

**FSB- G20 - MONITORING PROGRESS – Hong Kong September 2011**

<p align="center">#</p> <p align="center"># in brackets are # from the 2010 template</p>	<p align="center"><b>G20/FSB RECOMMENDATIONS</b></p>		<p align="center"><b>DEADLINE</b></p>	<p align="center"><b>PROGRESS TO DATE</b></p> <p align="center"><i>Explanatory notes:</i></p> <p align="center"><i>In addition to information on progress to date, specifying steps taken, please address the following questions:</i></p> <p align="center">1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction?</p> <p align="center">2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results?</p> <p align="center"><i>Also, please provide links to the relevant documents that are published.</i></p>	<p align="center"><b>PLANNED NEXT STEPS</b></p> <p align="center"><i>Explanatory notes:</i></p> <p align="center"><i>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</i></p> <p align="center"><i>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</i></p> <p align="center"><i>What are the key challenges that your jurisdiction faces in implementing the recommendations?</i></p>
<p><b>I. Improving bank capital and liquidity standards</b></p>					
<p align="center">1</p>	<p align="center">(Pitts)</p>	<p align="center">Basel II Adoption</p>	<p>All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.</p>	<p align="center">By 2011</p>	<ul style="list-style-type: none"> <li>The Hong Kong Monetary Authority (HKMA) adopted Basel II into its capital framework in 2007. As the capital framework applies to all banks (not just internationally active banks), a Basic Approach to credit risk, which allows the smaller banks to use the Basel I-based framework for risk weighting all credit exposures, subject to a few technical adjustments and the imposition of a capital charge for operational risk, was introduced alongside the Standardised Approach and IRB Approach. Reflecting local circumstances only the Basic Indicator Approach and the Standardised Approach are available for Operational Risk. The Advanced Measurement Approaches have yet to be introduced. <a href="http://www.hkma.gov.hk/eng/key-functions/banking-stability/basel-3.shtml">http://www.hkma.gov.hk/eng/key-functions/banking-stability/basel-3.shtml</a></li> <li>The HKMA is now at the final stage of effecting legislative amendments to the Banking (Capital) Rules and Banking (Disclosure) Rules to implement the “Basel 2.5” enhancements issued by the Basel Committee on Banking Supervision (BCBS) in July 2009. The amended Rules are expected to take effect from 1 January 2012.</li> <li>The HKMA continues to monitor the development of operational risk management practices and keep track of the demand for adopting Advanced Measurement Approaches in local banking sector. Given that operational risk management is still an emerging risk management discipline, the HKMA will consider devising a policy framework (including the relevant rules) for the introduction of the Advanced Measurement Approaches under Basel II, where appropriate.</li> </ul>

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2	(FSB 2009)  (Tor)	Basel II trading book revision	<p>Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010.</p> <p>We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules.</p>	By end-2011	<ul style="list-style-type: none"> <li>• The HKMA consulted the industry in September 2009 and August 2010 on proposals to implement the enhanced market risk capital framework under Basel 2.5 in line with relevant BCBS requirements.</li> <li>• The HKMA conducted formal statutory consultations with the industry in Q3 2011 on the legislative amendments to incorporate the Basel 2.5 proposals into the Banking (Capital) Rules and Banking (Disclosure) Rules under the Hong Kong Banking Ordinance. Amendments to the Rules (taking into account comments received from the consultations) are scheduled to be tabled before the legislature in late October 2011.</li> <li>• Supporting supervisory guidance and the framework for reporting regulatory market risk capital are being updated to incorporate the Basel 2.5 enhancements.</li> </ul>	<ul style="list-style-type: none"> <li>• The plan is to effect legislative amendments to the Banking (Capital) Rules and Banking (Disclosure) Rules with effect from 1 January 2012.</li> <li>• Key challenge is converting concepts and guiding principles into appropriately precise legislative language.</li> </ul>
3 (5, 6, 8)	(Seoul)	<p>Adoption and implementation of international rules to improve bank capital and liquidity standards (Basel III); including leverage ratios</p> <p>(Note) Please explain developments in i) capital standards, ii) liquidity standards and iii) leverage ratios respectively.</p>	<p>We are committed to adopt and implement fully these standards (Basel III) within the agreed timeframe that is consistent with economic recovery financial stability. The new framework will be translated into our national laws and regulations, and will be implemented starting on January 1, 2013 and fully phased</p>	<p>January 1, 2013 and fully phased in by January 1, 2019.</p>	<p>Leverage ratio</p> <ul style="list-style-type: none"> <li>• The HKMA participated in the BCBS and Group of Central Bank Governors and Head of Supervision (GHOS) discussions on the introduction of a leverage ratio as a supplementary measure to the Basel risk-based regulatory capital framework.</li> <li>• All major local banks participated in a local QIS which assessed the impact of the introduction of a leverage ratio (as well as the impact of the other BCBS capital reform proposals). The results indicated that the banks generally should have no difficulty in complying with the 3% testing level for the leverage ratio proposed by the BCBS.</li> </ul> <p>Capital standards</p> <ul style="list-style-type: none"> <li>• As a member of the BCBS and its Definition of Capital Sub-group, the HKMA participated in the development of the new Basel III capital standards for banks.</li> <li>• Given that banks in Hong Kong are generally well-</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of the new capital and liquidity requirements (including the leverage ratio) in Hong Kong will require amendment of both primary legislation (the Banking Ordinance) and subsidiary legislation (the Banking (Capital) Rules and Banking (Disclosure) Rules). To allow sufficient time for implementation to begin in 2013, these legislative amendments are proposed to be made in the 2011-2012 legislative session.</li> <li>• Key challenge is converting concepts into appropriately precise legislative language.</li> <li>• The HKMA will consult the industry by stages, starting Q4 2011, on the approaches to implementing the capital standards (including the leverage ratio) and the liquidity standards, taking into account local circumstances and results</li> </ul>

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			in by January 1, 2019.		<p>capitalised and already place significant reliance on common equity to meet regulatory capital requirements and given that most of the Basel III regulatory adjustments are already required to be deducted from Tier 1 capital under Hong Kong's existing capital rules, it is anticipated that Hong Kong banks should not have any major difficulty in meeting the higher capital requirements.</p> <p>Liquidity standards</p> <ul style="list-style-type: none"> <li>As a member of the BCBS's Working Group on Liquidity, the HKMA actively participated in the development of the BCBS's global liquidity framework, including two minimum global standards for enhancing banks' liquidity resilience and a set of monitoring metrics for strengthening and promoting global consistency in liquidity risk supervision.</li> <li>In 2010, the HKMA participated in the BCBS QIS and also conducted its own local QIS to assess the impact of the global liquidity standards on a broader number and range of banks.</li> </ul> <p>Basel III implementation monitoring process</p> <ul style="list-style-type: none"> <li>In 2011, the HKMA participated in the BCBS-led implementation monitoring process (IMP) to monitor the impact of the above standards on participating banks and their migration towards compliance with the standards. The data collection exercise is being conducted on a semi-annual basis within the observation period. The HKMA is conducting a similar local IMP on a broader sample of banks during the observation period.</li> </ul>	of local impact studies conducted in 2011 on selected banks.
4 (4, 7, 9, 48)	(WAP)	Strengthening supervision and guidelines on banks' risk management practices	Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to	Ongoing	<p>Enhanced risk management guidance</p> <ul style="list-style-type: none"> <li>The HKMA issued revised supervisory guidance in June 2010 on its supervisory review process (SRP) which updated and strengthened supervisory requirements for stress testing by locally-incorporated banks under their capital adequacy assessment process (CAAP), having regard to the enhanced stress-testing practices promulgated by the BCBS. <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-</a></li> </ul>	<ul style="list-style-type: none"> <li>The HKMA reviews locally-incorporated banks' stress-testing practices for the purposes of their CAAP against the relevant updated supervisory requirements when conducting its SRP.</li> <li>In monitoring banks' progress in implementing the supervisory guideline on liquidity, the HKMA will review the need for the issuance of more specific supervisory guidance regarding some of the high-level concepts in the 2008 BCBS</li> </ul>

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	<p>(FSF 2009)</p>	<p>re-examine their internal controls and implement strengthened policies for sound risk management.</p>	<p>1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.</p>		<p><a href="#">manual/CA-G-5.pdf</a></p> <ul style="list-style-type: none"> <li>• The HKMA also revised its supervisory guideline on “Stress-testing” to incorporate the BCBS’s relevant guidance issued in May 2009, and is addressing comments received during industry consultation on the proposed revisions.</li> <li>• The HKMA issued, in April 2011, a supervisory guideline on “Sound Systems and Controls for Liquidity Risk Management” to provide more detailed guidance to the industry on how banks are expected to comply with the enhanced risk management standards set out in the 2008 BCBS Liquidity Sound Principles. <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/LM-2.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/LM-2.pdf</a></li> <li>• The guideline requires banks to phase in necessary enhancements to meet the standards in accordance with an implementation action plan agreed with the HKMA setting out concrete measures, target deadlines and deliverables. The HKMA is monitoring the progress of implementation by individual banks.</li> <li>• Under the supervisory guideline on “Foreign Exchange Risk Management” updated by the HKMA in January 2009, banks are required to put in place effective systems and procedures for managing their foreign exchange risk exposures, including foreign currency funding needs during normal as well as stressed market conditions. <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/TA-2.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/TA-2.pdf</a></li> <li>• The updated liquidity risk guidance (referred to in third bullet above) includes a section on foreign currency liquidity management to reflect the BCBS Liquidity Sound Principles. Among other things, banks are expected to have funding management strategies as well as systems and controls that will enable them to avoid excessive reliance on foreign exchange or currency swap markets as a source of liquidity, particularly in stressed situations.</li> </ul>	<p>Liquidity Sound Principles. This will be considered in light of implementation experience and ongoing international discussions.</p> <ul style="list-style-type: none"> <li>• The HKMA plans to formally issue the revised supervisory guidance on stress-testing before the year-end, after addressing the industry’s comments.</li> <li>• Key challenges in implementing the enhanced stress-testing practices and liquidity risk management relate to, among other things, data availability, significant costs for banks arising from system upgrades and recruitment of additional risk management personnel with requisite knowledge and expertise.</li> <li>• The HKMA has conducted a benchmarking review of Hong Kong banks’ stress-testing procedures and issued a circular to the industry in August 2011 on sound practices identified.</li> <li>• The SFC will continue to stress test SFC-licensed firms’ compliance with liquid capital requirement from time to time.</li> </ul>
	<p>(FSF 2008)</p>		<p>II.10 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</p>			

