立法會
Legislative Council

LC Paper No. CB(1)1409/04-05(01)

Ref: CB1/BC/7/04

Bills Committee on Citibank (Hong Kong) Limited (Merger) Bill

Background brief

Purpose

This paper sets out the background of the Citibank (Hong Kong) Limited (Merger) Bill (the Bill).

The Bill

2. The Bill is a Member's bill introduced by Dr Hon David LI with the consent of the Acting Chief Executive.

3. The object of the Bill is to provide for the vesting in Citibank (Hong Kong) Limited (Citibank HK) of the retail banking business of Citibank N.A. in Hong Kong now operated through a branch in Hong Kong (Citibank HK Branch). Citibank HK is a wholly-owned subsidiary of Citibank N.A. and is carrying on a part of Citibank N.A.'s consumer businesses. After the proposed transfer, Citibank HK would carry on the retail banking business while Citibank HK Branch would continue to carry on its corporate banking business, private banking business and any other businesses other than retail banking business.

4. The Bill is generally similar to previously enacted bank merger ordinances.

Issues raised by Legislative Council Members

5. The Bill was discussed at the meeting of the Panel on Financial Affairs on 1 November 2004. To facilitate their consideration of the Bill, members requested the Member in charge and the Administration to provide information on the following:

(a) reasons for the proposed transfer of undertakings and whether they were compatible with government policy;

(b) impact of the proposed transfer on existing customers in Hong Kong, and whether they had been consulted;

(c) protection of customers' interest after the transfer in the event the assets of Citibank HK were insufficient to meet customers' claims;

(d) impact of the transfer on the existing staff, whether they had been consulted and whether there were any plans to lay off staff as a result of the transfer; and

(e) impact of the proposed transfer on capital requirements and level of supervision by the Hong Kong Monetary Authority.

Relevant extract of the minutes of meeting is attached at **Appendix I**.

6. Supplementary information paper provided by Dr Hon David LI has been circulated to members vide LC Paper No. CB(1)313/04-05(02). The paper is attached at **Appendix II** for members' easy reference. Members can also refer to LC Paper No. CB(1)313/04-05(03) issued on 23 November 2004 for supplementary information provided by the Administration.

7. At the meeting of the House Committee on 15 April 2005, some members raised concern about the protection of interest of dormant account holders of Citibank HK Branch as a result of the mandatory transfer effected by the Bill. Relevant extract of the minutes of meeting is attached at **Appendix III**.

8. A list of relevant papers with hyperlinks is at the **Appendix IV**.

Council Business Division 1
Legislative Council Secretariat
28 April 2005

Appendix I
LC Paper No. CB(1)567/04-05

(Extract)
Panel on Financial Affairs

Minutes of meeting
held on Monday, 1 November 2004 at 9:00 am
in the Chamber of the Legislative Council Building

Members present	**:**	Hon Bernard CHAN, JP (Chairman) Hon Ronny TONG Ka-wah, SC (Deputy Chairman) Hon James TIEN Pei-chun, GBS, JP Hon Albert HO Chun-yan Hon LEE Cheuk-yan Dr Hon David LI Kwok-po, GBS, JP Hon James TO Kun-sun Hon CHAN Kam-lam, JP Hon SIN Chung-kai, JP Hon Emily LAU Wai-hing, JP Hon Abraham SHEK Lai-him, JP Hon Jeffrey LAM Kin-fung, SBS, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS Hon CHIM Pui-chung Hon Albert Jinghan CHENG Hon TAM Heung-man
Members attending	:	Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP Hon Howard YOUNG, SBS, JP Hon LI Fung-ying, BBS, JP Hon WONG Kwok-hing, MH Hon LEE Wing-tat Hon Patrick LAU Sau-shing, SBS, JP Hon KWONG Chi-kin
Public officers attending	**:**	<u>Agenda Item IV</u> Mr Henry TANG, GBS, JP Financial Secretary Mr Frederick MA, JP Secretary for Financial Services and the Treasury

Mr Alan LAI, GBS, JP
Permanent Secretary for Financial Services and the Treasury (Treasury)

Miss Shirley YUEN
Administrative Assistant to Financial Secretary

Agenda Item V

Mr Joseph YAM, GBS, JP
Chief Executive
Hong Kong Monetary Authority

Mr Norman CHAN, SBS, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr Peter PANG, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr CHOI Yiu-kwan, JP
Deputy Chief Executive (Acting)
Hong Kong Monetary Authority

