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ASIA PACIFIC REGULATORY WATCH

State of the Art in GenAI: Adoption in Hong Kong's Financial Services Sector

From Third-Party Risk to Operational Resilience: The Shifting Regulatory Landscape in Asia-Pacific

Singapore's Draft Guidance on Carbon Credits for Corporate Decarbonisation

Aurexia Institute

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Foreword

We are delighted to publish the latest issue of Aurexia's Asia Pacific Regulatory Watch, our quarterly publication on regulatory developments and their impact on banks, asset and wealth managers, insurers and the wider financial services industry in the region.

In this edition, we dive into recent updates and initiatives by the regulators in Hong Kong, Australia and Singapore.

- **State of the Art in GenAI: Adoption in Hong Kong's Financial Services Sector**

  Through the first quarter of 2025, the HKMA ran the first of its GenAI Sandbox initiatives, building on the lessons and takeaways from its research published previously in September 2024. In this RegWatch article, we dive into the research findings, analyse the use cases explored by the HKMA, and share a case study highlighting our insights from GenAI projects in the context of regulatory reporting.

- **From Third-Party Risk to Operational Resilience: The Shifting Regulatory Landscape in Asia-Pacific**

  Australia's new operational resilience regulations are set to kick in starting from July 2025, with certain fundamental changes expected of APRA-regulated entities. In this piece, the key changes for outsourcing and third-party risk management are broken down, alongside a brief comparison of similar regulatory updates in Hong Kong and Singapore.

- **Singapore's Draft Guidance on Carbon Credits for Corporate Decarbonisation**

  In June 2025, MTI and EnterpriseSG jointly published a consultation paper outlining how companies can voluntarily use carbon credits for their credible decarbonisation. This article summarizes the highlights in the paper, together with Singapore's recent efforts in the voluntary carbon market, and explores the impact and opportunities for the financial services sector.

We trust you will find our articles informative and insightful. Should you wish to delve deeper into any of the topics discussed or share your thoughts, please feel free to reach out. Enjoy reading this issue of our RegWatch APAC!

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Contents

State of the Art in GenAI: Adoption in Hong Kong's Financial Services Sector

Generative Artificial Intelligence (**GenAI**) is no longer just a buzzword – it is a transformative tool that is poised to revolutionize financial services in a fundamental and permanent way. Hong Kong has been at the forefront of this paradigm shift, with the Hong Kong Monetary Authority (**HKMA**) spearheading industry initiatives and research to realize the potential of GenAI in financial services, while ensuring that evolving risks are addressed.

HKMA's Survey Research on GenAI Adoption in Hong Kong

In September 2024, the HKMA published a research paper on GenAI in the financial services sector, which had involved 137 industry professionals and 16 organisations across technology, banking, securities and insurance sectors. This comprehensive analysis covers the latest GenAI developments in Hong Kong, including:

- Technical developments and evolution of capabilities (e.g. in the context of Large Language Model mechanisms),
- Key pain points driving adoption of GenAI, such as processing of large volumes of information, automation of time-consuming or repetitive tasks, and reduction in human errors (inconsistencies and inaccuracies),
- Use cases for GenAI adoption in the financial services sector, the most popular being end-to-end service fulfilment (i.e. customer acquisition, monetisation and maintenance), and automation of back-end operations and risk management processes (including cybersecurity), and
- Comparison of regulatory principles governing the use of AI across the globe.

The HKMA also highlighted various hurdles to the adoption of GenAI, including compliance and risk concerns (particularly regarding data protection), lack of knowledge and expertise to train the AI models with appropriate data, and the considerable resource commitment required with substantial upfront costs.

In short, the key risks that have been reiterated by the HKMA include:

- **Output inaccuracies:** GenAI may produce erroneous results, especially in early stages, requiring robust testing and validation protocols,
- **Bias risks:** Training data biases could skew outputs, undermining fairness in output,
- **Security vulnerabilities:** Threats such as data manipulation or unauthorized access demand rigorous defence, and
- **Operational complexities:** Integrating and scaling GenAI systems pose technical challenges.

Such observations are vital when examining and reviewing use cases for GenAI adoption as they help address key questions – for example, why certain use cases are prioritized over others, what inherent and residual risks are to be addressed, and how those risks can be managed and mitigated.

To move beyond theory, and facilitate the practical deployment of AI, HKMA introduced a GenAI Sandbox. In collaboration with the Hong Kong Cyberport Management Company Limited (**Cyberport**), the Sandbox allows participants to develop, test and pilot AI-based solutions in real-world banking scenarios under a risk-controlled environment. The HKMA has selected several global and regional financial institutions as well as Fintech companies to form the first cohort, which was launched in January 2025 with a total of 15 use cases focusing on risk management, anti-fraud measures and customer experience. Best practices and lessons learned from the first cohort are expected to be published in mid-2025. Leveraging on the positive feedback from the first batch, the second cohort has been launched in May 2025 on the same scope.

Comparing the use cases identified by the first cohort of the Sandbox initiative to those discussed in the GenAI research paper, there is a definite trend in priorities for the financial services sector (*see table on next page*).

