Jurisdiction: Hong Kong SAR

2019 IMN Survey of National/Regional Progress in the Implementation of G20/FSB Recommendations

National authorities from FSB member jurisdictions should complete the survey and submit it to the FSB Secretariat (imn@fsb.org) by **Friday, 12 July** *(representing the most recent status at that time).* The Secretariat is available to answer any questions or clarifications that may be needed on the survey. Please also provide your contact details for the person(s) completing the survey and an index of abbreviations used in the response.

National authorities are expected to submit the information to the FSB Secretariat using the Adobe Acrobat version of the survey. The Microsoft Word version of the survey is also being circulated to facilitate the preparation/collection of survey responses by relevant authorities within each jurisdiction.

Jurisdictions that previously reported implementation as completed in a particular recommendation are not required to include information about progress to date, main developments since last year's survey or future plans. Revisions to previously included text or descriptions of relevant developments and new reforms to enhance the existing framework in that area can be made as needed, but this is optional and should not lead to a downgrade from implementation completed to ongoing, unless these reverse previously implemented reforms. Jurisdictions that do not report implementation as completed are required to include full information both in the "Progress to date" and "Update and next steps" tables.

As with previous IMN surveys, the contents of this survey for each national jurisdiction will be published on the FSB's website. Such publication is planned at around the time of the October 2019 G20 Finance Ministers and Central Bank Governors meeting. The FSB Secretariat will contact member jurisdictions in advance to check for any updates or amendments to submitted responses before they are published.

1. Registration, appropriate disclosures and oversight of hedge funds

G20/FSB Recommendations

We also firmly recommitted to work in an internationally consistent and non-discriminatory manner to strengthen regulation and supervision on hedge funds. (Seoul)

Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management. (London)

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2016 IMN survey. Given this, the reporting of progress with respect to this recommendation will not be collected in the 2019 survey.

2. Establishment of international information sharing framework

G20/FSB Recommendations

We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009. (London*)*

Remarks

Jurisdictions should indicate the progress made in implementing recommendation 6 in IOSCO's *Report on Hedge Fund Oversight (Jun 2009)* on sharing information to facilitate the oversight of globally active fund managers.

In addition, jurisdictions should state whether they are:

- Signatory to the IOSCO MMoU in relation to cooperation in enforcement
- Signatory to bilateral agreements for supervisory cooperation that cover hedge funds and are aligned to the 2010 IOSCO *Principles Regarding Cross-border Supervisory Cooperation*.

Jurisdictions can also refer to Principle 28 of the 2017 IOSCO Objectives and Principles of Securities Regulation, and take into account the outcomes of any recent FSAP/ROSC assessment against those Principles.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** Ongoing

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ◉ Final rule (for part of the reform) in force since 6.2014

2. Establishment of international information sharing framework

Progress to date

Issue is being addressed through

- ☐ Primary / Secondary legislation
- ☐ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(SFC) Per FSAP's report in June 2014, HK has fully implemented IOSCO principle 28 - "Hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight" The SFC has cooperation agreements with major jurisdictions through the IOSCO MMoU, including e.g. Cayman Islands where hedge funds managed by SFC-licensed hedge fund managers are typically located. The SFC also has bilateral MoUs with various international securities regulators. The SFC is a signatory to the IOSCO MMoU and EMMoU. The SFC is also a member of the IOSCO Committee 5 on Investment Management and its hedge fund sub-group.

(HKMA) The HKMA is a signatory to the Alternative Investment Fund Managers Directive (AIFMD) MoU.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

2. Establishment of international information sharing framework

Update and next steps

Highlight **main developments since last year's survey**

(SFC) The SFC continues to participate in the IOSCO Committee 5 hedge fund sub-group. The SFC has also provided aggregate data for the IOSCO Hedge Fund Survey. The SFC and the China Securities Regulatory Commission (CSRC) have entered into a MoU in November 2018 regarding the cooperation and exchange of information in connection with the supervision and oversight of regulated entities of the CSRC or the SFC that operate on a cross-boundary basis in Hong Kong and Mainland.

The SFC has entered into a MoU with the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) on 9 May 2018 providing for consultation, cooperation and exchange of information in connection with the supervision and oversight of cross-border regulated entities in Hong Kong and Germany.

Planned actions (if any) and expected commencement date

Relevant web-links

Web-links to relevant documents	FSAP's report https://www.imf.org/external/pubs/ft/scr/2014/cr14205.pdf Overseas collaboration: http://www.sfc.hk/web/EN/about-the-sfc/collaboration/overseas/ Mainland collaboration: https://www.sfc.hk/web/EN/about-the-sfc/collaboration/mainland/

3. Enhancing counterparty risk management

G20/FSB Recommendations

Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures. (London)

Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties. (Rec. II.17, FSF 2008)

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2018 IMN survey. Given this, the reporting of progress with respect to this recommendation will not be collected in the 2019 survey.

4. Strengthening of regulatory and capital framework for monolines

G20/FSB Recommendations

Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit. (Rec II.8, FSF 2008)

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2016 IMN survey. Given this, the reporting of progress with respect to this recommendation will not be collected in the 2019 survey.

5. Strengthening of supervisory requirements or best practices for investment in structured products

G20/FSB Recommendations

Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products. (Rec II.18, FSF 2008)

Remarks

Jurisdictions should indicate the due diligence policies, procedures and practices applicable for investment managers when investing in structured finance instruments and other policy measures taken for strengthening best practices for investment in structured finance products.

Jurisdictions may reference IOSCO's report on *Good Practices in Relation to Investment Managers' Due Diligence When Investing in Structured Finance Instruments (Jul 2009)*.

Jurisdictions may also refer to the Joint Forum report on *Credit Risk Transfer-Developments from 2005-2007 (Jul 2008)*.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ● **Implementation completed as of** 30.06.2016 Supervis

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

5. Strengthening of supervisory requirements or best practices for investment in structured products

Progress to date

Issue is being addressed through

- ☑ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) For institutional investors who are deposit-taking institutions supervised by the Hong Kong Monetary Authority (HKMA), there are supervisory guidelines that require the institutions to implement appropriate policies, procedures, monitoring and controls to manage the risks associated with the credit activities (e.g. Supervisory Policy Manual CR-G-1 on "General principles of credit risk management"). The supervisory guidance on "Credit Risk Transfer Activities" issued on 30 June 2016 also supplements existing guidance on credit risk management with sound practices on due diligence when participating in activities associated with securitization and credit derivatives and incorporates the latest international standards including the recommendations made in the Joint Forum report on Credit Risk Transfer- Developments from 2005-2007 (July 2008).

(SFC) The Financial Resources Rules (FRRs) impose a capital charge requirement on SFC licensed corporations' investment in structured products. The SFC's Code of Conduct has provisions on disclosure and transparency requirements in relation to the sale of investments products to enhance the protection provided to the investing public. Please refer to the SFC's Code of Conduct in the web-links section below for details.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

5. Strengthening of supervisory requirements or best practices for investment in structured products

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
	(IA) The IA will issue relevant guidance as appropriate, taking into account the local circumstances.

Relevant web-links

Web-links to relevant documents	HKMA Supervisory Policy Manual: http://www.hkma.gov.hk/eng/key-functions/banking-stability/supervisory-policy-manual.shtml SFC's Code of Conduct http://www.sfc.hk/web/EN/assets/components/codes/files-current/web//code-of-conduct-for-persons-licensed-by-or-registered-with-the-securities-and-futures-commission/code-of-conduct-for-persons-licensed-by-or-registered-with-the-securities-and-futures-commission.pdf

6. Enhanced disclosure of securitised products

G20/FSB Recommendations

Securities market regulators should work with market participants to expand information on securitised products and their underlying assets. (Rec. III.10-III.13, FSF 2008)

Remarks

Jurisdictions should indicate the policy measures and other initiatives taken in relation to enhancing disclosure of securitised products, including working with industry and other authorities to continue to standardise disclosure templates and considering measures to improve the type of information that investors receive.

See, for reference, IOSCO's *Report on Principles for Ongoing Disclosure for Asset-Backed Securities (Nov 2012), Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities (Apr 2010)* and *report on Global Developments in Securitisation Regulations (November 2012)*, in particular recommendations 4 and 5.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 01.01.2012

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

6. Enhanced disclosure of securitised products

Progress to date

Issue is being addressed through

- ☐ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☐ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) The enhancement to disclosure requirements under Basel 2.5 were already incorporated in Hong Kong through amendment to the Banking (Disclosure) Rules which came into operation from 1 January 2012.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

6. Enhanced disclosure of securitised products

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date

Relevant web-links
Web-links to relevant documents

7. Consistent, consolidated supervision and regulation of SIFIs

G20/FSB Recommendations

All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards. (Pittsburgh)

Remarks

Jurisdictions should indicate: (1) whether they have identified domestic SIFIs and, if so, in which sectors (banks, insurers, other etc.); (2) whether the names of the identified SIFIs have been publicly disclosed; and (3) the types of policy measures taken for implementing consistent, consolidated supervision and regulation of the identified SIFIs.