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	(FSB 2009)		practices. Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.		Enhanced risk management supervision <ul style="list-style-type: none"> <li>The HKMA monitors banks' compliance with its foreign exchange risk management requirements in its ongoing supervision of banks. Its approach to the supervision of banks' operations in foreign currency funding markets is considered to be consistent with international practices.</li> <li>The HKMA has been making more use of stress-testing results in determining the supervisory plans for Hong Kong banks.</li> <li>The SFC conducts stress testing of SFC-licensed firms' compliance with liquid capital requirement from time to time.</li> </ul>	
<b>II. Addressing systemically important financial institutions (SIFIs)</b>						
5 (19)	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	<ul style="list-style-type: none"> <li>Systemically significant banks in Hong Kong are subject to the consolidated supervision of the HKMA following the standards prescribed in the "Core Principles for Effective Banking Supervision" issued by the BCBS. <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CS-1.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CS-1.pdf</a></li> <li>In determining supervisory programmes and allocating resources, supervisors take into account the complexity, interconnectedness and size of individual banks and banking groups, and the different mitigation approaches available.</li> <li>The Insurance Authority (IA) has been actively participating in supervisory colleges for major insurance groups on an on-going basis.</li> <li>On the other hand, the International Association of Insurance Supervisors (IAIS) is finalizing its revised Insurance Core Principles (ICPs) in an effort to strengthen global insurance supervision. The ICP 25 (Supervisory Cooperation and Coordination) sets out the guidelines on the use of supervisory colleges in group-wide supervision. The IA is currently reviewing the approaches as set out in the relevant ICP with regard to the insurance supervisory regime in Hong Kong.</li> <li>The IAIS is continuing its work on assessing whether any insurers should be classified as global</li> </ul>	<ul style="list-style-type: none"> <li>The HKMA regularly reviews its supervisory framework for SIFIs to ensure that it remains in line with international standards.</li> <li>The regulatory authorities in Hong Kong will work closely together to ensure that systemically important institutions are subject to consistent, consolidated supervision, in accordance with international standards and practices.</li> <li>The IA will continue to participate in the colleges for major insurance groups.</li> <li>The IA will keep track of the adoption of revised ICP 25 by the IAIS and consider adopting as appropriate, taking into account the local circumstances.</li> <li>The IA will keep in view the development of G-SIFIs by the IAIS and will consider adopting as appropriate, taking into account the local circumstances.</li> <li>SFC will participate in IOSCO to develop methodologies to identify firms that carry out potentially systemic activities.</li> </ul>

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					systemically important financial institutions (G-SIFIs).	
6 (43, 44)	(Pitts)	Mandatory international recovery and resolution planning for G-SIFIs	Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress.	End-2010 (for setting up crisis management groups)	<ul style="list-style-type: none"> <li>• The HKMA is the host regulatory authority of a number of major financial institutions. It has been actively involved in the Crisis Management Groups (CMGs) organised by the relevant home authorities of these institutions to discuss and plan for cross-border crisis management including the production of a Recovery and Resolution Plan for each applicable institution in accordance with the relevant FSB principles .</li> <li>• The HKMA is a member of the FSB Cross-Border Crisis Management Group (CBCMG) responsible for giving guidance to, and overseeing implementation of, the relevant FSB principles by the individual CMGs.</li> <li>• The IA has been participating in the IAIS meetings and the Asian Forum of Insurance Regulators (AFIR) meetings which are held at least annually, and has been exchanging views with other participants during those meetings on matters of common concern.</li> <li>• The IAIS is finalizing its ICP 26 on cross-border cooperation and coordination on crisis management which enhances the crisis management of insurers and insurance groups operating on a cross-border basis. The IA is reviewing the approaches as set out in the relevant ICP with regard to the insurance supervisory regime in Hong Kong.</li> <li>• See response to item 6(43) above regarding HKMA's participation in CMGs.</li> <li>• See response to item 8(41) concerning HKMA's participation in supervisory colleges.</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA will continue to play an active role in the CMGs organised by the relevant home authorities of the major financial institutions to discuss and plan for cross-border crisis management.</li> <li>• The HKMA will continue to make known its views and keep abreast of developments through its membership of the FSB CBCMG.</li> <li>• The IA will keep track of the adoption of revised ICP 26 (Cross-border cooperation and coordination on crisis management) by the IAIS and will consider adopting as appropriate, taking into account the local circumstances.</li> <li>• SFC will participate in IOSCO to develop methodologies to identify firms that carry out potentially systemic activities.</li> </ul>
	(Seoul)		We agreed that G-SIFIs should be subject to a sustained process of mandatory international recovery and resolution planning. We agreed to conduct rigorous risk assessment on G-SIFIs through international supervisory colleges and negotiate	Ongoing		



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	(WAP)		<p>recommendations on cross-border bank resolution issued by the BCBS in March 2010.</p> <p>National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.</p> <p>VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.</p>		<ul style="list-style-type: none"> <li>The HKMA is both the central bank and the supervisor of the banking industry of Hong Kong. The monetary side (which is responsible for central banking functions) and the banking side (which is responsible for banking supervisory functions) of the HKMA work closely together in the event of a banking crisis. The HKMA has established procedures for handling bank failures. These procedures are updated from time to time taking into account experience obtained in previous crises and regular contingency rehearsals.</li> </ul>	
8 (41)	(Lon)	Supervisory colleges	To establish the remaining supervisory colleges for significant cross-border firms by June 2009.	June 2009 (for establishing supervisory colleges)	<ul style="list-style-type: none"> <li>The HKMA is the host regulatory authority of a number of major financial institutions with significant operations in Hong Kong and has participated in the supervisory colleges established by the relevant home supervisors for these institutions. The international activities of those institutions for which the HKMA is the home supervisor are considered to be not so significant. The HKMA will for present purposes therefore continue to supervise these</li> </ul>	<ul style="list-style-type: none"> <li>The HKMA will continue to participate in supervisory colleges to keep itself abreast of supervisory developments in relation to the relevant institutions.</li> <li>The IA will continue to participate in supervisory colleges for major insurance groups.</li> </ul>

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	(Seoul)		We agreed to conduct rigorous risk assessment on these firms through international supervisory colleges ...	Ongoing	<p>institutions' cross-border activities making use of its bilateral relationships with the relevant host supervisors.</p> <ul style="list-style-type: none"> <li>• The IA has been actively participating in supervisory colleges for major insurance groups on an on-going basis.</li> <li>• Given that significant firms in Hong Kong's securities market are subsidiaries or branches of overseas financial firms, the SFC would not be establishing supervisory colleges.</li> </ul>	
9 (42)	(FSF 2008)	Supervisory exchange of information and coordination	V.7 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.	Ongoing	<ul style="list-style-type: none"> <li>• The HKMA participates actively in supervisory colleges organised by overseas home regulators. It endeavours to share information with its fellow regulators in a timely manner, through both the supervisory colleges (in accordance with the principles and standard set out by the FSB/BCBS) and its bilateral relationships with them in accordance with the terms of the established MoUs.</li> <li>• The IA has been participating actively in supervisory colleges for major insurance groups on an on-going basis. Furthermore, the IA has also been in close contact with local financial regulators on matters of common interests.</li> <li>• The SFC participates in a supervisory college organised by an overseas regulator.</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA will continue to work closely with overseas regulators on the supervision of banks with cross-border operations in line with the various principles and standards set out by the BCBS.</li> <li>• The IA will continue to participate in supervisory colleges for major insurance groups and maintain close contact with local financial regulators on matters of common interest.</li> <li>• The IA will keep track of the adoption of revised ICP 25 (Supervisory Cooperation and Coordination) by the IAIS and will consider adopting as appropriate, taking into account the local circumstances.</li> <li>• SFC will continue to participate in the supervisory college. In addition, SFC will maintain regular contact with major regulators to facilitate supervisory exchange of information.</li> </ul>
10 (New)	(Seoul)	More effective oversight and supervision	We agreed that supervisors should have strong and unambiguous mandates, sufficient independence to act, appropriate resources, and a full suite of tools	Ongoing	<ul style="list-style-type: none"> <li>• The HKMA, as a banking regulator, possesses powers provided by the Banking Ordinance and has a clear mandate for promoting the stability and effective functioning of the banking system in Hong Kong. The HKMA has adopted a dynamic and forward-looking supervisory approach, and allocated sufficient resources, to proactively identify and address the risks embedded in business models of banks. These include an array of conventional tools for micro-supervision (such as</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA will continue to monitor the risk of banks through various measures on an ongoing basis.</li> <li>• As a member of the IAIS, the IA will keep track of the adoption of the revised ICPs by the IAIS and will consider adopting as appropriate, taking into account the local circumstances.</li> <li>• The SFC will continue to monitor the securities and futures markets, exposures</li> </ul>

