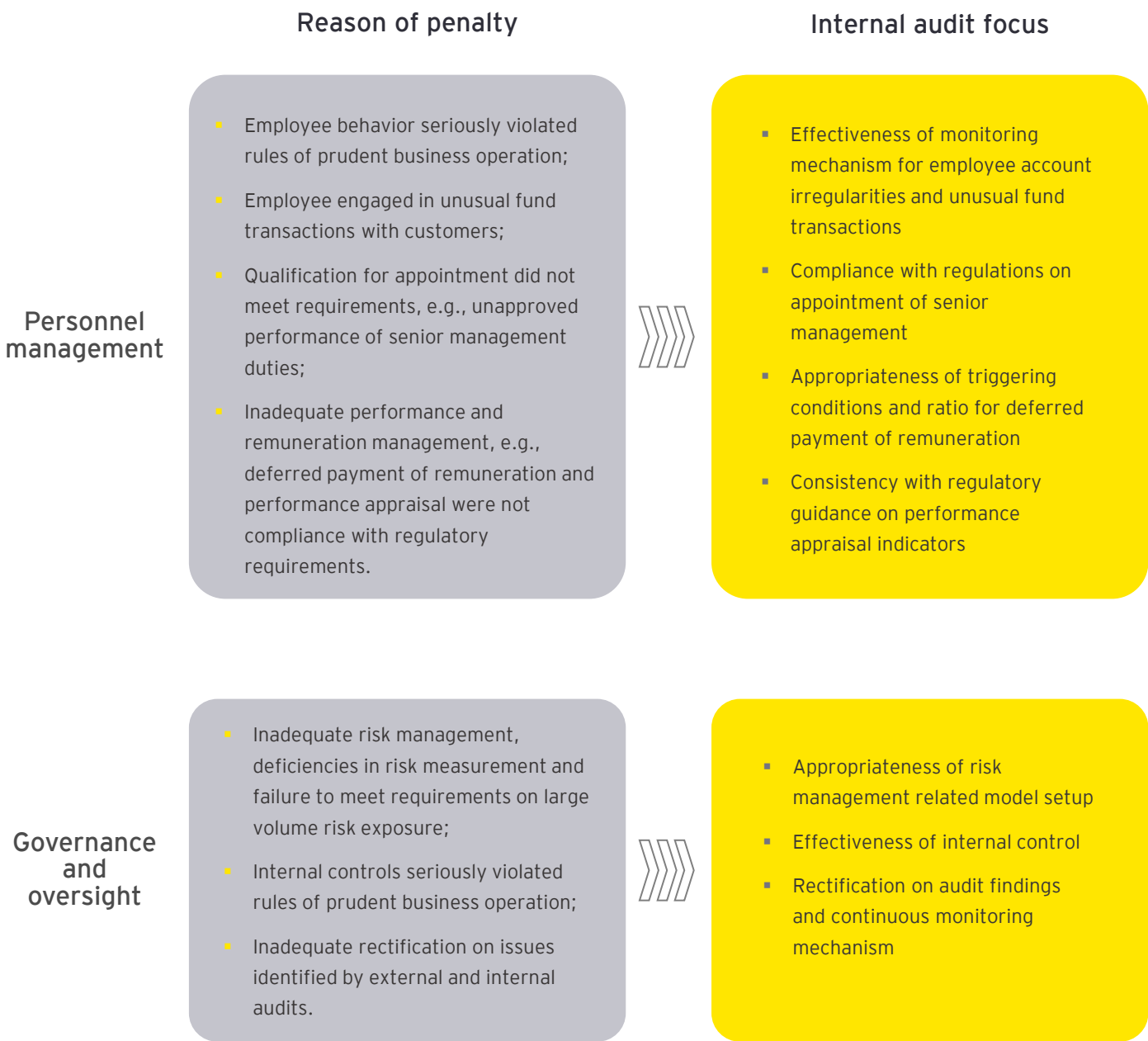
In Q1 2025, regulators have issued multiple penalties against banks, insurance and securities companies, with main areas covering corporate governance and internal controls, anti-money laundering, loan and credit business and investment banking and sponsorship business, which need to be focused on during internal audit activities in 2025:



### Corporate governance and internal control

(Overall financial industry)

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## Anti-money laundering (Overall financial industry)



