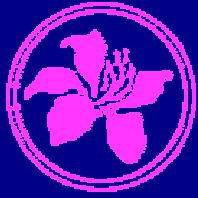


HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

3 May 2001



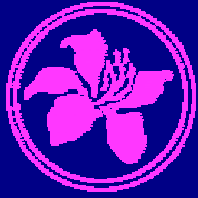
DISCUSSION TOPICS

Annual Report 2000

Latest Developments

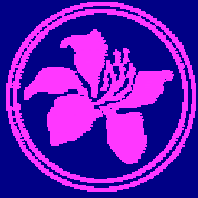
- Currency
- Banking
- Financial Infrastructure
- Exchange Fund Management

Banking Consumer Issues



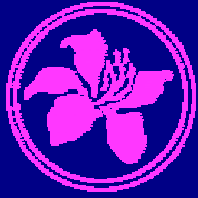
CURRENCY - Exchange Rate





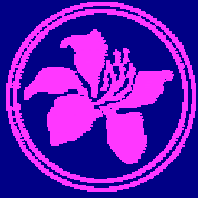
CURRENCY - Vulnerabilities

- **Risks from globalisation persist**
- **Economic and financial market adjustments in US**
- **Uncertain economic outlook in Japan and yen weakness**
- **Problems in emerging markets**
- **Structural weakness in other Asian financial systems**
- **Mainland adjustments to WTO and political situation**
- **Use of Hong Kong markets for proxy hedge**



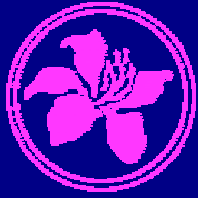
CURRENCY - Vulnerabilities

- **Risks from globalisation persist**
- **Economic and financial market adjustments in US**
- **Uncertain economic outlook in Japan and yen weakness**
- **Problems in emerging markets**
- **Structural weakness in other Asian financial systems**
- **Mainland adjustments to WTO and political situation**
- **Use of Hong Kong markets for proxy hedge**



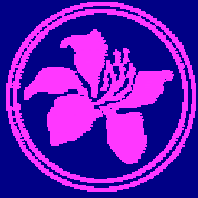
CURRENCY - Vulnerabilities





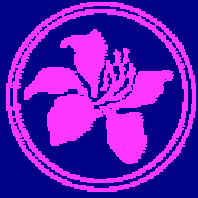
CURRENCY - Vulnerabilities





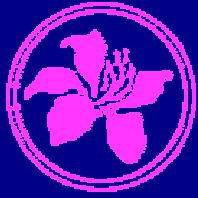
BANKING - Reform Measures

- **Commercial Credit Reference Agency**
- **Interest Rate Deregulation**
- **Consolidation**
- **Code of Banking Practice**
- **Deposit Protection**



BANKING - Reform Measures

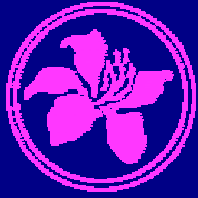
- **Commercial Credit Reference Agency**
- **Interest Rate Deregulation**
- **Consolidation**
- **Code of Banking Practice**
- **Deposit Protection**



BANKING - Reform Measures

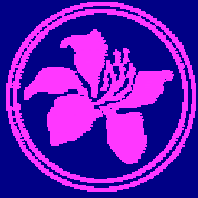
Deposit Protection

- **Approved in principle by ExCo**
- **Preliminary views on design features:**
 - ⇒ **Cover all licensed banks**
 - ⇒ **Mandatory participation**
 - ⇒ **Coverage Cap at HK\$100,000**
 - ⇒ **Ex-ante funding preferred**
 - ⇒ **Risk-based premium to be further explored**
 - ⇒ **Separate legal entity**
- **Subject to further study and consultation**



BANKING - Draft Legislation

- **Banking (Amendment) Bill 2000**
⇒ being examined by the Bills Committee
- **Banking (Amendment) Bill 2001**
⇒ introduced in the Legislative Council

