Jurisdiction: Hong Kong SAR

2018 IMN Survey of National/Regional Progress in the Implementation of G20/FSB Recommendations

National authorities from FSB member jurisdictions should complete the survey and submit it to the FSB Secretariat (imn@fsb.org) by **Friday, 8 June 2018** *(representing the most recent status at that time).* The Secretariat is available to answer any questions or clarifications that may be needed on the survey. Please also provide your contact details for the person(s) completing the survey and an index of abbreviations used in the response.

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

Jurisdictions that previously reported implementation as completed in a particular recommendation are only required to include information about main developments since last year's survey and future plans (if applicable) ("Update and next steps" table). New reforms to enhance the existing framework in that area should be described, but should not lead to a downgrade from implementation completed to ongoing. Jurisdictions that do not report implementation as completed are required to include full information both in the "Progress to date" and "Update and next steps" tables.

As with previous IMN surveys, the contents of this survey for each national jurisdiction will be published on the FSB's website at around the time of the 2018 G20 Summit in Buenos Aires. The FSB Secretariat will contact member jurisdictions ahead of the Summit to check for any updates or amendments to submitted responses before they are published.

1. Registration, appropriate disclosures and oversight of hedge funds

G20/FSB Recommendations

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

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

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2016 IMN survey. Given this, the reporting of progress with respect to this recommendation will take place every 2-3 years henceforth (i.e. in 2019 or 2020).

2. Establishment of international information sharing framework

G20/FSB Recommendations

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

Remarks

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

In addition, jurisdictions should state whether they are:

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

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

Progress to date

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

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

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

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ◉ Final rule (for part of the reform) in force since 06.2014

2. Establishment of international information sharing framework

Progress to date

Issue is being addressed through

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

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

(SFC) Per FSAP's report in June 2014, HK has fully implemented IOSCO principle 28 - "Hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight"

The SFC has cooperation agreements with major jurisdictions through the IOSCO MMoU, including e.g. Cayman Islands where hedge funds managed by SFC-licensed hedge fund managers are typically located. The SFC also has bilateral MoUs with various international securities regulators.

The SFC is a signatory to the IOSCO MMoU. The SFC is also a member of the IOSCO Committee 5 on Investment Management and its hedge fund sub-group.

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

2. Establishment of international information sharing framework

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(SFC) On 11 May 2018, the SFC became a signatory to the Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU) of the IOSCO for cross-border enforcement cooperation. The SFC continues to participate in the IOSCO Committee 5 hedge fund sub-group. The SFC has also provided aggregate data for the IOSCO Hedge Fund Survey. The SFC and the UK FCA entered into MoU on 7 July 2017 which provides for consultation, cooperation and exchange of information related to the supervision and oversight of regulated entities including investment fund managers that operate on a cross-border basis in HK and the UK.	

Relevant web-links

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

3. Enhancing counterparty risk management

G20/FSB Recommendations

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

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

Remarks

Jurisdictions should indicate specific policy measures taken for enhancing counterparty risk management and strengthening their existing guidance on the management of exposure to leveraged counterparties.

In particular, jurisdictions should indicate whether they have implemented recommendation 3 of the IOSCO *Report on Hedge Fund Oversight (Jun 2009)*.

In their responses, jurisdictions should not provide information on the portion of this recommendation that pertains to Basel III capital requirements for counterparty risk, since it is monitored separately by the BCBS.

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

Progress to date

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

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

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

- ○ Draft in preparation, expected publication by
- ○ Draft published as of
- ○ Final rule or legislation approved and will come into force on
- ● Final rule (for part of the reform) in force since 06.2014

3. Enhancing counterparty risk management

Progress to date

Issue is being addressed through

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

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

(SFC) SFC licensed corporations are required to comply with (i) the SFC Internal Control Guideline which sets out guidance in managing counterparty risk and (ii) the OTC Risk Management Controls Guidelines. Most major prime brokers do not book their hedge fund counterparty risk exposures in SFC-licensed corporations.

Per FSAP's report in June 2014, HK has fully implemented IOSCO principle 28 - "Hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight".

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

3. Enhancing counterparty risk management

Update and next steps

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

Relevant web-links

Web-links to relevant documents	FSAP's report: https://www.imf.org/external/pubs/ft/scr/2014/cr14205.pdf Internal Control Guidelines (Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission): http://www.sfc.hk/web/EN/rule-book/codes-and-guidelines/guidelines/ OTC Risk Management Controls Guidelines (Core Operational and Financial Risk Management Controls for Over-the-Counter Derivatives Activities of Persons Licensed by or Registered with the Securities and Futures Commission):

4. Strengthening of regulatory and capital framework for monolines

G20/FSB Recommendations

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

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2016 IMN survey. Given this, the reporting of progress with respect to this recommendation will take place every 2-3 years henceforth (i.e. in 2019 or 2020).