Agenda Item VI

Mrs Millie NG
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)

Mr Nelson MAN
Head, Banking Supervision Division 1
Hong Kong Monetary Authority

Attendance by invitation : Agenda Item VI

Citibank, N.A., Hong Kong

Mr Atul MALIK
Country Business Manager
Hong Kong & Macau

Ms Prudence HUANG
Chief Financial Officer
Hong Kong and Macau

		Mrs Betty TSOI Director, Corporate Quality Hong Kong & Asia Pacific Region
		<u>Allen & Overy</u>
		Mr Simon BERRY Partner
		<u>KPMG</u>
		Mr Charles KINSLEY Principal
Clerk in attendance	:	Miss Salumi CHAN Chief Council Secretary (1)5
Staff in attendance	:	Ms Connie SZETO Senior Council Secretary (1)4
		Ms May LEUNG Legislative Assistant
		<u>Agenda Item VI</u>
		Ms Bernice WONG Assistant Legal Adviser 1

Action

X X X X X X X X X

VI. Briefing on the draft Citibank (Hong Kong) Limited (Merger) Bill

(LC Paper No. CB(1)103/04-05(05) — Information note (including the draft Bill) provided by Dr Hon David LI)

<u>Briefing on the draft Bill</u>

71. At the invitation of the Chairman, <u>Dr David LI</u> and <u>Mr Atual MALIK, Country Business Manager, Hong Kong and Macau, Citibank N.A.</u> briefed members on the draft Citibank (Hong Kong) Limited (Merger) Bill (the Bill). <u>Dr LI</u> pointed out that he would introduce the Bill into LegCo as a Member's Bill. The need for the Bill arose from the decision of the Citibank group to transfer the activities, assets and liabilities which

constituted the retail banking business of Citibank N.A. (Citibank) located in Hong Kong, currently operated through a branch in Hong Kong, i.e. Citibank, Hong Kong Branch (Citibank(HKB)), to a wholly owned subsidiary of Citibank group of companies, i.e. Citibank (Hong Kong) Limited (Citibank(HKL)). He further pointed out that the increase in bank mergers in recent years was a reaction to the powerful market forces to transform the local banking industry. Dr LI took the opportunity to thank Members for their support for the previous bank merger bills, which had reinforced the international image of Hong Kong as an attractive centre for business and had helped to strengthen the local banking industry. Mr MALIK then highlighted the following points:

(a) The objective of the Bill was to transfer the activities, assets and liabilities which constituted the retail banking business of Citibank N.A. located in Hong Kong, currently operated through Citibank(HKB), to Citibank(HKL) which had been incorporated in Hong Kong and authorized under the Banking Ordinance (Cap. 155) as a restricted licence bank. Citibank(HKL)'s application for a full bank licence had just been approved by the Hong Kong Monetary Authority (HKMA);

(b) The Bill would enable Citibank to strengthen its ties and commitment to Hong Kong, and compete more effectively as a local bank in the local financial services sector;

(c) The proposed transfer by way of a Member's Bill would cause minimum impact on current customers, staff members and business partners of Citibank (HKB), and was the most efficient process for Citibank itself. The Bill was drafted on the basis of recently enacted merger ordinances; and

(d) There would be no leakage of taxation due to the Government arising from the proposed transfer and that Citibank(HKL) would continue to be taxed on the same basis as Citibank(HKB) at present. There would be no diminution of the scrutiny and accountability to which Citibank's Hong Kong retail banking operations were subject.

72. Upon the Chairman's invitation, the Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) (PAS/FST(FS)) advised that it was the Government's policy to support consolidation of the banking sector which would be conducive to enhancing the efficiency of the sector and the stability of the banking system in Hong Kong. In line with this policy, the Administration was in support of the Bill. The Head, Banking Supervision Division 1, HKMA (H(BSD)/HKMA) also confirmed that HKMA was in support of the Bill.

Discussion

Impact on customers

73. Noting that Citibank had been operating in Hong Kong for more than 100 years, Mr

Albert CHENG was concerned why Citibank had decided to transfer its retail banking business in Hong Kong to Citibank(HKL). Given that Citibank was a reputable international bank incorporated in the United States (US) with substantial share capital, but Citibank(HKL), being its subsidiary incorporated in Hong Kong, had been set up with much less capital, Mr CHENG was concerned whether interests of Citibank's customers in Hong Kong would be adversely affected by the proposed transfer, in particular the transfer of liabilities. He also sought clarification on whether the proposed transfer was an indication of Citibank's lack of confidence in Hong Kong, and whether Citibank was seeking to limit its potential liabilities to the customers in Hong Kong by operating through a subsidiary incorporated in Hong Kong.

