

Financial Secretary announces new measures to support confidence in the Hong Kong banking system

The Financial Secretary, Mr John C Tsang, announced today (October 14) two new precautionary measures to further strengthen confidence in Hong Kong's banking system:

First, the use of the Exchange Fund to guarantee the repayment of all customer deposits held in Authorized Institutions in Hong Kong, following the principles of the existing Deposit Protection Scheme, but including Restricted-Licence Banks and Deposit-Taking Companies as well as Licensed Banks.* The guarantee applies to both Hong Kong-dollar and foreign-currency deposits with Authorized Institutions in Hong Kong, including those held with Hong Kong branches of overseas institutions. It will cover the amount of deposits in excess of that protected under the Deposit Protection Scheme.

Secondly, the establishment of a Contingent Bank Capital Facility (CBCF) for the purpose of making available additional capital to locally incorporated licensed banks, on request and subject to supervisory scrutiny should this become necessary.

Both measures take immediate effect and will remain in force until the end of 2010 when a decision will be taken in the light of international financial conditions on whether they should be extended.

Mr Tsang stressed that he did not expect that the new measures would need to be triggered, since the Hong Kong banking sector was fundamentally sound.

Commenting on the measures, the Chief Executive of the Hong Kong Monetary Authority, Mr Joseph Yam, said that these were precautionary and pre-emptive measures designed to further strengthen confidence in the local banking system. "The banking sector in Hong Kong continues to be healthy and robust, with capitalisation well above international requirements. Public confidence in the banking system remains strong. However, events around the world in recent weeks make it prudent for us to introduce these arrangements to bolster confidence and safeguard banking stability. The measures are also consistent with global efforts to support financial stability," Mr Yam said.

*The guarantee covers all protected deposits as defined in the Deposit Protection Scheme Ordinance, Cap. 581, were the Ordinance to apply to all authorized institutions.

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