I	II. Securitisation	III	IV	V	VI	VII	VIII	IX	X

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

G20/FSB Recommendations

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

Remarks

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

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

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

Progress to date

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

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

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

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

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

Progress to date

Issue is being addressed through

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

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

(HKMA) The Financial Resources Rules (FRRs) impose a capital charge requirement on SFC licensed corporations' investment in structured products. The SFC's Code of Conduct has provisions on disclosure and transparency requirements in relation to the sale of investments products to enhance the protection provided to the investing public. For institutional investors who are deposit-taking institutions supervised by the Hong Kong Monetary Authority (HKMA), there are supervisory guidelines that require the institutions to implement appropriate policies, procedures, monitoring and controls to manage the risks associated with their credit activities (e.g. Supervisory Policy Manual CR-G-1 on "General principles of credit risk management"). The supervisory guidance on "Credit Risk Transfer Activities" issued on 30 June 2016 also supplements existing guidance on credit risk management with sound practices on due diligence when participating in activities associated with securitization and credit derivatives and incorporates the latest international standards including the recommendations made in the Joint Forum report on Credit Risk Transfer - Developments from 2005-2007 (July 2008). This aspect has been covered in the existing monitoring of insurers' investment positions by the Insurance Authority (IA). Nevertheless, the IA is considering adopting the approaches required under ICP 15 on Investment, including the guidance on investments in structured products, having regard to the local circumstances.

For institutional investors who are deposit-taking institutions supervised by the Hong Kong Monetary Authority (HKMA), there are supervisory guidelines that require the institutions to implement appropriate policies, procedures, monitoring and controls to manage the risks associated with their credit activities (e.g. Supervisory Policy Manual CR-G-1 on "General principles of credit risk management").

The supervisory guidance on "Credit Risk Transfer Activities" issued on 30 June 2016 also supplements existing guidance on credit risk management with sound practices on due diligence when participating in activities associated with securitization and credit derivatives and incorporates the latest international standards including the recommendations made in the Joint Forum report on Credit Risk Transfer - Developments from 2005-2007 (July 2008).
The supervisory guidance on "Credit Risk Transfer Activities" was issued on 30 June 2016 by the HKMA.

(SFC)
The SFC's Code of Conduct has provisions on disclosure and transparency requirements in relation to the sale of investments products to enhance the protection provided to the investing public. Please refer to the SFC's Code of Conduct in the web-links section below for details.

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

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

Update and next steps

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

Relevant web-links

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

6. Enhanced disclosure of securitised products

G20/FSB Recommendations

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

Remarks

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

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

Progress to date

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

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

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

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

6. Enhanced disclosure of securitised products

Progress to date

Issue is being addressed through

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

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

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

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

6. Enhanced disclosure of securitised products

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

Relevant web-links	
Web-links to relevant documents	

7. Consistent, consolidated supervision and regulation of SIFIs

G20/FSB Recommendations

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

Remarks

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

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

See, for reference, the following documents:

BCBS

- *Framework for G-SIBs (Jul 2013)*
- *Framework for D-SIBs (Oct 2012)*

IAIS

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

FSB

- *Framework for addressing SIFIs (Nov 2011)*

Progress to date

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

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

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

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

7. Consistent, consolidated supervision and regulation of SIFIs

Progress to date

Issue is being addressed through

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

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

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

Other actions: Hong Kong is not the home jurisdiction of the G-SIIs identified under the latest available FSB 2016 updated list of G-SIIs. However, Hong Kong participates in the supervisory colleges for major insurance groups; as well as reviewing the standards under ICP23 on group-wide supervision and the relevant policy measures promulgated by IAIS, having regard to the local circumstances.
Banking (Capital) Rules implementing the Basel III Capital Conservation Buffer, the Countercyclical Capital Buffer and, for systemically important banks, a Higher Loss Absorbency requirement

Guideline: Supervisory Policy Manual module CA-B-2 "Systemically Important Banks" (issued 18 February 2015) - Sets out the methodology for identifying systemically important banks in Hong Kong; calibration of Higher Loss Absorbency requirement.

(IA) - Secondary legislation: Banking (Capital) Rules implementing the Basel III Capital Conservation Buffer, the Countercyclical Capital Buffer and, for systemically important banks, a Higher Loss Absorbency requirement Guideline: Supervisory Policy Manual module CA-B-2 "Systemically Important Banks" (issued 18 February 2015) - Sets out the methodology for identifying systemically important banks in Hong Kong; calibration of Higher Loss Absorbency requirement. Other actions: Hong Kong is not the home jurisdiction of the G-SIIs identified under the latest available FSB 2016 list of G-SIIs. However, Hong Kong continues to participate in the supervisory colleges for major insurance groups; as well as reviewing the standards under ICP23 on group-wide supervision and the relevant policy measures promulgated by IAIS, having regard to the local circumstances.

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

7. Consistent, consolidated supervision and regulation of SIFIs

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
The HKMA announced on 29 December 2017 an updated list of D-SIBs, together with their corresponding Higher Loss Absorbency requirement to take effect from 1 January 2019	The IA, though not the group-supervisor of the identified G-SIIs, will keep in view the IAIS developments of the policy measures to be applied to G-SIIs and the systemic risk assessment, and will consider adopting the measures on the identified G-SIIs, where appropriate.

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

8. Establishing supervisory colleges and conducting risk assessments

G20/FSB Recommendations

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

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

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

9. Supervisory exchange of information and coordination

G20/FSB Recommendations

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

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

Remarks

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

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

Progress to date

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

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

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

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

9. Supervisory exchange of information and coordination

Progress to date

Issue is being addressed through

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

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

(HKMA)
The legislative changes in November 2015 to provide supervisory assistance to regulators outside of HK is a further enhancement to the existing supervisory cooperation.