74. Mr Atual MALIK stressed that Citibank had full confidence in Hong Kong and the Bill demonstrated the bank's commitment to Hong Kong. He also pointed out that Citibank(HKL) would expand its retail banking business in Hong Kong by opening more branches and employing more staff. Ms Prudence HUANG, Chief Financial Officer, Hong Kong and Macau, Citibank N.A. advised that the Bill would provide more protection to local depositors of Citibank. She explained that Citibank(HKL) was required to meet the capital requirements specified by HKMA for locally incorporated banks, while Citibank(HKB), which was operating in Hong Kong as a branch of an overseas incorporated bank, was not required to maintain physical assets in Hong Kong. She further advised that after the proposed transfer, the capital of Citibank(HKL) would be increased to between US$700 million to US$1 billion.

75. On the concern about the capital level of Citibank(HKL), H(BSD)/HKMA advised that capital adequacy requirement was imposed by HKMA on locally incorporated banks, including Citibank(HKL), to ensure that they maintained sufficient capital commensurate with the nature of their business and the risks they faced. However, Citibank(HKB) was not subject to the same requirement as it was not incorporated in Hong Kong. Nevertheless, it would be inappropriate to compare the capital level of Citibank(HKB) and Citibank(HKL) given the differences in their scale of operations and risk profiles.

76. Ms Mandy TAM asked whether Citibank's liabilities to its retail banking customers in Hong Kong would be limited to the capital level of Citibank(HKL) after the proposed transfer, and how customers' interests could be protected in the event that Citibank(HKL)'s assets were insufficient to meet customers' claims.

77. In response, Mr Simon BERRY, Partner, Allen & Overy explained that contractual rights of existing retail banking customers of Citibank(HKB) would remain substantially unchanged after the proposed transfer. As regards the concern about inability of Citibank(HKL) to meet customers' claims, although this would be a commercial matter for Citibank to comment on, Mr BERRY considered it unlikely that Citibank would allow its subsidiary to fall, as it would damage its business image.

78. Ms Emily LAU and Mr Albert HO were concerned about the impact of the proposed transfer on customers of Citibank in Hong Kong and enquired whether they had been consulted on the proposal. Mr Atual MALIK advised that Citibank had conducted opinion surveys of retail banking customers of Citibank(HKB) on the proposed transfer and the

responses were positive. Responding to Mr HO's enquiry, Mr MALIK confirmed that there would be no option for existing customers of Citibank(HKB) to exclude themselves from the proposed transfer exercise.

79. Ms Emily LAU enquired how the Administration would ensure the protection of customers' interests in the transfer exercise. H(BSD)/HKMA advised that the Bill would enhance the protection for customers in two aspects. Firstly, Citibank(HKL) would be required to meet the capital adequacy ratio set by HKMA for locally incorporated banks. Secondly, it would be subject to a number of supervisory requirements that were applicable to locally incorporated banks, such as the requirement to comply with limits on large exposures and connected lending, and the requirement to establish a board of directors. PAS/FST(FS) stressed that the Administration was mindful of the need to ensure that interests of the affected customers would be properly safeguarded during the transfer process. She assured members that relevant Government departments and public bodies had been consulted on the draft Bill and they had indicated their support. Moreover, Citibank was required to submit a due diligence opinion on the proposed transfer. The Department of Justice had to be satisfied that all transfer of property and liabilities between the parties concerned were done in accordance with the laws of Hong Kong and that there would be no adverse impact on the property rights of the parties concerned. These were prerequisites for seeking the consent of the Chief Executive to introduce the Bill into LegCo.

80. Responding to Ms Emily LAU's further enquiry, PAS/FST(FS) confirmed that the Privacy Commissioner for Personal Data had been consulted on the draft Bill and was satisfied that the proposed transfer would be in compliance with the statutory data protection principles. Moreover, the Administration was not aware of any customers' complaints about protection of personal data arising from the bank merger ordinances enacted in the past.