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			<p>and powers to proactively identify and address risks, including regular stress testing and early intervention.</p>	<p>onsite examinations, offsite surveillance and stress testing) and macro-prudential surveillance in order to identify evolving risks that might have important impacts on the operations and risk profiles of individual banking institutions as well as the banking system as a whole.</p> <ul style="list-style-type: none"> <li>• The HKMA conducts supervisory stress tests regularly with the main objective of assessing the resilience of banks to potential risks and vulnerabilities. The stress-testing results are used, in particular, to inform and refine the HKMA's ongoing prudential supervisory process so that more in-depth analyses can be conducted on individual banks identified as outliers, with appropriate early preventative measures being implemented on those banks where necessary.</li> <li>• The IAIS is finalizing its revised ICPs with the aim of providing a globally-accepted framework for the effective oversight and supervision of the insurance sector. The IA is reviewing the standards and guidance materials as set out in the ICPs with regard to the insurance supervisory regime in Hong Kong.</li> <li>• As a securities regulator, the SFC is mandated under the Securities and Futures Ordinance (SFO) to maintain and promote efficient, fair, orderly and transparent markets; minimise crime and misconduct; and reduce systemic risks in the securities and futures industry. The SFO has empowered the SFC to take such steps, so far as reasonably practicable, as it considers appropriate to carry out its mandates.</li> <li>• Firms licensed by the SFC are required to have effective policies and procedures for proper risk management. The Financial Resources Rules also set out capital requirements in respect of the risks.</li> <li>• The SFC conducts stress testing of SFC-licensed firms' compliance with liquid capital requirement from time to time.</li> <li>• Under the SFO, the SFC's early intervention powers include the power to restrict a licensed firm from carrying on business or entering into transactions.</li> </ul>	<p>of SFC-licensed firms and to stress test SFC-licensed firms' compliance with liquid capital requirement.</p>
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III. Extending the regulatory perimeter to entities/activities that pose risks to the financial system						
11 (27)	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level.	Ongoing	<ul style="list-style-type: none"> <li>• As a member of the FSB, the HKMA actively participates in discussions concerning unregulated entities/activities in the financial system, such as the shadow banking system.</li> <li>• Being a member of the IAIS, the IA has been actively contributing to deliberations on international standards for insurance supervision.</li> <li>• The SFC is a member of the Technical Committee of IOSCO, which sets standards for securities regulation. The SFC is actively involved in the various Standing Committees, and Task Forces set up to address the regulatory challenges posed by the crisis. Please also see response to item 23 (25).</li> <li>• In addition, the SFC participates in the FSB Standing Committee on Standards Implementation, the Experts Group and the Implementation Monitoring Network.</li> <li>• Following the publication of the conclusions paper on proposals to enhance protection for the investing public, the SFC issued a consolidated product handbook – the SFC Handbook, comprising revised product codes for unit trusts and mutual funds and investment-linked assurance schemes (ILAS) as well as a new product code for unlisted structured investment products (SIP). The SFC Handbook became effective on 25 June 2010. <a href="http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H584">http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H584</a></li> <li>• The 12-month transitional period given to the existing SFC-authorized funds, ILAS and SIP to comply with the new regime under the SFC Handbook completed smoothly in June 2011. Upon completion of such transition period, commencing 25 June 2011, all SFC-authorized funds, ILAS and SIP that are marketed to the public in Hong Kong are required to provide investors with product key facts statements (KFS) and offering documents that satisfy the requirements under the new regime.</li> <li>• As noted in response to item 35 (37), the SFC has established a regulatory regime for credit rating agencies operating in Hong Kong.</li> </ul>	<ul style="list-style-type: none"> <li>• Hong Kong shall continue to improve its regulatory regime, taking into account global financial developments and local market needs.</li> <li>• The HKMA will continue to monitor and contribute to the FSB efforts to (i) assess the appropriateness of regulatory scope; and (ii) expand the regulatory perimeter to activities in the shadow banking system.</li> <li>• The IA will continue to participate in the meetings of the IAIS and review all the relevant recommendations, standards and guidance issued by the IAIS. The IA will consider adopting them as appropriate, taking into account the local circumstances.</li> <li>• The SFC will continue to participate in the work of the Technical Committee of IOSCO and its various committees and task forces, and the implementation work of the FSB. Please also see response to item 23 (25).</li> </ul>

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12 (30)	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 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.	Ongoing	<ul style="list-style-type: none"> <li>• The HKMA's Banking Policy Department and Banking Supervision Department collaborate with the Market Research Department to collect market intelligence from various sources and analyse the constituent elements of new financial products, trading strategies and business practices with a view to identifying possible emerging risks to the banking sector and assisting in developing appropriate supervisory responses.</li> <li>• The HKMA regularly reviews its supervisory resources requirements. It endeavours to attract and retain qualified staff by benchmarking salary scales to market analogues where practicable. It also seeks funding support to hire outside experts on specific areas as necessary from time to time.</li> <li>• To better assess Hong Kong banks' capacity to understand and manage their risks, the HKMA has upgraded the treasury supervisory team into a specialized division under the Banking Policy Department, and has recruited additional staff with specialized expertise in the area. In addition to carrying out specialized on-site examinations, the Division will monitor market and product developments on a macro basis, with a view to identifying possible concentrations of risk and shifts in fund flows. To make the best use of staff resources with specialised knowledge, the Division will also be responsible for reviewing the effectiveness of Hong Kong banks' liquidity risk management and stress testing practices.</li> <li>• It is an established requirement of the HKMA that banks should fully understand the risks involved before they purchase a new product or engage in a new activity. This requirement is stated in various risk management guidelines of the HKMA. Compliance with this requirement is monitored through onsite examinations.</li> <li>• Staff of IA have different expertise and experience. The IA will seek to ensure that insurers have the ability to identify, monitor, measure, report and control the risks associated with their investment activities.</li> <li>• The staff of SFC have different background and</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA has recently established a Banking Policy Research and Development Unit to strengthen the support for its participation in supervisory policy formulation debates and processes in international fora such as FSB and BCBS and develop proposals for adoption of policies in a manner suitable for local market conditions in Hong Kong.</li> <li>• The HKMA will continue to keep its supervisory resources under regular review.</li> <li>• The IA will engage additional resources to oversee the solvency risks associated with financial innovation.</li> <li>• The SFC will monitor international developments and review the need for further guidance.</li> </ul>
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			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.			
14 (34)	(Lon)	Effective oversight of cross-border funds	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.	End-2009	<ul style="list-style-type: none"> <li>The SFC is a member of the IOSCO Task Force on Supervisory Cooperation. IOSCO published the Task Force's final report on the <i>Principles Regarding Cross-Border Supervisory Cooperation</i> in May 2010 that sets out a set of principles to guide IOSCO members in developing arrangements amongst themselves to increase supervisory cooperation and information-sharing in relation to globally-active regulated entities which includes collective investment schemes.</li> </ul>	<ul style="list-style-type: none"> <li>Information sharing is being discussed among the members of the IOSCO Task Force on Unregulated Financial Entities following the data collection mentioned in Item 13 (33) above.</li> </ul>
15 (35)	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management,	Ongoing	<ul style="list-style-type: none"> <li>The HKMA's Supervisory Policy Manual module on "Credit Approval, Review and Records" provides that Hong Kong banks should exercise due caution when entering into transactions with highly leveraged institutions (HLIs) including hedge funds. In particular, banks in Hong Kong are required to: <ul style="list-style-type: none"> <li>- perform a thorough credit analysis of HLIs' activities, risks and operations;</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The HKMA will keep its guidelines on dealing with HLIs under review having regard to any future guidance provided by the BCBS or other relevant international organisations.</li> <li>The SFC will monitor international developments and review the need for further guidance if necessary.</li> </ul>

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			including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures.		<ul style="list-style-type: none"> <li>- set meaningful overall credit limits for HLIs;</li> <li>- monitor credit exposures vis-a-vis HLIs, including their trading activities, risk concentration, degree of leverage and risk management processes.</li> </ul> <p><a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CR-G-2.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CR-G-2.pdf</a></p> <ul style="list-style-type: none"> <li>• Licensed persons are required to comply with the SFC's Management, Supervision and Internal Control Guidelines which set out guidance in managing counterparty risk as well as SFC's Core Operational and Financial Risk Management Controls for OTC Derivatives Activities of Registered Persons.</li> </ul> <p><a href="http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H197">http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H197</a></p> <ul style="list-style-type: none"> <li>• Most major prime brokers do not book their hedge fund counterparty risk in the SFC-licensed entities.</li> </ul>	
16 (36)	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	Il.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties	Ongoing	<ul style="list-style-type: none"> <li>• As noted in the response to item 15 (35) above, the HKMA will keep its guidelines on dealing with leveraged counterparties under review and update them having regard to any future guidance provided by the BCBS or other relevant international organisations.</li> <li>• As noted in the response to item 15 (35) above, the SFC has issued the Management, Supervision and Internal Control Guidelines, which include guidance and suggested control techniques for credit risk management, and Core Operational and Financial Risk Management Controls for OTC Derivatives Activities for Registered Persons. The Financial Resources Rules contain specific requirements to address client concentration and investment concentration risk.</li> </ul>	<ul style="list-style-type: none"> <li>• The SFC will monitor international developments and review the need for further guidance if necessary.</li> </ul>
<b>Securitisation</b>						
17 (50)	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	During 2010, supervisors and regulators will: <ul style="list-style-type: none"> <li>• implement the measures decided by the Basel Committee to</li> </ul>	During 2010	<ul style="list-style-type: none"> <li>• Following industry consultation, amendments to the Banking (Capital) Rules and Banking (Disclosure) Rules to implement the Basel 2.5 enhancements issued by the BCBS in July 2009 are scheduled to be tabled before the Legislative Council in October 2011.</li> <li>• The HKMA has updated its Pillar 2 assessment framework and guideline to incorporate the</li> </ul>	<ul style="list-style-type: none"> <li>• Subject to the consideration of the Legislative Council, it is anticipated that the Basel 2.5 Pillar 1 and Pillar 3 enhancements will come into effect from 1 January 2012.</li> <li>• Enhancements to the regulatory framework and the implementation timetable are in line with the BCBS's</li> </ul>