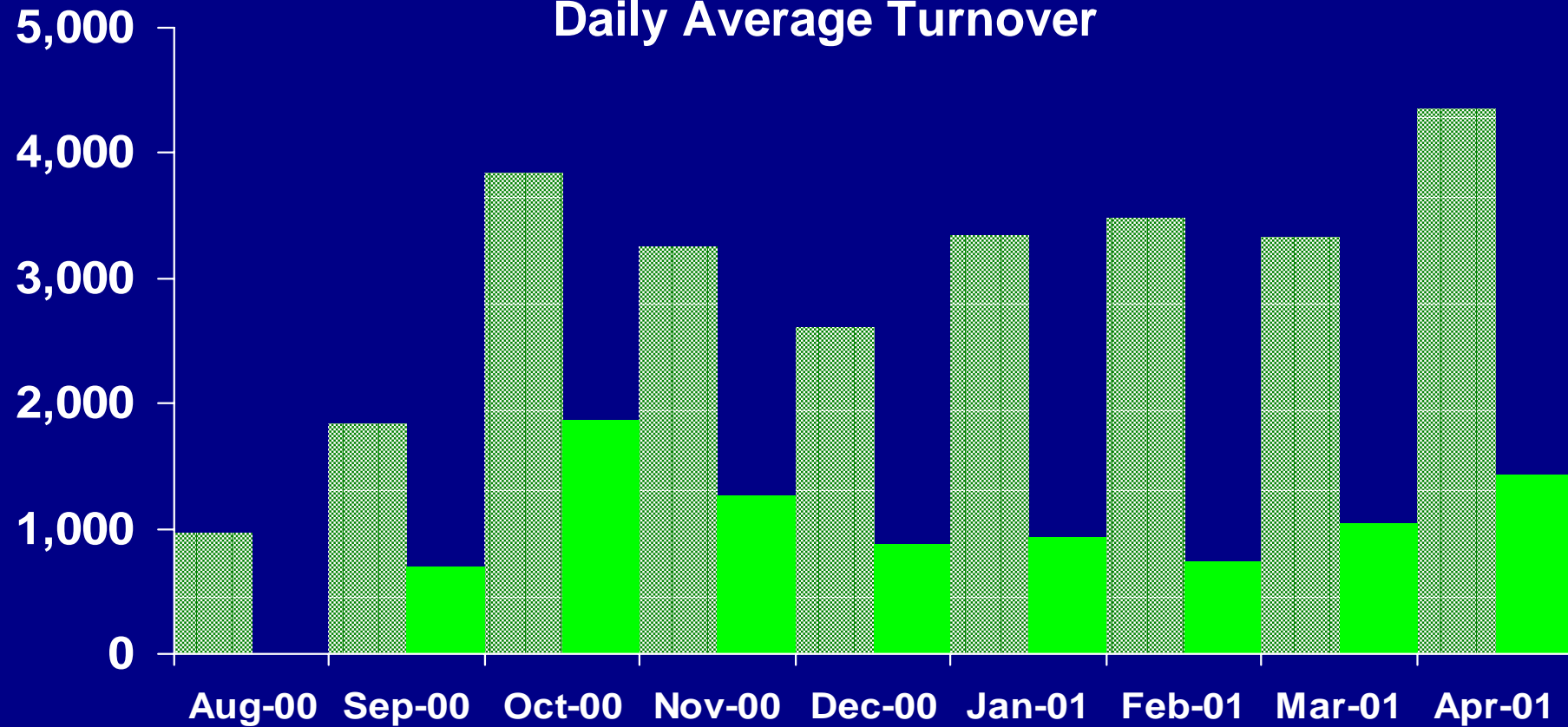


FINANCIAL INFRASTRUCTURE

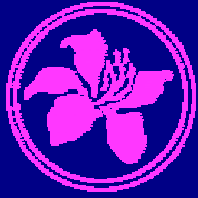
US Dollar Clearing System

US\$ Million

Daily Average Turnover



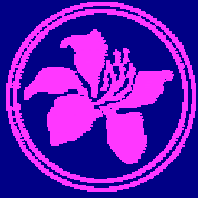
■ US\$ RTGS (launched on 21 Aug 2000) ■ PvP (US\$/HK\$) (launched on 25 Sep 2000)



FINANCIAL INFRASTRUCTURE

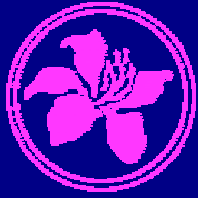
Retail Payments

- **Internal review on the provision of retail payment services**
 - ⇒ **Efficiency, pricing, competition, consumer protection, regulatory framework and systemic implications**
- **Making good progress. Expect to be completed shortly.**



EXCHANGE FUND PERFORMANCE

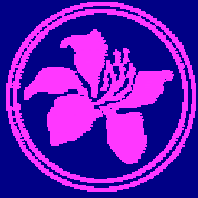
	1999 (HK\$ bn)	2000 (HK\$ bn)	2001 Q1 (HK\$ bn)	April 2001 (HK\$ bn)
Gain/(Loss) on HK equities	90.1	(11.6)	(21.5)	3.9
Exchange gain/(loss)	(9.9)	(11.2)	(11.8)	3.2
Total return on bonds etc	<u>23.6</u>	<u>67.9</u>	<u>18.8</u>	<u>(2.1)</u>
Investment income	103.8	45.1	(14.5)	5.0
Other income	0.2	0.2	0.0	0.0
Interest and expenses	<u>(10.0)</u>	<u>(11.0)</u>	<u>(2.8)</u>	<u>(0.6)</u>
Net investment income	94.0	34.3	(17.3)	4.4
Treasury's share	<u>(45.4)</u>	<u>(18.1)</u>	<u>6.1</u>	<u>(2.0)</u>
Increase/decrease in EF accumulated surplus	48.6	16.2	(11.2)	2.4