Reasons for the proposed transfer

81. Mr Ronny TONG was not convinced by the responses given by Citibank and the Administration. He did not believe that local customers would receive less protection if Citibank continued to operate its retail banking business in Hong Kong through Citibank(HKB). He enquired about the real reasons for the proposed transfer of assets and liabilities to Citibank(HKL) and why the proposed transfer was regarded as a "merger". He considered it important for the Administration to seek such information from Citibank and to examine whether the reasons were compatible with Government policy.

82. In response, PAS/FST(FS) and H(BSD)/HKMA pointed out that bank mergers and reorganizations in Hong Kong were commercial decisions. The role of the Government was to ensure that these activities would not undermine the general stability and effective working of the banking system and the protection of depositors. PAS/FST(FS) further explained that as the transfer of assets and liabilities between merging entities by way of novation or assignment would incur higher costs, and in the absence of a generic legislation governing bank mergers and reorganizations in Hong Kong, such activities had been effected through Member's Bills. She assured members that the Administration would

endeavour to ensure that the transfer of assets and liabilities between the merging entities would be done in accordance with the laws in Hong Kong and that the necessary requirements would be met.

Impact on staff

83. Ms Emily LAU expressed concern about the impact of the proposed transfer on staff of Citibank(HKB). She enquired whether the staff concerned had been consulted on the proposed transfer, and whether Citibank had any plans to lay off staff as a result of the transfer. Mr Atual MALIK responded that there had been no objection from the staff concerned on the reorganization proposal. All relevant staff of Citibank(HKB) had been employed by Citibank(HKL) on terms no less favourable than those which applied to them prior to the transfer. He re-iterated that Citibank(HKL) would continue to expand its business in Hong Kong and would employ more local staff.

Follow-up actions

84. Mr Ronny TONG suggested that Dr David LI, Citibank and the Administration be requested to provide a paper setting out clearly the reasons for the proposed transfer and whether the reasons were compatible with Government policy. Subject to the information provided in the paper, a bills committee might need to be formed to study the bill.

85. Ms Emily LAU said that while she had no objection to Dr David LI's proposal of introducing the Bill into LegCo, she considered that more information should be provided to facilitate Members' consideration of the Bill. Subject to the information provided, a bills committee might need to be formed to study the bill.

86. After discussion, the Chairman suggested and members agreed that Dr David LI, Citibank and the Administration be requested to provide a written response to address the major issues raised at the meeting, including those raised by Mr Ronny TONG.

> (*Post-meeting note:* At the suggestion of Ms Emily LAU after the meeting and with the concurrence of the Chairman, the Clerk invited Citibank to provide information on whether it had conducted similar transfer exercises for its retail banking business in other places; if it had, to provide details of the exercises; if it had not, to provide the reasons for conducting such a transfer exercise for the retail banking business in Hong Kong. The list of follow-up actions prepared by the LegCo Secretariat, and the written responses from Dr David LI and the Administration were circulated to members vide LC Paper No. CB(1)313/04-05 on 23 November 2004.)

x x x x x x x x x

立法會 CB(1)313/04-05(02)號文件
LC Paper No. CB(1)313/04-05(02)

23rd November, 2004

By Hand
Ms. Salumi Chan
Clerk to the Panel
Financial Affairs Panel
Legislative Council of the HKSAR
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Ms. Chan,

Follow-up to meeting on 1st November, 2004

Further to the letter from Ms. Connie Szeto on behalf of the Panel on Financial Affairs dated 3rd November, 2004, I have the pleasure of enclosing the attached response to the questions that arose following the briefing on the draft Citibank (Hong Kong) Limited (Merger) Bill at the meeting of the Panel on 1st November, 2004.

I would be very grateful if you would arrange for this response to be circulated to Members for their review. I am pleased to confirm that the contents of the response may also be made available to the media, and to the public through the Council's normal channels.

Should Members require any further information, both Citibank N.A. and I would be very pleased to provide all necessary assistance.

Yours sincerely,

____
David K.P. Li

Encl.

c.c. Hon. Bernard Chan, JP (Chairman)
Hon. Ronny Tong, SC (Deputy Chairman)
Ms. Catherine Weir, Citigroup Corporate Officer, HK

CITIBANK (HONG KONG) LIMITED (MERGER) BILL

INFORMATION PAPER FOR MEMBERS OF THE PANEL ON FINANCIAL AFFAIRS LEGISLATIVE COUNCIL OF THE HONG KONG SAR

This paper seeks to address those questions to which the Legislative Council has requested a response from Citibank and myself further to the meeting of the Panel on Financial Affairs on 1 November, 2004, in relation to the Citibank (Hong Kong) Limited (Merger) Bill (**Bill**).