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19 (10)	(FSF 2008)	Strengthening of regulatory and capital framework for monolines	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.	Ongoing	<ul style="list-style-type: none"> <li>There is no monoline insurer in Hong Kong.</li> </ul>	
20 (54)	(FSF 2008)	Strengthening of supervisory requirements or best practices for investment in structured products	II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	Ongoing	<ul style="list-style-type: none"> <li>The HKMA is developing supervisory guidance on "Credit Risk Transfer Activities" which will include due diligence requirements that banks are required to observe when investing in structured products.</li> <li>This has been included in the IA's monitoring of insurers' investment positions. The IAIS is also finalizing its ICP 15 on Investment which provides, among others, guidelines on investments in structured credit products, The IA is reviewing the approaches as set out in the relevant ICP with regard to the insurance supervisory regime in Hong Kong.</li> <li>The Financial Resources Rules have capital charge requirement on investment in structured products.</li> </ul>	<ul style="list-style-type: none"> <li>The HKMA aims to issue the guidance by early 2012. No legislative changes are required.</li> <li>The IA will keep in view the adoption of revised ICP 15 (Investment) by the IAIS and will consider adopting as appropriate, taking into account the local circumstances.</li> <li>The SFC will monitor international developments and review the need for further guidance.</li> </ul>
21 (14)	(FSF 2008)	Enhanced disclosure of securitised products	III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.	Ongoing	<ul style="list-style-type: none"> <li>IOSCO has published the report of SC1 on the disclosure principles for public offerings and listings of asset-backed securities. The SFC is a member of IOSCO SC1 and provided input in the development of the disclosure principles.</li> <li>IOSCO SC1 is undertaking a project to develop IOSCO principles for ongoing disclosure for asset-backed securities. The SFC is a member of IOSCO SC1 and will actively participate in the development of the ongoing disclosure principles.</li> </ul>	<ul style="list-style-type: none"> <li>The SFC will continue to participate in the work of IOSCO SC1 in this area.</li> </ul>



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			<p>particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.</p>	<p>amendments.</p> <ul style="list-style-type: none"> <li>• A local working group on the OTC Derivatives Market set up under a committee of the Treasury Markets Association in Hong Kong continues to serve as an important platform for consultation with market participants to collect views on the development of the regulatory framework for the OTC derivatives market and inputs for the establishment of the local CCP and TR in Hong Kong.</li> </ul> <p><b>Capital Requirements</b></p> <ul style="list-style-type: none"> <li>• The Basel III reform package, when implemented in Hong Kong, will require comparatively higher capital charges for transactions that are not centrally cleared, or are cleared by central counterparties with less robust risk management standards. This will provide incentives for banks to move their OTC derivative transactions to exchanges and central counterparties that meet the enhanced supervisory standards, thereby contributing to the reduction of systemic risk across the financial systems.</li> </ul> <p><b>Participation in International Initiatives</b></p> <ul style="list-style-type: none"> <li>• The HKMA has joined efforts with other members of the FSB OTC Derivatives Working Group in preparing the second progress report on implementation of G20 commitments regarding improvement in the OTC derivatives market, which was published on 11 October 2011.</li> <li>• The HKMA and SFC are members of the OTC Derivatives Regulators' Forum which was established to provide regulators with a means to cooperate, exchange views and share information related to OTC derivatives. The Forum is working on a Data Access Management Framework to assist in the development and maintenance of data access arrangements for trade repositories.</li> <li>• The SFC is a co-chair and the HKMA is a member of the BCBS/IOSCO/CPSS/CGFS working group on margining requirements for non-centrally cleared derivatives which is tasked with developing international standards in this area.</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA and SFC will continue to participate in the OTC Derivatives Regulators' Forum and provide their views and inputs on issues related to data access and information sharing of TRs and CCPs.</li> <li>• Hong Kong will contribute to the standard setting on margining requirements for non-centrally cleared derivatives and will seek to implement these standards in Hong Kong.</li> <li>• The HKMA and SFC will monitor the outcomes of the discussions at the CPSS workgroup for reviewing CCP standards, and seek clearer guidance on how to apply these standards on payments and securities settlement to CCPs.</li> </ul>
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					<ul style="list-style-type: none"> <li>• Hong Kong is a member of the Steering Committee of the CPSS-IOSCO Working Group that is establishing principles for financial market infrastructures which are also relevant to CCPs offering clearing services for OTC derivatives. The Working Group issued a consultation paper in March 2011, the consultation closed in July 2011. The Working Group is analysing the comments received.</li> <li>• The SFC is a member of the IOSCO Task Force on OTC Derivatives Regulation. The Task Force has issued a report on the trading of OTC derivatives on organised platforms in February 2011. The Task Force and CPSS issued a joint consultative report on requirements for OTC derivatives data reporting and aggregation in August 2011. The HKMA also participated in the work of producing this report as a member of CPSS.</li> </ul>	
<b>V. Developing macro-prudential frameworks and tools</b>						
23 (25)	(Lon)	Amendment of regulatory systems to take account of macro-prudential risks	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.	Ongoing	<ul style="list-style-type: none"> <li>• There are well-established cross-sectoral platforms such as the Council of Financial Regulators and the Financial Stability Committee to facilitate effective exchanges amongst regulators and the Administration for the purposes of, inter alia, the maintenance of financial stability in Hong Kong.</li> <li>• The HKMA has established an internal cross-departmental working group on macro-prudential surveillance. The working group provides a forum for various departments to exchange views on market trends and financial product developments with a view to identifying any warning signals of emerging systemic risk.</li> <li>• The HKMA's Banking Policy Department and Banking Supervision Department collaborate with the Market Research Department to collect market intelligence from various sources and analyse the constituent elements of new financial products, trading strategies and business practices with a view to identifying possible emerging risks to the banking sector and assisting in developing appropriate supervisory responses.</li> <li>• The IAIS is finalizing its ICP 24 on Macroprudential Surveillance and Insurance Supervision and the IA</li> </ul>	<ul style="list-style-type: none"> <li>• In collaboration with the regulators, the Administration shall continue to improve our regulatory regime, taking into account global financial developments and local market needs.</li> <li>• The IA will keep in view the adoption of ICP 24 (Macroprudential Surveillance and Insurance Supervision) and consider incorporating the macro-prudential tools in the supervisory regime as appropriate, taking into account the local circumstances.</li> <li>• The SFC will continue to engage in the work of IOSCO, ITF and the WG.</li> <li>• The SFC is a member of SCRR.</li> </ul>

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					<p>is reviewing the approaches as set out in the relevant ICP with regard to the insurance supervisory regime in Hong Kong.</p> <ul style="list-style-type: none"> <li>• The IOSCO Technical Committee recognizes that there is a need for IOSCO to have a better understanding of the role of securities regulators with respect to systemic risk and has set up a new Working Group on Systemic Risk (WG) to address these issues. The mandate of the WG is to develop a discussion paper on the role of securities regulators with respect to systemic risk. The SFC is a member of this WG.</li> <li>• The IOSCO <i>Objectives and Principles of Securities Regulation</i> were revised in June 2010 and incorporate eight new principles, two of which specifically deal with the issue of the role of securities regulators with respect to systemic risk:             <ul style="list-style-type: none"> <li>- The Regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate. (Principle 6)</li> <li>- The Regulator should have or contribute to a process to review the perimeter of regulation regularly. (Principle 7).</li> </ul> </li> <li>• The IOSCO Implementation Task Force (ITF) has been tasked to revise the Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation taking into account the new principles. The SFC is a member of two of several sub-working groups of ITF working on the revised methodology for the eight new principles.</li> <li>• IOSCO has established a Standing Committee on Risk and Research (SCRR) to consider issues related to systemic risks. SCRR has undertaken a study to develop indicators for measuring systemic risks.</li> </ul>	
24 (26)	(Lon)	Powers for gathering relevant information by national regulators	Ensure that national regulators possess the powers for gathering relevant information on all material financial	Ongoing	<ul style="list-style-type: none"> <li>• The HKMA is given wide powers under the Banking Ordinance to require banks to submit to it information which is necessary for the HKMA to perform its functions (which include promotion of the general stability and effective working of the banking system). This includes provision of information by way of both regular returns and ad hoc surveys/information</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA will continue to participate in SCAV.</li> <li>• The Working Group on Data Gaps and Systemic Linkages met in October 2010 and made recommendations to the FSB around end 2010. The DGIG met at the end of August 2011 to consider the data</li> </ul>