Comparison of GenAI Use Case Priorities: HKMA Research vs Sandbox Initiative

GenAI Sandbox Initiative		HKMA GenAI Research Paper
Theme	**Example use case**	**Priorities and example use cases**
Risk Management	• AI-assisted financing approval • AI-powered AML suspicious transaction reporting • Enhanced Know-Your-Customer (KYC) with unstructured data	**Operations & Risk Management** • Customer due diligence (incl. AML, KYC, detection of fraudulent claims / transactions) • Compliance review • AI model validation and compliance check • Cybersecurity
Anti-Fraud Measures	• Intelligent assistant for fraud investigator • Protection against fraudulent account openings	
Customer Experience	• AI advisor for financial knowledge and updates • Banking chatbot with AI-enhanced interactivity	**Service fulfilment** • Customer acquisition (e.g. search engine optimisation) • Customer monetisation (e.g. needs identification) • Customer maintenance (e.g. complaint management)

For each Sandbox theme and the corresponding priorities highlighted in the research paper, a deep dive reveals several key insights and takeaways:

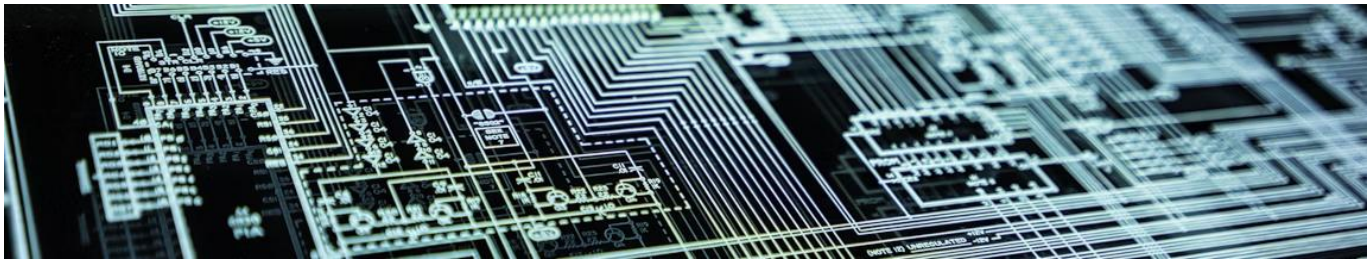
Operations & risk management (inc. anti-fraud measures)

Financial institutions are exploring and applying GenAI to enhance operational efficiency and resilience, particularly by automating labour-intensive processes in risk management. Common market use cases include customer due diligence (**CDD**), compliance reviews, AI model validation, and AI model compliance checks.

- **CDD:** Inefficiencies in CDD processes commonly stem from the amount of time and resources required to analyse large volumes of unstructured data, which have only increased due to tightening KYC and AML regulations, as well as inaccuracies in screening and risk identification. Consequently, GenAI solutions for this use case have focused on enhancement of risk assessments and screening customer profiles with greater accuracy and speed. The training of the GenAI models to detect anomalies have proven to be useful in further use cases, such as detection of unusual trading activities, potentially fraudulent claims and transactions

Analysis

In the GenAI Sandbox initiative, participants have explored real-time analysis use cases such as generating automated alerts and weekly reports on high risks clients, detecting 12% more suspicious transactions than legacy systems. Outside of the Sandbox, we have observed that the technology has enabled industry players to explore more dynamic screening processes, e.g. perpetual KYC (pKYC). Not only does pKYC monitor material changes of a customer's circumstances and automatically reassesses its risk profile on a continuous basis, a data-led approach also enhances traceability and transparency for audit purposes.



- **Compliance reviews:** In a constantly evolving regulatory environment, compliance reviews are required on a regular basis to ensure timely response to new or updated regulations and guidelines. Especially for the banking sector, GenAI has been explored intensively to help with regulatory monitoring, requirements and gap analysis, as well as documentation.

Analysis
The research paper highlighted several examples of this use case, such as using GenAI to identify compliance gaps and locating the relevant policies and procedures for swift remediation.
However, we observed that Sandbox participants have been focusing efforts on more specific topics like risk assessment, especially in the areas of credit risk and underwriting. Participants have explored some of the latest technologies, such as the Retrieval Augmented Generation (RAG), combining LLMs with internal database to contextualize historical data to detect incoherences in transactions as well as improving credit assessment.

- **AI model validation and compliance check:** While seemingly paradoxical, the application of GenAI in verifying other AI models' outputs eases one of the greatest challenges of implementing AI – model validation is both resource-intensive and requires specific expertise. On top of drafting validation reports, GenAI can also be deployed to review model outputs for alignment with industry standards, the business expectations and objectives, as well as compliance with regulatory requirements.

Analysis
Apart from model validation, the research paper discusses further GenAI use cases, such as assisting in assessing and selecting AI models that best suit the organisation's needs. In the Sandbox initiative, participants generally prefer use cases relating to cybersecurity and fraud detection.

- **Cybersecurity and Fraud:** In the wake of near-exponential increases in cyberattacks, challenges for institutions are not limited to the volume of alerts to be handled but also involve increasing complexity that may reveal underlying critical vulnerabilities. In this context, GenAI has been deployed to filter and prioritize alerts, provide analytics on cybersecurity issues, and generate reports for external attack service management and vulnerability assessments.

Analysis
One of the most challenging problems financial institutions hope to address through GenAI is the detection of deepfakes, often occurring in complex fraud cases. A successful use case developed by a participating financial institution leveraged multimodal AI models (text/audio/image) to identify deepfakes and synthetic identities, with the use of voice verification tools to block AI-generated scam calls. Another use case tested focused on identifying document fraud, based on automated metadata analysis to reduce the false negatives and detect falsified content.

Customer experience and service fulfilment

In a highly competitive environment, financial institutions are increasingly turning to emerging technologies, including GenAI, to enhance their service-fulfilment value chain. Notably, while insurance providers are actively exploring GenAI for client acquisition, banks and securities services firms are primarily leveraging it to support customer monetisation and retention.