The Bill provides for the merger of the retail banking business of Citibank N.A., Hong Kong Branch (**Citibank N.A. Branch**) into Citibank (Hong Kong) Limited (**Citibank (Hong Kong)**), which is a wholly owned subsidiary of Citibank N.A. incorporated in Hong Kong. Unlike a number of other developed jurisdictions, Hong Kong does not have laws designed to facilitate a merger of this kind. In consequence, such merger may only be achieved by a merger-specific piece of legislation, or by business transfer. A merger effected through legislation causes the least disruption to customers and other persons doing business with the bank. Business transfers are uniquely unsuited to bank mergers in view of the potential disruption and inconvenience to customers and elements of legal uncertainty that would unavoidably arise.

Citibank (Hong Kong) already carries on a substantial part of Citibank's consumer businesses in Hong Kong, including its credit card and mutual fund businesses. The Bill will bring together the consumer businesses of Citibank in Hong Kong into a single corporate vehicle.

1. Please provide the reasons for the proposed transfer of the activities, assets and liabilities which constitute the retail banking business of Citibank N.A. in Hong Kong, currently operated through a branch in Hong Kong (Citibank N.A. Branch), to a wholly owned subsidiary within the Citibank group of companies (Citibank (Hong Kong)).

1.1 The merger provides a number of benefits for Citibank and for its customers in Hong Kong.

(a) Citibank has operated in Hong Kong for over 100 years and wishes to continue to expand its Hong Kong retail banking business. Citibank has or will open 11 new branches in Hong Kong in 2004. Citibank's immediate expansion plans include opening 10 more branches in 2005, and taking on more staff. This expansion requires substantial capital. The merger of Citibank’s consumer businesses within a single local subsidiary provides a tax-efficient way for Citibank to retain and re-invest the profits of the Hong Kong retail banking business in Hong Kong, as described below.

(b) Provided that the profits of Citibank in Hong Kong are generated in Hong Kong in a local subsidiary, it is open to Citibank to defer its liability for US taxation at a group level. Therefore, the merger will permit a greater accumulation of capital in Hong Kong devoted to local operations. Citibank conducted a bank-wide review of the legal form of its overseas operations in 2001/2002, following a US tax law change. The current initiative in Hong Kong began in earnest in 2003, as a direct result of this review.

(c) Whilst Citibank is not immediately qualified to benefit from CEPA, Citibank believes that future changes to the legal and regulatory environment in the PRC will tend to be of more direct and immediate advantage to Hong Kong-incorporated banks and their customers. Citibank intends to deploy all necessary resources in Hong Kong to ensure that both Citibank (Hong Kong) and the bank's customers are able to benefit from these potential advantages.

(d) As set out in the introduction above, Citibank (Hong Kong) already carries on a substantial part of Citibank's consumer businesses in Hong Kong, including its credit card and mutual fund businesses. Merging all Citibank's consumer businesses in Hong Kong into a single corporate vehicle will streamline the bank's relationships with its customers. Furthermore, the merged entity will be more efficient from a regulatory point of view, as it will allow regulators an integrated view of the business.

1.2 There are a number of matters that relate to the merger which, though not of themselves reasons for the merger, help to illustrate the business context in which Citibank's decision has been made.

(a) The merger reflects Citibank's confidence in Hong Kong as one of the leading and best regulated banking/financial markets in the Asia Pacific. As stated above, prior to embarking on the merger, Citibank carried out a careful evaluation of the business environment in Hong Kong. This study concluded that Hong Kong's respected regulatory regime and its growth as a regional financial centre, in particular in the years following 1997, made the Hong Kong Branch a leading candidate for local incorporation. The merger thus re-affirms Citibank's commitment to Hong Kong, its customers and employees. Only one other local branch was identified as suitable for local incorporation at the same time as Hong Kong: Singapore.

(b) There is a rising trend worldwide for international financial institutions to transfer their local retail banking business to local subsidiaries. From a regulatory point of view, a locally incorporated bank is seen as more manageable than the branch of an overseas bank. New Zealand is a good example. In October this year, the Reserve Bank of New Zealand ("RBNZ") introduced the "Local Incorporation Policy". This requires that certain "important banks" be incorporated in New Zealand. RBNZ provides the following rationale: with local incorporation, "there would be more legally certain and rapid access to the assets and liabilities of the New Zealand bank. Local incorporation also facilitates more effective governance, given that a locally incorporated bank has a local board of directors with a duty to act in the best interests of the New Zealand bank. In addition, local incorporation facilitates more meaningful and complete disclosure of the affairs of the bank in New Zealand".

