2021 IMN Survey of National/Regional Progress in the Implementation of G20/FSB Recommendations

Jurisdiction
Hong Kong SAR

I1: Hedge funds - Registration, appropriate disclosures and oversight of hedge funds

G20/FSB Recommendations

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

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

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2016 IMN survey. Given this, the reporting of progress with respect to this recommendation will not be collected in the 2021 survey.

I2: Hedge funds - 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
Ongoing

Progress to date: issue is being addressed through
Primary / Secondary legislation - N/A Regulation / Guidelines - N/A Other actions (such as supervisory actions) - Yes

Progress to date: short description of the content of the legislation/regulation/guideline/other actions
(SFC): Per FSAP's report in June 2014, Hong Kong has fully implemented IOSCO principle 28 - “Hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight” The SFC has cooperation agreements with major jurisdictions through the IOSCO MMoU, including e.g. Cayman Islands where hedge funds managed by SFC-licensed hedge fund managers are typically located. The SFC also has bilateral MoUs with various international securities regulators. The SFC is a signatory to the IOSCO MMoU and EMMoU. The SFC is also a member of the IOSCO Committee 5 on Investment Management and its hedge fund sub-group. (HKMA): The HKMA is a signatory to the Alternative Investment Fund Managers Directive (AIFMD) MoU.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date

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

I3: Hedge funds - Enhancing counterparty risk management

G20/FSB Recommendations

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

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

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2018 IMN survey. Given this, the reporting of progress with respect to this recommendation will not be collected in the 2021 survey.

II4: Securitisation - Strengthening of regulatory and capital framework for monolines

G20/FSB Recommendations

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

Implementation of this recommendation was reported to be completed by all FSB jurisdictions in the 2016 IMN survey. Given this, the reporting of progress with respect to this recommendation will not be collected in the 2021 survey.

II5: Securitisation -Strengthening supervisory, 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
30.06.2016 - Supervisory guidance on Credit Risk Transfer Activities

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: short description of the content of the legislation/regulation/guideline/other actions
(HKMA): For institutional investors who are deposit-taking institutions supervised by the Hong Kong Monetary Authority (HKMA), there are supervisory guidelines that require the institutions to implement appropriate policies, procedures, monitoring and controls to manage the risks associated with the credit activities (e.g. Supervisory Policy Manual CR-G-1 on “General principles of credit risk management”). The supervisory guidance on “Credit Risk Transfer Activities” issued on 30 June 2016 also supplements existing guidance on credit risk management with sound practices on due diligence when participating in activities associated with securitization and credit derivatives and incorporates the latest international standards including the recommendations made in the Joint Forum report on Credit Risk Transfer- Developments from 2005-2007 (July 2008). (SFC): The Financial Resources Rules (FRRs) impose a capital charge requirement on SFC licensed corporations’ investment in structured products. The SFC’s Code of Conduct has provisions on disclosure and transparency requirements in relation to the sale of investments products to enhance the protection provided to the investing public. Please refer to the SFC’s Code of Conduct in the web-links section below for details. (IA): The Insurance Authority Guideline on Enterprise Risk Management (“GL21”) requires risk management policy on investment to be included in the Enterprise Risk Management framework, with appropriate controls in place identified (such as identification of risks arising from investment activities and sufficient management of credit and concentration risks). Insurers should also observe the Guideline on Asset Management by Authorized Insurers (“GL13”), which requires sound asset management framework across the full range of investment activities (including investment in structured products).

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date
(IA): The upcoming risk-based capital (RBC) framework for the Hong Kong insurance industry will impose appropriate risk charges for investment in structured products according to underlying risk.