- **Customer acquisition:** The two main use cases identified by the HKMA include search engine optimisation (SEO) and marketing collateral generation, helping financial institutions to streamline and tailor marketing content to the right target audience. GenAI provides in-depth analysis of customer data to generate insights on their behaviour.

Analysis
While customer acquisition remains a popular topic in the AI space, many financial institutions remain cautious about data management and cybersecurity concerns, with most refraining from feeding externally sourced and sensitive data to their GenAI models. Striking the right balance between data-driven innovation and protection of sensitive information is the key to advancement in this space

- **Customer monetisation:** One of the most popular GenAI use cases in this context involves understanding customer behaviour, preferences, and needs, as well as proposing tailored products. 15 companies are currently exploring applications in this area. GenAI supports institutions across four key dimensions:

  - ✓ **External research:** GenAI solutions synthesize information from diverse sources in real time and perform large-scale data analysis at a scale far beyond the capabilities of manual processing. As a result, product reports can be generated and continuously updated, ensuring that the insights remain both timely and relevant.

  - ✓ **Internal research:** Financial institutions also invest in GenAI-supported internal research engines that can distil internal product documents and guidelines into concise summaries. This enables the relationship managers (**RMs**) to swiftly grasp and understand the key information and better prepare them for customer engagements.

  - ✓ **Client needs identification:** GenAI solutions extract and analyse customers' risk profiles, preferences, financial goals and risk tolerances, to create tailored memos on customers' specific needs that RMs can use to engage with their customers more efficiently.

  - ✓ **Pitch customisation:** GenAI can produce marketing outreach materials for RMs to provide customized messages to clients. It can also assist in translating the marketing materials into different languages and generate conversation prompts for RMs to engage with clients.

Analysis
What has been interesting to note is the external and internal applications made possible with GenAI – in the Sandbox initiative as well, we see that both customer-facing chatbots and AI advisory tools are the major use cases explored. Harnessing its ability to process large libraries of information almost instantaneously, some financial institutions have created internal knowledge and training bots, and even for language support across multilingual jurisdictions. .

- **Customer maintenance:** Another popular use case of GenAI is workflow automation to generate rapid personalized responses to customers in the context of enquiries management, complaints handling, and customer reporting. Beyond the usual benefits associated with automation (e.g. round-the-clock support), it is potentially capable of maintaining a near-human touch and high-quality service.

Analysis
Similarly, in the GenAI Sandbox initiative, customer experience–oriented use cases have focused on interactivity and personalizing customer journeys to improve user experience.

Given the adoption of similar themes in the second GenAI Sandbox cohort, we expect these use cases to remain priorities in the short-term.

As investments in further research and development in these areas are likely to continue, it is increasingly important to understand and address the multitude of challenges financial institutions will face when bringing these use cases from concept to implementation. Developing a realistic charter for any GenAI project involves addressing a range of challenges beyond model development and training. To illustrate these challenges, we present a case study on delivering a GenAI solution for regulatory reporting. Drawing from Aurexia's real-life experiences, it outlines the approach and key considerations for such projects.

Case Study:
From Idea to Reality – Successful GenAI Deployment in Regulatory Reporting

AI projects are prone to failure with estimates suggesting that – depending on the source – between 50% and 85% of corporate AI projects are terminated before reaching the production stage. In light of this, it is essential for institutions to launch GenAI projects with the right methodology to avoid sunk costs and unmet expectations.

Aurexia has been at the forefront of conceptualizing and deploying AI-enabled solutions, including the application of GenAI in the context of regulatory reporting. In this case study, we share insights and key takeaways from our client projects in this domain.

Clear and feasible objectives

Organisations often identify numerous potential use cases, but a narrow scope is recommended to increase the likelihood of successful GenAI deployment. Prioritisation criteria should balance the maximisation of organisational benefits – by economic or qualitative means – and feasibility within technological, resource and timeline constraints.

Our projects start with evaluating the benefits and feasibility of potential use cases. In the context of regulatory reporting, the key desired outcomes were:

1. Generating analysis and content to support regulatory compliance,
2. Streamlining the regulatory reporting process, and
3. Improving the quality of reports (e.g. data accuracy, consistency, etc.).

Prioritising use cases and defining the problem GenAI is expected to solve

Based on this assessment, we prioritized a use case focused on analysing local regulatory requirements for cross-border products and services. Our client aimed to solve the following challenges and shortcomings of existing processes for creating regulatory assessments:

- Lack of standardisation and overreliance on experience-based judgement,
- Inconsistencies in accuracy, coherence and completeness across jurisdictions,
- Time required for manual analysis, research and assessments, and
- Limited scalability, with process capacity reliant on manual processing capacity.

Developing the solution – beyond technology

While the technical development of the solution lies at the core of such projects, their sustainable development depends on a holistic planning and implementation approach: It needs to be aligned with the business objectives and the problem GenAi is meant to solve and consider processes, and people in addition to data and systems:

Processes
Seamless integration into the operating model

Key takeaways from our projects:
- GenAI must be structured, formatted and fully integrated into operational process
- Transparent logic and traceability are critical for audit-readiness
- Models trained on relevant datasets, refined with business rules provided by business stakeholders

People
Stakeholder support & ongoing user validation

Key takeaways from our projects:
- Clear roles and responsibilities defined for validating the model and its results
- Engagement of key users crucial for continuous evaluation of AI-generated results
- Not all processes can or should be automated with GenAI (common misconception)

Data
Structuring of regulatory reporting data output

Key takeaways from our projects:
- Regulatory reporting process enhanced to produce structured, machine-readable data
- This improved both the efficiency and accuracy of GenAI output
- Detailed analysis of the reports required to validate the data structure

Systems
Alignment, integration and maintenance

Key takeaways from our projects:
- Collaboration with IT teams is crucial for GenAI integration into target architecture
- Long-term maintenance plan required
- Reviews and regression tests to be conducted under specified scenarios and/or time frames

Outcome

By following these best practices, our clients successfully progressed from use case selection to proof of concept, and ultimately to full implemen-tation and solution rollout. These efforts delivered measurable efficiency gains and improved monitoring of regulatory developments across APAC.