(c) The merger is intended to be tax neutral as far as Hong Kong taxation is concerned.

2. Please confirm whether Citibank has conducted similar transfer exercises for its retail banking business in other places; if it has, please provide details of the exercises; if it has not, please provide the reasons for conducting such a transfer for its retail banking business in Hong Kong

2.1 Citibank operates retail banking businesses in many countries around the world outside the United States. Citibank's retail banking business already operates through subsidiaries in Australia, Korea, Malaysia, most major European countries including Germany and the United Kingdom, and also in a number of Latin American countries. Citibank is also in the process of transferring its Singapore retail banking business to a Singapore incorporated subsidiary. In this context, the proposed merger under the Bill is part of a wider reorganization process in relation to Citibank's businesses outside the United States.

3. Please set out the impact of the proposed transfer, in particular the transfer of liabilities, on the existing customers of Citibank N.A. Branch, and explain how customers' interests would be protected after the proposed transfer.

3.1 Citibank believes that (i) the merger will have no negative impact on customers and (ii) operating via a local subsidiary serves to enhance the protection of customers in their dealings with the bank.

(a) There will be no changes to accounts, approved credit lines or other products and services provided to the customers of the retail business.

(b) Customers' contractual rights will remain unchanged as a result of the passing of the Bill, save that their claims will be against Citibank (Hong Kong) rather than Citibank N.A. Branch. The principal recourse today for Hong Kong customers of Citibank Branch is in Hong Kong courts, because the Hong Kong Branch is the obligor of the deposit. When a customer opens an account with a local subsidiary, the local subsidiary will become the principal obligor, and the customer recourse will continue to be in Hong Kong courts.

(c) Citibank (Hong Kong) is a fully licensed bank subject to direct supervisory regulation by the Hong Kong Monetary Authority. As a locally incorporated bank, Citibank (Hong Kong) is required, among other things, to establish a local board of directors and to appoint 3 independent non-executive directors. Corporate governance of the local subsidiary will thus be enhanced following the merger.

(d) With the merger, a new Hong Kong retail bank will emerge which, in accordance with the requirements of the Hong Kong Monetary Authority, will be capitalised to reflect the extent of its business in Hong Kong and the risks to which it is subject. It is estimated that the capital of Citibank (Hong Kong) will be increased from less than US$100 million to between US$700 and US$1,000 million as part of the transfer exercise. This represents a commitment of capital to Hong Kong which will be available solely to creditors of Citibank (Hong Kong).

(e) Citibank (Hong Kong) will be required to maintain a Capital Adequacy Ratio (**CAR**)[1] at a level specified by the Hong Kong Monetary Authority. It will be higher than the statutory minimum and comparable to other locally incorporated banks in Hong Kong. The level will in fact be substantially higher than the CAR of its parent bank, which was 12.56% at end of 2003.

[1]This is expressed as the capital adequacy ratio which is the ratio of the bank’s capital base (i.e., paid-up capital plus other recognized core and supplementary capital items) over its risk-weighted exposures (on-balance assets and selected off-balance sheet exposures).

(f) It is in Citibank N.A.'s strong interest that Citibank (Hong Kong) meets its financial obligations at all times. It is Citibank N.A.'s policy to provide its subsidiaries with such support and assistance as may be required to ensure that they maintain capital and liquidity levels to enable them at all times to meet their obligations in conformity with standards of prudence generally accepted for their field of business, provided that the subsidiary is not precluded from meeting such obligations due to compliance with the laws to which it is subject.

(g) Citibank (Hong Kong) will participate in the deposit insurance scheme, which will be introduced in 2006. The fact that the Deposit Protection Scheme premium is risk-based solely on the Hong Kong operation imposes a strong financial incentive on the local entity to be recognized as sound in all aspects, and to earn the top ranking from the Hong Kong Monetary Authority.