Jurisdictions should not provide details on policy measures that pertain to higher loss absorbency requirements for G/D-SIBs, since these are monitored separately by the BCBS.

See, for reference, the following documents:

BCBS

- *Framework for G-SIBs (Jul 2018)*
- *Framework for D-SIBs (Oct 2012)*

IAIS

- *Global Systemically Important Insurers: Policy Measures (Jul 2013)* and *revised assessment methodology (updated in June 2016)*
- *IAIS SRMP guidance - FINAL (Dec 2013)*
- *Guidance on Liquidity management and planning (Oct 2014)*

FSB

- *Framework for addressing SIFIs (Nov 2011)*

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 01.01.2015

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

7. Consistent, consolidated supervision and regulation of SIFIs

Progress to date

Issue is being addressed through

- ☑ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) Secondary legislation: Banking (Capital) Rules implementing the Basel III Capital Conservation Buffer, the Countercyclical Capital Buffer and, for systemically important banks, a Higher Loss Absorbency requirement Guideline: Supervisory Policy Manual module CA-B-2 "Systemically Important Banks" (issued 18 February 2015) - Sets out the methodology for identifying systemically important banks in Hong Kong; calibration of Higher Loss Absorbency requirement.

(IA) Other actions: Hong Kong is not the home jurisdiction of the G-SIIs identified under the latest available FSB 2016 updated list of G-SIIs. However, Hong Kong participates in the supervisory colleges for major insurance groups; as well as reviewing the standards under ICP23 on group-wide supervision and the relevant policy measures promulgated by IAIS, having regard to the local circumstances.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

7. Consistent, consolidated supervision and regulation of SIFIs

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
The HKMA announced on 21 December 2018 the list of D-SIBs, together with their corresponding Higher Loss Absorbency requirement.	The IA will keep in view the IAIS developments of the assessment and policy measures to address systemic risk, i.e. the proposed Holistic Framework for Systemic Risk in the Insurance Sector. In addition, to align with recent developments of international standards, the IA is working on a new group-wide supervisory framework for insurance groups. Adopting a principle-based and outcome-focused approach, the new framework will be consistent with the Insurance Core Principles of the IAIS and its newly established Common Framework for the supervision of Internationally Active Insurance Groups.

Relevant web-links	
Web-links to relevant documents	Banking (Capital) Rules: https://www.elegislation.gov.hk/hk/cap155L Guidelines and press releases relating to systemically important banks in Hong Kong: http://www.hkma.gov.hk/eng/key-functions/banking-stability/implementation-of-international-standards/sibs/

8. Establishing supervisory colleges and conducting risk assessments

G20/FSB Recommendations

To establish the remaining supervisory colleges for significant cross-border firms by June 2009. (London)

We agreed to conduct rigorous risk assessment on these firms [G-SIFIs] through international supervisory colleges. (Seoul)

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2017 IMN survey. The BCBS and IAIS will be monitoring implementation progress in this area with respect to banks and insurers respectively.

9. Supervisory exchange of information and coordination

G20/FSB Recommendations

To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels. (Rec V.7 , FSF 2008)

Enhance the effectiveness of core supervisory colleges. (FSB 2012)

Remarks

Jurisdictions should include any feedback received from recent FSAPs/ROSC assessments on the *September 2012* BCP 3 (Cooperation and collaboration) and BCP 14 (Home-host relationships). Jurisdictions should also indicate any steps taken since the last assessment in this area, particularly in response to relevant FSAP/ROSC recommendations.

Jurisdictions should describe any recent or planned regulatory, supervisory or legislative changes that contribute to the sharing of supervisory information (e.g. within supervisory colleges or via bilateral or multilateral MoUs).

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** Ongoing

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

9. Supervisory exchange of information and coordination

Progress to date

Issue is being addressed through

- [x] Primary / Secondary legislation
- [ ] Regulation / Guidelines
- [x] Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) The HKMA and the SFC have entered into a MoU which provides a framework for cooperation and coordination. The MoU sets out the regulatory and supervisory roles and responsibilities of the two regulators, and establishes the channels and mechanism for the exchange of information between them.
The legislative changes in November 2015 to provide supervisory assistance to regulators outside of HK is a further enhancement to the existing supervisory cooperation.

AIFMD MoU" - The HKMA has entered into MoUs with authorities of 30 European Union or European Economic Area countries to develop a framework for mutual assistance in the supervision and oversight of Authorized Institutions (AIs) acting as depositaries appointed for alternative investment funds that operate on a cross border basis, and for exchange of information for supervisory and enforcement purpose.

(IA) The IA has entered into cooperation agreements with relevant supervisors and regulatory authorities, both local and foreign, for enhanced supervisory cooperation and coordination as well as exchange of information. At the international level, the IA has employed the frameworks of cooperation with relevant overseas regulators in jurisdictions where insurers in Hong Kong have operations. To foster better cooperation between insurance supervisors, the IA also joined the IAIS MMoU and became a signatory authority to it in June 2012.

(SFC) The SFC is a signatory of the IOSCO MMoU, EMMOU and various bilateral MoUs with overseas securities regulators. At the domestic level, there are MoUs between the HKMA, SFC and IA which sets out the arrangements for the exchange of supervisory information. At the international level, the SFC has signed AIFMD MoUs with authorities from 30 European Union / European Economic Area countries on the supervision of alternative investment fund managers.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

9. Supervisory exchange of information and coordination

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) On 13 February 2019, the HKMA entered into a MoU with the National Bank of Cambodia to facilitate the sharing of supervisory information and co-operation between the two authorities. (SFC) The SFC and the China Banking and Insurance Regulatory Commission (CBIRC) have entered into a MoU in June 2018 regarding the cooperation and exchange of information in connection with the supervision and oversight of regulated entities of the CBIRC or the SFC that operate on a cross-boundary basis in Hong Kong and Mainland. The SFC and the China Securities Regulatory Commission (CSRC) have entered into a MoU in November 2018 regarding the cooperation and exchange of information in connection with the supervision and oversight of regulated entities of the CSRC or the SFC that operate on a cross-boundary basis in Hong Kong and Mainland. The SFC has entered into a MoU with the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) on 9 May 2018 providing for consultation, cooperation and exchange of information in connection with the supervision and oversight of cross-border regulated entities in Hong Kong and Germany. (IA) On 12 December 2018, the IA entered into a MoU with the Office of Insurance Commission of Thailand to provide for mutual assistance in insurance regulation.	The HKMA will continue to work closely with overseas regulators on the supervision of institutions with cross-border operations relevant to them in line with international standards where appropriate. The HKMA is in the process of negotiating with a number of overseas regulators for formal arrangements for exchange of supervisory information and cooperation. The IA will, in line with international standards where appropriate, continue to work closely with overseas regulators in the supervision of institutions with cross-border operations.

Relevant web-links	
Web-links to relevant documents	Supervisory cooperation http://www.hkma.gov.hk/eng/key-functions/banking-stability/banking-policy-and-supervision/supervisory-co-operation.shtml Overseas collaboration http://www.sfc.hk/web/EN/about-the-sfc/collaboration/overseas/ Mainland collaboration: https://www.sfc.hk/web/EN/about-the-sfc/collaboration/mainland/

10. Strengthening resources and effective supervision

G20/FSB Recommendations

We agreed that supervisors should have strong and unambiguous mandates, sufficient independence to act, appropriate resources, and a full suite of tools and powers to proactively identify and address risks, including regular stress testing and early intervention. (Seoul*)*

Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks. (FSF 2008)

Supervisory authorities should continually re-assess their resource needs; for example, interacting with and assessing Boards require particular skills, experience and adequate level of seniority. (Rec. 3, FSB 2012)

Remarks

Jurisdictions should indicate any steps taken on recommendations 1, 2, 3, 4 and 7 (i.e. supervisory strategy, engagement with banks, improvements in banks' IT and MIS, data requests, and talent management strategy respectively) in the FSB thematic peer review report on supervisory frameworks and approaches to SIBs *(May 2015)*.

Progress to date

- ◯ **Not applicable**
- ◯ **Applicable but no action envisaged at the moment**
- ◯ **Implementation ongoing**
- ◉ **Implementation completed as of** 2014; with further upd

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ◯ Draft in preparation, expected publication by
- ◯ Draft published as of
- ◯ Final rule or legislation approved and will come into force on
- ◯ Final rule (for part of the reform) in force since

10. Strengthening resources and effective supervision

Progress to date

Issue is being addressed through

- [ ] Primary / Secondary legislation
- [x] Regulation / Guidelines
- [x] Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) In early 2014, the HKMA's Banking Supervision Department was restructured to better align supervisory resources with the perceived key risks facing the banking industry over the next few years. Under the new structure, specialist divisions were set up to supervise AIs' credit risk, operational and technology risks (which also cover the risks associated with Fintech).