## Loan and credit business (Banking)



## Investment banking and sponsorship business (Securities)

### Reason of penalty

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"> <li>■ Inadequate Customer Identification, such as failure to fulfill customer identification obligation in accordance with regulations, failure to carry out re-identification, transaction with customers with unclear identity, failure to conduct enhanced due diligence for high-risk customers according to regulations</li> <li>■ Ineffective transaction monitoring and reporting mechanism, e.g., did not report STR as per regulations, reasons recorded during manual analysis on suspicious transactions were not justified, risk monitoring system could not timely take effective measures for suspicious transactions, etc.</li> <li>■ Record retention did not fully meet regulatory requirements, e.g., transaction information was not authentic, complete and traceable, and failure to keep customer information and transaction records</li> </ul> | <ul style="list-style-type: none"> <li>■ Inadequate implementation of unified credit, such as failure to carry out unified credit management on group customers, and asset pooling and discounting business were not incorporated into unified credit management</li> <li>■ Lack of due diligence in investigation of fixed asset loans, lack of prudent assessment on loan demand, and lack of post-loan management</li> <li>■ Ineffective capital management, such as inadequate personal loan payment management and control, failure to manage the loan payment as per regulations, credit and loan capital held in borrower's account for long period</li> <li>■ Non-compliance on risk management, such as inaccurate loan risk classification, unauthorized transfer of non-performing assets, and funds received from irregular loan disbursements</li> </ul> | <ul style="list-style-type: none"> <li>■ Inadequate verification on document and document forgery, e.g., false records were found in issuance sponsorship letter and application form for Listing on the Growth Enterprise Market, lack of strict quality control on due diligence working papers of investment projects</li> <li>■ Failure on due diligence, e.g., did not perform prudent verification on internal control processes, procurement contracts, subscription qualifications, etc.</li> <li>■ Failure to follow up on and implement the comments of the investment banking internal audit department, noncompliance of submission process for investment projects materials and comments</li> </ul> |
|---|---|---|

### Internal audit focus

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|---|--|---|
| <ul style="list-style-type: none"> <li>■ Timeliness and effectiveness of customer re-identification</li> <li>■ Enhanced due diligence for high-risk customers</li> <li>■ Timeliness and completeness of STR reporting</li> <li>■ Process of disposing suspicious transactions and documentation</li> <li>■ Development of suspicious transaction monitoring system and model effectiveness</li> <li>■ Traceability and compliance of retention period for customer and transaction information</li> </ul> | <ul style="list-style-type: none"> <li>■ Standardization of customer loan and credit process, and completeness of business credit coverage</li> <li>■ Monitoring of capital flow and track on usage of capital</li> <li>■ Monitoring on abnormal behavior for account with detained credit funds</li> <li>■ Consistency and accuracy of the five-level classification standards for loans</li> </ul> | <ul style="list-style-type: none"> <li>■ Implementation effectiveness of specific review on investment banking documents</li> <li>■ Verification on authenticity of documents provided by customer</li> <li>■ Track and implementation of rectification actions related to internal audit opinions</li> </ul> |
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### 3. Hong Kong financial industry regulatory updates

#### Hong Kong regulation



##### Protection of critical infrastructures (computer systems) Bill

- The Hong Kong Government has published the Government Gazette (No. 49, Vol. 28) related to the Protection of Critical Infrastructures (Computer Systems) Bill in December 2024.
- The Bill imposes cybersecurity requirements on pieces of critical Hong Kong infrastructure including certain aspects of financial market infrastructure, which aims to ensure the resilience and protection of essential services from cyber threats. It recognizes the growing reliance on technology and the need for protections that adapt to an evolving threat landscape.
- The Bill covers the definition of critical infrastructure, cybersecurity requirements, incident reporting requirements, emergency response plans, etc.
- The bill has been passed on 19 Mar 2025 and will take effect on 1 Jan 2026.



##### Stablecoin Bill

- The Hong Kong Government has published the Government Gazette (No. 49, Vol. 28) related to the Stablecoin Bill in December 2024.
- The Bill creates licensing regimes for stablecoins, their issuers and others involved in their creation chain, which aims to ensure a balanced approach between fostering innovation in the cryptocurrency space and safeguarding financial stability.
- The Bill covers the definition and classification of stablecoins, licensing requirements for entities issuing or operating stablecoins, requirement on appointment of a stablecoin manager, customer protection measures, etc.
- The Bill is currently under the examination of the Bills Committee on Stablecoins Bill of the LegCo.