3.2 Members raised the question of a possible claim against Citibank (Hong Kong) for an amount greater than the level of assets and capital available to meet the claim, and suggested that customers might be better protected by having a continued relationship with Citibank N.A. Branch. In relation to such possible claim, Citibank would note that:

(a) Citibank (Hong Kong) is a wholly owned subsidiary of Citibank N.A., and is integrated within Citibank's worldwide business for operational purposes in exactly the same way as Citibank N.A. Branch;

(b) As stated above, it is in Citibank N.A.'s strong interest that Citibank (Hong Kong) meet its financial obligations at all times. Thus practical considerations relevant to any very large contractual claim made against Citibank's Hong Kong retail banking business, whether before or after subsidiarization, are substantially the same;

(c) In each case of claim, the ultimate issue is the prudential regulation of capital requirements by the Hong Kong Monetary Authority. Banking supervisors do not measure capital adequacy of banks by the absolute amount of capital they are holding. Rather, they use capital adequacy ratio (CAR), which measures the size of a bank’s capital against the size of its risk assets. It is the intention of Citibank (Hong Kong) to maintain a CAR that is above or in line with the average for locally incorporated authorized institutions; and

(d) Citibank N.A.’s capital may be subject to claims arising from operations in a number of jurisdictions and from a number of different businesses, and is likewise exposed to a wide variety of economic risks. In contrast, the capital of Citibank (Hong Kong) is effectively reserved for claims by customers and other creditors of Citibank (Hong Kong), while being subject to the regulatory supervision of the Hong Kong Monetary Authority.

3.3 Members have also asked whether Citibank is somehow seeking to limit its potential liabilities to customers by operating through a Hong Kong subsidiary.

Citibank is very clear that this is not one of Citibank's objectives for the reasons below.

(a) Citibank (Hong Kong) is a locally incorporated entity and has obtained a full banking licence issued by the Hong Kong Monetary Authority. The consequence of this is that the level of regulation and governance to which Citibank's Hong Kong retail operations will be subject after the transfer to Citibank (Hong Kong) will in fact be increased. Such regulation and governance have the primary objective of safeguarding the interests of customers.

(b) The new requirements on capital adequacy to which Citibank's Hong Kong retail banking operation will be subject when it is merged into Citibank (Hong Kong), and Citibank N.A.'s continual support to Citibank (Hong Kong) going forward are described in 3.1(f) above.

4. Please confirm whether the existing customers of Citibank N.A. Branch have been consulted on the proposed transfer; if they have, please provide the outcome of the consultation; if they have not, please provide the reasons

4.1 Given the large number of retail banking customers, it is difficult to seek the affirmative consent of all customers. However:

(a) Citibank has conducted surveys of local customers, which indicated that nearly 90% of those customers had no objection to the merger;

(b) When Citibank (Hong Kong) received its full banking licence on 28th October 2004, a public announcement was made. At the same time, it was also announced publicly that the retail banking business would be merged with Citibank (Hong Kong). Customers did not raise any concerns with Citibank;

(c) Customers will be given written notice in advance of the specific details of the merger, and provided with information about the effect of the merger upon them. In addition, a bi-lingual help line will be set up for customers if they have queries, and further public announcements will be made; and

(d) Customers who do not wish to maintain accounts with Citibank (Hong Kong) will have the option of closing their accounts (subject to settlement of amounts owed by them to Citibank (Hong Kong)), and Citibank will assist them to transfer their accounts to another bank.

5. Please confirm whether the existing staff members of Citibank N.A. Branch have been consulted on the proposed transfer; if they have, please provide the outcome of the consultation; if they have not, please provide reasons.

Employees affected by the transfer have affirmatively consented to the transfer of their employment. This has taken place already. There has been no reduction in staff numbers. In fact, Citibank (Hong Kong) has taken on more than 300 additional local staff in 2004 and plans to take on more local staff in 2005. All staff are already employed by Citibank (Hong Kong) on terms no less favourable than those which applied prior to the transfer. Staff will not be affected by the enactment of the Bill.

Dr. Hon. David Li Kwok-po, GBS, JP
22 November 2004

Appendix III

LC Paper No. CB(2)1319/04-05

Extract from the minutes of the House Committee meeting on 15 April 2005

X X X X X X X X X

II. Matters arising

(b) Citibank (Hong Kong) Limited (Merger) Bill

(Paragraphs 28 to 34 of the minutes of the 22nd House Committee meeting on 8 April 2005)

[Previous paper:

LC Paper No. LS 47/04-05 issued vide LC Paper No. CB(2) 1218/04-05 dated 7 April 2005]

4. The Chairman said that at the request of Mr James TO at the last meeting, Members agreed to defer a decision on the Bill to this meeting.

