

立法會
Legislative Council

LC Paper No. CB(1)1450/04-05

Ref: CB1/BC/7/04

**Paper for the House Committee meeting
on 6 May 2005**

**Report of the Bills Committee on
Citibank (Hong Kong) Limited (Merger) Bill**

Purpose

This paper reports on the deliberations of the Bills Committee on Citibank (Hong Kong) Limited (Merger) Bill (the Bill).

The Bill

2. The Bill is a Member's bill introduced by Dr Hon David LI. 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"). 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.

The Bills Committee

3. The House Committee agreed at its meeting on 15 April 2005 to form a Bills Committee to study the Bill. Chaired by Hon James TIEN, the Bills Committee held a meeting with Citibank (HK) and the Administration to discuss the Bill. The membership list of the Bills Committee is in **Appendix**.

Deliberations of the Bills Committee

4. The Bills Committee notes that concerns have been raised by members of the Panel on Financial Affairs (the Panel) in relation to the reasons for the

proposed transfer and the protection of customers' interests upon the transfer. Hon Dr David LI and the Administration have respectively responded to members' queries. According to the supplementary information papers they provided to the Panel, the proposed transfer is part of a wider reorganization process in relation to the businesses of Citibank, N.A. outside the United States and Citibank, N.A. is not seeking to limit its potential liabilities to customers through the transfer, hence its contractual liabilities to claims made against the retail banking business in Hong Kong will be substantially the same as before the transfer. Citibank HK will be subject to the direct supervision by the Hong Kong Monetary Authority (HKMA) and needs to comply with HKMA's capital adequacy requirement for locally incorporated banks.

5. In the course of its deliberation, the Bills Committee has referred to the various issues brought up in the supplementary information papers and examined, in particular, the obligations of Citibank HK and the impact of the Bill on customers and on staff. The Bills Committee has also taken the opportunity to discuss with the Administration the best way to effect bank mergers and reorganizations in Hong Kong.

Capital requirements and level of supervision by HKMA

6. The Bills Committee notes that since Citibank HK is a fully licensed bank subject to the direct supervision by HKMA, it needs to comply with HKMA's capital adequacy requirement for locally incorporated banks. No such requirement is applicable to Citibank HK Branch as it is under the regulation of the US Federal Reserve Bank (i.e. the place of incorporation of Citibank, N.A.). As at 31 March 2005, Citibank HK has a paid-up share capital of HK\$2.7 billion which is substantially higher than the statutory minimum share capital requirement of HK\$300 million for locally incorporated banks. To reaffirm its commitment to Hong Kong, Citibank HK will increase its capital base from HK\$2.7 billion to HK\$5.4 billion as part of the transfer exercise and before the appointed day. The bank's capital base will also be reviewed from time to time to meet the capital adequacy ratio as regulated by HKMA.

7. The Bills Committee also notes that the HKMA will have more leverage, from a regulatory point of view, over a locally incorporated bank. Members asks HKMA to clarify its supervisory role in case either Citibank, N.A. or Citibank HK runs into financial difficulty. HKMA explains that it will be possible to ring-fence Citibank HK's operations from those of the remainder of the Citibank group, and hence limits its exposure. In case Citibank HK runs into financial difficulty, HKMA would negotiate with Citibank, N.A. on ways to improve the financial conditions of Citibank HK and, if applicable, require Citibank HK to meet the capital adequacy ratio.

Impact on customers

Consumers' rights and protection

8. In response to members' enquiry, HKMA affirms that the proposed transfer should not impact on consumers' rights and protection as the contractual rights of customers would not be changed as a result of the Bill.

9. Citibank HK also states that there will be no change to accounts, approved credit lines or other products and services provided to the customers of the retail business, as well as their relevant terms and conditions as a result of the Bill. It is in Citibank, N.A.'s interest that Citibank HK meets the financial obligations at all times. By the proposed transfer, the level of regulation and governance to which retail banking operations will be subject would be increased. Such regulation and governance have the primary objective of safeguarding the interests of customers.

10. The Bills Committee notes that Citibank HK Branch does not provide performance bond or bank guarantee to third party as part of its retail banking business. There are no legal proceedings involving Citibank HK Branch in respect of its retail banking business with a claim exceeding HK\$1 million.

Dormant account holders

11. The Bills Committee also addresses the concern raised at the House Committee meeting about the protection of the interest of dormant account holders of Citibank HK Branch. Given that Citibank, N.A. is a bank incorporated in the United States with substantial share capital, there is concern that the protection to dormant account holders would be diminished upon the transfer of their accounts to Citibank HK. Unlike active account holders, dormant account holders by their nature are not contactable upon notification.

12. Citibank HK explains that the bank regards an account as dormant if it has no transactions within six months or where the bank has lost contact with the account holder. It has reviewed the situation and made much effort to contact the dormant account holders of Citibank HK Branch. As at 29 April 2005, there are 518 dormant account holders involving HK\$2.2 million. To ensure protection for these customers, Citibank HK will maintain a matching escrow account of the same amount in these dormant accounts with Citibank HK Branch when these accounts are transferred to Citibank HK.

Impact on staff

13. The Bills Committee has also enquired about the position of the staff under the employ of Citibank HK Branch upon the transfer. Citibank HK confirms that all relevant employees have consented to the transfer of their

employment to Citibank HK. All staff is now employed by Citibank HK on terms no less favourable than before and there has been no reduction in the number of staff.

New mechanism to effect bank mergers

14. As a related issue, the Bills Committee has also examined the need for the Administration to formulate a generic legislation governing bank mergers and reorganizations in Hong Kong. Some members take the view that given the degree of technicality involved, it is undesirable to effect bank mergers and reorganizations through Member's Bills.

15. The Administration notes the concern raised by the Bills Committee, and advises that the matter is being studied by the Financial Services and the Treasury Bureau and HKMA in consultation with the banking industry. The Administration undertakes to report the findings of the study to the Panel within the next few months.

Recommendation

16. The Bills Committee supports the resumption of the Second Reading debate on the Bill at the Council meeting on 25 May 2005. No Committee Stage amendment would be moved by the Bills Committee.

Advice sought

17. Members are requested to support the recommendations of the Bills Committee at paragraph 16 above.

Council Business Division 1
Legislative Council Secretariat
5 May 2005

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

Membership List

Chairman Hon James TIEN, GBS,JP

Members Hon Albert HO Chun-yan
Dr Hon David LI Kwok-po, GBS,JP
Hon Bernard CHAN, JP
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai, JP
Hon Emily LAU Wai-hing, JP
Hon Ronny TONG Ka-wah, SC

(Total : 8 Members)

Clerk Ms Alice AU

Legal Adviser Ms Bernice WONG

Date 29 April 2005