#### Hong Kong Monetary Authority (HKMA)



##### Consultation paper on proposed enhancements to the Banking Ordinance (Cap.155)

- The HKMA consultation on the proposed enhancements to the Banking Ordinance and other legislation to ensure resilient and robust banking system was closed on 28 January 2025.
- The proposed enhancements include the following:
  - establishing a statutory regime for the HKMA to exercise direct regulatory and supervisory powers over designated locally incorporated holding companies of locally incorporated authorized institutions (AIs);
  - allowing flexibility for the HKMA to engage skilled persons on a case-by-case basis, where appropriate, for assisting the MA in the performance of his functions under the Banking Ordinance; and
  - introducing a number of technical amendments for addressing operational issues, streamlining the regulatory and supervisory processes, reducing compliance burdens faced by AIs, continuing the process of aligning the system of regulation in Hong Kong with that of other major financial centers, and to better reflect the policy intent.
- The consultation paper also includes proposed amendments to the Financial Institutions (Resolution) Ordinance (Cap. 628) and the Hong Kong Association of Banks Ordinance (Cap. 364).



## Good industry practices for implementing operational resilience framework

- The HKMA has issued a circular on the sharing of good industry practices for implementing operational resilience framework in accordance with Supervisory Policy Manual module OR-2 by May 2026.
- Currently, most AIs are now in the second critical stage of their operational resilience implementation, namely the mapping and scenario testing exercises. These exercises enable AIs to identify vulnerabilities and dependencies of each critical operation, thereby facilitating effective remediation.
- The suggested good industry practices include the following:
  - Governance: ensure effective oversight of implementation of operational resilience framework;
  - Mapping: (i) define the start and end points of a critical operation, (ii) adopt appropriate tools to construct a comprehensive map, (iii) identify vulnerabilities taking a risk-based approach in the end-to-end map, (iv) establish trigger events for revisiting the map, and (v) access to mapping documentations;
  - Scenario testing: (i) establish an effective test plan with clear objectives, (ii) adopt an outcome-based testing approach, (iii) design dynamic and stressful testing scenarios to simulate potential disruptions, (iv) engage appropriate stakeholders in the testing exercise, and (v) evaluate testing results to identify areas for improvement and refine testing approach to enhance effectiveness; and
- Remediation of vulnerabilities: (i) manage vulnerabilities for remediation, and (ii) derive suitable remediation strategy.

## Securities and Futures Commission (SFC)



### Roadmap to a Global Virtual Asset (VA) Hub

- The SFC set out a new roadmap to develop Hong Kong as a global virtual asset hub in February 2025. The roadmap outlined 12 major initiatives to enhance the security, innovation and growth of Hong Kong's VA market under a five-pillar "ASPIRe" roadmap, which stands for Access, Safeguards, Products, Infrastructure and Relationships.
- The initiatives will streamline access for global liquidity, enable adaptive compliance and product frameworks focusing on security, and drive infrastructure upgrades for traditional finance to tap into blockchain efficiency.
- Under the roadmap, new frameworks for regulating VA over-the-counter and VA custodian services will be developed, while VA product and service offerings will be expanded. Other measures encompass optimisation of operational requirements for VA trading platforms, combatting illicit activities, investor education and proactive stakeholder engagement.

## 4. Hong Kong financial industry enforcements

### SFC

#### Misconduct in selling practices of investment products

The main reasons for the SFC's enforcements on banking include violation of regulations on bank's sale of collective investment schemes (CIS) and derivative products and overcharging its clients and making inadequate disclosure of monetary benefits to them.

- Sales practices in relation to CIS - the trading pattern of excessively frequent transactions with short holding periods contradicted both the funds' investment objectives and the clients' preferred investment horizons. The frequent trades in CIS products resulted in significant transaction costs borne by the clients, which greatly affected their overall profit and loss. In addition, internal controls were also deficient with inadequate supervision and monitoring of the sale of CIS to its clients.
- Sale and distribution of derivative products - clients who were not characterized by the bank as having knowledge of the nature and risks of derivatives purchased derivative funds, and some of transactions involved products whose risk level was higher than the clients' risk tolerance level.
- Overcharging and inadequate disclosure of monetary benefits - (i) retained monetary benefits from client transactions in circumstances where it should not have done so under applicable regulatory standards, (ii) charged its clients transaction fees beyond amounts previously communicated to them, and (iii) failed to adequately disclose trailer fee arrangements to clients trading in investment funds.



## Internal control failures over securities margin financing

The main reasons for the SFC's enforcements on Securities companies include inadequate internal controls, deficiencies in the company's risk management controls and practices over securities margin financing, for instance:

- Provided financial accommodation to margin clients who had long outstanding margin shortfalls and poor history of settling margin calls;
- Failed to implement prudent measures to manage the risks involved;
- Failed to set triggers for stopping further securities purchases by margin clients with insufficient account equity;
- Did not effectively manage margin calls and/or exercise forced liquidation on margin clients and document the explanation for deviation from its margin lending and margin call policy;
- Failed to properly manage its margin clients' credit limits; and
- Failed to promptly collect margin due by clients.