Since then, the HKMA has continuously stepped up its supervisory resources and refined its supervisory framework including the supervision of technology risk of the banking sector (such as those arising from cyber threats and Fintech developments). These included:

(1) The supervisory guideline on e-banking was updated in September 2015 to set out the sound risk management principles and practices applicable to banks' e-banking services as well as some Fintech services.
(2)To continue promoting the overall cyber security resilience of the banking industry, the HKMA has been implementing the Cyber Resilience Assessment Framework (C-RAF), which helps banks evaluate their cyber resilience, since the launch of the Cybersecurity Fortification Initiative (CFI) in 2016. For details of the CFI, please refer to the web-link below.
(3) The Fintech Supervisory Sandbox (Sandbox) has been open to regulatory technology (Regtech) projects and ideas raised by AIs and technology firms to help develop the Regtech ecosystem since September 2018. In February 2019, the HKMA, one of the founding contributors of the Global Financial Innovation Network (GFIN), invited applications from firms wishing to test innovative financial products, services or business models across more than one jurisdiction under the GFIN cross-border testing pilot arrangement.
(4) The Banking Made Easy initiative streamlined regulatory requirements for better customer experience in the online banking environment. In addition, the HKMA issued a circular in May 2019 regarding the ethical and fair use of personal data by the banking industry in the digital era.
(5) A circular on "Credit Risk Management for Personal Lending Business" was issued in May 2018 to allow banks to adopt innovative technology to manage credit risks related to personal lending business in order to improve customer experience in the digital environment.
(6) The supervisory policy manual module CA-G-4 "Validating Risk Rating Systems under the IRB Approach" was revised in 2018 to bring up-to-date the module with the prevailing regulatory requirements applicable to the use of the internal ratings-based ("IRB") approach under the Banking (Capital) Rules.;
(7) A circular on "Risk Management for Lending to Property Developers" was issued in May 2017 to strengthen banks' risk management with respect to lending to property developers. (SFC) The SFC has issued guidelines and thematic review reports to communicate the expected standards to the industry. Please refer to the web-links section below for details.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

10. Strengthening resources and effective supervision

Update and next steps

Highlight **main developments since last year's survey**

(1) The HKMA has adopted a phased approach to implementing the C-RAF. Banks selected to participate in first phase and second phase have completed the inherent risk assessment (IRA) and maturity assessment (MA) in 2017 and 2018 respectively, while selected banks to participate in third phase are expected to complete the aforementioned assessments by September 2019. Separately, the intelligence-led Cyber Attack Simulation Testing (iCAST) of the banks with a "Medium" or "High" level of inherent risk under first phase of C-RAF has been completed in 2018, while the banks under second phase are expected to complete the iCAST by September 2019.

(2) The HKMA completed a review on the iCAST results of the banks under first phase of C-RAF in 2018 and is reviewing the results of IRA and MA submitted by the banks under second phase of C-RAF implementation. Meanwhile, the HKMA has been monitoring and reviewing the second phase banks' preparation and execution of the iCAST.

(3) In May 2019, the HKMA organised two closed-door sharing sessions with major and other relevant banks to share common issues identified during the C-RAF exercise and the areas for enhancement.

(4) To help develop the Regtech ecosystem, the Sandbox, including the Fintech Supervisory Chatroom, has been open to Regtech projects or ideas raised by AIs and technology firms since September 2018. Separately, the HKMA invited applications from firms wishing to test innovative financial products, services or business models across more than one jurisdiction under the GFIN cross-border testing pilot arrangement in February 2019. An initial screening was conducted by participating regulators, including the HKMA. The next steps of the pilot arrangement were announced in April 2019. For details, please refer to the web-links below.

(5) Following the issuance of the revised Guideline on Authorization of Virtual Banks on 30 May 2018, the HKMA granted banking licences to eight virtual banks in the first half of 2019 and added dedicated resources for supervising these banks.

Planned actions (if any) and expected commencement date

(1) In 2019, the HKMA will continue to refine existing supervisory guidance in relation to e-banking and fintech, having regard to technological advancement and industry development, and devote additional resources to the supervision of technology risks covering cyber threats and fintech.

(2) The HKMA will follow up with the banks on the rectification actions identified out of the maturity assessment of the C-RAF and the iCAST in 2019.

(3) The SFC will continue to closely monitor the market development of cryptocurrency activities, for instance, ICOs and operation of cryptocurrency exchanges, in Hong Kong. Further, the SFC will maintain contact with regulators in other jurisdictions through active participation in meetings of relevant international organisations, such as the Financial Stability Board and IOSCO, so as to align our regulatory regime with other major jurisdictions. As to broader investor protection issues relating to cryptocurrency activities, the SFC will continue with investor

Relevant web-links

Web-links to relevant documents

HKMA Annual Report 2014 (Chapter on Banking Stability): http://www.hkma.gov.hk/eng/publications-and-research/annual-report/2014.shtml
Supervisory Policy Manual (SPM) on "Risk Management of E-banking" (2 Sep 2015):
http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2015/20150902e1.pdf
Circular on "Cybersecurity Fortification Initiative" (21 Dec 2016): http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20161221e1.pdf
Fintech Supervisory Sandbox: http://www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech-supervisory-sandbox.shtml
Press Release: GFIN invites applications for testing innovative products:

11. Establishing regulatory framework for macro-prudential oversight

G20/FSB Recommendations

Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk. (London)

Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions. (London)

Remarks

Please describe major changes in the institutional arrangements for macroprudential policy (structures, mandates, powers, reporting etc.) that have taken place in your jurisdiction since the global financial crisis.

Please indicate whether an assessment has been conducted with respect to the adequacy of powers to collect and share relevant information among national authorities on financial institutions, markets and instruments to assess the potential for systemic risk. If so, please describe identified gaps in the powers to collect information, and whether any follow-up actions have been taken.

Progress to date

- ◯ **Not applicable**
- ◯ **Applicable but no action envisaged at the moment**
- ◯ **Implementation ongoing**
- ◉ **Implementation completed as of** before 2007

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ◯ Draft in preparation, expected publication by
- ◯ Draft published as of
- ◯ Final rule or legislation approved and will come into force on
- ◯ Final rule (for part of the reform) in force since

11. Establishing regulatory framework for macro-prudential oversight

Progress to date

Issue is being addressed through

- ☐ Primary / Secondary legislation
- ☐ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

HKMA: Other actions: The establishment of the Council of Financial Regulators and the Financial Stability Committee, and signing MoU for information sharing between financial regulators.

(IA) After the Insurance Ordinance became operative on 26 June 2017, the IA has enhanced power to collect relevant information necessary for the IA's scrutiny on a regular and ad hoc basis.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

11. Establishing regulatory framework for macro-prudential oversight

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date

Relevant web-links	
Web-links to relevant documents	http://www.hkma.gov.hk/media/eng/publication-and-research/background-briefs/bg_brief_3/E_Section3.pdf http://www.hkma.gov.hk/media/eng/publication-and-research/reference-materials/viewpoint/doc/HKMA-SFC_MoU_eng.pdf http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/banking-policy-and-supervision/HKMA-IA_MOU.pdf http://www.sfc.hk/web/doc/EN/aboutsfc/arrangements/local-org/05pr302_sfc_ia_mou_051220.pdf

12. Enhancing system-wide monitoring and the use of macro-prudential instruments

G20/FSB Recommendations

Authorities should use quantitative indicators and/or constraints on leverage and margins as macro-prudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macro-prudential (system-wide) level. (Rec. 3.1, FSF 2009)

We are developing macro-prudential policy frameworks and tools to limit the build-up of risks in the financial sector, building on the ongoing work of the FSB-BIS-IMF on this subject. (Cannes)

Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system. (Washington)

Remarks

Please describe at a high level (including by making reference to financial stability or other reports, where available) the types of methodologies, indicators and tools used to assess systemic risks.

Please indicate the use of tools for macroprudential purposes over the past year, including: the objective for their use; the process to select, calibrate and apply them; and the approaches used to assess their effectiveness.

