

For Information

Legislative Council Panel on Financial Affairs

**Handling of the Issuance of the
Commemorative Banknotes by the Bank of China (Hong Kong)
to Celebrate the 100th Anniversary of Bank of China**

The paper seeks to address the questions raised in the letter of 17 February 2012 from Hon Albert Chan to the Legislative Council Panel on Financial Affairs regarding the handling of the issuance of the commemorative banknotes by the Bank of China (Hong Kong) (“BOCHK”) to celebrate their 100th anniversary of Bank of China.

Whether there are any rules regulating the issuance of commemorative banknotes by local banks and the department responsible for implementing such rules

2. The Hong Kong Monetary Authority (“HKMA”) is the department responsible for vetting applications for issuing commemorative notes. In considering such an application, the HKMA will take into account the justifications for issuing commemorative notes, the design, security features and issue size of such commemorative notes. The HKMA will also require the relevant note-issuing bank to observe certain important principles, including fair, open and proper sales arrangement, and donation of all proceeds to charity after being audited by independent auditors and deducting relevant expenses.

Justifications for approving the BOCHK to issue commemorative banknotes

3. The BOCHK issued the commemorative banknotes to mark the 100th anniversary of Bank of China and the net proceeds will be donated to local charities. These justifications are in line with the principles adopted by the HKMA.

Causes of the disorderly situation seen during the distribution of purchase passes by the BOCHK

4. The sales arrangement of the commemorative notes was made with reference to the experience from the previous sale of the Olympic Notes. During the sale of the Olympic Notes, it was noted that the demand for single notes from the public was far less than that for uncut notes. Therefore, arrangements were made by the BOCHK that only single notes would be sold at branches while uncut notes would be sold by subscription and drawing of lots. However, demand for the single notes far exceeded the bank's expectation and there were already a multitude of people queuing up for the commemorative banknotes on the first day of the sales period. Public order and branch operation were affected as a result. The BOCHK had apologized to the shops and residents in the neighbourhood of its branches for the inconvenience caused. With lessons learnt from this incident, the HKMA will require note-issuing banks to make appropriate sales arrangements when issuing commemorative banknotes in future so as to ensure public order and normal banking operation.

BOCHK's measures to ensure that its agents, sub-contractors or third-party service providers would refrain from using the personal information of the subscribers for the commemorative banknotes for promotional or sales purpose

5. All of the work in relation to the subscription for commemorative banknotes has been carried out internally by the BOCHK. Only the printing of notifications to successful subscribers for uncut notes has been outsourced to one of the bank's authorized service providers. The contract between the BOCHK and the service provider contains clear provisions regarding customer data confidentiality which forbid the service provider from disclosing customers' personal information or making use of such information for promotional and sales purposes. The bank will also assign its staff to carry out on-site monitoring of the service provider in order to ensure the confidentiality of customer information. In addition, all personal information collected will be destroyed under the supervision of the bank's staff after completion of the sales process and the auditing of the income and expenditure account by auditors.

Whether there are any rules to require banks to disclose the use of proceeds from the sale of commemorative notes

6. As mentioned above, all proceeds from the sale of commemorative notes issued by note-issuing banks must be donated to local charities after deducting relevant expenses and being audited by auditors. Net proceeds from the previous two issuances of commemorative notes, namely, the Standard Chartered Hong Kong 150th Anniversary Commemorative Charity Banknote and the Bank of China Beijing 2008 Olympic Commemorative Banknote, totalled HK\$450 million. Beneficiaries included the Community Chest of Hong Kong, Tung Wah Group of Hospitals and other welfare and charitable organizations in Hong Kong. The BOCHK has stated clearly in the promotional materials of its commemorative banknotes that net proceeds will go to the BOCHK Charitable Foundation and other local charitable organizations.

Whether there are any supervisory measures to ensure that the proceeds from the sale of the commemorative banknotes by the BOCHK will be donated to charity and the department responsible for the supervision

7. The HKMA will require the note-issuing bank to engage an independent auditor to audit the income and expenditure account of the sale of commemorative notes to ensure that the net proceeds will all be donated to charity and the bank will have to submit auditor's report to the HKMA annually until all net proceeds are donated.

**Financial Services and the Treasury Bureau
Hong Kong Monetary Authority
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