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

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

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

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

9. Supervisory exchange of information and coordination

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(SFC) On 11 May 2018, the SFC became a signatory to the IOSCO Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU) for cross-border enforcement cooperation. On 1 June 2018, the SFC entered into a MoU with BaFin (Germany) for providing consultation, cooperation and exchange of information in connection with the supervision and oversight of cross-border regulated entities in Hong Kong and Germany. The SFC and the UK FCA entered into MoU on 7 July 2017 which provides for consultation, cooperation and exchange of information related to the supervision and oversight of regulated entities that operate on a cross-border basis in HK and the UK. On 29 December 2017, the SFC and CSRC entered into a MoU to facilitate regulatory and enforcement cooperation in futures markets and enhance supervisory assistance, enforcement cooperation and information exchange on various matters including cross-boundary derivatives, futures exchanges and futures brokers.	The HKMA will continue to work closely with overseas regulators on the supervision of institutions with cross-border operations relevant to them in line with international standards where appropriate. The HKMA is in the process of negotiating with a number of overseas regulators for formal arrangements for exchange of supervisory information and cooperation. The IA will, in line with international standards where appropriate, continue to work closely with overseas regulators in the supervision of institutions with cross-border operations.

Relevant web-links

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

10. Strengthening resources and effective supervision

G20/FSB Recommendations

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

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

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

Remarks

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

Progress to date

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

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

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

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

10. Strengthening resources and effective supervision

Progress to date

Issue is being addressed through

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

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

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

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

(1) The supervisory guideline on e-banking was updated in September 2015 to set out the sound risk management principles and practices applicable to banks' e-banking services as well as some Fintech services.
(2) To promote the overall cyber security resilience of the banking industry, the HKMA rolled out the Cybersecurity Fortification Initiative (CFI) for the implementation by the industry. For details of the CFI, please refer to the web-link below.
(3) In September 2017, the HKMA announced a number of initiatives, including Fintech Supervisory Sandbox (Sandbox) 2.0, Introduction of Virtual Banking and Banking Made Easy Initiative, to give further impetus to the development of fintech in the banking sector and prepare Hong Kong to move into a New Era of Smart Banking.
(4) In the light of the unauthorised online share trading cases reported by banks in 2016, the HKMA issued a circular in October 2017 on the implementation of mandatory two-factor authentication for Internet trading in Hong Kong.
(5) A circular on "BCBS Sound Practices - Implications of Fintech Developments for Banks and Bank Supervisors" was issued in February 2018 to draw banks' attention on the strategic risk posed by fintech development.
(6) A circular on "Credit Risk Management for Personal Lending Business" was issued in May 2018 to allow banks to adopt innovative technology to manage credit risks related to personal lending business in order to improve customer experience in the digital environment.
(7) Consultation on revised supervisory policy manual on "Validating Risk Rating Systems under the IRB Approach" was conducted to update the sound practices and principles regarding internal ratings-based ("IRB") approach since the implementation of Basel II in Hong Kong;
(8) A circular on "Risk Management for Lending to Property Developers" was issued in May 2017 to strengthen banks' risk management with respect to lending to property developers.

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

10. Strengthening resources and effective supervision

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(1) The HKMA has adopted a phased approach to implementing the Cyber Resilience Assessment Framework (C-RAF), which helps banks to evaluate their cyber resilience. Banks selected to participate in first phase have completed the inherent risk assessment and maturity assessment. Banks with a "Medium" or "High" level of inherent risk are expected to complete the intelligence-led Cyber Attack Simulation Testing (iCAST) by end-June 2018. (2) The HKMA performed risk-based reviews on the outcomes of the banks' inherent risk assessment and maturity assessment of the C-RAF in 2017. (3) The HKMA has been monitoring and reviewing the banks' preparation and execution of the iCAST since 2018. (4) In the light of the experience obtained in operating the Sandbox, the HKMA upgraded the Sandbox to an enhanced version, Sandbox 2.0, in 2017. Sandbox 2.0 has three new features: a Fintech Supervisory Chatroom (Chatroom) to provide supervisory feedback, direct access by technology firms to the Chatroom, and single point of entry for cross-regulator sandbox. For details of Sandbox 2.0, please refer to the web-link below. (5) Furthermore, the HKMA welcomes the introduction of virtual banks in Hong Kong and completed a public consultation on the revised Guideline on Authorization of Virtual Banks on 15 March 2018. The HKMA issued the revised Guideline on Authorization of Virtual Banks on 30 May 2018. (6) In respect of the Banking Made Easy initiative, a Task Force was set up within the HKMA in October 2017 to identify and	(1) In 2018, the HKMA will continue to refine existing supervisory guidance in relation to e-banking and fintech, having regard to technological advancement and industry development, and devote additional resources to the supervision of technology risks covering cyber threats and fintech. (2) The HKMA will follow up with the banks on the rectification actions identified out of the maturity assessment of the C-RAF and the iCAST in 2018. (3) The SFC will continue to closely monitor the market development of cryptocurrency activities, for instance, ICOs and operation of cryptocurrency exchanges, in Hong Kong. Further, the SFC will maintain contact with regulators in other jurisdictions through active participation in meetings of relevant international organisations, such as the Financial Stability Board and IOSCO, so as to align our regulatory regime with other major jurisdictions. As to broader investor protection issues relating to cryptocurrency activities, the SFC will continue with investor education efforts.