## 5. International internal audit activities updates

### Institute of Internal Auditors (IIA) issued the *Cybersecurity Topical Requirements*

The IIA released the *Cybersecurity Topical Requirements* on 5 February, 2025, which incorporated feedbacks from practitioners and stakeholders around the world and provides a foundational approach for assessment on the design and implementation of cybersecurity governance, risk management and control process. The document outlines key matters and factors to be considered during the internal audit on cybersecurity.



#### Cybersecurity governance

##### Strategic plan and objective

- Develop and regularly update a formal and written cybersecurity strategic plan and objective, and report regularly on implementation.

##### Policies and procedures

- Develop and regularly review and update cybersecurity-related policies and procedures based on cybersecurity risk.

##### Governance roles and responsibilities

- Clarify and perform regular assessment on roles and responsibilities and qualifications requirements, ensure independency and adequate resource for cybersecurity audit.

##### Stakeholder engagement

- Stakeholders (senior management, operations, risk management, human resources, legal compliance, vendors, etc.) are involved in cybersecurity risk management and actions.



#### Cybersecurity risk assessment and management

##### Cybersecurity risk identification, assessment and reporting

- Develop process of Assessment and management on cybersecurity risks, including but not limited to identifying, analyzing, mitigating and continuously monitoring cybersecurity threats and analyzing the impact on the achievement of strategic objectives.
- Define reporting process, including but not limited to different reporting procedure in accordance with different risk level, impact and mitigation measures.
- Determine the management by individuals or teams of regularly monitoring and reporting on cybersecurity risks as well as resources required to mitigate risks and identify emerging cybersecurity threats.

##### Development and drills of incident response plan

- Update incident response and recovery plan based on business change, including but not limited to identification and reporting, action and recovery, event analysis.
- Conduct regular testing and drills, report results and follow-up actions.

##### Employee security risk awareness and training

- Establish process to enhance cybersecurity risk awareness to management and employees, e.g., through regular training and simulated phishing attack tests to reduce the risk of security incidents caused by human error.



## Cybersecurity controls

### Internal control environment establishment

- Establish effective internal control environment, including but not limited to internal controls, resources, vendor management, periodic testing, and rectification on internal control deficiencies.

### Professionals management

- Organize the recruitment and training of cybersecurity professionals to improve capabilities and support cybersecurity technical knowledge as well as problem-solving skills.

### Security vulnerability monitoring and IT asset protection

- Managements continuously identify, monitor and report cybersecurity threats and vulnerabilities, with a particular focus on risks associated with emerging technologies.
- Develop and implement IT asset protection process (including hardware, software and vendor on-board and exit mechanisms, etc.).

### Device, data and access control

- Enhance network security, including configuration, user-end device management, encryption, user access management, availability and performance of monitoring, firewalls development and utilization, restricting connections to external networks, etc.
- Establish endpoint communication security controls, including e-mail, Internet browsers, video conferencing, social media, cloud and shared files, etc.

## 6. Mainland China internal audit activities updates



### China Institute of Internal Audit (CIIA)

- In January 2025, the CIIA informed that the institute has been organizing the preparation of the *Guidelines for the Digital Transformation of Internal Audit*, which aims to promote development of China digital transformation of internal audit, and improve the quality and efficiency of internal audit.



### Local audit bureau activities

- In February 2025, the Beijing Audit Bureau is organizing the development of *Guidelines for Internal Audit Work in 2025*, clarify the focus of internal audit work throughout the year at four levels, namely political leadership, economic supervision, full-coverage and quality enhancement, and team building, to standardize internal audit.
- In January 2025, the Tianjin Audit Bureau published *Twelve Measures on High-Quality Development of Internal Audit Work*, focusing on the goals and tasks of advancing high-quality development in internal audit. The measures detail specific steps to further clarify the objectives, tasks and priorities of internal audit work.

## Services that EY can offer:



### Internal audit framework enhancement

- According to needs for company transformation or enhancement, perform evaluation, transformation and improvement on the existing internal audit framework, covering aspects of internal audit functions, structure, positions, process, models and tools, etc.



### Support for internal audit project implementation

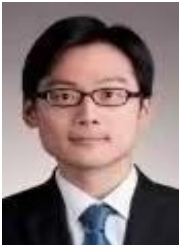
- Provide outsourcing or co-sourcing services for various types of internal audit projects, and achieve quality improvement and knowledge transfer for existing audit projects in addition to the completion of audit work.



### External assessment for internal audit quality

- Conduct a comprehensive assessment of the quality of internal audit in accordance with relevant guidelines, identify gaps, provide remediation plans and issue assessment report.

**For more information on policy interpretation and business consultation, please feel free to contact us:**



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