



30 March 2007

Miss Polly Yeung
Clerk to Panel on Financial Affairs
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Miss Yeung,

**Panel on Financial Affairs
Follow-up to meeting on 2 March 2007**

I refer to the letter dated 5 March 2007 from Ms Rosalind Ma of your office. The HKMA's response to item 1(a) of the letter is as follows.

Promoting competition is a general policy of the HKSAR Government. In line with this, the HKMA, to the extent possible, discourages anti-competitive activities in the multi-purpose stored-value cards (MPC) market.

Although the Banking Ordinance does not empower the HKMA to prohibit anti-competitive practices, the HKMA has persuaded Octopus Cards Limited (OCL) to voluntarily adopt the *Code of Practice for Multi-Purpose Stored Value Card Operation* issued in 2005. This Code was endorsed by the HKMA. The Code specifically requires that competition in the market should not be unfairly limited. There should also be no exclusive trading clause prohibiting merchants from using any other forms of stored-value payment system. In addition, OCL should aim to share its technical platform with any other parties interested in card-issuing and merchant-acquiring business, after taking into account the security requirements and reasonable commercial considerations. These clauses in the Code serve to lower the market entry barrier for parties interested in issuing MPC in Hong Kong.

The HKMA seeks to maintain a level playing field by ensuring that all current and prospective issuers of MPC are subject to the same regulatory requirements. Prospective issuers can enter the market by two routes: under the Banking Ordinance, licensed banks are deemed to be approved to issue or facilitate the issue of MPC; or a non-banking institution may apply as a special-purpose vehicle, whose principal business is to issue or facilitate the issue of MPC, and seek to become a deposit-taking company to conduct such business. Any new entrants to the market will be subject to the same regulatory requirements as OCL.

Yours sincerely,

(Andy Ching)

for Chief Executive
Hong Kong Monetary Authority

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