Looking Ahead: Strong Governance Required for Widening GenAI Usage

Beyond technological and operational hurdles, many financial institutions have been facing challenges in moving AI projects from ideation, exploration or pilot stage into full production roll-out, in part due to the nascent regulatory landscape. Following from our analysis in the last RegWatch edition on recent developments in AI regulations, the lack of clarity in most jurisdictions have given market players pause in their AI ambitions. The HKMA has made similar observations in the research paper, citing the following foundational principles which are necessary and common across multiple jurisdictions worldwide:

- **Governance**, with strong emphasis on effective oversight to ensure accountability and responsiveness to any issues,
- **Fairness**, to prevent biases that could result in discriminatory outcomes against any user group,
- **Data privacy and protection**, maintaining strong security safeguards to protect sensitive information against unauthorized access and breaches, and
- **Transparency and disclosure**, providing clear explanation to users on model outputs to build and maintain user trust.

In addition to the above, it is noted that some jurisdictions, including Hong Kong, also emphasize reliability of the AI systems and sustainability (in managing the environment and social impacts of AI systems) as additional principles that are key to responsible use of AI.

In the absence of regulatory harmonisation, institutions need to ensure that robust risk identification, such as those highlighted in this article, assessment and mitigation controls are in place for the various use cases that they intend to explore as part of their AI strategy.

Conclusion

It is clear that GenAI adoption will continue to increase with clear trends and emphasis from regulators, including the HKMA, on specific topics for use case exploration. Even when starting with use cases which are comparatively lower risk in nature (e.g. those that do not have immediate or direct impact on customers), the journey from ideation to deployment is clearly a complex one with multiple facets to be considered, as evidenced by our case study.
A well thought-out roadmap combined with strong governance underpinning GenAI projects are the cornerstones of success, and will lay the foundation for realizing the full potential of this technology in the years to come.

From Third-Party Risk to Operational Resilience: The Shifting Regulatory Landscape in Asia-Pacific

In the past editions of RegWatch, we casted the spotlight on operational resilience and outsourcing requirements in Hong Kong and Singapore, where regulators have introduced considerably significant overhauls to existing regulations. Now, the attention is on Australia where the Australian Prudential Regulation Authority (APRA) has introduced Prudential Standard CPS 230 – Operational Risk Management, set to take effect on 1 July 2025. An accompanying Prudential Practice Guide (CPG 230) was also published alongside CPS 230 in June 2024.

Further, a transitional arrangement has been provided for pre-existing contractual arrangements with the new requirements applying from the earlier of the contract renewal date or 1 July 2026. This significant regulatory development mandates that APRA-regulated entities (i.e. financial institutions including banks, insurers, superannuation funds, etc) enhance their approach to managing operational risk.

Fundamentally, CPS 230 was crafted to address evolving operational risk challenges and lessons learned from past disruptions, both domestically and internationally. The new standard integrates business continuity planning (**BCP**) considerations and the management of third-party risks, aligning regulatory expectations in Australia with the rest of the region. Eventually, CPS 230 is expected to replace the existing APRA Prudential Standards for Outsourcing (**CPS 231**) and Business Continuity Planning (**CPS 232**), paving the way for a consolidated and holistic framework.

In this article, we will examine the new concepts and requirements introduced by CPS 230 in the context of third-party risk management (TPRM), as compared to CPS 231. We will also compare this new standard with regulatory expectations around the Asia-Pacific region.

CPS 230 versus VPS 231: Changes to Outsourcing Management and TPRM

Focusing on TPRM requirements addressed in CPS 230, it becomes clear that there are several fundamental changes that it introduces in comparison to CPS 231, most notably the following:

1. **Material service providers and material arrangements**

   CPS 230 introduced the concepts of "material service providers" and "material arrangements", which are the service providers/arrangements on which the entity relies to undertake a critical operation or that exposes it to material operational risk. A material service provider may be a third party, related party or connected entity, identified as a result of a single or multiple arrangements.

   Why it matters: This new concept expands the scope of regulation to service providers who may not have been in-scope because they have not been associated with a "material business activity" under CPS 231. This has further implications as more compliance actions are required for material service providers/arrangements, such as reporting and monitoring.

2. **Fourth-party risk management**

   APRA has required regulated entities to take reasonable steps to list any fourth parties involved in the delivery of critical operations, and include the entity's approach to fourth-party management in its service provider management policy. The APRA has also required notification by the entity in the event of "material changes" to any material arrangements, which could include a new sub-contracting.

   Why it matters: The topic of fourth-party risk management has not been substantially addressed in CPS 231, apart from a requirement for service providers to notify the entity in the event of material sub-contracting. The new requirement essentially stipulates that regulated entities take on a more proactive approach to understanding, monitoring and documenting any sub-contracting arrangements that its material service providers may rely on or enter into. The entity must also develop its own contingency plans to address the risks arising from such sub-contracting and fourth parties that its services provider relies on.