Relevant web-links

Web-links to relevant documents	HKMA Annual Report 2014 (Chapter on Banking Stability): http://www.hkma.gov.hk/eng/publications-and-research/annual-report/2014.shtml Supervisory Policy Manual (SPM) on "Risk Management of E-banking" (2 Sep 2015): http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2015/20150902e1.pdf Circular on "Cybersecurity Fortification Initiative" (21 Dec 2016): http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20161221e1.pdf

11. Establishing regulatory framework for macro-prudential oversight

G20/FSB Recommendations

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

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

Remarks

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

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

Progress to date

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

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

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

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

11. Establishing regulatory framework for macro-prudential oversight

Progress to date

Issue is being addressed through

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

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

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

After the Insurance Ordinance became operative on 26 June 2017, the IA has enhanced power to collect relevant information necessary for the IA's scrutiny on a regular and ad hoc basis. Other actions: The establishment of the Council of Financial Regulators and the Financial Stability Committee, and signing MoU for information sharing between financial regulators.

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

11. Establishing regulatory framework for macro-prudential oversight

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(IA) Completed: Established on 26 June 2017, the independent IA has, among others, enhanced legal capacity and powers, including those on the collection of relevant information on all authorized insurers in Hong Kong.	

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

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

G20/FSB Recommendations

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

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

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

Remarks

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

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

See, for reference, the following documents:

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

Progress to date

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

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

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

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

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

Progress to date

Issue is being addressed through

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

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

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

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

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

Other actions: Countercyclical Capital Buffer (CCyB): As announced by the HKMA, in January 2018, the CCyB will be increased from 1.875% to 2.5% with effect from 1 January 2019.

Property mortgage lending: HKMA has been using property-related macroprudential measures since the 1990s to strengthen banks' risk management and resilience. Since 2009, the HKMA introduced eight rounds of counter-cyclical macro-prudential measures for property mortgage loans to strengthen the resilience of banks to potential property market shocks.

(i) Setting up the Macro Surveillance Committee (MSC) within the HKMA, which meets quarterly to monitor systemic risks by examining banking, property, leverage, macroeconomic and external indicators as well as any other relevant information; (ii) Reviewing CCyB quarterly at MSC meeting to protect the banking sector against the build-up of system-wide risk; (iii) Using property-related macroprudential measures since the 1990s to strengthen banks' risk management and resilience.

(IA) The IA regularly performs analyses, both quantitative and qualitative, on market performances and trends based on regulatory information and quarterly statistics submitted by insurers and assesses the likely risks and challenges to the industry as a whole as well as to individual insurers. Where there are specific

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

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

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
CCyB: The HKMA announced on 10 January 2018 to increase the CCyB rate for Hong Kong to 2.5% with effect from 1 January 2019 from the current 1.875%. Property mortgage lending: On 19 May 2017, the HKMA introduced the following new measures to strengthen the risk management of AIs and safeguard banking stability: raise the risk-weight floor from 15% to 25% for all new residential mortgages by banks using the internal ratings-based approach; lower the applicable LTV cap by 10 percentage points for applicants with pre-existing mortgage loans; lower the applicable DSR limit by 10 percentage points for property mortgage loans extended to borrowers whose income is mainly derived from outside of Hong Kong.	The IA is considering the approaches under ICP 24 on Macroprudential Surveillance and Insurance Supervision, having regard to the local circumstances; and the IA will adopt the approaches/tools as appropriate to further enhance existing financial oversight.

Relevant web-links

Web-links to relevant documents	Banking (Capital) Rules: https://www.elegislation.gov.hk/hk/cap155L Guidelines and press releases relating to the CCyB for Hong Kong: http://www.hkma.gov.hk/eng/key-functions/banking-stability/ccyb.shtml HKMA's circular of 19 May 2017 regarding the prudential measures on property mortgage lending: http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2017/20170519e2.pdf

13. Enhancing regulation and supervision of CRAs

G20/FSB Recommendations

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

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

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

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

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

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

Remarks

Jurisdictions should indicate the policy measures undertaken for enhancing regulation and supervision of CRAs including registration, oversight and sharing of information between national authorities. They should also indicate their consistency with the following IOSCO document:

- *Code of Conduct Fundamentals for Credit Rating Agencies (Mar 2015)* (including on governance, training and risk management)

Jurisdictions may also refer to the following IOSCO documents:

- Principle 22 of *Principles and Objectives of Securities Regulation (Jun 2010)* which calls for registration and oversight programs for CRAs
- *Statement of Principles Regarding the Activities of Credit Rating Agencies (Sep 2003)*
- *Final Report on Supervisory Colleges for Credit Rating Agencies (Jul 2013)*

Jurisdictions should take into account the outcomes of any recent FSAP/ROSC assessment against those principles.

Progress to date

- ○ **Not applicable**
- ○ **Applicable but no action envisaged at the moment**
- ○ **Implementation ongoing**
- ◉ **Implementation completed as of** 01.06.2011

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

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

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

13. Enhancing regulation and supervision of CRAs

Progress to date

Issue is being addressed through

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

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

(SFC)
Per the FSAP report in June 2014, HK has fully implemented IOSCO principle 22 - "CRAs should be subject to adequate level of oversight"

CRAs that provide credit rating services and their rating analysis in HK are required to be licensed and are subject to supervision by the SFC.

Licensed CRAs are also required to comply with "Code of Conduct for Persons Providing Credit Rating Services" (CRA Code of Conduct) which is based on the IOSCO CRA Code.

The SFC participates in the Supervisory College of the big 3 CRAs.