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			<p>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.</p>	<p>requests.</p> <ul style="list-style-type: none"> <li>• The HKMA participates in the FSB's Standing Committee on Assessment of Vulnerabilities (SCAV) which assesses and monitors vulnerabilities in the financial system. Discussions at SCAV facilitate information exchange on systemic risks at the international level.</li> <li>• The HKMA was a member of the FSB Working Group on Data Gaps and Systemic Linkages and chaired one of its workstreams on legal and confidentiality constraints in data sharing. The HKMA is currently a member of the FSB Data Gaps Implementation Group (DGIG) and chairs the Governance Workstream under it.</li> <li>• The IA is empowered under the Insurance Companies Ordinance to request for insurers' financial returns and other information as considered appropriate. The IA has entered into Memoranda of Understanding with regulators in other jurisdictions and is working closely with them in the supervision of insurers with cross-border operations.</li> <li>• For securities sector, please also see response to item 23 (25).</li> <li>• In addition to the regular filing and reporting requirements imposed on market operators, licensed persons and authorized funds, the SFC is empowered to request information on any person's holding, acquisition or disposal of securities, futures contracts, leveraged foreign exchange contracts or collective investment schemes for the purpose of enabling or assisting the SFC to perform a function under any relevant provision of the Securities and Futures Ordinance.</li> <li>• Following public consultation on proposals to increase transparency on short positions, the SFC announced in 2010 the introduction of new reporting requirements on short positions (<a href="http://www.sfc.hk/sfc/doc/EN/speeches/consult/consultationconclusion2march2010english.pdf">http://www.sfc.hk/sfc/doc/EN/speeches/consult/consultationconclusion2march2010english.pdf</a>). The data on short positions will complement the existing information which the SFC has on short sale turnover. The increased transparency of short selling activities will, inter alia, provide (i) ready access to</li> </ul>	<p>collection template and the legal aspects of implementation. The Governance Workstream of the DGIG is meeting on 19-20 October 2011. It is anticipated that recommendations on the data collection template and progress on the legal aspects work will be ready for the FSB Steering Group Meeting in November 2011.</p> <ul style="list-style-type: none"> <li>• For securities sector, please also see response to item 23 (25).</li> <li>• Legislation is required for the new reporting requirements on short positions. The SFC aims to implement these new reporting requirements in the first half of 2012.</li> <li>• The SFC and the HKMA will continue to explore international cooperation to strengthen oversight on the activities of hedge funds and other systematically important entities/markets.</li> <li>• In collaboration with the regulators, the Administration will continue to improve our regulatory regime, taking into account global financial developments and local market needs.</li> </ul>
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					<p>information on short selling to improve the SFC's insight into market dynamics and (ii) early warning signs of a build up of large short positions which in turn will help prompt appropriate regulatory actions.</p> <ul style="list-style-type: none"> <li>• A public consultation on the proposed legislation to implement short position reporting was conducted in May 2011. The consultation closed at the end of June 2011 and the conclusions to the consultation will be published in Q3 of 2011. <a href="https://www.sfc.hk/sfcConsultation/EN/sfcConsultFileServlet?name=shtpostrprules&amp;type=1&amp;docno=1">https://www.sfc.hk/sfcConsultation/EN/sfcConsultFileServlet?name=shtpostrprules&amp;type=1&amp;docno=1</a></li> <li>• Any person who carries on a business in Hong Kong to provide asset management services to third parties or advises on securities is required to be licensed by the SFC.</li> <li>• The SFC has participated in a data collection exercise coordinated by the IOSCO in the fourth quarter of 2010 to collect data from managers of potentially systemically important hedge funds. Aggregate data collected by the SFC have been sent to IOSCO as agreed among IOSCO TFUFE members.</li> </ul>	
25 (28)	(FSF 2009)	Use of macro-prudential tools	3.1 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)	End-2009 and ongoing	<ul style="list-style-type: none"> <li>• For the HKMA's approach to implementing the leverage ratio proposed by the BCBS, please see response to item 5 above.</li> <li>• The HKMA uses a variety of quantitative indicators and ratios as macroprudential tools for supervisory purposes. This is particularly the case with regard to property-related lending which constitutes a significant portion of banks' balance sheets in Hong Kong. The HKMA introduced 4 rounds of measures between October 2009 and June 2011 to tighten the mortgage underwriting standards of banks given the increasing risk of property price bubbles. The 4 rounds of macroprudential measures include: <ul style="list-style-type: none"> <li>- lowering the maximum loan-to-value ratios for residential and non-residential property mortgage loans;</li> <li>- standardising the maximum debt servicing ratio (DSR) limits to 50%, and requiring banks to stress test borrowers' repayment ability with the assumption of a rise in mortgage rates of at least</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA will continue to closely monitor the development of the property market in Hong Kong and will consider introducing further appropriate measures as and when necessary to safeguard the banking stability in Hong Kong.</li> <li>• The SFC would monitor international developments and review the need for further guidance if necessary.</li> <li>• The IA will keep in view of the adoption of ICP 24 (Macroprudential Surveillance and Insurance Supervision) and consider incorporating the macro-prudential tools in the supervisory regime as appropriate taking into account the local circumstances.</li> </ul>

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			level... Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions.		<p>2 percentage points subject to a stressed DSR cap of 60%; and</p> <ul style="list-style-type: none"> <li>- requiring banks to consider the need to apply more stringent underwriting standards when lending to borrowers with multiple outstanding mortgages and to those involving industrial and commercial property mortgages.</li> <li>• The IAIS is finalizing its ICP 24 on Macroprudential Surveillance and Insurance Supervision, which requires insurance supervisors to perform both quantitative and qualitative analysis by making use of public and other sources of information (including horizontal reviews of insurers and relevant data aggregation). The IA is reviewing the approaches as set out in the relevant ICP with regard to the insurance supervisory regime in Hong Kong.</li> <li>• The Financial Resources Rules of the SFC have specific capital charge requirements on OTC derivatives and securities margin financing. Moreover, OTC derivatives and securities financing transactions of most global investment banks are not booked in the SFC-licensed firms.</li> </ul>	
26 (29)	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.	Ongoing	<ul style="list-style-type: none"> <li>• The HKMA has been closely monitoring changes in asset prices. The relevant statistical information and analysis are published in its various reports, including the quarterly bulletins, Half-Yearly Monetary and Financial Stability Reports and annual reports.</li> <li>• The SFC monitors the situation of local and international markets to assess their implications on the securities markets and issues half-yearly and annual review reports on the securities market of Hong Kong.</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA will continue to monitor asset prices on an ongoing basis.</li> <li>• The SFC will continue its existing practice of monitoring and releasing half-yearly and annual review reports on the securities market of Hong Kong.</li> </ul>
27 (32)	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of	Ongoing	<ul style="list-style-type: none"> <li>• There are monthly meetings of the Financial Stability Committee and the quarterly meetings of the Council of Financial Regulators among the Government and all financial regulators to discuss key issues and trends with a view to identifying financial stability risks and other concerns pertaining to the financial markets and financial industry in Hong Kong.</li> <li>• The HKMA functions as a de facto central bank in</li> </ul>	<ul style="list-style-type: none"> <li>• Hong Kong will continue this practice of exchange of information.</li> </ul>

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			financial stability risks. The exchange of information should be rapid during periods of market strain.		<p>many aspects and as the supervisor of the banking industry of Hong Kong. There are established and effective communication channels between the monetary side (which is responsible for central banking functions) and the banking side (which is responsible for banking supervisory functions) of the HKMA.</p> <ul style="list-style-type: none"> <li>• The IA has cooperation agreements with the Financial Reporting Council and the local financial regulators which seek to provide channels of communication, exchange of supervisory information, and investigative assistance among each other.</li> <li>• The SFC has regular meetings with the HKMA to exchange information.</li> </ul>	
<b>VI. Strengthening accounting standards</b>						
28 (11)	(WAP)	Consistent application of high-quality accounting standards	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.	Ongoing	<ul style="list-style-type: none"> <li>• Hong Kong Financial Reporting Standards (HKFRSs) have converged with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) since 2005. Implementation of HKFRSs does not require legislation.</li> <li>• On 5<sup>th</sup> November 2009, the IASB published an exposure draft on <i>Financial Instruments: Amortised Cost and Impairment</i>, which forms the second part of a three-part project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> with a new standard, to be known as IFRS 9 <i>Financial Instruments</i>. The IASB will further develop the new credit impairment approach and plan to publish that approach in an exposure draft or a review draft in the second half of 2011, while a final standard on offsetting is expected to be issued in the fourth quarter of 2011.</li> <li>• Moreover, the IASB has issued an exposure draft on <i>Mandatory Effective Date of IFRS 9</i> which proposes to adjust the mandatory effective date of IFRS 9 so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2015 and HKICPA has issued the corresponding Invitations to Comment &lt; <a href="http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2011/August/I2C-ifrs9efdate.pdf">http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2011/August/I2C-ifrs9efdate.pdf</a>.</li> </ul>	<ul style="list-style-type: none"> <li>• The Hong Kong Institute of Certified Public Accountants (HKICPA), the accounting standards setting body in Hong Kong, monitors IASB exposure drafts and other international developments and would be expected to take the necessary steps to converge HKFRSs with new/revised IFRSs going forward.</li> <li>• The HKMA will continue to keep a close watch on international accounting developments and work with the HKICPA and HKAB with a view to ensuring that the accounting standards applied by banks in Hong Kong are in line with IFRSs/HKFRSs and the recommendations of the BCBS.</li> <li>• As a member of the BCBS, the HKMA will also continue to support the Committee's interactions with the accounting standard setters in the development of a single set of high-quality global accounting standards.</li> <li>• The IA will continue to keep in view of international accounting developments and closely liaise with the accounting standard setters on an ongoing basis to ensure consistent application and</li> </ul>

