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30 June 2006

Miss Salumi Chan
Clerk to Panel on Financial Affairs
Legislative Council Building,
8 Jackson Road,
Central,
Hong Kong
(Fax: 2869 6794)

Dear Salumi,

Panel on Financial Affairs
Progress of Preparation of Basel II Capital and Disclosure Rules

Thank you for your letter of 28 June following up on the information paper provided by the Administration on the above subject on 23 June.

2. I have consulted the HKMA on the questions raised in your letter, and the following are our responses:

(a) Whether both Capital and Disclosure Rules need to be in place before the implementation of Basel II in Hong Kong on 1 January 2007

3. If Basel II is to be implemented in Hong Kong on 1 January 2007, as is the wish of the Administration and of the banking industry, it is imperative for the Capital Rules to be in place before 1 January 2007.

4. It is also the wish of the Administration and of the banking industry that the Disclosure Rules should apply from 1 January 2007. In this respect, it would be desirable if they also could be in place before 1 January 2007, but it is not imperative. Authorized institutions would not make their first disclosures under

the Disclosure Rules until end-June 2007. We would have some latitude, therefore, to postpone the application of the Disclosure Rules until first quarter 2007.

(b) When the final draft Capital Rules are expected to be ready for issue to LegCo Members

5. An English draft of the Capital Rules is expected to be available for public consultation in early August.

6. A further English draft, revised to reflect comments received from the consultation, is expected to be available for submission to LegCo for advance information by the end of September (with the Chinese language version following a week later).

(c) When the final draft Disclosure Rules are expected to be ready for issue to LegCo Members

7. An English draft of the Disclosure Rules is expected to be available for public consultation in early September.

8. A further English draft, revised to reflect comments received from the consultation, is expected to be available for submission to LegCo for advance information by mid-October (with the Chinese language version following a week later).

9. It may be helpful to your consideration of the setting up of a subcommittee to study the Rules if we add some further thoughts on a possible timetable.

10. If the Rules are to be in place by 1 January 2007, it appears to us that the latest date they could be tabled in LegCo and which would provide sufficient time for the negative vetting to be completed before the final meeting on 20 December would be 1 November. Working back from this date, the Administration would need to finalise the draft for gazettal by around 20 October, i.e. three weeks after the “post-consultation” draft Capital Rules have been made available to LegCo. In other words, if the subcommittee established to review the “post-consultation” draft Capital Rules could complete its study of the draft Rules within three weeks, it would be possible for the Administration to reflect the subcommittee’s comments in full in the version of the draft Rules tabled in LegCo (around 1

November). Of course, any further review necessary could be undertaken through to the end of the negative vetting period.

11. As regards the draft Disclosure Rules, it is possible to delink these from the Capital Rules and thus afford time to separately review these Rules under a less pressured environment. It should be stressed, however, that both the Administration and the banking industry would prefer it if not only the Capital Rules but also the Disclosure Rules could be in place by 1 January 2007 if possible.

12. The Administration places great importance on getting these Rules in place in good time for implementation of Basel II in Hong Kong. Equally, however, we wish to ensure that the Legislative Council has sufficient time to review the Rules. The Administration stands ready to play a full part in the process should a subcommittee be set up to review the Rules.

Yours sincerely,

(Mrs Millie Ng)
for Secretary for Financial Services
and the Treasury

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