See, for reference, the following documents:

- FSB-IMF-BIS progress report to the G20 on *Macroprudential policy tools and frameworks (Oct 2011)*
- CGFS report on *Operationalising the selection and application of macroprudential instruments (Dec 2012)*
- IMF staff papers on *Macroprudential policy, an organizing framework (Mar 2011)*, *Key Aspects of Macroprudential policy (Jun 2013)*, and *Staff Guidance on Macroprudential Policy (Dec 2014)*
- IMF-FSB-BIS paper on *Elements of Effective Macroprudential Policies: Lessons from International Experience (Aug 2016)*
- CGFS report on *Experiences with the ex ante appraisal of macroprudential instruments (Jul 2016)*
- CGFS report on *Objective-setting and communication of macroprudential policies (Nov 2016)*

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 01.01.2015 [CCyB]; 1(

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

12. Enhancing system-wide monitoring and the use of macro-prudential instruments

Progress to date

Issue is being addressed through

- ☑ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

HKMA: (CCyB) 1. Secondary legislation: Banking (Capital) Rules -- implementing the Basel III Capital Conservation Buffer, the Countercyclical Capital Buffer (CCyB) and, for systemically important banks, a Higher Loss Absorbency requirement.

2. Guideline: Supervisory Policy Manual module CA-B-1 "Countercyclical Capital Buffer (CCyB) - Approach to its Implementation" (issued 27 January 2015 and updated 7 April 2017) -- Provides an overview of the CCyB framework in Hong Kong and describes the HKMA's approach to taking decisions with regard to the setting or recognition of the CCyB rates applicable to banks.

3. Guideline: Supervisory Policy Manual module CA-B-3 "Countercyclical Capital Buffer (CCyB) - Geographic Allocation of Private Sector Credit Exposures" (issued 25 September 2015) -- Provides guidance to banks on determining the geographic allocation of private sector credit exposures for the purposes of implementing the CCyB within the capital adequacy framework in Hong Kong.

Other actions: Countercyclical Capital Buffer (CCyB): As announced by the HKMA, in April 2019, the CCyB will be maintained at 2.5%
Property mortgage lending: HKMA has been using property-related macroprudential measures since the 1990s to strengthen banks' risk management and resilience. Since 2009, the HKMA introduced eight rounds of counter-cyclical macro-prudential measures for property mortgage loans to strengthen the resilience of banks to potential property market shocks.

Systemic risk assessment: Setting up the Macro Surveillance Committee (MSC) within the HKMA, which meets quarterly to monitor systemic risks by examining banking, property, leverage, macroeconomic and external indicators as well as any other relevant information; CCyB rate is also reviewed quarterly at MSC meeting to protect the banking sector against the build-up of system-wide risk.

(IA) The IA regularly performs analyses, both quantitative and qualitative, on market performances and trends based on regulatory information and quarterly statistics submitted by insurers and assesses the likely risks and challenges to the industry as a whole as well as to individual insurers. Where there are specific issues of concern, the IA would carry out thematic reviews and collect additional information. Issue(s) that arose from these analyses and assessment, in particular those that may have adverse impact on the stability of the industry/individual insurers, would be discussed with the parties concerned so as to facilitate the taking of preventive actions at an early stage.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

12. Enhancing system-wide monitoring and the use of macro-prudential instruments

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) CCyB: The HKMA announced on 16 April 2019 to maintain the CCyB rate for Hong Kong at 2.5%.	The IA is considering the approaches under ICP 24 on Macroprudential Surveillance and Insurance Supervision, having regard to the local circumstances; and the IA will adopt the approaches/tools as appropriate to further enhance existing financial oversight.

Relevant web-links	
Web-links to relevant documents	Banking (Capital) Rules: https://www.elegislation.gov.hk/hk/cap155L Guidelines and press releases relating to the CCyB for Hong Kong: http://www.hkma.gov.hk/eng/key-functions/banking-stability/ccyb.shtml http://www.hkma.gov.hk/eng/publications-and-research/half-yearly-monetary-and-financial-stability-report/201903.shtml

13. Enhancing regulation and supervision of CRAs

G20/FSB Recommendations

All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals. (London)

National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process.

CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process.

The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO. (London)

Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010. (FSB 2009)

We encourage further steps to enhance transparency and competition among credit rating agencies. (St Petersburg)

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2018 IMN survey. Given this, the reporting of progress with respect to this recommendation will not be collected in the 2019 survey.

14. Reducing the reliance on ratings

G20/FSB Recommendations

We also endorsed the FSB's principles on reducing reliance on external credit ratings. Standard setters, market participants, supervisors and central banks should not rely mechanistically on external credit ratings. (Seoul)

Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation. (Rec IV. 8, FSF 2008)

We reaffirm our commitment to reduce authorities' and financial institutions' reliance on external credit ratings, and call on standard setters, market participants, supervisors and central banks to implement the agreed FSB principles and end practices that rely mechanistically on these ratings. (Cannes)

We call for accelerated progress by national authorities and standard setting bodies in ending the mechanistic reliance on credit ratings and encourage steps that would enhance transparency of and competition among credit rating agencies. (Los Cabos)

We call on national authorities and standard setting bodies to accelerate progress in reducing reliance on credit rating agencies, in accordance with the FSB roadmap. (St Petersburg)

Remarks

Jurisdictions should indicate the steps they are taking to address the recommendations of the May 2014 FSB thematic peer review report on the implementation of the FSB Principles for Reducing Reliance on Credit Ratings, including by implementing their agreed action plans. Any revised action plans should be sent to the FSB Secretariat so that it can be posted on the FSB website.

Jurisdictions may refer to the following documents:

- FSB *Principles for Reducing Reliance on CRA Ratings (Oct 2010)*
- FSB *Roadmap for Reducing Reliance on CRA Ratings (Nov 2012)*
- BCBS *Basel III: Finalising post-crisis reforms (Dec 2017)*
- IAIS ICP guidance 16.9 and 17.8.25
- IOSCO *Good Practices on Reducing Reliance on CRAs in Asset Management (Jun 2015)*
- IOSCO *Sound Practices at Large Intermediaries Relating to the Assessment of Creditworthiness and the Use of External Credit Ratings (Dec 2015)*.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 06.2016 [Supervisory

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ◉ Final rule (for part of the reform) in force since (BCBS Basel III issue

14. Reducing the reliance on ratings

Progress to date

Issue is being addressed through

- ☑ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) Credit Risk Transfer Activities: The supervisory guidance on "Credit Risk Transfer Activities" issued on 30 June 2016 supplements existing guidance on credit risk management (which encouraging / requiring banks to have their own internal risk management capabilities and not to rely unduly on external credit ratings) and has incorporated sound practices on due diligence when investing in securitisation products, emphasising on the importance of banks' conducting their own due diligence without undue or mechanical reliance on credit ratings.

Liquidity: For the purpose of implementing the Basel III liquidity standards (including the Liquidity Coverage Ratio ("LCR")) and a simplified local liquidity measure for the smaller and non-internationally active banks in Hong Kong, the HKMA made a set of Banking (Liquidity) Rules ("BLR") which came into operation on 1 January 2015. Further amendment was made to the BLR to implement another Basel III liquidity standard (Net Stable Funding Ratio ("NSFR")) effective from 1 January 2018. References to CRA reference are retained in the BLR only to the extent that they are adopted in the Basel III standards (e.g. as one of the qualifying criteria for classifying certain types of high quality liquid assets ("HQLA")) and comparable applications in respect of the simplified local liquidity measure.

Capital: The capital framework in Hong Kong is closely in line with the latest BCBS capital standards, and the HKMA is committed to implementing enhancements released by the BCBS on the standards (such as the revisions to the Standardised Approach for credit risk issued in December 2017) for addressing reliance on CRA ratings and to tracking closely the respective BCBS timelines.

(SFC) The SFC has reviewed whether there is reliance on CRA ratings in our authorisation of publicly offered collective investment schemes (CIS) and there is no requirement under the primary legislation, the Securities and Futures Ordinance or the applicable SFC product codes and guidelines that these products must be rated by CRA. The only references to CRA rating for publicly offered CIS in the regulations are in the Code on Unit Trusts and Mutual Funds (UT Code) but these references are purely disclosure-based and they do not constitute reliance. Furthermore, the credit rating information is only disclosable where it is applicable. For example, if a CIS engages in securities financing transactions and/or holds collateral, it is required to disclose the criteria for selecting counterparties, including legal and regulatory status, country of origin and minimum credit rating. Description of the holdings of collateral, including the nature and credit quality of the collateral, including asset type, issuer, maturity and liquidity should also be disclosed. On holdings of collateral, the CIS should also disclose the value of the CIS (by percentage) secured/covered by collateral, with breakdown by asset class/nature and credit rating (if applicable). The disclosure of the credit rating is only one part of the disclosure requirements. The purpose of these types of disclosure requirements is to provide more information to investors. The SFC does not mandate

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

14. Reducing the reliance on ratings

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) The reference to CRA ratings in local banking legislation are all related to the regulatory frameworks developed based on Basel capital and liquidity standards. Capital: The capital framework in Hong Kong is closely in line with the latest BCBS capital standards, and the HKMA is committed to implementing enhancements released by the BCBS on the standards (such as the revisions to the Standardised Approach for credit risk finalized in December 2017 ("Final Basel III package")) for addressing reliance on CRA ratings and to tracking closely the respective BCBS timelines. A quantitative impact study is currently being conducted to inform policy formulation for the implementation of the package. On 1 January 2018, the HKMA implemented the BCBS revised securitisation framework which has reduced the mechanistic reliance on external ratings by, among other things, including other relevant risk drivers. (SFC) The revised UT Code, which took effect in January 2019, imposes specific obligation on the management company of a publicly offered CIS to maintain and implement effective internal policies and procedures in assessing the credit risk of securities or instruments invested by the CIS where mechanistic reliance on external ratings should be avoided.	(HKMA) Credit Risk Transfer Activities- Revisions to the Standardised Approach for credit risk: The local implementation is currently planned for 1 January 2022, in accordance with the timeline set by the BCBS.

