

**Subcommittee on Banking Ordinance
(Amendment of Seventh Schedule) Notice 2012**

**Administration's Response to Follow-up Issues of the
Meeting held on 12 June 2012**

At the meeting of the Sub-committee on the Banking Ordinance (Amendment of Seventh Schedule) Notice 2012 (Notice) on 12 June 2012, Members expressed concern that, if the requirement that applicants for authorization to carry on banking business in Hong Kong must have customer deposits of not less than HK\$3 billion is removed, overseas banks with no history of taking deposits could do so in Hong Kong, possibly increasing risks to local depositors. Members therefore asked the HKMA to consider whether it could impose conditions on authorization in such cases to address this risk.

2. In response, the Administration explained that:

- There are better, and more widely accepted international measures of the financial soundness of banks, including tier-1 capital and capital adequacy ratios. These are already included in the Seventh Schedule to the Banking Ordinance and the Basel framework, which does not include minimum-deposit requirements. The Hong Kong banking sector currently has an aggregate capital adequacy ratio well in excess of the statutory minimum.
- The Banking Ordinance also contains stringent criteria to be applied in assessing licensing applications, including tests of the fitness and propriety of shareholder controllers, directors and senior executives, and requirements to have adequate systems of control, adequate financial resources, adequate liquidity, provisions and accounting systems.
- Deposits in Hong Kong are covered by the Deposit Protection Scheme up to the level of \$500,000 per depositor per institution. (This covers 90% of all depositors.)
- It would be unusual for an overseas applicant that did not take deposits as part of its normal business to apply to do so in Hong Kong. If such an application were received, the HKMA would examine the applicant's proposed business model, including its management, internal controls and systems, very carefully before deciding whether to grant authorization.

3. In addition, Members may wish to note that, in its normal supervision of banks, the HKMA imposes measures, including limits on intra-group exposures and requirements on holding of liquid assets, designed in part to control banks' ability to funnel deposits taken in Hong Kong to parents or affiliates outside Hong Kong.

4. Nevertheless, to address Members' concerns, the HKMA proposes to include the following paragraph in its Guideline on Minimum Criteria for Authorization (Guideline), issued under section 16(10) of the Banking Ordinance:

“Where an overseas applicant proposes to undertake deposit-taking business in Hong Kong, but is unable to demonstrate that it has sufficient experience of operating such business in its home jurisdiction, the Monetary Authority (MA) will require the applicant to explain in detail its business case for the proposed deposit-taking business. In the event that the MA is minded to approve the application, the MA may impose conditions in the interest of depositors limiting the scope of or the way in which the applicant may conduct its deposit-taking business in Hong Kong.”

5. The Guideline is issued to assist prospective applicants for authorization to conduct banking business in Hong Kong. It contains the Monetary Authority's requirements and policies in respect of applications for authorization. The Guideline will be amended to reflect the changes contained in the Notice. The above paragraph will be included at the same time and the amended Guideline published in the Gazette.

6. We trust that this will help to address the concerns expressed by Members.

**Financial Services and the Treasury Bureau
Hong Kong Monetary Authority
13 June 2012**