5. Mr James TO said that Members belonging to the Democratic Party (DP) had studied the Bill. They were concerned about the impact on the existing customers, as enactment of the Bill would impose a mandatory transfer of the retail banking business of Citibank N.A., which was a national banking association organised under the laws of the United States, to Citibank (Hong Kong) Limited, which was a local bank.

6. Mr Albert HO said that Members belonging to DP needed more time to study the Bill and consider whether certain technical amendments should be moved. If their concerns could be satisfactorily addressed, it would not be necessary to set up a Bills Committee. Mr HO suggested that a decision on the Bill be deferred for another week.

7. The Chairman said that if Members had concerns about a bill, they should consider setting up a Bills Committee to study it.

8. Ms Emily LAU said that she did not have strong views about this Bill. She asked whether a Bills Committee should be formed, so that the concerns of Members belonging to DP could be discussed in an open manner at meetings of the Bills Committee.

9. Mr Albert HO said that he was given to understand that there was some urgency in enacting the Bill, as similar transfers of the Bank had already been effected in other East Asian countries. He was concerned that setting up a Bills Committee might delay enactment of the Bill. However, he had no objection to discussing the concerns raised by Members belonging to DP at open meetings. Mr HO suggested that the Bill be discussed at a meeting of the relevant Panel, similar to the arrangement for the Bank of China (Hong Kong) Limited (Merger) Bill.

10. The Chairman said that one reason why a Bills Committee was not set up to study the Bank of China (Hong Kong) Limited (Merger) Bill was that a Bills Committee slot was not available at that time. If a Bills Committee was to be formed to study the Citibank (Hong Kong) Limited (Merger) Bill, it could commence work immediately, as slots were available. The Chairman added that if the concerns could be dealt with at one or two meetings, enactment of the Bill would not be delayed.

11. Mr Howard YOUNG said that it would be more efficient and appropriate for Members' concerns to be discussed by a Bills Committee, especially if amendments to the Bill were being considered.

12. Dr David LI said that the Bill was similar to the Standard Chartered Bank (Hong Kong) Limited (Merger) Bill, which was enacted in 2004, and Members did not raise any queries on that Bill.

13. Mr CHAN Kam-lam said that the Bill would mainly affect its existing customers and did not involve issues of wide public concern. Mr CHAN pointed out that enactment of the Bill would not impose a mandatory requirement for existing customers to continue their patronage of the Bank. Mr CHAN further said that it was neither appropriate nor fair to the organisation concerned for some Members to discuss their concerns about a bill with the organisation in private. Mr CHAN added that such an approach would not necessarily achieve the purpose of not delaying resumption of Second Reading debate on a bill. Mr CHAN considered that a Bills Committee should be formed to scrutinise the Bill.

14. Mr James TIEN said that although Members belonging to the Liberal Party (LP) did not have problems with the Bill, they did not object to forming a Bills Committee, if clarification on certain aspects of the Bill was necessary.

15. The Chairman proposed that a Bills Committee be formed. Members agreed. The following Members agreed to join: Mr James TIEN, Dr David LI, Mr James TO, Mr CHAN Kam-lam, Mr SIN Chung-kai, Ms Emily LAU, Mr Ronny TONG and Mr Albert CHENG.

X X X X X X X X X

Appendix IV

Bills Committee on Citibank (Hong Kong) Limited (Merger) Bill

List of relevant papers
(Position as at 21 April 2005)

Paper	LC Paper No.
Information note (including the draft Bill) provided by Dr Hon David LI for the meeting of the Panel on Financial Affairs on 1 November 2004	CB(1)103/04-05(05)
List of follow-up actions prepared by the Legislative Council Secretariat	CB(1)313/04-05(01)
Supplementary information paper provided by Dr Hon David LI	CB(1)313/04-05(02)
Supplementary information provided by the Administration	CB(1)313/04-05(03)
Minutes of meeting of the Panel on Financial Affairs on 1 November 2004 (Item VI)	CB(1)567/04-05
Legislative Council Brief on Citibank (Hong Kong) Limited (Merger) Bill provided by Hon Dr David LI	Dated 1 April 2005
Legal Service Division Report on Citibank (Hong Kong) Limited (Merger) Bill	LS47/04-05
Minutes of meeting of the House Committee held on 8 April 2005 (paragraphs 28 to 34)	CB(2)1261/04-05
Minutes of meeting of the House Committee held on 15 April 2005 (paragraphs 4 to 15)	CB(2)1319/04-05