Relevant web-links	
Web-links to relevant documents	Banking (Capital) Rules: https://www.elegislation.gov.hk/hk/cap155L BLR: https://www.elegislation.gov.hk/hk/cap155Q SFC Internal Control Guidelines (Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission): http://www.sfc.hk/web/EN/rule-book/codes-and-guidelines/guidelines/ Revised Code on Unit Trusts and Mutual Funds: https://www.sfc.hk/web/EN/assets/components/codes/files-current/web/codes/section-ii-code-on-unit-trusts-and-mutual-funds/section-ii-code-on-unit-trusts-and-mutual-funds.

15. Consistent application of high-quality accounting standards

G20/FSB Recommendations

Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards. (Washington)

Remarks

Jurisdictions should indicate the accounting standards that they follow and whether (and on what basis) they are of a high and internationally acceptable quality (e.g. equivalent to IFRSs as published by the IASB), and provide accurate and relevant information on financial position and performance. They should also explain the system they have for enforcement of consistent application of those standards.

Jurisdictions may want to refer to their jurisdictional profile prepared by the IFRS Foundation, which can be accessed at: http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-G20-IFRS-profiles.aspx.

As part of their response on this recommendation, jurisdictions should indicate the policy measures taken for appropriate application of fair value recognition, measurement and disclosure.

In addition, jurisdictions should set out any steps they intend to take (if appropriate) to foster transparent and consistent implementation of the new accounting requirements for the measurement of expected credit losses on financial assets that are being introduced by the IASB and FASB.

See, for reference, the following BCBS documents:

- *Supervisory guidance for assessing banks' financial instrument fair value practices (Apr 2009)*
- *Guidance on credit risk and accounting for expected credit losses (Dec 2015)*
- *Regulatory treatment of accounting provisions - interim approach and transitional arrangements (March 2017)*

Progress to date

- ◯ **Not applicable**
- ◯ **Applicable but no action envisaged at the moment**
- ◯ **Implementation ongoing**
- ◉ **Implementation completed as of** 01.01.2005

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ◯ Draft in preparation, expected publication by
- ◯ Draft published as of
- ◯ Final rule or legislation approved and will come into force on
- ◯ Final rule (for part of the reform) in force since

15. Consistent application of high-quality accounting standards

Progress to date

Issue is being addressed through

- ☐ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) Other actions: Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), achieved full convergence with IFRS issued by the IASB since 2005.

(IA) Insurers authorized in Hong Kong are required to prepare their financial statements in accordance with HKFRS issued by the HKICPA and requirements under Schedule 3 to the Insurance Ordinance. In respect of consistency in application of (IFRSs equivalent) HKFRSs across all locally incorporated banks, the HKMA has undertaken the following measures: (1) engaging with banks and their auditors through regular tripartite meetings; (2) issuing accounting-related supervisory guidance; and (3) engaging with HKICPA and the Hong Kong Association of Banks (HKAB) to share international and domestic accounting developments and their implications for banks.

(FSTB) Other actions: As mentioned above, the HKFRS issued by the HKICPA achieved full convergence with IFRS issued by the IASB since 2005. This includes the latest major new standards HKFRS 9 Financial Instruments, HKFRS 15 Revenue from Contracts with Customers, HKFRS 16 Leases and HKFRS 17 Insurance Contracts, which are the equivalent of the respective IFRS Standards as issued by the IASB. To support implementation and promote consistent application of standards, the HKICPA regularly meets with preparers, auditors/accounting advisors and regulators, about their experience or challenges after standards are issued; and seeks the input of its constituents when commenting on IASB consultative documents. The HKICPA also ensures consistent application of HKFRS through its professional standards monitoring and practice review programs in accordance with the Professional Accountants Ordinance (Cap. 50). The Quality Assurance Department of HKICPA conducts reviews of published financial statements, predominantly of listed companies, to identify any potential issues relating to the application of professional standards. It publishes annual reports on findings identified from its review of the financial statements and provides suggestions to members on how to enhance the quality of the future financial statements. In summary, full convergence of HKFRS and IFRS has been maintained.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

15. Consistent application of high-quality accounting standards

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) The HKMA has taken the following actions in respect of the initial adoption of IFRS/HKFRS 9 Expected Loan Loss Methodology in 2018: (i) Ongoing monitoring of banks' implementation progress. (ii) Launch of follow-up surveys on potential impacts of IFRS/HKFRS 9 implementation to banks. Responses from selected banks are collected and analysed in 2018. (iii) Discussion with external auditors on the key developments and key issues relating to IFRS/HKFRS 9 implementation. To facilitate implementation of the HKFRS 9 (equivalent to IFRS 9), the Banking (Capital) Rules were amended to implement an interim capital treatment of expected loss provisions under the HKFRS 9 since 1 January 2018. The interim approach covers the categorisation of expected credit losses made by Authorized Institutions under HKFRS 9 as general or specific provisions for the purposes of the regulatory capital framework, as well as the interaction between the regulatory reserve requirement and the expected credit losses under HKFRS 9. (FSTB) The HKICPA's discussions with the Hong Kong Monetary Authority found no major issues from the first year of applying HKFRS/IFRS 9. The HKICPA also met with its expert panel and the Hong Kong Association of Banks and found no major issues in relation to fair value and expected credit loss accounting as required under HKFRS/IFRS 9. Smaller private entities and auditors have noted challenges in obtaining the relevant information for the measurement of unquoted equity investments, and the cost of valuation. The HKICPA plans to publish reference materials to enhance the understanding of the fair value requirements for unquoted equity investments and address applicable challenges where necessary.	The HKMA will continue to monitor closely international accounting developments and work with the HKICPA and HKAB, with a view to ensuring that the accounting standards applied by banks in HK are in line with IFRSs/HKFRSs (converged since 2005) and the recommendations of the BCBS. The HKMA will continue to support the BCBS's interactions with the accounting standard setters in the development of global accounting standards. IFRS/HKFRS 9 became effective on 1 January 2018. The HKMA intends to adopt the BCBS's new guidance on credit risk and accounting for expected credit losses issued in December 2015 in order to ensure consistent application of the new impairment requirements under HKFRS 9. The HKMA will continue its dialogue with banks and external auditors regarding the governance and controls exercised by banks over the calculation of expected credit losses. The HKMA will consider the long-term regulatory treatment of

Relevant web-links

Web-links to relevant documents	HKICPA accounting standards: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Members-Handbook-and-Due-Process/HandBook/Volume-II--Financial-Reporting-Standards/Index HKICPA financial reporting comment letters: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Our-views/pcd/financial-reporting-submissions/2019 HKICPA technical events: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Meetings-and-events/Hong-Kong-Events HKICPA new and major standards resource centre: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Resource-centre The HKMA issued a circular to banks dated 23 December 2015 regarding the BCBS guidance on credit risk and accounting for expected credit losses:

16. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks

G20/FSB Recommendations

Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management. (Washington)

National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices. (Rec. II.10, FSF 2008)

Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets. (FSB 2009)

We commit to conduct robust, transparent stress tests as needed. (Pittsburgh)

Remarks

Jurisdictions should indicate the measures taken in the following areas:

- guidance to strengthen banks' risk management practices, including BCBS good practice documents (*Corporate governance principles for banks*, *External audit of banks*, and the *Internal audit function in banks*);
- measures to monitor and ensure banks' implementation of the BCBS *Principles for Sound Liquidity Risk Management and Supervision (Sep 2008)*;
- measures to supervise banks' operations in foreign currency funding markets;[1] and
- extent to which they undertake stress tests and publish their results.

Jurisdictions should not provide any updates on the implementation of Basel III liquidity requirements (and other recent standards such as capital requirements for CCPs), since these are monitored separately by the BCBS.