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

13. Enhancing regulation and supervision of CRAs

Update and next steps

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

Relevant web-links

Web-links to relevant documents	FSAP's report https://www.imf.org/external/pubs/ft/scr/2014/cr14205.pdf CRA Code of Conduct http://www.sfc.hk/web/EN/assets/components/codes/files-current/web/codes/code-of-conduct-for-persons-providing-credit-rating-services/Code%20of%20Conduct%20for%20Persons%20Providing%20Credit%20Rating%20Services.pdf Exchange of Information

14. Reducing the reliance on ratings

G20/FSB Recommendations

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

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

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

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

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

Remarks

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

Jurisdictions may refer to the following documents:

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

Progress to date

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

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

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

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

14. Reducing the reliance on ratings

Progress to date

Issue is being addressed through

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

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

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

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

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

(SFC) The SFC has reviewed whether there is reliance on CRA ratings in our authorisation of publicly offered collective investment schemes (CIS) and there is no requirement under the primary legislation, the Securities and Futures Ordinance or the applicable SFC product codes and guidelines that these products must be rated by CRA. The only references to CRA rating for publicly offered CIS in the regulations are in the Code on Unit Trusts and Mutual Funds (UT Code) but these references are purely disclosure-based and they do not constitute reliance. Furthermore, the credit rating information is only disclosable where it is applicable. For example, if a CIS is holding collateral, we ask that the description of the holdings of collateral should include; the value of the CIS (by percentage) secured / covered by collateral with breakdown by asset class/nature and credit ratings. The disclosure of the credit rating is only one part of the disclosure requirements and is only applicable to a CIS if it is holding collateral. The purpose of these types of disclosure requirements is to provide more information to investors. The SFC does not mandate any form of reliance (mechanical or otherwise) on CRA ratings.

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

14. Reducing the reliance on ratings

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) The BLR was amended to implement the Basel III NSFR standard which takes effect from 1 January 2018. The reference to CRA ratings in local banking legislation are all related to the regulatory frameworks developed based on Basel capital and liquidity standards. Capital: The capital framework in Hong Kong is closely in line with the latest BCBS capital standards, and the HKMA is committed to implementing enhancements released by the BCBS on the standards (such as the revisions to the Standardised Approach for credit risk finalized in December 2017) for addressing reliance on CRA ratings and to tracking closely the respective BCBS timelines. On 1 January 2018, the HKMA implemented the BCBS revised securitisation framework which has reduced the mechanistic reliance on external ratings by, among other things, including other relevant risk drivers. (SFC) With respect to Hong Kong CCPs and the use of CRA ratings, in May 2018, the SFC approved amendments to the rules of the Hong Kong Securities Clearing Company Limited (HKSCC) that replace CRA ratings with capital requirements in membership criteria for General Clearing Participants. This removed the only instance of CRA ratings in membership requirements for Hong Kong CCPs.	(HKMA) Credit Risk Transfer Activities- Revisions to the Standardised Approach for credit risk: Scheduled by the BCBS for implementation from 1 January 2022 with certain transitional arrangements, the HKMA will conduct local quantitative impact assessments and develop policy proposals for implementing the revisions in consultation with the industry.

Relevant web-links

Web-links to relevant documents	Banking (Capital) Rules: https://www.elegislation.gov.hk/hk/cap155L BLR: https://www.elegislation.gov.hk/hk/cap155Q SFC Internal Control Guidelines (Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission):

15. Consistent application of high-quality accounting standards

G20/FSB Recommendations

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

Remarks

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

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

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

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

See, for reference, the following BCBS documents:

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

Progress to date

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

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

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

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

15. Consistent application of high-quality accounting standards

Progress to date

Issue is being addressed through

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

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

(HKMA)
Other actions: Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), achieved full convergence with IFRS issued by the IASB since 2005. The HKICPA ensures consistent application of HKFRS through its professional standards monitoring and practice review programs in accordance with the Professional Accountants Ordinance (Cap. 50).

HKICPA also seeks the input of its constituents, including issues/concerns in applying HKFRSs and views on proposed HKFRSs, when commenting on IASB consultative documents. Insurers authorized in Hong Kong are required to prepare their financial statements in accordance with HKFRS issued by the HKICPA and requirements under the Third Schedule to the ICO.

HKFRS, issued by the HKICPA, achieved convergence with IFRS issued by the IASB since 2005.
In respect of consistency in application of (IFRSs equivalent) HKFRSs across all locally incorporated banks, the HKMA has undertaken the following measures: (1) engaging with banks and their auditors through regular tripartite meetings; (2) issuing accounting-related supervisory guidance; and (3) engaging with HKICPA and the Hong Kong Association of Banks (HKAB) to share international and domestic accounting developments and their implications for banks.

The Quality Assurance Department of HKICPA conducted reviews of published financial statements, predominantly of listed companies, to identify any potential issues relating to the application of professional standards. It publishes annual report on findings identified from its review of the financial statements and provides suggestions to members on how to enhance the quality of the future financial statements. In summary, full convergence of HKFRS and IFRS was confirmed in December 2005 and has been maintained.