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				<ul style="list-style-type: none"> <li>• In May 2011, the IASB issued IAS 27 (2011) <i>Separate Financial Statements</i>, IAS 28 (2011) <i>Investments in Associates and Joint Ventures</i>, IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i>, which complete improvements to the accounting requirements for off balance sheet activities and joint arrangements and concludes an important element of the IASB's comprehensive response to the financial crisis. The global financial crisis illustrated that the existing consolidation guidance was not fundamentally flawed but could be improved. Moreover, the crisis highlighted the importance of enhancing disclosure requirements, in particular, for special purpose or structured entities. As a result, the IASB issued a package of five standards on consolidation and joint arrangements and the HKICPA has issued the equivalent HKFRSs in accordance with the convergence policy. The relevant standards are contained in Members' Handbook Update 106  <a href="http://app1.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/updates/update106.pdf">http://app1.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/updates/update106.pdf</a>.</li> <li>• The HKMA holds regular bilateral meetings with the HKICPA Banking and Regulatory Liaison Group and engages in ongoing dialogue with the Hong Kong Association of Banks (HKAB) to enable mutual understanding of key concerns in the development of converged global accounting standards and their implications for banks' financial reporting and the HKMA's supervisory framework.</li> <li>• The IA has been in close contact with the accounting standard setters on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.</li> <li>• The Financial Reporting Council (FRC) and the HKICPA are responsible for ensuring consistent application and enforcement of high quality accounting standards for HK listed companies and SFC licensees respectively.</li> <li>• Most of the SFC licensed entities are incorporated in HK and are required to prepare financial statements in accordance with HKFRS.</li> <li>• SFC is a member of the IOSCO SC1 (Standing</li> </ul>	<p>enforcement of high-quality accounting standards.</p> <ul style="list-style-type: none"> <li>• SFC, as a member of the IOSCO SC1, will continue to provide its comments to SC1 on exposure drafts issued by the IASB.</li> </ul>
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					<p>Committee 1 on Multinational Disclosure and Accounting), which is actively involved in commenting on exposure drafts issued by the IASB.</p> <ul style="list-style-type: none"> <li>• IOSCO SCI has commented on the following IASB exposure drafts since January 2011. They are: <ul style="list-style-type: none"> <li>- Request for views on effective dates and transition methods;</li> <li>- Hedge accounting;</li> <li>- Financial instruments: Impairment;</li> <li>- Offsetting financial assets and financial liabilities.</li> </ul> </li> <li>• IOSCO SCI has also commented on two IFRS consultation papers since January 2011. <ul style="list-style-type: none"> <li>- Status of Trustee's strategy review;</li> <li>- Report of the Trustee's strategy review – IFRSs as the Global Standard: setting a strategy for the Foundation's second decade.</li> </ul> </li> </ul>	
29 (New)	(Seoul)	Convergence of accounting standards	We re-emphasized the importance we place on achieving a single set of improved high quality global accounting standards and called on the International Accounting Standards Board and the Financial Accounting Standards Board to complete their convergence project.	End-2011	<ul style="list-style-type: none"> <li>• HKFRSs have converged with the IFRSs issued by the IASB since 2005. Implementation of HKFRSs does not require legislation.</li> <li>• Please refer to item 28 (11) for the HKMA's response.</li> <li>• For insurance related accounting standards, the IFRS 4 on Insurance Contracts provides an interim standard that allows a wide variety of accounting practices for insurance contracts to continue until the Phase II revamping is complete. The IASB, jointly with the FASB, is undertaking the project to develop a standard that will replace the current IFRS 4. The IA has been assessing the implications of the revised standard on the insurance industry in Hong Kong.</li> <li>• IOSCO SCI has commented on the following IASB exposure drafts since January 2011. They are: <ul style="list-style-type: none"> <li>- Request for views on effective dates and transition methods;</li> <li>- Hedge accounting;</li> <li>- Financial instruments: Impairment;</li> <li>- Offsetting financial assets and financial liabilities.</li> </ul> </li> <li>• IOSCO SCI has also commented on two IFRS consultation papers since January 2011. <ul style="list-style-type: none"> <li>- Status of Trustee's strategy review;</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The IA will continue to follow closely the development of the IFRS 4 Phase II by closely working with the accounting standard setters on an ongoing basis to ensure consistent application and enforcement of high-quality global accounting standards.</li> </ul>

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					- Report of the Trustee’s strategy review – IFRSs as the Global Standard: setting a strategy for the Foundation’s second decade.	
30 (12)	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard setters and supervisors	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.	End-2009	<ul style="list-style-type: none"> <li>• The HKMA updated its statutory guideline on the SRP in June 2010, following industry consultation, to inter alia include the BCBS supplemental Pillar 2 guidance on the valuation of financial instruments. <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-G-5.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-G-5.pdf</a></li> <li>• The HKMA is addressing industry comments on draft supervisory guidance on “Financial Instrument Fair Valuation Practices”, which incorporates the BCBS’s April 2009 “Supervisory guidance for assessing banks’ financial instrument fair value practices”.</li> <li>• The IASB issued a final standard on fair value measurement standard in May 2011 and the HKICPA issued the same in June 2011 in accordance with the convergence policy as HKFRS 13 <i>Fair Value Measurement</i>, which included guidance on measurement when markets become less active and guidance to address valuation uncertainty.</li> <li>• The IA has been examining the use of valuation reserves in its supervision.</li> <li>• The IAIS is finalizing its revised ICP 14 on Valuation which provides guidance on the valuation of assets and liabilities of insurers. The IA is reviewing the guidance as set out in the relevant ICP with regard to the insurance supervisory regime in Hong Kong.</li> <li>• The FRC and the HKICPA are responsible for ensuring consistent application and enforcement of high quality accounting standards for HK listed companies.</li> <li>• Most of the SFC licensed entities are incorporated in HK and are required to prepare financial statements in accordance with HKFRS.</li> <li>• As noted in the response to item 28 (11), the SFC is a member of the IOSCO SC1, which is actively involved in commenting on exposure drafts issued by the IASB.</li> <li>• IOSCO SCI has commented on the following IASB</li> </ul>	<ul style="list-style-type: none"> <li>• The HKICPA will keep a close watch on international developments and put in place measures as appropriate.</li> <li>• Hong Kong Accounting Standards have mirrored those of International Accounting Standards (IASs) since 2005. The HKMA will continue to maintain regular dialogue with the HKICPA to ensure that both the supervisors and the banking sector are sufficiently consulted during the standard setting process.</li> <li>• The HKMA will monitor the international accounting recommendations and developments in relation to fair value measurement and assess the potential implication of Hong Kong banks’ implementation of the new standard on the regulatory reporting and capital adequacy regime.</li> <li>• The final text of the HKMA’s “Guidance on Financial Instrument Fair Valuation Practices” is expected to be released in Q4 2011 after considering further comments from the industry from the follow-up consultation.</li> <li>• The IA will continue to examine the use of valuation reserves in its supervision whilst keeping the adoption of revised ICP 14 (Valuation) by the IAIS in view.</li> <li>• SFC, as a member of the IOSCO SC1, will continue to provide its comments to SC1 on exposure drafts issued by the IASB.</li> </ul>

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					<p>exposure drafts since January 2011. They are:</p> <ul style="list-style-type: none"> <li>- Request for views on effective dates and transition methods;</li> <li>- Hedge accounting;</li> <li>- Financial instruments: Impairment;</li> <li>- Offsetting financial assets and financial liabilities.</li> </ul> <ul style="list-style-type: none"> <li>• IOSCO SCI has also commented on two IFRS consultation papers since January 2011. <ul style="list-style-type: none"> <li>- Status of Trustee’s strategy review;</li> <li>- Report of the Trustee’s strategy review – IFRSs as the Global Standard: setting a strategy for the Foundation’s second decade.</li> </ul> </li> </ul>	
31 (13)	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii)	End-2009	<ul style="list-style-type: none"> <li>• Item 30 (12) above describes the HKMA’s recent actions relating to fair value accounting.</li> <li>• The IASB issued IFRS 9 Financial Instruments in November 2009, which established a mixed amortised cost and fair value accounting model. The HKICPA adopted and issued the new standard in the HKFRSs in November 2009. HKFRS 9 will be effective from 1 January 2013 with early adoption permitted. In August 2011, the IASB issued an exposure draft proposing to change the mandatory effective date of IFRS 9 to 1 January 2015. The comment period for the exposure draft closes on 21 October 2011. The IASB expects to issue a final standard on hedge accounting representing the third and final part of the project to replace IAS 39. The IASB also expects to issue an exposure draft on macro hedge accounting in the fourth quarter of 2011 or in 2012.</li> <li>• For the insurance sector, please also see response to item 30 (12).</li> <li>• The FRC and the HKICPA are responsible for ensuring consistent application and enforcement of high quality accounting standards for HK listed companies.</li> <li>• Most of the SFC licensed entities are incorporated in HK and are required to prepare financial statements in accordance with HKFRS.</li> <li>• As noted in response to item 28 (11) above, the SFC is a member of the IOSCO SC1, which is actively involved in commenting on exposure drafts issued</li> </ul>	<ul style="list-style-type: none"> <li>• The HKICPA will keep a close watch on international developments and put in place measures as appropriate.</li> <li>• The HKMA will continue to closely monitor international accounting developments and work with the HKICPA and assess impacts on banks’ financial and regulatory reporting.</li> <li>• For the insurance sector, please also see response to item 30 (12).</li> <li>• The SFC, as a member of the IOSCO SC1, will continue to provide its comments to SC1 on exposure drafts issued by the IASB.</li> </ul>