Relevant web-links: please provide web-links to relevant documents
HKMA Supervisory Policy Manual: http://www.hkma.gov.hk/eng/key-functions/banking-stability/supervisory-policy-manual.shtml SFC Code of Conduct: https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/codes/code-of-conduct-for-persons-licensed-by-or-registered-with-the-securities-and-futures-commission/Code_of_conduct-Dec-2020_Eng.pdf IA Guideline on Enterprise Risk Management (“GL21”): https://ia.org.hk/en/legislative_framework/files/GL21.pdf IA Guideline on Asset Management by Authorized Insurers (“GL13”): https://ia.org.hk/en/legislative_framework/files/GL13.pdf

II6: Securitisation - 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your "implementation ongoing" status

Progress to date: If you have selected "Implementation completed" - please provide date of implementation
01.01.2012

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - N/A Other actions (such as supervisory actions) - N/A

Progress to date: 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.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date

Relevant web-links: please provide web-links to relevant documents

III7: Enhancing supervision - Consistent, consolidated supervision and regulation of SIFIs

G20/FSB Recommendations

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

Remarks

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

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

See, for reference, the following documents:

BCBS

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

IAIS

- *Holistic Framework for the Assessment and Mitigation of Systemic Risk in the Insurance Sector (Nov 2019)*
- *Application Paper on Liquidity Risk Management (Jun 2020)*
- *Draft Application Paper on Macroprudential Supervision (Mar 2021)*

FSB

- *Evaluation of the effects of too-big-to-fail reforms (Mar 2021)*
- Framework for addressing SIFIs (Nov 2011)

Progress to date:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
01.01.2015

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: short description of the content of the legislation/regulation/guideline/other actions
(HKMA): The Monetary Authority may, by reference to the degree of global/domestic systemic importance that the Monetary Authority assesses a G-SIB/D-SIB to bear, determine for the institution an HLA ratio. The HLA ratio applicable to the G-SIB/D-SIB concerned is 0% for 2015, 0.25-0.875% for 2016, 0.5-1.75% for 2017, 0.75-2.625% for 2018, and 1-3.5% after 1 January 2019. (IA): The group-wide supervision (“GWS”) framework, which took into account international standards and best practices such as relevant ICPs and Common Framework for the Supervision of Internationally Active Insurance Groups (“ComFrame”) promulgated by the IAIS, includes application of solvency, governance and risk management standards to groups at holding company level.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey
(HKMA): Supervisory Policy Manual module CA-B-2 on “Systemically Important Banks” was updated on 23 April 2021.

Update and next steps: planned actions (if any) and expected commencement date
(IA): For the insurance sector, an authorized insurer that is a global systematically important insurers (GSIIs) is identified as a within-scope insurer whose failure could pose a risk to financial stability. Since 2017, there has been a suspension of publication of the list of GSIIs by the Financial Stability Board (FSB) such that there is currently no such designation of insurers in Hong Kong. In the meantime, IA participates in the IAIS’ “Global Monitoring Exercise”, which forms part of the IAIS’ holistic framework for assessing and mitigating systemic risk in the global insurance sector. The IA will keep in view the FSB / IAIS developments of the policy measures, including the need to either discontinue or re-establish an annual identification of GSIIs.

Relevant web-links: please provide 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: https://www.hkma.gov.hk/eng/key-functions/banking/banking-legislation-policies-and-standards-implementation/systemically-important-authorized-institutions-sibs/ Insurance (Group Capital) Rules: https://www.elegislation.gov.hk/hk/cap41O Guideline on Group Supervision: https://www.ia.org.hk/en/supervision/reg_des_holding_co/files/GL32_En.pdf

III8: Enhancing supervision - 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.

III9: Enhancing supervision - 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
Ongoing

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - N/A Other actions (such as supervisory actions) - Yes