(FSTB) Other actions: Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), achieved full convergence with IFRS issued by the IASB since 2005. The HKICPA ensures consistent application of HKFRS through its professional standards monitoring and practice review programs in accordance with the Professional Accountants Ordinance (Cap. 50). HKICPA also seeks the input of its constituents, including issues/concerns in applying HKFRSs and views on proposed HKFRSs, when commenting on IASB consultative documents. The Quality Assurance Department of HKICPA conducted reviews of published financial statements, predominantly of listed companies, to identify any potential issues relating to the application of professional standards. It publishes annual report on findings identified from its review of the financial statements and provides suggestions to

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

15. Consistent application of high-quality accounting standards

Update and next steps

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

(HKMA) The HKMA has taken the following actions in preparation for the adoption of IFRS/HKFRS 9 Expected Loan Loss Methodology: (i) Ongoing discussion with banks on their status of preparing for the implementation of IFRS /HKFRS 9 and monitoring of their implementation progress. (ii) Launch of several rounds of survey on potential impacts of IFRS/HKFRS 9 implementation to banks. Responses from selected banks are collected and analysed throughout 2017. (iii) Discussion with external auditors on the key developments and key issues relating to IFRS/HKFRS 9 implementation.

To facilitate implementation of the HKFRS 9 (equivalent to IFRS 9), the Banking (Capital) Rules were amended to implement an interim capital treatment of expected loss provisions under the HKFRS 9.

The interim approach covers the categorisation of expected credit losses made by Authorized Institutions under HKFRS 9 as general or specific provisions for the purposes of the regulatory capital framework, as well as the interaction between the regulatory reserve requirement and the expected credit losses under HKFRS 9.

(FSTB) In January 2018, HKICPA issued HKFRS 17 Insurance Contracts, the equivalent of IFRS 17 Insurance Contracts as issued by the IASB. To support implementation of HKFRS 17, HKICPA established a Hong Kong Insurance Implementation Support Group to foster discussions including responding to live questions raised by the industry, and share the knowledge and experience of the group, in relation to implementation of the standard. Issues pertaining to the standard are reported to the IASB. HKICPA is closely monitoring the adoption developments of IFRS 17 globally.

Planned actions (if any) and expected commencement date

The HKMA will continue to monitor closely international accounting developments and work with the HKICPA and HKAB, with a view to ensuring that the accounting standards applied by banks in HK are in line with IFRSs/HKFRSs (converged since 2005) and the recommendations of the BCBS. The HKMA will continue to support the BCBS's interactions with the accounting standard setters in the development of global accounting standards.

IFRS/HKFRS 9 became effective on 1 January 2018. The HKMA intends to adopt the BCBS's new guidance on credit risk and accounting for expected credit losses issued in December 2015 in order to ensure consistent application of the new impairment requirements under HKFRS 9.

The HKMA will continue its dialogue with banks regarding the impact of IFRS/HKFRS 9 on their business and controls, and monitor their status of implementation of IFRS/HKFRS 9.

Also, the HKMA will continue to discuss with external auditors

Relevant web-links

Web-links to relevant documents

HKICPA financial reporting submissions in 2016:
http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/financial-reporting-submissions/2016/
HKICPA submissions 2015-2016:
http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/financial-reporting-submissions
http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/
http://www.hkicpa.org.hk/en/standard

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

G20/FSB Recommendations

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

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

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

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

Remarks

Jurisdictions should indicate the measures taken in the following areas:

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

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

Progress to date

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

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

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

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

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

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

Progress to date

Issue is being addressed through

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

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

(HKMA)
The HKMA has issued comprehensive supervisory guidance, mainly under the "Supervisory Policy Manual" (SPM), relating to the management of various risks borne by AIs, covering corporate governance, credit risk, market risk, operational risk, liquidity risk, stress-testing, etc.

The HKMA monitors compliance of AIs with applicable supervisory requirements by adopting a risk-based supervisory approach based on a policy of "continuous supervision", through on-site examinations, off-site reviews, prudential meetings, co-operation with external auditors and sharing information with other supervisors. The HKMA also requires AIs to report their risk profiles regularly using standard returns.

Liquidity: The Banking (Liquidity) Rules (BLR), which implement the Basel III LCR liquidity standards, took effect on 1 January 2015. The BLR have been further amended to implement the Basel III NSFR standard starting from 1 January 2018. SPM module LM-2 "Sound Systems and Controls for Liquidity Risk Management" has incorporated the BCBS "Liquidity Sound Principles" published in 2008. The various liquidity monitoring tools per BCBS guidance were also introduced in the course of 2015. The HKMA continued to monitor the level and trend of AIs' liquidity positions including Liquidity Coverage Ratio (LCR) of category 1 institutions. The average LCR of category 1 institutions was 155.1% in the fourth quarter of 2017, which were well above the statutory minimum requirement of 80% applicable in 2017.

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

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

Counterparty credit risk management: The revisions to the supervisory guidance on counterparty credit risk (CCR) management (SPM module CR-G-13) are intended to reflect recent developments in CCR management practices (including those associated with the latest capital treatment for CCR under the BCBS CCR framework). The supervisory guidance on "Credit Risk Transfer Activities" issued on 30 June 2016 supplements existing guidance on credit risk management and