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			Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements.		<ul style="list-style-type: none"> <li>by the IASB.</li> <li>IOSCO SCI has commented on the following IASB exposure drafts since January 2011. They are: <ul style="list-style-type: none"> <li>- Request for views on effective dates and transition methods;</li> <li>- Hedge accounting;</li> <li>- Financial instruments: Impairment;</li> <li>- Offsetting financial assets and financial liabilities.</li> </ul> </li> <li>IOSCO SCI has also commented on two IFRS consultation papers since January 2011. <ul style="list-style-type: none"> <li>- Status of Trustee's strategy review;</li> <li>- Report of the Trustee's strategy review – IFRSs as the Global Standard: setting a strategy for the Foundation's second decade.</li> </ul> </li> </ul>	
<b>VII. Strengthening adherence to international supervisory and regulatory standards.</b>						
32 (21, 22, 23)	(Lon)	Adherence to international prudential regulatory and supervisory standards, as well as agreeing to undergo FSAP/ FSB periodic peer reviews  (Note) Please try to prioritise any major initiatives conducted specifically in your jurisdiction.	We are committed to strengthened adherence to international prudential regulatory and supervisory standards.  FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF /	Ongoing	<ul style="list-style-type: none"> <li>As an FSB member, Hong Kong is obliged to honour its commitment by undergoing periodic peer reviews and FSAP updates. Hong Kong underwent an FSAP in 2003 and would carry out an FSAP update in 2013, which has been communicated with the IMF.</li> <li>Hong Kong participates in FSB thematic reviews. HKMA provided members for the review teams for the thematic reviews on (i) risk disclosures by market participants, (ii) mortgage origination practices and (iii) compensation practices. Currently, the HKMA chairs the thematic review on deposit insurance systems.</li> <li>The SFC chaired the FSB country review of Italy.</li> <li>The legislative exercise to enable Hong Kong to adopt the OECD latest standard on exchange of tax information (EoI) in our Comprehensive Avoidance of Double Taxation Agreements (CDTAs) was completed. The relevant legislation came into operation on 12 March 2010 and Hong Kong is now in a position to sign CDTAs using the latest EoI standard.</li> <li>As at end August 2011, Hong Kong has signed 16 new CDTAs with the Netherlands, Brunei, Indonesia, Hungary, Kuwait, Austria, UK, Ireland Liechtenstein, France, Japan, New Zealand, Switzerland, Portugal,</li> </ul>	<ul style="list-style-type: none"> <li>Hong Kong will continue to undergo periodic FSB peer reviews and FSAP updates.</li> <li>More talks with other treaty partners using the new EoI standard are underway.</li> <li>Hong Kong is participating in the OECD restructured Global Forum's peer review process.</li> </ul>

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	(WAP)		World Bank FSAP reports.  All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.		Spain and the Czech Republic using the new EoI standard and has signed the third Protocol with the Mainland of China and the Protocol with Luxembourg upgrading the EoI Article in the Hong Kong/Mainland and HK/Luxembourg CDTAs to the new standard. Hong Kong has also concluded agreements with Malta, Mexico and the United Arab Emirates. <ul style="list-style-type: none"> <li>• Hong Kong has become a member of the OECD's restructured Global Forum.</li> <li>• In the light of the recommendations made in the Financial Action Task Force (FATF)'s mutual evaluation report on Hong Kong, Hong Kong has enacted the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance. Preparatory work is being undertaken by relevant regulatory authorities, including drafting of industry guidelines, for the implementation of the new legislation on 1 April 2012.</li> </ul>	
<b>Reforming compensation practices to support financial stability</b>						
33 (15)	(Pitts)	Implementation of FSB/FSF compensation principles	We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply	End-2010	<ul style="list-style-type: none"> <li>• The HKMA issued a "Guideline on a Sound Remuneration System" (developed on the basis of the FSB "Principles for Sound Compensation Practices and Implementation Standards") on 19 March 2010. <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CG-5.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CG-5.pdf</a></li> <li>• The HKMA conducted a series of thematic on-site examinations on banks' remuneration systems and practices, covering major banks operating in Hong Kong in Q1 2011. Banks in Hong Kong generally have taken steps to implement FSB's Principles and Standards.</li> <li>• The IAIS is finalizing its ICP 7 on Corporate Governance which provides, among others, guidance on remuneration policy and practices. The guidance generally covers the principles as set out in the FSB "Principles for Sound Compensation Practices and Implementation Standards", and is intended to apply to all insurers. The IA is reviewing the guidance as set out in the relevant ICP with regard to the insurance supervisory regime in Hong Kong.</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA will continue to monitor banks' implementation through its on-going risk-based supervision.</li> <li>• The IA is keeping track of the adoption of ICP 7 (Corporate Governance), in particular the guidance on remuneration policy and practices, by the IAIS and will, upon promulgation of it, consider issuing relevant guidance to the insurance industry having regard to the local circumstances.</li> <li>• In addition to the circular issued to insurers in March 2010 which lends support to the FSB "Principles for Sound Compensation Practices and Implementation Standards", the IA has also requested insurers to review their own remuneration policies and conducted a survey on insurers' remuneration systems.</li> <li>• The SFC will monitor international developments and review the need for further guidance if necessary.</li> </ul>

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	(Tor)	<p>corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately.</p> <p>We encouraged all countries and financial institutions to fully implement the FSB principles and standards by year-end. We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of</p>	<ul style="list-style-type: none"> <li>• The IA has issued a circular to insurers in March 2010, lending support to the FSB “Principles for Sound Compensation Practices and Implementation Standards” in the interim. A copy of the circular can be found at: <a href="http://www.oci.gov.hk/download/cir_20100319.pdf">http://www.oci.gov.hk/download/cir_20100319.pdf</a></li> <li>• In the meantime, insurers are required under our Guidance Note on Corporate Governance of Authorized Insurers to review their remuneration policies periodically and to allow the IA to review those policies upon request. A copy of the Guidance Note can be found at: <a href="http://www.oci.gov.hk/download/gn10-eng.pdf">http://www.oci.gov.hk/download/gn10-eng.pdf</a></li> <li>• IOSCO has not issued guidance for implementation by securities firms. Nonetheless, the SFC has issued letters requesting major non-bank financial institutions to confirm that their compensation policies are in compliance with FSB “Principles for Sound Compensation Practices and Implementation Standards”.</li> <li>• In addition, the SFC has participated in the FSB compensation peer review in Q2 2011.</li> </ul>	
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	(Seoul)		2011. We reaffirmed the importance of fully implementing the FSB's standards for sound compensation.			
34 (16)	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.	Ongoing	<ul style="list-style-type: none"> <li>• For progress in the banking sector, please see response to item 33 (15) above.</li> <li>• For progress in the insurance sector, please see response to item 33 (15) above.</li> <li>• For progress in the securities sector, please see response to item 33 (15) above.</li> </ul>	<ul style="list-style-type: none"> <li>• For planned next steps relating to the banking sector, please see response to item 33 (15) above.</li> <li>• For planned next steps relating to the insurance sector, please see response to item 33 (15) above.</li> <li>• For progress in the securities sector, please see response to item 33 (15) above.</li> </ul>
<b>VIII. Other issues</b>						
<b>Credit rating agencies</b>						
35 (37)	(Lon)	Registration of	All CRAs whose	End-2009	<ul style="list-style-type: none"> <li>• On 19 July 2010, the SFC commenced a one-month</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA intends to update its policy on</li> </ul>

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		CRAs etc.	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.		<p>public consultation regarding establishing a regulatory regime for CRAs operating in Hong Kong. The SFC released its consultation conclusions on 29 October 2010.</p> <ul style="list-style-type: none"> <li>• The legislative amendments to the Securities and Futures Ordinance and the relevant subsidiary legislation for the purpose of creating a regulatory regime for CRAs were completed in mid-April 2011.</li> <li>• The CRA regime became effective on 1 June 2011. From then on, CRAs that provide credit rating services and their rating analysts in Hong Kong are required to be licensed and are subject to supervision by the SFC.</li> <li>• The SFC is a member of, and an active participant, in IOSCO Standing Committee 6 on CRAs (SC6).</li> <li>• The HKMA's policy provisions with regard to recognizing a CRA as an "external credit assessment institution" (ECAI) for Basel II and liquidity ratio purposes are based on the standards published by the BCBS in its Basel II capital framework. <a href="http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/2006/20060623-1.shtml">http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/2006/20060623-1.shtml</a></li> </ul>	ECAI recognition in 2012 to incorporate the revisions to ECAI recognition criteria contained in the document "Basel III: A global regulatory framework for more resilient banks and banking system" issued by the BCBS in December 2010, taking into account regulatory frameworks for CRAs introduced by the SFC and other countries.
36 (38)	(Lon)	CRA practices and procedures etc.	<p>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.</p> <p>CRAs should differentiate ratings for structured</p>	End-2009	<ul style="list-style-type: none"> <li>• Please see response to item 35 (37) above.</li> <li>• As noted above, the SFC is a member of SC6. This Standing Committee has been mandated to (i) regularly discuss, evaluate and consider regulatory and policy initiatives vis-à-vis credit rating agency activities and oversight, in an effort to seek cross-border regulatory consensus through such means as the IOSCO credit rating agency code; and (2) facilitate regular dialogue between securities regulators and the credit rating industry.</li> <li>• In February 2011, IOSCO published SC6's Final Report on Regulatory Implementation of the</li> </ul>	<ul style="list-style-type: none"> <li>• Please see response to item 35 (37) above.</li> <li>• The SFC has been in regular dialogue with European Securities and Markets Authority (ESMA) (before that, with Committee of European Securities Regulators) on cooperation arrangements for the supervision of CRAs that have cross-border activities.</li> <li>• The SFC will continue to engage in the work of SC6.</li> </ul>

