

For information  
on 26 February 2002

## LegCo Panel on Financial Affairs

### Exchange Rates of Credit Card Overseas Transactions

#### I. Background

A recent newspaper report alleged that banks<sup>1</sup> charged consumers a fee for credit card transactions conducted in foreign currencies and that such a fee was not readily disclosed to consumers. The report criticised banks for lack of transparency in the provision of this service and alleged that they were not in compliance with the Code of Banking Practice (the Code).

2. Subsequent to the press report, the Legislative Council and the Consumer Council have expressed concern. The general view is that banks should be more transparent in their operation and should make known to customers the fee, if any, which applies to the exchange rates for credit card foreign currency transactions.

#### II. Existing Market Practice

3. The HKMA understands that in respect of credit card transactions conducted in foreign currencies, banks determine the exchange rates for individual transactions with reference to the rates charged by the credit card network operators. They will normally add a margin taking into account their operating costs for handling such overseas transactions (which are more costly than local transactions). For other non-credit card foreign exchange transactions, banks would normally provide reference rates before the transactions take place. However, since the applicable exchange rates in respect of credit card transactions would not be known from the credit card operators until the date of settlement of the transaction, it would not be possible for banks to

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<sup>1</sup> The HKMA has supervisory powers over institutions authorized under the Banking Ordinance, which include licensed banks, restricted licence banks and deposit-taking companies. In this paper, authorized institutions are generally referred to as banks for drafting purposes.

provide reference rates beforehand. The applicable exchange rates are, therefore, made known to cardholders in their monthly statements.

4. The Code requires card issuers to make readily available to cardholders general descriptive information on the use of cards. Such information would include the above method of applying exchange rates to credit card transactions in foreign currencies at the date of settlement and hence the fact that the exchange rates will not be known at the time of the transaction. Generally banks would cover this in their cardholder's agreement and would explain this to customers upon enquiry on individual transactions. However, banks have not hitherto disclosed the precise margin that they apply over the exchange rates charged by the relevant credit card operators.

### **III. Government Response**

5. From 1 April 1999 to 31 December 2001, the HKMA received only two complaints related to such transactions.

6. Despite the limited number of complaints received, the HKMA referred the matter to the Code of Banking Practice Committee (the CoBP Committee)<sup>2</sup> of the banking industry with a view to further enhancing the transparency of the mechanism through which such exchange rates are determined.

7. The CoBP Committee conducted its first meeting in late January. In the meeting, Committee Members agreed to make a recommendation to the Hong Kong Association of Banks and Deposit Taking Companies Association that banks should disclose the margin over the exchange rates charged by the relevant credit card network operators on credit card overseas transactions. The industry Associations issued circulars to their members in early February to this effect.

8. The HKMA will closely monitor developments and ensure that the proposal will be effectively implemented.

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<sup>2</sup> The Code of Banking Practice Committee is newly established by the industry Associations with representation from the HKMA. It is responsible for interpreting, reviewing and further developing the Code.

9. This incident has demonstrated that the CoBP Committee is functioning in applying specific interpretation to the general provisions in the Code. This will serve to improve compliance with the Code and provide an effective mechanism to implement good business practices.

*Hong Kong Monetary Authority*  
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