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

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

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) Liquidity risk management: In addition, the HKMA has enhanced supervisory liquidity stress testing programme with additional scenarios of severe fund outflows and short-term bank run, as well as stepped up the surveillance of AIs' liquidity profiles by introducing new management information system (MIS) reports. Foreign currency funding risk: In light of a possible tightening of US dollar liquidity, the HKMA has completed a round of review of AIs which are deemed to be more vulnerable on their management of US dollar funding risk. For the identified weaknesses, the HKMA will request the concerned AIs to take remedial actions to enhance their risk management practices. Stress testing: For the 2017/2018 SDST exercise, the HKMA pays more attention to major observations in the 2016 SDST, i.e., deficiencies of stress testing methodologies and inadequacies in the internal validation process of models and results. The review results and capabilities of participating AIs are expected to be completed in December 2018. Where weaknesses are identified, the HKMA will discuss with the concerned AIs on how their stress-testing processes can be further improved. Separately, the HKMA will continue to keep close track of international development regarding stress testing. Counterparty credit risk management: A draft revised SPM module on counterparty credit risk management was issued in July 2017 for consultation. Corporate governance and risk controls:	Liquidity risk management: The HKMA has requested AIs to conduct a gap analysis of their compliance status with the regulatory requirements set out in SPM modules LM-1 "Regulatory Framework for Supervision of Liquidity Risk" and LM-2 "Sound Systems and Controls for Liquidity Risk Management". The results will be available in H2 2018. Counterparty credit risk management: Revised SPM module on counterparty credit risk management is expected to be finalised in 2018. External audits of banks: SPM module IC-3 "Reporting Requirements Relating to Authorized Institutions' External Auditors under the Banking Ordinance" is currently under review and considered for the need to further incorporate the relevant guidance provided in BCBS document "External audits of banks".

Relevant web-links	
Web-links to relevant documents	Liquidity: http://www.hkma.gov.hk/eng/key-functions/banking-stability/implementation-of-international-standards/liquidity.shtml SPM: http://www.hkma.gov.hk/eng/key-functions/banking-stability/supervisory-policy-manual.shtml Stress testing SPM module IC-5 "Stress Testing": http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/IC-5.pdf

17. Enhanced risk disclosures by financial institutions

G20/FSB Recommendations

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

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

Remarks

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

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

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

Progress to date

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

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

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

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

17. Enhanced risk disclosures by financial institutions

Progress to date

Issue is being addressed through

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

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

(HKMA) Implementation of disclosure requirements relating to Phase 2 of Basel III standards (i.e. those scheduled to take effect from 2015) was completed as of 31.3.2015. The HKMA will further amend the Banking (Disclosure) Rules to implement Phase 2 and Phase 3 of the revised Pillar 3 package (the latter pending finalisation by the Basel Committee).

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

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

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

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

(SFC) Risk and loss disclosures of SFC licensed corporations are required to be made in compliance with accounting standards. In general, SFC licensed corporations are not listed and therefore do not require public disclosures.

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

17. Enhanced risk disclosures by financial institutions

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) The BDAR 2016 and the requirement to make disclosures in prescribed standard templates and tables for implementing the BCBS revised Pillar 3 disclosure requirements (Phase 1) took effect in Hong Kong from 31 March 2017. The HKMA is taking steps to implement Phase 2 of the revised requirements (as set out in the Pillar 3 disclosure requirements – Consolidated and enhanced framework issued by the BCBS in March 2018) through amendments to the Banking (Disclosure) Rules. Subject to the approval of the Legislative Council, the amendments will come into effect on 30 June 2018.	(HKMA) The HKMA will update the Supervisory Policy Manual module CA-D-1 Guideline on the Application of the Banking (Disclosure) Rules to provide guidance to AIs on the subject. (IA) The IA aims to finalize the Guide on ERM by late 2018, and operationalize the ERM framework in 2020.

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

18. Strengthening of national deposit insurance arrangements

G20/FSB Recommendations

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

Remarks

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

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

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

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

Progress to date

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

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

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

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

18. Strengthening of national deposit insurance arrangements

Progress to date

Issue is being addressed through

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

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

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

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

18. Strengthening of national deposit insurance arrangements

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
No major gaps were identified when assessing the compliance of the DPS with the revised Core Principles. In respect of the DPS enhancements for adopting the "gross payout" approach, the legislative amendments were passed by the Legislative Council and took effect in March 2016. Adjustments on the operations of the DPS, including updating payout policy and procedures, and revising the contribution assessment and reporting requirements, to ensure smooth implementation of the gross payout approach were completed. All these improvements have resulted in the target payout time frame for making full compensation payments to depositors being significantly shortened from the previous six weeks to within seven days.	

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

19. Enhancing market integrity and efficiency

G20/FSB Recommendations

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

Remarks

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

Jurisdictions should indicate the progress made in implementing the recommendations:

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

Progress to date

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

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

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

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

19. Enhancing market integrity and efficiency

Progress to date

Issue is being addressed through

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

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

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

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

19. Enhancing market integrity and efficiency

Update and next steps	
Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(SFC) IOSCO has conducted a consultation on managing market volatility and aims to issue a report with recommendations for trading venues. The SFC has been engaging the HKEX to review its VCM to ensure that it can comply with IOSCO's recommendations.	Subject to the issuance of IOSCO's final report, the SFC will consider whether additional changes would be needed for HKEX's VCM.

Relevant web-links	
Web-links to relevant documents	

20. Regulation and supervision of commodity markets

G20/FSB Recommendations

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

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

Remarks

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

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

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

Progress to date

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

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

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

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

20. Regulation and supervision of commodity markets

Progress to date

Issue is being addressed through

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

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

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

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

20. Regulation and supervision of commodity markets

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

Relevant web-links	
Web-links to relevant documents	

21. Reform of financial benchmarks

G20/FSB Recommendations

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

Collection of information on this recommendation will continue to be deferred given the forthcoming FSB progress report on implementation of FSB recommendations in this area, and ongoing IOSCO work to review the implementation of the IOSCO *Principles for Financial Benchmarks*.