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			<p>products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process.</p> <p>The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.</p>		<p><i>Statement of Principles Regarding the Activities of Credit Rating Agencies (IOSCO CRA Principles).</i> The report reviewed and evaluated how the CRA supervisory programmes in different jurisdictions implement the IOSCO CRA Principles. The Report concluded that, while the structure and specific provisions of those programmes may differ, the objectives of the IOSCO CRA Principles are embedded into each of the programmes.</p>	
37 (39)	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRAs	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.	As early as possible in 2010	<ul style="list-style-type: none"> <li>Please see response to Items 35 (37) and 36 (38) above.</li> </ul>	<ul style="list-style-type: none"> <li>The SFC will continue to engage in the work of SC6.</li> </ul>
38 (40)	(Seoul)	Reducing the reliance on ratings	We also endorsed the FSB's principles on reducing reliance on external credit ratings. Standard setters, market participants, supervisors and central banks	Ongoing	<ul style="list-style-type: none"> <li>The HKMA uses external credit ratings in its capital and liquidity frameworks. The BCBS is reviewing proposals to mitigate adverse incentives associated with the use of external credit ratings in the regulatory framework. Some of the measures were included in the document "Basel III: A global regulatory framework for more resilient banks and banking system" issued by the BCBS in December 2010.</li> <li>The IA has checked that the roles that it has</li> </ul>	<ul style="list-style-type: none"> <li>The HKMA will implement the measures contained in the BCBS Basel III document to strengthen the resilience of the banking sector in accordance with the timetable published by the BCBS. The role of the existing liquidity ratio contained in the Banking Ordinance, which involves the use of external credit ratings, will be reviewed as part of the HKMA's implementation of the BCBS</li> </ul>

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	(FSF 2008)		<p>should not rely mechanistically on external credit ratings.</p> <p>IV. 8 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.</p>		<p>assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors making independent judgment of risks and perform their own due diligence.</p> <ul style="list-style-type: none"> <li>• The Management, Supervision and Internal Control Guidelines issued by the SFC require licensed firms to have effective policies for sound risk management to address credit, market and liquidity risks. Under the Financial Resources Rules of the SFC, the capital charge on derivative counterparties is not based on external credit ratings. In addition, rated debt securities are seldom booked in licensed firms.</li> <li>• The SFC, as a member of SC6, has provided input to SC6 which was invited by FSB to comment on the Principles on Reducing Reliance on CRA Ratings.</li> </ul>	<ul style="list-style-type: none"> <li>• global liquidity standards in Basel III. The SFC will continue to engage in the work of SC6.</li> </ul>
<b>Risk management</b>						
39 (48)	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	<ul style="list-style-type: none"> <li>• The HKMA regularly performs stress tests to assess the resilience of banks to potential risks and vulnerabilities. The supervisory stress scenarios and risk parameters are subject to ongoing review.</li> <li>• There are no material differences from international standards.</li> <li>• Apart from the routine supervision and stress testing, the IA will carry out ad hoc stress testing of the insurers when and where necessary.</li> <li>• The SFC conducts stress testing of SFC-licensed firms' compliance with liquid capital requirement from time to time.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no material difference between our standards and those applied internationally.</li> <li>• Key challenges include evolving methodologies for stress testing and integrating interlinkages, second round and behavioural effects into stress scenarios.</li> <li>• The IA will continue with routine stress testing and ad hoc stress testing as necessary.</li> <li>• The SFC will continue to stress test SFC-licensed firms' compliance with liquid capital requirement from time to time.</li> </ul>

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40 (49)	(Pitts)	Efforts to deal with impaired assets and raise additional capital	Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.	Ongoing	<ul style="list-style-type: none"> <li>• Hong Kong banks' asset quality has remained sound despite the global financial crisis and economic downturn. Impaired assets were adequately provided for and capital positions remained well above international standards.</li> <li>• Banks' capital management and planning, having regard to their risk profile and business plans, form part of the HKMA's supervisory assessment of locally-incorporated banks' soundness and safety. Where there is supervisory concern over a bank's capital adequacy, the HKMA will require the bank to reduce dividend payouts or raise additional capital.</li> <li>• The local QIS on the impact of Basel III conducted by the HKMA in 2010 indicated that locally-incorporated banks are generally well-positioned for meeting the strengthened capital standards.</li> </ul>	<ul style="list-style-type: none"> <li>• The HKMA is formulating a programme for the implementation of Basel III in Hong Kong, and is discussing implementation plans with individual banks. To facilitate these discussions, the HKMA has released to those banks which participated in the 2010 QIS its assessment of the impact of the Basel III consultative proposals on their capital and liquidity positions based on their QIS submission.</li> <li>• Legislation will be required to implement Basel III in Hong Kong. To meet the 2013 deadline for the beginning of Basel III implementation, the HKMA will need to complete the required legislative process within the 2011-2012 legislative session to allow sufficient time for the development of supervisory guidelines and for banks to effect necessary operational changes and systems enhancements.</li> <li>• Industry consultation scheduled for October 2011 on proposals to amend the Banking Ordinance for the purpose of implementing the Basel III reform package.</li> <li>• Key challenge: tight time schedule for introducing legislative change.</li> <li>• The IASB and the US FASB (the Boards) are in the process of redeveloping a revised expected loss approach for loan loss provisioning following feedback from stakeholders on the Supplementary Document jointly issued by the Boards in January 2011. In the interim, the HKMA will keep a close watch on accounting developments in this area and will continue to require banks to maintain an adequate regulatory reserve (a non-distributable reserve, earmarked against retained earnings, introduced in 2005 to reduce the impact of changes in accounting standards on provisioning</li> </ul>
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						levels) to cater for expected but not yet incurred future losses.
41 (53)	(WAP)	Enhanced risk disclosures by financial institutions	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.	Ongoing	<ul style="list-style-type: none"> <li>Locally incorporated, internationally active banks have enhanced their financial disclosures in line with the Senior Supervisors Group (SSG) report on “Leading-Practice Disclosures for Selected Exposures”.</li> <li>Amendments to the Banking (Disclosure) Rules to incorporate the BCBS’s Basel 2.5 enhancements to the Basel II disclosure requirements ; the IASB improved disclosure standards; the recommendations of the SSG report, and other international best practices, as appropriate, scheduled to be gazetted in October 2011 and tabled before the Legislative Council.</li> <li>The HKMA participated as a member of the FSB peer review team on risk disclosures by market participants. The review was completed in Q1 with the final review report published on 18 March 2011.</li> <li>The IAIS is finalizing its ICP 20 on Public Disclosure and the IA is reviewing the relevant ICP with regard to the insurance supervisory regime in Hong Kong.</li> <li>Risk and loss disclosures of SFC-licensed entities are required to be made in compliance with accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>The new Pillar 3 disclosure requirements scheduled to be effective from 1 January 2012.</li> <li>The IA will keep the adoption of ICP 20 (Public Disclosure) by the IAIS in view and will consider adopting as appropriate, taking into account the local circumstances.</li> </ul>
<b>Others</b>						
42 (46)	(FSF 2008)	Review of national deposit insurance arrangements	VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed.	Ongoing	<ul style="list-style-type: none"> <li>The Hong Kong Deposit Protection Board (“HKDPB”) has preliminarily reviewed Hong Kong’s Deposit Protection Scheme (DPS) against the draft version of the “Core Principles for Effective Deposit Insurance Systems” (“Core Principles”) issued by the BCBS and the International Association of Deposit Insurers (IADI) in June 2009. The DPS (which is a “paybox” type scheme) is considered to be in substantial compliance with the Core Principles. The design features of the DPS are also largely consistent with the convergent trends in deposit insurance practices observed prior to and since the outbreak of the financial crisis: in terms of objective and scope of coverage, pre-funding, independence in terms of governance structure, well-known to the public, etc.</li> <li>The FSB launched a peer review of deposit</li> </ul>	<ul style="list-style-type: none"> <li>The HKDPB conducted a review of the DPS in 2009. A number of enhancements for further strengthening the DPS were identified, and legislative changes were made for giving effect to the enhancements. The enhancements, including raising the DPS protection limit from the current HK\$100,000 to HK\$500,000, took effect on 1 January 2011.</li> <li>The HKMA will monitor closely the discussions in international forums on deposit insurance and financial safety nets.</li> </ul>

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					<p>insurance systems (DIS) in June 2011 to take stock of member jurisdictions' DIS and of any planned changes, using the Core Principles as a benchmark. The HKMA, representing Hong Kong, is the chair of the peer review team. The report concluding the review results will be published in early 2012. The opportunity will also be taken to assess the robustness of the deposit protection arrangements in Hong Kong and whether there is any room for further strengthening the effectiveness of the DPS in Hong Kong.</p> <ul style="list-style-type: none"> <li>• A potential area for improvement identified from the review against the Core Principles is on cross-border co-operation with other deposit insurers. The HKDPB has been participating actively in international forums on deposit insurance with a view to assisting in the development of international best practices on cross-border cooperation.</li> </ul>	
43 (55)	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will	Ongoing	<ul style="list-style-type: none"> <li>• Temporary liquidity assistance measures were allowed to lapse at end-March 2009, although two (foreign exchange swaps and term repos) were adopted into the HKMA's ongoing market operations on a permanent basis.</li> <li>• The Government's full deposit guarantee and the Contingent Bank Capital Facility announced in October 2008 were not called upon and lapsed with effect from 31 December 2010.</li> <li>• See response to item 42 (46) above regarding increase in deposit protection coverage under Deposit Protection Scheme timed to coordinate with lapse of Government's full deposit guarantee and thereby to facilitate smooth exit.</li> <li>• The HKMA has also strengthened its Lender of Last Resort ("LOLR") framework by expanding the types of assets and facilities eligible for obtaining LOLR support. Specifically, foreign exchange swaps have been included among the basic instruments to be used by the HKMA to provide LOLR support, and the definition of eligible securities for LOLR repos has been expanded to include securities in foreign currencies with acceptable ratings.</li> </ul>	<ul style="list-style-type: none"> <li>• Extensive publicity campaign, and close engagement with the banking industry undertaken to prepare for exit from the Government's full deposit guarantee and the coordinated raising of coverage limit under the ongoing enhanced Deposit Protection Scheme.</li> </ul>

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			vary across countries or regions and across the type of policy measures.			
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### **Origin of recommendations:**

Seoul: The Seoul Summit Document (11-12 November 2010)

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)

Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)

Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)

WAP: 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)