3. Critical operations versus material business activity – rethinking of materiality

Critical operations (CPS 230) refer to processes that would have a material adverse impact on depositors, policyholders, beneficiaries, other customers, the entity's role in the financial system, if disrupted. This definition is synchronous with "critical business operations" defined in CPS 232, but CPS 230 explicitly lists certain operations to be classified as critical, such as payments and deposit-taking for an authorised deposit-taking institution (**ADI**).

Why it matters: Although the concept of "critical operations" is not new, it is notable that the APRA has now explicitly required any outsourced critical operations to be considered "material" for the purposes of TPRM. Not only does this emphasize external dependencies in an entity's BCM strategy, but regulated entities must also evaluate broader impacts on external stakeholders such as their customers when assessing the materiality of an outsourcing arrangement. The entity must ensure additional controls and due diligence are applied to outsourcing arrangements involving critical operations.

Comparison of CPS 230 versus CPS 231

Topic	CPS 230 (required from July 2025 onwards)	CPS 231 (existing requirements, remaining in effect in parallel to CPS 230)
Responsibility of the Board	The Board is ultimately responsible for an entity's **operational risk management** and must set clear roles and responsibilities for senior management in managing service provider arrangements.	The Board is ultimately responsible for an entity's **outsourcing policy**, the oversight of any material activity outsourcing, and the entity's compliance with CPS 231.
Management of service provider arrangements	Regulated entities must maintain a comprehensive service provider management policy. This policy must detail how the entity identifies **material service providers and manages associated risks**, including **risks associated with fourth parties**.	The Board must approve the institution's outsourcing policy, which must set out the approach to **outsourcing of material business activities**, including a detailed framework for managing all such arrangements.
Criticality / materiality assessment	Introduces concepts of **material service provider and material arrangements**. Arrangements that involve **critical operations** are considered to be material, such as deposit-taking for ADIs. Certain arrangements must be classified as material "by default", such as credit assessment for ADIs, underwriting for insurers.	Regulated entities are required to identify **material business activities** based on a number of factors such as financial and operational impact of failures, degree of difficulty in substitution, potential losses to customers and other affected parties, etc.
Submission of register	A **register of material service providers** must be submitted to APRA on an annual basis, and take reasonable steps to include a list of fourth parties (i.e. parties that the service provider relies on in delivering services to the entity).	No similar requirement
Audit	The entity's **internal audit function** must review any **proposed material arrangement** involving the **outsourcing of a critical operation**. The internal audit function must report regularly to the Board or Board Audit Committee on the compliance with the entity's service provider management policy.	The group/entity's **internal audit function** must review any **proposed outsourcing of a material business activity**. The internal audit function must report regularly to the Board or Board Audit Committee on the compliance with the group/entity's outsourcing policy.

Comparison of CPS 230 versus CPS 231		
Topic	**CPS 230 (required from July 2025 onwards)**	**CPS 231 (existing requirements, remaining in effect in parallel to CPS 230)**
Risk assessment and due diligence	Before **entering into / materially modifying** a material service, an entity must undertake appropriate due diligence which includes selection process, assessing the **financial and non-financial risks** arising from the potential arrangement (including geographic and concentration risk). Before **providing a material service to another party**, an entity must ensure that it is able to continue to meet its prudential obligations after entering into the arrangement.	Before **outsourcing a material business activity**, the entity must demonstrate that it has conducted an assessment which includes a business case, a tender / selection process, due diligence review, approval from the Board, developed monitoring, renewal and contingency plans. There is no specific requirement relating to the provision of services to another party by the entity.
Service Level Agreements (SLA)	For **material arrangements**, the agreement must include specific provisions such as: • Provisions to ensure the entity can meet legal and compliance obligations • Requirement for the service provider to **notify the entity in the event of any material sub-contracting** • Requirement for **any failure of sub-contractors to be the responsibility of the service provider** Formal agreements must be maintained for **material arrangements with material service provider**s (not all arrangements with a material service provider are necessarily considered to be material)	The standard stipulates a range of matters which must be addressed in all outsourcing agreements, for e.g. scope and service level requirements, reporting requirements, audit and monitoring, business continuity management, confidentiality, privacy and security, subcontracting, etc. Each outsourcing agreement must be contained in a documented legally binding agreement.
Offshore arrangements	The entity must **notify APRA** prior to any material offshoring arrangement, or **arrangements where data or personnel** will be located offshore.	The entity must **consult with APRA** prior to any offshoring of material business activity.
Monitoring and review	The entity must ensure that **senior management** receives **monitoring reports on material arrangements**, including regular assessment of performance, effectiveness of controls in risk management, and compliance of both parties with the SLA. **Regular operational risk monitoring reports** must be provided to the **Board**.	At minimum, monitoring must include maintaining appropriate levels of regular contact with the service provider, and process for regular monitoring of performance under the SLA. **APRA must be notified** of any significant problems that may materially affect the outsourcing arrangement, and when an outsourcing is terminated.
Notification to regulator	The entity must notify APRA **within 20 business days** upon entering into or materially changing any arrangement involving a **critical operation**.	The entity must notify APRA **within 20 business days**, for **material business activities**, after execution of the outsourcing agreement, together with a summary of the key risks and mitigation strategies.

When comparing the differences, it is vital to keep in mind that CPS 231 is still in force (as well as CPS 232). In other words, the requirements of CPS 230 are in addition to those already provided for in CPS 231 until such time that the CPS 231 and 232 are rescinded. CPS 230 therefore lays the foundation of what APRA expects for effective operational risk management, and future supervisory requirements for operational resilience when it eventually retires CPS 231 and CPS 232.

