



By fax (2869 6794) and mail

26 July 2005

Clerk to Panel on Financial Affairs
Legislative Council Secretariat
3rd floor, Citibank Tower
3 Garden Road
Hong Kong
(Attn: Ms Connie Szeto)

Dear Connie,

**Panel on Financial Affairs
Follow-up to meeting on 4 July 2005**

I refer to your letter dated 5 July. Attached please find information requested by Panel Members.

Yours sincerely,

(Fiona Chan)
for Chief Executive
Hong Kong Monetary Authority

1. The Hong Kong Monetary Authority (HKMA) is requested to provide the following information.

- (a) The exact number of credit cards issued by AIs in Hong Kong which are potentially affected by the incident of data security breach by the CardSystems Solutions, Inc. in the United States happened in June 2005.

HKMA's response

As of 26 July 2005, the number of credit cards which are potentially affected by the incident is 12,202. The card issuing AIs concerned have arranged for the replacement of these cards and the process has already been completed.

- (b) The results of the following follow-up actions taken by the HKMA:

- (i) The HKMA's request for AIs to re-assess the adequacy and effectiveness of controls over customer data security, retention and confidentiality (including AIs and their service providers);

HKMA's response

To ensure that the risk of customer information leakage is fully and properly addressed, the HKMA has requested all AIs to re-assess the adequacy of existing security controls over customer data security, retention and confidentiality implemented by the AIs and their service providers. In particular, AIs are expected to assess whether comprehensive data security policies and procedures are in place and whether they have complied with the relevant legal and regulatory requirements (e.g. the Personal Data (Privacy) Ordinance and the relevant guidelines issued by the HKMA including Supervisory Policy Manual on "Outsourcing", "General Principles for Technology Risk Management" and "Supervision of E-banking").

So far, the HKMA has received assessment reports from 39 AIs (out of a total of 203 AIs). The results of the assessments received indicate that the controls over their customer data security, retention and confidentiality are generally adequate and effective. The results also demonstrate the commitment from the AIs' management in taking appropriate measures to further protect customer

information, and to ensure that their employees are constantly reminded to strictly comply with the data security policies and to access the customer data only on a need basis.

The HKMA will continue to follow up with the remaining AIs on their assessment results. It is expected all the AIs will complete their review by early October 2005.

- (ii) The HKMA's request for credit card companies, consumer credit bureau and credit card operators to assess and strengthen their security control systems; and

HKMA's response –

Credit Card Operators

In late June, the HKMA sent letters to six credit card operators and two debit card operators requesting them to review their data protection policies and procedures and assess the risk of similar incidents occurring in Hong Kong. To follow up the progress, the HKMA approached the operators in early July. All of them were well aware of the importance of the issue and have been conducting their internal assessments. The HKMA has so far received two responses from operators confirming that their data security policies and procedures are strictly enforced and regularly reviewed. The HKMA will continue to liaise with the other operators, review their assessment results and encourage them to strengthen their security control systems in case their assessment were to reveal any room for improvement.

Consumer Credit Bureau

In the light of the US incident, TransUnion Information Services Ltd, which operates the consumer credit bureau in Hong Kong, has conducted a review of its information security system. TransUnion considers that it has a comprehensive security system in place to prevent information leakage. In view of emerging techniques of hacking and related crimes, TransUnion will keep its information security system under regular review. It is worth noting that, in accordance with the Code of Practice on Consumer Credit Data issued by the Office of the Privacy Commissioner for Personal Data (PCO), TransUnion should engage an independent auditor to undertake a compliance audit of its operations every 12

months. This audit should cover, among other things, the security of TransUnion's information systems.

- (iii) The HKMA's liaison with the Office of the Privacy Commissioner for Personal Data.

HKMA's response

The PCO has advised the HKMA that insofar as holders of credit card data (e.g. credit card companies and merchants) fall within the definition of "data users" under the Personal Data (Privacy) Ordinance (PDPO), the legal provisions in the PDPO will be applicable to these companies. The PCO considers that there is sufficient legal backing for it to take action against the company concerned if a security breach similar to the one in the US happens in Hong Kong.

Regarding the need for issuing a code of practice under the PDPO to provide practical guidance to holders of credit card data, the PCO is open-minded and welcomes further discussions with the HKMA and the banking industry. The HKMA will follow up on this matter.

- (c) The up-to-date position of AIs in issuing EMV chip credit cards with a view to enhancing credit card security, and AIs' plan in upgrading their infrastructure for EMV chip migration.

HKMA's response

With a view to effectively combating credit card frauds, a number of AIs involved in the credit card business have already devised plans in enhancing the security of credit cards and the related infrastructure (including merchants' point-of-sale terminals).

While 17 AIs (about 70% of all 24 card-issuing AIs) are at the planning stage to issue EMV chip credit cards, the remaining 7 AIs are considering the cost effectiveness of such technology for their credit cards. It is expected that 10 AIs will start issuing EMV chip credit cards in Hong Kong in 2007.

In addition, there are 19 merchant-acquiring AIs in Hong Kong and all of them have already commenced upgrading their infrastructure (i.e., their acquired merchants' point-of-sale terminals) for processing EMV chip credit cards. It is expected that 16 merchant-

acquiring AIs will complete the upgrade of their infrastructure by July 2006.

The HKMA will continue to work with the banking industry to monitor the progress of EMV chip card migration, and to further enhance the credit card security as appropriate.