[1] Only the emerging market jurisdictions that are members of the FSB should respond to this specific recommendation.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 01.01.2015

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ◉ Final rule (for part of the reform) in force since

16. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks

Progress to date

Issue is being addressed through

- ☑ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) The HKMA has issued comprehensive supervisory guidance, mainly under the "Supervisory Policy Manual" (SPM), relating to the management of various risks borne by AIs, covering corporate governance, credit risk, market risk, operational risk, liquidity risk, stress-testing, etc.
The HKMA monitors compliance of AIs with applicable supervisory requirements by adopting a risk-based supervisory approach based on a policy of "continuous supervision", through on-site examinations, off-site reviews, prudential meetings, co-operation with external auditors and sharing information with other supervisors. The HKMA also requires AIs to report their risk profiles regularly using standard returns.

Liquidity: The Banking (Liquidity) Rules (BLR), which implement the Basel III LCR liquidity standards, took effect on 1 January 2015. The BLR have been further amended to implement the Basel III NSFR standard starting from 1 January 2018. SPM module LM-2 "Sound Systems and Controls for Liquidity Risk Management" has incorporated the BCBS "Liquidity Sound Principles" published in 2008. The various liquidity monitoring tools per BCBS guidance were also introduced in the course of 2015. The HKMA continued to monitor the level and trend of AIs' liquidity positions including LCR and NSFR of category 1 institutions. The average LCR and NSFR of category 1 institutions were 167.6% and 135.6% respectively in the fourth quarter of 2018, which was well above the statutory minimum requirement of 90% and 100% applicable respectively in 2018.

Stress testing: Stress testing SPM module IC-5 "Stress Testing": Guidance to AIs on the key elements of an effective stress-testing programme and the HKMA's supervisory approach to assessing the adequacy of their stress-testing practices.

Risk controls: These are covered in a number of SPM modules. For example, IC-1 "Risk Management Framework" specifies the key elements of a risk management framework for AIs; IC-2 "Internal Audit Function" sets out the HKMA's expectations on the key role, responsibilities and qualities of an AI's internal audit function. This module has incorporated good practices from the BCBS document "internal audit function in banks" as appropriate.

Counterparty credit risk management: Revised supervisory guidance on counterparty credit risk (CCR) management (SPM module CR-G-13) issued on 3 July 2018 are intended to reflect recent developments in CCR management practices (including those associated with the latest capital treatment for CCR under the BCBS CCR framework). The supervisory guidance on "Credit Risk Transfer Activities" issued on 30 June 2016 supplements existing guidance on credit risk management and incorporates the latest international standards including the recommendations made in the Joint Forum report on Credit Risk Transfer - Developments from 2005-2007 (Jul 2008).

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

16. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks

Update and next steps

Highlight **main developments since last year's survey**

(HKMA) Liquidity risk management:
Following the implementation of NSFR which came into effect in Jan 2018, the HKMA has stepped up the surveillance of AIs' liquidity profiles by monitoring their compliance with the new NSFR requirement. In addition, all AIs have been requested to conduct a round self-assessment against the requirements set out in the 2 SPM on liquidity risk management (i.e. LM-1 and LM-2) and to formulate remedial action plan should there be compliance gaps. Foreign currency funding risk: In light of a possible tightening of US dollar liquidity amid the continued normalisation of US monetary policy, the HKMA has completed two rounds of review of AIs which are deemed to be more vulnerable on their management of US dollar funding risk. For the identified weaknesses, the HKMA has requested the concerned AIs to take remedial actions to enhance their risk management practices.

Stress testing:
The 2017/2018 SDST exercise has been wrapped up and AIs with weaknesses identified in their stress testing framework have been requested to take remedial actions. Meanwhile, the 2019/2020 exercise has been launched with an updated stress scenario to take account of the emerging risks that the banking sector is facing (e.g. US-China trade tension).
Separately, the HKMA will continue to keep close track of international development regarding stress testing. Counterparty credit risk management: Revised SPM module on counterparty credit risk management was issued in July 2018.

Planned actions (if any) and expected commencement date

Liquidity risk management:

In 2019, the HKMA continues to assess AIs' capability to cope with possible liquidity shocks by reviewing their internal liquidity stress testing programmes, given global fund flows may become increasingly volatile due to uncertainties connected with the pace of US interest rate normalisation and other geopolitical events. In addition, the HKMA will conduct 2 thematic reviews on (i) AIs' contingency finding management and (ii) category 1 institutions' methodology in relation to the identification of operational deposits for the calculation of LCR.

Stress testing:

The first batch of AIs' submissions for SDST are expected to be received by end-September 2019, and the HKMA will start the review of the submissions in Q4 2019.

External audits of banks:

Relevant web-links

Web-links to relevant documents

Liquidity: http://www.hkma.gov.hk/eng/key-functions/banking-stability/implementation-of-international-standards/liquidity.shtml
SPM: http://www.hkma.gov.hk/eng/key-functions/banking-stability/supervisory-policy-manual.shtml
Stress testing SPM module IC-5 "Stress Testing": http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/IC-5.pdf
SPM module CR-G-13 "Counterparty Credit Risk Management":
https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CR-G-13.pdf

17. Enhanced risk disclosures by financial institutions

G20/FSB Recommendations

Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate. (Washington)

We encourage further efforts by the public and private sector to enhance financial institutions' disclosures of the risks they face, including the ongoing work of the Enhanced Disclosure Task Force. (St. Petersburg)

Remarks

Jurisdictions should indicate the status of implementation of the disclosures requirements of IFRSs (in particular IFRS 7 and 13) or equivalent. Jurisdictions may also use as reference the recommendations of the October 2012 report by the Enhanced Disclosure Task Force on *Enhancing the Risk Disclosures of Banks* and *Implementation Progress Report by the EDTF (Dec 2015)*, and set out any steps they have taken to foster adoption of the EDTF Principles and Recommendations.

In addition, in light of the new IASB and FASB accounting requirements for expected credit loss recognition, jurisdictions should set out any steps they intend to take (if appropriate) to foster disclosures needed to fairly depict a bank's exposure to credit risk, including its expected credit loss estimates, and to provide relevant information on a bank's underwriting practices. Jurisdictions may use as reference the recommendations in the report by the Enhanced Disclosure Task Force on the *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures (Nov 2015)*, as well as the recommendations in Principle 8 of the BCBS *Guidance on credit risk and accounting for expected credit losses (Dec 2015)*.

In their responses, jurisdictions should not provide information on the implementation of Basel III Pillar 3 requirements, since this is monitored separately by the BCBS.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 31.3.2015; Ongoing

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

17. Enhanced risk disclosures by financial institutions

Progress to date

Issue is being addressed through

- ☑ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) The Banking (Disclosure)(Amendment) Rules 2016 ("BDAR 2016") amended the Banking (Disclosure) Rules ("BDR") with effect from 31 March 2017 to (i) incorporate the January 2015 BCBS revised Pillar 3 disclosure requirements (Phase 1); (ii) address the lack of quarterly disclosure in Hong Kong of certain key regulatory capital and leverage ratios (and their constituent components), as identified by the BCBS under its Regulatory Consistency Assessment Programme ("RCAP"); and (iii) revise the existing provisions of the BDR in relation to the financial disclosure requirements for locally incorporated AIs (as opposed to regulatory disclosures required for prudential reasons) to remove duplication and inconsistencies with similar requirements that already exist in applicable financial reporting standards.

The Banking (Disclosure)(Amendment) Rules 2018 ("BDAR 2018") further amended the Banking (Disclosure) Rules ("BDR") with effect from 30 June 2018 to implement the March 2017 BCBS Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework (Phase 2). In December 2018, the Basel Committee released the Pillar 3 Disclosure Requirements – Updated Framework ("2018 package") to incorporate revisions to the Pillar 3 framework, mainly to reflect requirements arising from the Final Basel III package. These requirements constitute the third and final phase of the revised Pillar 3 disclosure framework. The HKMA will consider these requirements, taking into account local circumstances, and consult the industry on its proposed implementation approach in due course. The HKMA will amend the Banking (Disclosure) Rules to implement the 2018 package where necessary.

For the new IASB accounting requirements for expected credit loss recognition, we continue to monitor the implementation of IFRS 9 by banks and assess the impact of IFRS 9 on the key financial and regulatory figures of banks, and will publish guideline to the industry where necessary.

We have issued a circular to request banks to review their credit risk management process in light of the relevant principles set out in the BCBS guidance on credit risk and accounting for expected credit losses. Please see our response to item 15 above.

