

LEGISLATIVE COUNCIL BRIEF

Banking Ordinance
(Cap.155)

BANKING (SPECIFICATION OF MULTILATERAL DEVELOPMENT BANK) (AMENDMENT) NOTICE 2006

INTRODUCTION

The Monetary Authority (“MA”) has published the Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2006, at **Annex**, in the Gazette to amend the Banking (Specification of Multilateral Development Bank) Notice (L.N. 230 of 2006) and specify 13 entities to be multilateral development banks (“MDBs”) under section 2(19) of the Banking Ordinance (“the Ordinance”), as amended by the Banking (Amendment) Ordinance 2005.

BACKGROUND

2. In line with its established practice of subscribing to the latest international supervisory standards, the Administration will implement in Hong Kong from January 2007 the revised capital adequacy and disclosure framework for banks published by the Basel Committee on Banking Supervision (“BCBS”), commonly known as “Basel II”. The Banking (Amendment) Ordinance 2005, enacted in July 2005, provides the legal basis for the Hong Kong Monetary Authority (“HKMA”) to implement Basel II in Hong Kong. Among other things, the Ordinance provides the MA the authority to make rules prescribing the manner in which the capital adequacy ratio of locally incorporated authorized institutions shall be calculated. These rules, known as the Banking (Capital) Rules, are currently under negative vetting by the Legislative Council (“LegCo”). Upon satisfactory completion of this process, the rules are expected to commence operation from 1 January 2007.

3. The Banking (Capital) Rules will replace the existing Third Schedule to the Ordinance which prescribes the calculation methodology for capital adequacy ratio under the existing capital adequacy framework known as “Basel I”. At present, “multilateral development bank” is a specified term used in the Fourth Schedule to the Ordinance and has the meaning assigned to

it in the Third Schedule¹. In light of the impending repeal of the Third Schedule, the MA has, pursuant to section 2(19) of the Ordinance (as amended by the Banking (Amendment) Ordinance 2005), made the Banking (Specification of Multilateral Development Bank) Notice (L.N. 230 of 2006, published in the Gazette on 27 October 2006) to specify 10 entities as MDBs.

JUSTIFICATIONS

4. After the publication of L.N. 230 of 2006 in the Gazette on 27 October 2006, the BCBS revised its list of MDBs² and the HKMA identified some other revisions to be incorporated at the same time. Consequently, the MA has published in the Gazette the Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2006, which amends L.N. 230 of 2006 to specify 13 MDBs in accordance with the most updated list of MDBs published by the BCBS. Compared with L.N. 230 of 2006, four entities (the European Investment Fund, the Islamic Development Bank, the Council of Europe Development Bank, and the International Finance Facility for Immunization) have been added and one (the Inter-American Investment Corporation) has been omitted in the new notice.

THE NOTICE

5. The Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2006 specifies 13 entities to be MDBs under section 2(19) of the Ordinance (as amended by the Banking (Amendment) Ordinance 2005).

LEGISLATIVE TIMETABLE

6. The notice was published in the Gazette on 17 November 2006 and will be tabled at LegCo on 22 November 2006 for negative vetting. Subject to the completion of the negative vetting process, it is intended that the notice shall come into operation on 1 January 2007, the same day appointed for the commencement of the Banking (Capital) Rules and the related provisions of the Ordinance.

IMPLICATIONS OF THE PROPOSAL

7. The notice is in conformity with the Basic Law, including the

¹ The Fourth Schedule contains detailed provisions on the calculation of liquidity ratio. The Third Schedule contains detailed provisions on the calculation of capital adequacy ratio.

² Revisions to the BCBS's list are infrequent, but are not publicized in advance.

provisions concerning human rights. It has no financial or civil service, productivity, environmental or sustainability implications.

PUBLIC CONSULTATION

8. The HKMA has informed the banking industry of the proposed changes to the list of MDBs arising from the new list published by the BCBS. No specific comments have been received.

PUBLICITY

9. The HKMA will issue a letter to all authorized institutions and the industry associations informing them of the notice.

ENQUIRIES

10. Enquiries on this brief may be directed to Ms Rose Luk, Head (Banking Policy) of the HKMA at 2878 1638.

**Hong Kong Monetary Authority
Financial Services and the Treasury Bureau
17 November 2006**

L.N. 254 of 2006**BANKING (SPECIFICATION OF MULTILATERAL
DEVELOPMENT BANK) (AMENDMENT)
NOTICE 2006**

(Made by the Monetary Authority under section 2(19) of the Banking Ordinance (Cap. 155) as amended by the Banking (Amendment) Ordinance 2005 (19 of 2005))

1. Commencement

This Notice shall come into operation on 1 January 2007.

2. Specification of multilateral development bank

Section 2 of the Banking (Specification of Multilateral Development Bank) Notice (L.N. 230 of 2006) is amended by repealing paragraphs (a) to (j) and substituting—

- “(a) the International Bank for Reconstruction and Development;
- (b) the International Finance Corporation;
- (c) the Asian Development Bank;
- (d) the African Development Bank;
- (e) the European Bank for Reconstruction and Development;
- (f) the Inter-American Development Bank;
- (g) the European Investment Bank;
- (h) the European Investment Fund;
- (i) the Nordic Investment Bank;
- (j) the Caribbean Development Bank;
- (k) the Islamic Development Bank;
- (l) the Council of Europe Development Bank; and
- (m) the International Finance Facility for Immunization.”

Joseph C. K. YAM
Monetary Authority

10 November 2006

Explanatory Note

Under section 2(19) of the Banking Ordinance (Cap. 155), as amended by the Banking (Amendment) Ordinance 2005 (19 of 2005), the Monetary Authority may by notice published in the Gazette specify to be a multilateral development bank for the purposes of that Ordinance any bank or lending or development body established by agreement between, or guaranteed by, 2 or more countries, territories or international organizations other than for purely commercial purposes.

2. This Notice amends the Banking (Specification of Multilateral Development Bank) Notice (L.N. 230 of 2006) so as to make new specifications.