22. Enhancing financial consumer protection

G20/FSB Recommendations

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

Remarks

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

Jurisdictions may also refer to OECD's *September 2013 and September 2014 reports* on effective approaches to support the implementation of the High-level Principles. The effective approaches are of interest across all financial services sectors – banking and credit; securities; insurance and pensions – and consideration should be given to their cross-sectoral character when considering implementation.

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

Progress to date

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

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

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

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

22. Enhancing financial consumer protection

Progress to date

Issue is being addressed through

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

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

(HKMA)
Consumer Education:
As part of the efforts to promote financial education, the HKMA has launched a "Consumer Education Programme" to educate the public to be smart and responsible financial consumers. Through television programmes, educational videos, audio clips, marketing collaterals, print, web, mobile and out-of-home publicity, the HKMA has been promoting smart tips on using banking and related products and services such as credit cards, ATMs, internet / mobile banking, personal loans, digital financial services (such as online and mobile payment, and peer-to-peer funds transfer via smartphone apps), etc. to members of the public.
Consumer Protection:

The HKMA has contributed to the work of the OECD Task Force in developing effective approaches to support the implementation of the G20 High-level Principles on Financial Consumer Protection. Riding on the good practices promulgated under the G20 High-Level Principles on Financial Consumer Protection, the HKMA has worked with the banking industry to introduce a Treat Customers Fairly (TCF) Charter as a catalyst for fostering a stronger risk culture towards fair treatment of customers at all levels of banks and at all stages of their relationship with customers.

All retail banks in Hong Kong signed up to the Charter on 28 October 2013. The HKMA has worked together with the industry to complete a comprehensive review of the Code of Banking Practice. The revised Code was issued on 6 February 2015. The revised Code has, among other things, incorporated the G20 High-level Principles on Financial Consumer Protection as general principles for AIs to observe when providing products and services to their customers, thereby helping to promote international good banking practices in Hong Kong; and enhancing the disclosure and transparency about terms and conditions by AIs, which include the provision of new standardized Key Facts Statements by AIs as promulgated under Principle 4 of the G20 principles. The revised Code has, among other things, incorporated the G20 High-level Principles on Financial Consumer Protection as general principles for AIs to observe when providing products and services to their customers, thereby helping to promote international good banking practices in Hong Kong; and enhancing the disclosure and transparency about terms and conditions by AIs, which include the provision of new standardized Key Facts Statements by AIs as promulgated under Principle 4 of the G20 principles.

(IA) The IA has, riding on the principle of fair treatment of customers under the IAIS ICP 19 on Conduct of Business, promulgated two guidance notes, namely GN15 - Guidance Note on Underwriting Class C Business and GN 16- Guidance Note on Underwriting Long Term Insurance Business (Other than Class C). These guidance notes set out the comprehensive requirements for insurers underwriting long term (including Class C) business from product design to post-sale control.

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

22. Enhancing financial consumer protection

Update and next steps

Highlight **main developments since last year's survey**	**Planned actions** (if any) and expected commencement date
(HKMA) The HKMA initiated a Bank Culture Reform from March 2017 for banks to develop and promote a sound corporate culture that supports prudent risk management and contributes towards incentivising proper staff behaviour leading to positive customer outcomes and high ethical standards in the banking industry. While it is recognised that there is no "one-size-fits-all" approach, the HKMA expects banks to adopt a holistic and effective framework for fostering a sound culture within the institution, and particular attention should be given to the three pillars for promoting sound bank culture, namely, governance, incentive systems, and assessment and feedback mechanisms The HKMA worked together with the Hong Kong Association of Banks and the Equal Opportunities Commission to enhance the transparency of information to help ethnic minority customers better understand their rights and responsibilities when using banking services, as well as to jointly publish information on banking services in seven languages commonly used by the ethnic minority community in December 2017. The HKMA worked together with the Hong Kong Association of Banks (HKAB) to further enhance accessibility of banking services to the disabled community. HKAB issued in March 2018 the Practical Guideline on Barrier-free Banking Services which includes a total of 19 barrier-free measures for bank branches, ATMs, on-line banking, telephone banking, etc. to enhance accessibility of banking services by customers with physical disabilities, visual impairment or hearing impairment. At the same time, the HKMA issued a circular to require banks to implement the measures, and to provide proper training and guidance to frontline staff to ensure the needs of customers with disabilities are addressed and effective communication with	(HKMA) Consumer education: The HKMA will continue to promote smart and responsible use of banking and related products and services through its Consumer Education Programme. (IA) The IA aims to finalize the draft legislation for the policyholders' protection by 2019. (IEC) An award scheme which is targeted to recognise HKSFL supporting organisations has been launched in March 2018 and the award ceremony is planned to be held in the last quarter of 2018. The HKSFL version 2 is in development and targeted to be launched in November 2018. The Chin Family will continue to run public education advertising campaigns throughout 2018, complemented by regular social and digital communication. More education programmes targeted at different segments including school children, tertiary students, working adults, pre-retirees and retirees will be developed.

Relevant web-links

Web-links to relevant documents	Code of Banking Practice: http://www.hkma.gov.hk/media/eng/doc/code_eng.pdf Treat Customers Fairly Charter: http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2013/20131028e1.pdf Information in other seven languages: http://www.hkma.gov.hk/eng/key-functions/banking-stability/consumer-corner/information-in-other-languages.shtml

List of abbreviations used

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

Sources of recommendations

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