(IA) Insurers are required under the IO to submit their accounts, financial statements and other information to the IA. In the financial statements, insurers are required to disclose, among others, their insurance liabilities; capital adequacy; exposure to risks arising from financial instruments; risk management/enterprise risk management; financial performance; insurance risk exposures and management; and corporate governance and controls. As part of the qualitative requirements under the proposed risk-based capital regime, the IA has prepared a draft Guideline on Enterprise Risk Management ("ERM"), the effective date of which is expected to be in 2020.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

17. Enhanced risk disclosures by financial institutions

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) The BDAR 2016 and the requirement to make disclosures in prescribed standard templates and tables for implementing the BCBS revised Pillar 3 disclosure requirements (Phase 1) took effect in Hong Kong from 31 March 2017. The BDAR 2018 and the specified set of standard disclosure templates and tables for implementing the BCBS Pillar 3 disclosure requirements – Consolidated and enhanced framework (Phase 2) took effect in Hong Kong from 30 June 2018.	(HKMA) The HKMA issued a draft version of the Supervisory Policy Manual module CA-D-1 Guideline on the Application of the Banking (Disclosure) Rules for industry consultation on 3 May 2019. The revised module will take effect as soon as practicable having regard to industry comments. (IA) The IA aims to finalize the Guideline on ERM by mid-2019, and operationalize the ERM framework in 2020.

Relevant web-links

Web-links to relevant documents	http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2015/20151223e1.pdf http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20161230e1.pdf http://www.legco.gov.hk/yr16-17/english/hc/sub_leg/sc05/general/sc05.htm http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/consultations/Implementation_of_Pillar_3_Disclosure_Requirements_Phase_II.pdf https://www.legco.gov.hk/yr17-18/english/hc/sub_leg/sc09/general/sc09.htm

18. Strengthening of national deposit insurance arrangements

G20/FSB Recommendations

National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed. (Rec. VI.9, FSF 2008)

Remarks

Jurisdictions that have not yet adopted an explicit national deposit insurance system should describe their plans to introduce such a system.

All other jurisdictions should describe any significant design changes in their national deposit insurance system since the issuance of the revised IADI *Core Principles for Effective Deposit Insurance Systems* (November 2014).

In addition, jurisdictions should indicate if they have carried out a self-assessment of compliance (based on IADI's 2016 Handbook) with the revised Core Principles:

- If so, jurisdictions should highlight the main gaps identified and the steps proposed to address these gaps;
- If not, jurisdictions should indicate any plans to undertake a self-assessment exercise.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 24.03.2016

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

18. Strengthening of national deposit insurance arrangements

Progress to date

Issue is being addressed through

- [x] Primary / Secondary legislation
- [ ] Regulation / Guidelines
- [ ] Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA) - Other actions:
Following the implementation of the gross payout approach, the Deposit Protection Scheme (DPS) in Hong Kong is able to reimburse depositors within 7 days upon a bank failure under most circumstances. The faster payout speed can help promote general banking stability and increase depositors' confidence in the financial safety net.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

18. Strengthening of national deposit insurance arrangements

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) Since the adoption of the "gross payout" approach in 2016, further enhancement measures have been taken to meet the objective of paying compensation to depositors of a failed Scheme member within seven days in most cases if the DPS is triggered, including modernisation of the payout system for compensation determination and introduction of electronic payment channels for paying DPS compensation. The project on modernisation of the payout system has been completed in early 2019. The new payout system can save on average 76% of time (as compared with the old system) in the execution of computation-intensive processes. The project on the introduction of electronic payment channels to supplement paper cheque started in 2019 after the completion of the feasibility study. In collaboration with service providers, work is underway on system development and the establishing of operation procedures with a view to launching electronic payment channels in 2021.	(HKMA) To continue working on the introduction of electronic payment channels.

Relevant web-links	
Web-links to relevant documents	http://www.info.gov.hk/gia/general/201603/24/P201603230492.htm http://www.legco.gov.hk/yr15-16/english/ord/ord002-2016-e.pdf

19. Enhancing market integrity and efficiency

G20/FSB Recommendations

We must ensure that markets serve efficient allocation of investments and savings in our economies and do not pose risks to financial stability. To this end, we commit to implement initial recommendations by IOSCO on market integrity and efficiency, including measures to address the risks posed by high frequency trading and dark liquidity, and call for further work by mid-2012. (Cannes)

Remarks

Jurisdictions should indicate whether high frequency trading and dark pools exist in their national markets.

Jurisdictions should indicate the progress made in implementing the recommendations:

- in relation to dark liquidity, as set out in the IOSCO Report on Principles for Dark Liquidity (May 2011).
- on the impact of technological change in the IOSCO Report on Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency (Oct 2011).
- on market structure made in the IOSCO Report on Regulatory issues raised by changes in market structure (Dec 2013).

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 16.01.2017

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

19. Enhancing market integrity and efficiency

Progress to date

Issue is being addressed through

- ☐ Primary / Secondary legislation
- ☐ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(SFC) The Hong Kong Exchanges and Clearing Limited (HKEX) introduced a volatility control mechanism (VCM) to its cash and derivatives market in 2016 and 2017 respectively to safeguard market integrity. HKEX's VCM is in essence dynamic price bands with a short cooling off period after which trading can continue. More information on the VCM can be found here: http://www.hkex.com.hk/vcm/en/index.htm

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

19. Enhancing market integrity and efficiency

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(SFC) IOSCO published its report on "Mechanisms Used by Trading Venues to Manage Extreme Volatility and Preserve Orderly Trading" in August 2018. One of the IOSCO recommendations is to require trading venues to have effective VCM applicable to financial instruments with appropriate parameters. The SFC has been engaging the HKEX to review its VCM to ensure that it can comply with IOSCO's recommendations. Soft consultations with the major market participants on enhancing HKEX's VCM have been conducted.	HKEX plans to issue a market consultation paper on market microstructure enhancements, including VCM, probably in 2H 2019.

Relevant web-links	
Web-links to relevant documents	

20. Regulation and supervision of commodity markets

G20/FSB Recommendations

We need to ensure enhanced market transparency, both on cash and financial commodity markets, including OTC, and achieve appropriate regulation and supervision of participants in these markets. Market regulators and authorities should be granted effective intervention powers to address disorderly markets and prevent market abuses. In particular, market regulators should have, and use formal position management powers, including the power to set ex-ante position limits, particularly in the delivery month where appropriate, among other powers of intervention. We call on IOSCO to report on the implementation of its recommendations by the end of 2012. (Cannes)

We also call on Finance ministers to monitor on a regular basis the proper implementation of IOSCO's principles for the regulation and supervision on commodity derivatives markets and encourage broader publishing and unrestricted access to aggregated open interest data. (St. Petersburg)

Remarks

Jurisdictions should indicate whether commodity markets of any type exist in their national markets.

Jurisdictions should indicate the policy measures taken to implement the principles found in IOSCO's report on *Principles for the Regulation and Supervision of Commodity Derivatives Markets (Sep 2011)*.

Jurisdictions, in responding to this recommendation, may also make use of the responses contained in the update to the survey published by IOSCO in September 2014 on the principles for the regulation and supervision of commodity derivatives markets.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 27.03.2002

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

20. Regulation and supervision of commodity markets

Progress to date

Issue is being addressed through

- [x] Primary / Secondary legislation
- [ ] Regulation / Guidelines
- [ ] Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

SFC: The regulation of commodity derivatives markets in Hong Kong comes under the regulatory framework for futures markets under the Securities and Futures Ordinance, which has proven to be robust and effective over the last decade and evidenced during the global financial crisis in 2007 - 2008. There are commodity futures contracts traded in the futures market operated by the Hong Kong Exchanges and Clearing Limited (HKEX). According to the outcome of the survey conducted by IOSCO in April 2012 on the implementation of the Principles for the Regulation and Supervision of Commodity Futures Markets and an update to the 2012 survey reported to the IOSCO Board in September 2014, Hong Kong was on par with major jurisdictions in the implementation of these principles. The SFC will ensure that Hong Kong continues to implement these principles.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

20. Regulation and supervision of commodity markets

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date

Relevant web-links	
Web-links to relevant documents	

21. Reform of financial benchmarks

G20/FSB Recommendations

We support the establishment of the FSB's Official Sector Steering Group to coordinate work on the necessary reforms of financial benchmarks. We endorse IOSCO's Principles for Financial Benchmarks and look forward to reform as necessary of the benchmarks used internationally in the banking industry and financial markets, consistent with the IOSCO Principles. (St. Petersburg)

Collection of information on this recommendation will continue to be deferred given the ongoing reporting of progress in this area by the FSB Official Sector Steering Group, and ongoing IOSCO work to review the implementation of the IOSCO Principles for Financial Benchmarks.

22. Enhancing financial consumer protection

G20/FSB Recommendations

We agree that integration of financial consumer protection policies into regulatory and supervisory frameworks contributes to strengthening financial stability, endorse the FSB report on consumer finance protection and the high level principles on financial consumer protection prepared by the OECD together with the FSB. We will pursue the full application of these principles in our jurisdictions. (Cannes)

Remarks

Jurisdictions should describe progress toward implementation of the OECD's *G-20 high-level principles on financial consumer protection (Oct 2011)*.