Progress to date: short description of the content of the legislation/regulation/guideline/other actions
(HKMA): The HKMA has entered into MoUs with other domestic regulatory authorities including the SFC and Insurance Authority (IA). To enhance the exchange of supervisory information and cooperation, the HKMA has also entered into MoUs or other formal arrangements with the relevant banking supervisory authorities outside Hong Kong. “AIFMD MoU” - The HKMA has entered into MoUs with authorities of 29 European Union or European Economic Area countries and the Financial Conduct Authority of the United Kingdom to develop a framework for mutual assistance in the supervision and oversight of Authorized Institutions (AIs) acting as depositaries appointed for alternative investment funds that operate on a cross border basis, and for exchange of information for supervisory and enforcement purpose. (IA): The IA has entered into cooperation agreements with relevant supervisors and regulatory authorities, both local and foreign, for enhanced supervisory cooperation and coordination as well as exchange of information. At the international level, the IA has employed the frameworks of cooperation with relevant overseas regulators in jurisdictions where insurers in Hong Kong have operations. To foster better cooperation between insurance supervisors, the IA also joined the IAIS MMoU and became a signatory authority to it in June 2012. (SFC): The SFC is a signatory of the IOSCO MMoU, EMMOU and various bilateral MoUs with overseas securities regulators. At the domestic level, there are MoUs between the HKMA, SFC and IA which sets out the arrangements for the exchange of supervisory information. At the international level, the SFC has signed AIFMD MoUs with authorities from 30 European Union / European Economic Area countries on the supervision of alternative investment fund managers.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date
(HKMA): 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. (IA): 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: please provide web-links to relevant documents
HKMA: Supervisory cooperation: http://www.hkma.gov.hk/eng/key-functions/banking-stability/banking-policy-and-supervision/supervisory-co-operation.shtml SFC: Local collaboration: https://www.sfc.hk/en/About-the-SFC/Regulatory-collaboration/Local Overseas collaboration: http://www.sfc.hk/web/EN/about-the-sfc/collaboration/overseas/ Mainland collaboration: https://www.sfc.hk/web/EN/about-the-sfc/collaboration/mainland/ IA - International and Domestic Cooperation - Memorandum of Understanding: https://www.ia.org.hk/en/supervision/int_dom_cooperation/international_and_domestic_cooperations_memorandum_of_understanding.html

III10: Enhancing supervision - 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
2014; with further updates in 2021

Progress to date: issue is being addressed through
Primary / Secondary legislation - N/A Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: short description of the content of the legislation/regulation/guideline/other actions

(HKMA): In early 2014, the HKMA’s Banking Supervision Department was restructured to better align supervisory resources with the perceived key risks facing the banking industry over the next few years. Under the new structure, specialist divisions were set up to supervise banks’ 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 October 2019 to set out the sound risk management principles and practices applicable to banks’ e-banking services as well as some Fintech services.

(2) The HKMA launched the Cybersecurity Fortification Initiative (CFI) in 2016 to promote the overall cyber security resilience of the banking industry. Following a holistic review of the CFI and extensive industry consultation, the HKMA introduced the CFI 2.0 in November 2020, which came into effect on 1 January 2021. The CFI was enhanced to reflect the latest developments in overseas cyber practices including those on cyber incident response and recovery. The C-RAF 2.0 is being implemented following a phased approach.

(3) The Fintech Supervisory Sandbox (Sandbox) has been open to regulatory technology (Regtech) projects and ideas raised by banks and technology firms to help develop the Regtech ecosystem since September 2018. As one of the founding contributors of the Global Financial Innovation Network (GFIN), the HKMA has worked closely with other GFIN regulators to develop a cross-border testing (CBT) framework for firms wishing to test innovative financial products, services or business models across more than one jurisdiction.

For details of the items (1) – (3), please refer to the web-link section below.

(4) The Banking Made Easy initiative streamlined regulatory requirements for better customer experience in the online banking environment. In addition, the HKMA issued a circular in May 2019 regarding the ethical and fair use of personal data by the banking industry in the digital era.

(5) A circular on “Credit Risk Management for Personal Lending Business” was issued in May 2018 to allow banks to adopt innovative technology to manage credit risks related to personal lending business in order to improve customer experience in the digital environment.

(6) The supervisory policy manual module CA-G-4 “Validating Risk Rating Systems under the IRB Approach” was revised in 2018 to bring up-to-date the module with the prevailing regulatory requirements applicable to the use of the internal ratings-based ("IRB") approach under the Banking (Capital) Rules.

(7) A circular on “Risk Management for Lending to Property Developers” was issued in May 2017 to strengthen banks’ risk management with respect to lending to property developers.