Looking across Asia-Pacific: Comparing Approaches in Australia, Singapore and Hong Kong

At present, Hong Kong and Singapore have both been active in redefining regulatory guidelines for TPRM, and in broader picture for operational resilience.

The HKMA published its operational resilience policy manual (SPM-OR2) in 2022, while the Monetary Authority of Singapore (**MAS**) issued Notice 658 (to banks) in 2023 to address outsourcing management (discussed in RegWatch edition Q1 2024).

In a broad comparison, there are already clear similarities and differences in Australia's, Hong Kong's and Singapore's approaches:

❖ **General scope and focus**

Australia and Hong Kong have both sought to establish an umbrella framework for operational resilience, covering TPRM and BCP for holistic operational risk management. The definition of "critical operations" share similarities in both, emphasizing those which affects the entities' external stakeholders and roles in the broader financial system. It is notable that BCP and incident management are core topics in SPM OR-2.

Singapore has thus far addressed TPRM and BCP in separate regulatory documents as well, with the Notice 658 focusing solely on outsourcing management. Both Australia and Singapore have sought to mandate the identification of "material" outsourcing arrangements, but Singapore has gone a step further to require distinctions between those that are ongoing or not, and whether they involve information disclosure.

❖ **Materiality assessment and risk management**

In assessing what constitutes a material outsourcing, Singapore and Australia share certain overlaps. Regulators in both jurisdictions consider arrangements and service providers which, in the event of failure, exposes the entity to elevated risks (e.g. operational, reputational, etc) and affect the bank's business and customers. The MAS additionally requires the consideration of unauthorised disclosure of / access to information, apart from service provider failure.

HKMA's SPM OR-2 delved heavily into operational risk considerations that are attributable to critical operations, and which must be addressed by the entity's operational resilience framework. While it bears similarity to APRA's CPS 230 and 232, the HKMA's SPM OR-2 notably highlights dependency mapping for critical operations (covering people, processes, technology, information and facilities), and leans into a prescriptive approach for risk assessment.

❖ **Monitoring and reporting**

For reporting, the APRA has required an annual reporting of an entity's material service provider register. The MAS' Notice 658 requires that a register of all ongoing outsourced relevant services (incl. those involving disclosure of customer information) would need to be submitted to MAS semi-annually.

The HKMA did not specify reporting requirements or frequencies, beyond that the list of critical operations must be reviewed and approved annually by the Board.

❖ **Fourth-party risk management, sub-contracting and offshoring**

On sub-contracting, APRA introduces the term of fourth-party risk and requires notification in the event of material sub-contracting, and for the entity to exercise oversight over sub-contracting activities by their service providers. The MAS' approach is centred on protection of information, charging entities with the responsibility of ensuring its service providers apply appropriate safeguards on confidential data in sub-contracting arrangements.

On offshoring, the APRA is required to be notified before any material offshoring arrangement. Aside from the applicable data protection regimes, MAS also requires additional due diligence to be performed if the offshoring involves disclosure of customer information to the overseas service provider. Such checks include assessing the risk of the bank not being able to comply with its own legal obligation on customer information confidentiality, and reviewing the service provider's track record.

The Path Ahead for Australian Financial Institutions: Preparing for Operational Resilience

Given that the APRA has clearly signalled that further alignment, consolidation and updating of the prudential standards to create a comprehensive framework, the key takeaways from the above analysis will help regulated entities address operational resilience issues above and beyond the current requirements.

✓ **Governance and controls**

Regulated entities must not only ensure that roles and responsibilities are assigned in accordance to APRA's requirements, they must ensure effective controls are in place to ensure comprehensive and timely reporting on the state of outsourcing arrangements, incidents, and remediation plans.
This is essential for accurate assessment of the entity's operational risk profile against its risk appetite, and to enable entities to react swiftly to any operational disruption.

✓ **Comprehensive materiality assessment**

In its outsourcing management framework, regulated entities in Australia must now move away from only considering the underlying business operation being outsourced, and instead also consider the risk profile of service providers to the entity. For instance, an entity could rely on a single service provider for multiple non-critical operations, but the aggregate operational risk exposure associated with that service provider could be material. The CPG 230 also discusses examples where the total impact from a "cohort of service provider" could be material even if the singular service provider is not. In such cases the entity is expected to have additional processes and controls in place to manage the operational risks.

✓ **Tightening scrutiny over outsourcing agreements**

To ensure compliance with CPS 230, the outsourcing agreements for material arrangements must include additional provisions which may not be straight-forward to implement and monitor, such as requiring the service provider to notify the entity in the event of material sub-contracting or requiring the liability for sub-contractor failures to be the responsibility of the service provider. On top of identifying the agreements to which the requirements apply, regulated entities should monitor and engage service providers on a continuous basis.

✓ **Offshoring management**

The topic of offshoring is a highly important one in Australia, and it is clear from the APRA's guidance that early engagement with regulators is critical. While the APRA has moved from a mandatory "consultation" to "notification" in the event of any material offshoring, a holistic risk assessment of the underlying activity to be offshored must be conducted and include both financial and non-financial risks to fully understand the materiality of that activity for the entity and the required extent of engagement with APRA. Taking a leaf from Singapore's book, particular attention could be given to potential cross-border data transfers, with additional due diligence checks and monitoring controls to mitigate the data risks.

Factoring in these points ensures compliance with existing and potential future requirements in Australia, while harmonizing policies and procedures in the outsourcing and operational resilience context across the APAC region.