EXCHANGE FUND - HK Equity Portfolio

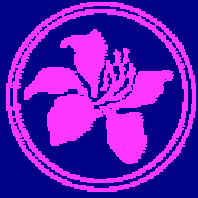
	(HK\$ bn)
Investment in August 1998	118.1
Income from Disposal and Dividends	126.1
Size of remaining portfolio (end-April 2001)	110.9
Disposal	60.9
Long Term Investment *	<u>50.0</u>

* Including HK equities transferred from the Land Fund in 1998 (valued at HK\$9 bn in 1998)



BANKING CONSUMER ISSUES

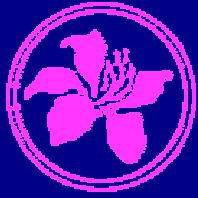
- **Increasing focus on how to address banking consumer protection**
- **HKMA has no explicit role in consumer protection under the Banking Ordinance**
- **A comparative study of banking consumer protection arrangements completed**
- **Report on this comparative study sent to Financial Services Bureau and the Legislative Council Financial Affairs Panel**
- **Welcome advice on the way forward**



BANKING CONSUMER ISSUES

HIGHLIGHTS OF FINDINGS OF STUDY (I)

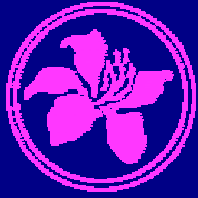
Banking Consumer Protection Arrangements	UK	Australia	HK
a) Regulator assigned statutory responsibility for consumer protection	✓	✓	✓✗
b) Self-regulation by non-statutory Code of Banking Practice	✓	✓	✓
c) Sanctions against non-compliance with the Code	✓	✓✗	✓✗
d) Ombudsman schemes to resolve customer complaints	✓	✓	✗
e) Regulation of banks' fees and charges	✗	✗	✗
f) Specific Government initiatives to promote basic banking services	✓	✗	✗



BANKING CONSUMER ISSUES

HIGHLIGHTS OF FINDINGS OF STUDY (I)

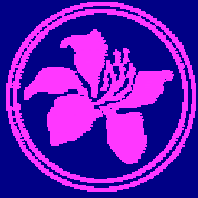
Banking Consumer Protection Arrangements	UK	Australia	HK
a) Regulator assigned statutory responsibility for consumer protection	✓	✓	✗
b) Self-regulation by non-statutory Code of Banking Practice	✓	✓	✓
c) Sanctions against non-compliance with the Code	✓	✗	✗
d) Ombudsman schemes to resolve customer complaints	✓	✓	✗
e) Regulation of banks' fees and charges	✗	✗	✗
f) Specific Government initiatives to promote basic banking services	✓	✗	✗



BANKING CONSUMER ISSUES

HIGHLIGHTS OF FINDINGS OF STUDY (II)

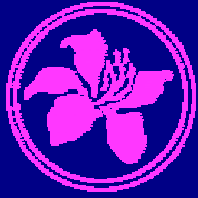
Role of regulator in banking consumer protection	UK	Australia	HK
a) Explicit mandate to protect banking consumers	✓	✓	✗
b) Power of regulator to regulate market conduct	✓	✓	✗
c) Monitoring compliance with the Code of Banking Practice	✗	✓	✓
d) Responsibility in relation to Ombudsman schemes	✓	✓	✗
e) Setting standards for dispute resolution	✓	✓	✗



BANKING CONSUMER ISSUES

HIGHLIGHTS OF FINDINGS OF STUDY (II)

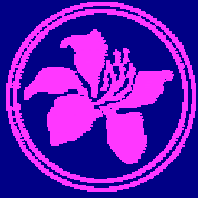
Role of regulator in banking consumer protection	UK	Australia	HK
a) Explicit mandate to protect banking consumers	✓	✓	✗
b) Power of regulator to regulate market conduct	✓	✓	✗
c) Monitoring compliance with the Code of Banking Practice	✗	✓	✓
d) Responsibility in relation to Ombudsman schemes	✓	✓	✗
e) Setting standards for dispute resolution	✓	✓	✗



BANKING CONSUMER ISSUES

HIGHLIGHTS OF FINDINGS OF STUDY (III)

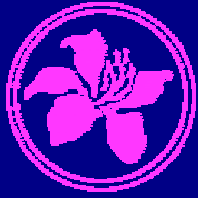
Role of Industry Associations in banking consumer protection	UK	Australia	HK
a) Issue Code of Banking Practice	✓	✓	✓
b) Drafting and conducting review of the Code	✓	✓	✗
c) Monitoring compliance with the Code	✓	✗	✗
d) Setting up and funding Banking Ombudsman schemes	✓	✓	✗
e) Consumer education	✓	✓	✗



BANKING CONSUMER ISSUES

Way Forward

- **Report only highlights gaps, not policy recommendations**
- **HKMA and the Government will now proceed to consider the policy implications, including -**
 - ⇒ **whether any change to the existing arrangements is needed;**
 - ⇒ **if so, what should be done;**
 - ⇒ **how should these be achieved; and**
 - ⇒ **who should do what.**
- **HKMA is open-minded on whether it should have a more explicit role**
- **Will need to consult further and more widely on any policy recommendations**



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

3 May 2001