Jurisdictions may refer to OECD's *September 2013 and September 2014 reports* on effective approaches to support the implementation of the High-level Principles as well as the *G20/OECD Policy Guidance on Financial Consumer Protection in the Digital Age*, which provides additional effective approaches for operating in a digital environment. The effective approaches are of interest across all financial services sectors – banking and credit; securities; insurance and pensions – and consideration should be given to their cross-sectoral character when considering implementation. In the case of private pensions, additional guidance can be found in the *Good Practices on the Role of Pension Supervisory Authorities in Consumer Protection Related to Private Pension Systems*

Jurisdictions should, where necessary, indicate any changes or additions that have been introduced as a way to support the implementation of the High-level Principles, to address particular national terminology, situations or determinations.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 06.02.2015 [Consumer

If "**Not applicable**" or "**Applicable but no action envisaged…**" has been selected, please provide a brief justification

If "**Implementation ongoing**" has been selected, please specify

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ○ Final rule (for part of the reform) in force since

22. Enhancing financial consumer protection

Progress to date

Issue is being addressed through

- ☐ Primary / Secondary legislation
- ☑ Regulation / Guidelines
- ☑ Other actions (such as supervisory actions)

Short description of the content of the legislation/regulation/guideline/other actions

(HKMA)

Public and Consumer Education:
As part of the efforts to promote financial education, the HKMA has been launching various public and consumer education initiatives to promote public understanding of the HKMA's work, and educate the public to be smart and responsible financial consumers. Through television programmes, educational videos, audio clips, marketing collaterals, print, web (including the HKMA website, Facebook, YouTube Channel, LinkedIN), mobile and out-of-home publicity, the HKMA has been disseminating smart tips on using internet / mobile banking, e-wallets and digital financial services (such as online and mobile payment, and peer-to-peer funds transfer via smartphone apps) to reinforce public's sense of cybersecurity, advocating proper attitude in handling personal credit products (including credit cards and personal loans), and introducing the Faster Payment System (a new payment financial infrastructure introduced in 2018 to enable instant cross-bank/stored value facility payments on a 24x7 basis) to the public, etc.

Consumer Protection:
The HKMA has contributed to the work of the OECD Task Force in developing effective approaches to support the implementation of the G20 High-level Principles on Financial Consumer Protection. Riding on the good practices promulgated under the G20 High-Level Principles on Financial Consumer Protection, the HKMA has worked with the banking industry to introduce a Treat Customers Fairly (TCF) Charter as a catalyst for fostering a stronger risk culture towards fair treatment of customers at all levels of banks and at all stages of their relationship with customers.
All retail banks in Hong Kong signed up to the Charter on 28 October 2013. The promotion of a strong corporate culture to ensure fair treatment of customers has been extended to the private wealth management industry: On 8 June 2017, the HKMA and the Private Wealth Management Association (PWMA) jointly announced all PWMA member institutions' commitment to implement the Treat Customers Fairly Charter for Private Wealth Management Industry. The HKMA has worked together with the industry to complete a comprehensive review of the Code of Banking Practice. The revised Code was issued on 6 February 2015. The revised Code has, among other things, incorporated the G20 High-level Principles on Financial Consumer Protection as general principles for AIs to observe when providing products and services to their customers, thereby helping to promote international good banking practices in Hong Kong; and enhancing the disclosure and transparency about terms and conditions by AIs, which include the provision of new standardized Key Facts Statements by AIs as promulgated under Principle 4 of the G20 principles.

If this recommendation has not yet been fully implemented, please provide **reasons for delayed implementation**

22. Enhancing financial consumer protection

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) Following the HKMA's launch of the Bank Culture Reform in March 2017 through promoting the adoption of a holistic and effective framework for fostering a sound culture within banks, the HKMA announced in December 2018 supervisory measures for bank culture (namely, self-assessment, focused reviews and culture dialogues) to gauge the progress of Bank Culture Reform in Hong Kong. The HKMA and the SFC provided guidance to intermediaries in March and August 2018 on online distribution and advisory platforms for investment products. On sale of insurance products by banks, the HKMA has issued four circulars to enhance customer protection: (i) a circular in May 2018 providing guidance to banks when selling specified life insurance products with savings components through digital distribution channel without recommendation; (ii) a circular in June 2018 requiring banks to place additional customer protection measures when selling annuity insurance products at retail level; (iii) another circular in April 2019 reminding banks of the information that should be disclosed to customers during the selling process of tax-deductible qualifying deferred annuity policies and; (iv) a circular in June 2019 on the sale of medical insurance products to remind banks of the prevailing requirements in particular those on customer suitability and product disclosure. (IFEC) To promote the importance of investor education and protection, the IFEC worked with various professional bodies to host thematic seminars in October in conjunction with World Investor Week 2018, an initiative led by IOSCO. The seminars covered topics including the impact of weighted voting rights shares on investors, new economy investing, macro-economic	(HKMA) Public and Consumer education: The HKMA will continue to promote smart and responsible use of banking and related products and services through different public and consumer education initiatives. (IA) The IA aims to finalize the draft legislation for the policyholders' protection by 2020. (IFEC) The Chin Family will continue to run public education advertising campaigns throughout 2019, complemented by regular social and digital communication. More education programmes targeted at different segments including school children, tertiary students, working adults, pre-retirees and retirees will be developed.

Relevant web-links

Web-links to relevant documents	Code of Banking Practice: http://www.hkma.gov.hk/media/eng/doc/code_eng.pdf Treat Customers Fairly Charter: http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2013/20131028e1.pdf HKMA Consumer Education Programme http://www.hkma.gov.hk/eng/key-functions/banking-stability/consumer-corner/strengthening-financial-consumer-protection/consumer-education-programme/

List of abbreviations used

BO: Banking Ordinance
BCBS: Basel Committee on Banking Supervision
Code of Conduct: Code of Conduct by Persons licensed by or registered with the Securities and Futures Commission
DPS: Deposit Protection Scheme
FMCC: Fund Manager Code of Conduct
FRR: Financial Resource Rules
FSB: Financial Stability Board
G-SIIs: Globally Systemically Important Insurers
HKAB: Hong Kong Association of Banks
HKDPB: Hong Kong Deposit Protection Board
HKFRS: Hong Kong Financial Reporting Standards
HKICPA: Hong Kong Institute of Certified Public Accountants
HKMA: Hong Kong Monetary Authority
HLIs: Highly leveraged institutions
IA: Insurance Authority of Hong Kong (now the Office of the Commissioner of Insurance, OCI)
IAIS: International Association of Insurance Supervisors
IASB: International Accounting Standards Board
ICG: Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC
ICP: IAIS Insurance Core Principle
IFRS: International Financial Reporting Standards
ICG: Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission
ICO: Insurance Companies Ordinance
IOSCO: International Organization of Securities Commissions
IOSCO CRA Code: IOSCO Code of Conduct Fundamentals for Credit Rating Agencies
LTV: Loan to Value
MMoU: Multilateral Memorandum of Understanding
MMFs: Money Market Funds MOUs: Memorandum of understanding
MSC: Macro Surveillance Committee
NAV: Net Asset Value
OCI: Office of the Commissioner of Insurance
PAO: Professional Accountants Ordinance
SCAV: FSB Standing Committee on Assessment of Vulnerabilities
SFC: Securities and Futures Commission
SFO: Securities and Futures Ordinance
UT Code: Code on Unit Trusts and Mutual Funds

Sources of recommendations

- Buenos Aires: G20 Leaders' Communique (27 November 2018)
- Hamburg: G20 Leaders' Communique (7-8 July 2017)
- Hangzhou: G20 Leaders' Communique (4-5 September 2016)
- Antalya: G20 Leaders' Communique (15-16 November 2015)
- Brisbane: G20 Leaders' Communique (15-16 November 2014)
- St Petersburg: The G20 Leaders' Declaration (5-6 September 2013)
- Los Cabos: The G20 Leaders' Declaration (18-19 June 2012)
- Cannes: The Cannes Summit Final Declaration (3-4 November 2011)
- Seoul: The Seoul Summit Document (11-12 November 2010)
- Toronto: The G-20 Toronto Summit Declaration (26-27 June 2010)
- Pittsburgh: Leaders' Statement at the Pittsburgh Summit (25 September 2009)
- London: The London Summit Declaration on Strengthening the Financial System (2 April 2009)
- Washington: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)
- FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)
- FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)
- FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)
- FSB 2012: The FSB Report on Increasing the Intensity and Effectiveness of SIFI Supervision (1 November 2012)