Singapore's Draft Guidance on Carbon Credits for Corporate Decarbonisation

In June 2025, the National Climate Change Secretariat (NCCS), the Ministry of Trade and Industry (**MTI**), and Enterprise Singapore (**EnterpriseSG**) published the consultation paper "Guidance on the Role of Carbon Credits in Corporate Decarbonisation Action", which outlines how companies can voluntarily use carbon credits for their credible decarbonisation. The paper is open for public consultation and comments can be submitted by 20 July 2025.

Background and Relevance for Financial Services

For several years, Singapore has been proactive in advancing the voluntary carbon credit market (**VCM**) domestically and globally. This is evidenced by the launch of the Climate Impact X (**CIX**) and the introduction of carbon tax offsetting (up to 5%) through high-quality international carbon credits (**ICC**) for which Singapore is establishing bilateral agreements to facilitate the cross-border flow of carbon credits. On the global stage, last year's COP29 saw breakthroughs around the implementation of Article 6 of the Paris Agreement. Industry-driven initiatives stepped-up efforts to strengthen the integrity, quality and transparency in voluntary carbon markets, and standard setters and initiatives show increasing acceptance of using voluntary carbon credits (VCC) for hard-to-abate residual emissions.

While this paper focuses on corporates, it also has implications for Financial Services:

they are involved, for instance, through the integration of carbon credits in sustainable products and services for their clients.

This can include supporting clients with their decarbonisation efforts, requiring or encouraging offsetting of residual and hard-to-abate emissions in credit covenants, as well as providing funding for VCC-related projects. Banks and investors can also benefit from leveraging their position of trust and credibility for activities in the still-maturing VCM while using VCCs to support their own transition plans.

Scope and Content of the Consultation Paper

With just 8 pages, the consultation paper provides relatively high-level and principle-based guidance on corporates' possible use of VCCs for the execution of their decarbonisation strategy. The paper consists of three sections:

The "**introduction**" section outlines the high-level aspects of the integration of carbon credits with transition plans, as well as the role and nature of VCMs.

The guidance clearly emphasizes the priority of feasible emission reductions across scopes 1-3 while limiting the use of carbon credits to the residual emissions. This helps to prevent greenwashing by avoiding previously seen poor market practices such as offsetting avoidable emissions and using low-quality credits.

In line with the emphasis on decarbonisation through emissions reduction, credibility of transition plans and quality of carbon credits, the paper states that "the Singapore Government supports companies' participation in well-functioning carbon markets, and voluntary use of high-quality carbon credits as part of a credible decarbonisation plan".

The second section discusses the approach to "**choosing credits**", covering quality criteria, potentially applicable corresponding adjustments as stipulated in the Paris Agreement, and treatment of vintage characteristics.

The paper distinguishes between carbon credits subject to "Article 6 requirements" and entirely voluntary carbon credit purchases. Carbon credits that Singapore-based companies intend to use for offsetting up to 5% of their taxable carbon emissions need to meet both the Article 6 requirements as well as the quality and eligibility criteria of Singapore's International Carbon Credit (**ICC**) Framework. For other use cases, the paper expects that companies perform sufficient due diligence to ensure the quality of carbon credits while it also suggests voluntary alignment with the ICC criteria as well as internationally prevalent integrity and quality standards and best practices.

The final section focuses on "using credits" as part of companies' transition plans, while managing VCC-related risks and ensuring transparency through disclosure.

Once a company has exhausted its feasible abatement measures – leveraging tools and resources as recommended in the guidance – it is encouraged to consider the application of carbon credits for residual emissions with reference to the IFRS Sustainability Disclosure Standard S2 for their reflection in net emissions targets. While doing so, companies are expected to regularly consider technical advancements and evolving sustainable options over time and adjust their decarbonisation plans accordingly.

The paper also highlights the need for companies to manage risks related to the quality and actual delivery of emissions reductions from carbon credits, pointing to carbon project ratings to support such risk assessments.

While Singapore is progressively adopting the IFRS Sustainability Disclosure Standards, starting with the phase-in of mandatory reporting for listed companies for financial years commencing on or after 1 January 2025, the paper encourages companies to disclose carbon credit-related emissions whether on a mandatory or a voluntary basis.

The data points requested include: volume and type of carbon credits, project location, applicable VCC registry, usage, and external ratings where applicable. This aims to enhance transparency and provide stakeholders with insights into companies' decarbonisation plans and the use of VCCs in this context.

The paper also refers to available government support schemes that assist companies in adopting decarbonisation plans and solutions.

Background on Article 6 of the Paris Agreement

Article 6 of the Paris Agreement enables countries to cooperate voluntarily through carbon markets and other mechanisms to meet their climate goals more efficiently and support global emissions reductions. Article 6.2 governs the trade of emission reductions and removals between countries – referred to as internationally transferred mitigation outcomes (ITMO) – including accounting against the nationally determined contributions while avoiding double counting. Last year's COP29 saw a breakthrough in approvals necessary for the establishment of a central crediting mechanism for ITMOs under Article 6.4, which will be led and governed by a dedicated supervisory body.

Illustration: Trading of Carbon Credits under Article 6 of the Paris Agreement

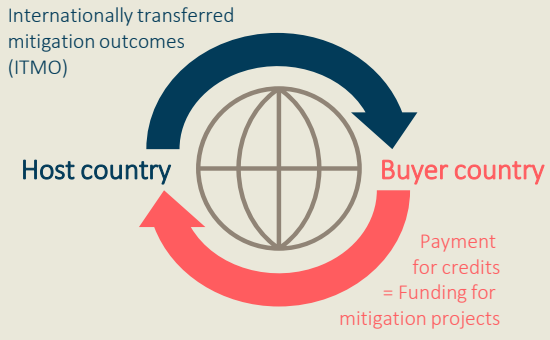
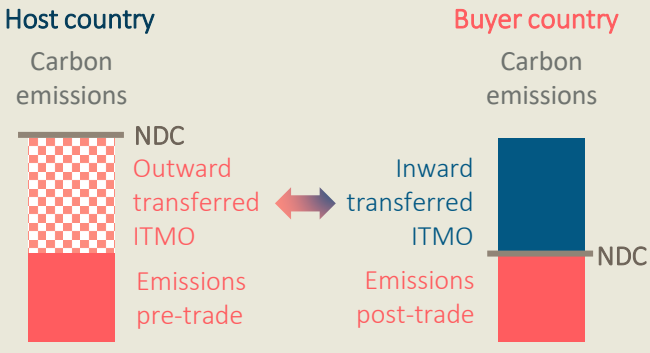


Illustration: Impact of ITMO transfer on Nationally Determined Contributions (NDC)



Conclusion & Implication for Financial Services

The paper illustrates Singapore authorities' continued commitment to and support of leveraging VCMs as a component of the country and its economy's decarbonisation efforts.

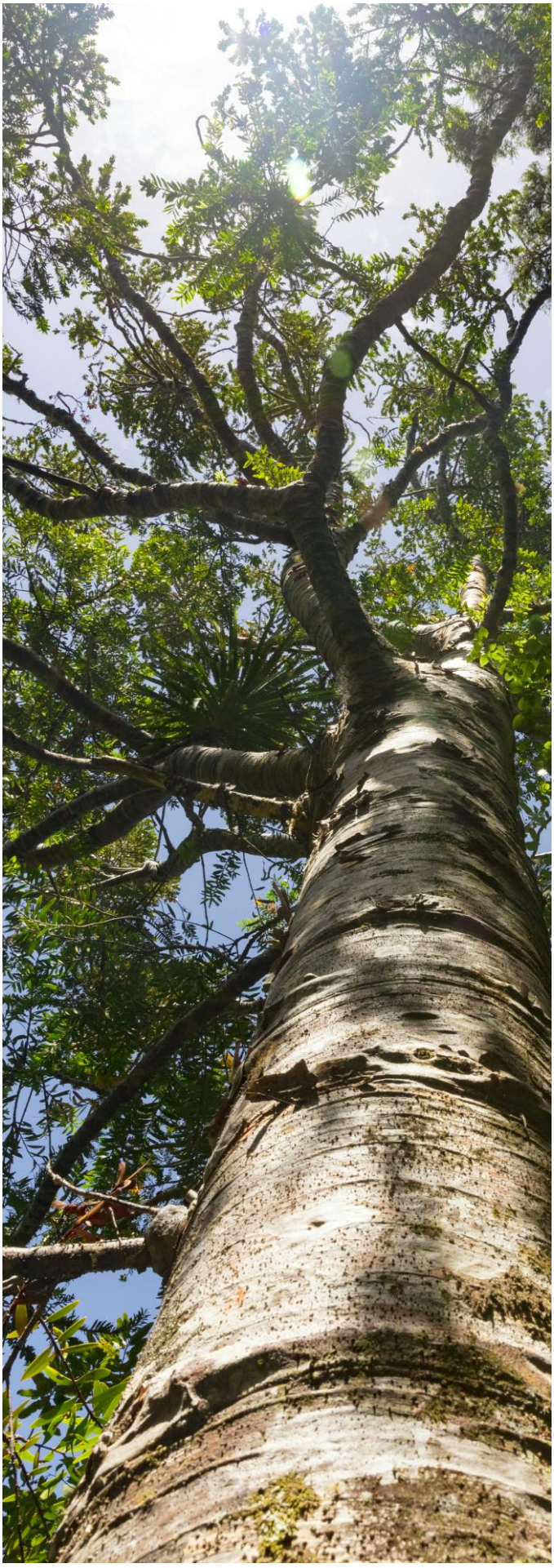
The consultation comes at a time when initiatives to enhance the quality and integrity of VCMs are increasingly gaining traction as standard setters and initiatives show growing recognition of the role of VCCs in addressing residual emissions.

This is reflected in the IFRS Sustainability Disclosure Standard S2, which guides the disclosure of net emission targets considering the impact of carbon credits, and SBTi's Draft Corporate Net-Zero Standard V2 (consultation paper) which proposes guidance on addressing residual and unabated emissions through removals and beyond value chain mitigation (BVCM), including interim carbon removal targets.

With Singapore's sustained focus on VCMs, there is potential for these markets to gain further momentum locally and across the region, creating a range of opportunities for the Financial Services sector:

- Using carbon credits in their own transition plan implementation, e.g. offsetting unabated portfolio emissions of carbon-reduced investment or credit portfolios,
- Understanding and leveraging clients' and investee companies' use of carbon credits as part of their decarbonisation strategies, with potential second-round impact on portfolio emissions,
- Adjusting existing and developing new sustainable finance products that integrate carbon credits, supporting clients and investees in adopting the guidelines,
- Investing in and financing of high-quality carbon credit-generating projects in the region and globally, and
- Facilitating market access for clients and engaging in VCM-related activities including participation in both spot and derivative markets.

For further reading, refer to our consultants' article on opportunities for Financial Services in Asia's VCMs in Asian Banking & Finance.



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