(SFC): The SFC has issued guidelines and thematic review reports to communicate the expected standards to the industry. Please refer to the web-links section below for details.

(IA): (1) Since September 2019, the IA has taken over the three Self-Regulatory Organizations and been responsible for all aspects of the regulation of insurance intermediaries in Hong Kong, including granting licences, conducting inspections and investigations, and imposing disciplinary sanctions where applicable.
(2) In addition, given cyber risks have become a major operational risk for insurers due to increase in digital operations, IA issued the Guideline on Cybersecurity (“GL20”) to set the minimum standard for cybersecurity that authorized insurers are expected to have in place.

(3) The IA launched an Insurtech Sandbox to facilitate a pilot run of innovative Insurtech applications by insurers to be applied in their business operations.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey
(HKMA): (1) The HKMA published two sets of high-level principles on the use of Artificial Intelligence (AI) from prudential risk management and consumer protection perspectives in November 2019. In light of the increasing adoption of AI by the banking industry, the HKMA believes that the high-level principles can provide guidance to the industry and further facilitate the development and adoption of AI and big data analytics applications. (2) A circular was issued in July 2020 to share with banks a range of practices for management of climate risks adopted by the more advanced banks. A pilot exercise on climate risk stress test was also launched in 2021 to assess the climate resilience of the banking sector as a whole and to facilitate the capacity building of banks for measuring climate risks. (3) The HKMA issued a circular in April 2021 to inform all banks of the BCBS' publication of the Principles for Operational Resilience (POR) which aimed to improve banks' ability to withstand significant operational disruptions. While many of the concepts and requirements within the POR are already covered in existing supervisory guidance, the HKMA is nonetheless considering the need to provide additional guidance on implementing the new principles in Hong Kong. (4) The HKMA issued a circular in May 2021 requesting all banks to critically assess the need for setting up a secure tertiary data backup (STDB) to counter the risk of destructive cyber-attacks. All retail banks and foreign bank branches with significant operations in Hong Kong are expected to submit a report containing the result of assessment of the need to implement the STDB. For details of the main developments mentioned in the items (1) – (4), please refer to the web-link section below. (5) The HKMA completed a round of thematic reviews on banks' credit risk management for lending to property developers in the end of 2018 with no major common issues identified. The HKMA has also stepped up surveillance of property developers focusing on their financial strength and repayment ability as well as the implication on the banking sector, and regularly report the situation to senior management.

Update and next steps: planned actions (if any) and expected commencement date
(HKMA): (1) In 2021, the HKMA will continue to refine existing supervisory guidance in relation to operational resilience, outsourcing, 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 continue to strengthen the cyber resilience of the banking sector through monitoring banks' implementation of the C-RAF 2.0. (3) The HKMA will reach out to banks to understand their plans to implement HKMA's supervisory expectations on climate risk management and continue to monitor banks' other responses to combat climate changes in 2021. (SFC): 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. (IA): IA is in the process of developing the Risk-based Capital regime. On this, IA will capitalize on implementation of the Risk-based Capital regime to do a root-and-branch review on data requirement and IT strategy, to ensure that seamless statutory filings are backed by vigorous prudential surveillance, enhancing effective supervision.

Relevant web-links: please provide web-links to relevant documents
HKMA Annual Report 2014 (Chapter on Banking Stability): https://www.hkma.gov.hk/eng/data-publications-and-research/publications/annual-report/2014/ Supervisory Policy Manual (SPM) on “Risk Management of E-banking” (24 Oct 2019): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20191024e1.pdf Circular on “Cybersecurity Fortification Initiative 2.0” (3 Nov 2020): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20201103e1.pdf Fintech Supervisory Sandbox: https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech/fintech-supervisory-sandbox-fss/ International Collaboration: https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech/closer-cross-border-collaboration/international-collaboration/ Circular on “Use of Personal Data in Fintech Development” (3 May 2019): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20190503e1.pdf Circular on “High-level Principles on Artificial Intelligence” (1 Nov 2019): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20191101e1.pdf Circular on “Consumer Protection in respect of Use of Big Data Analytics and Artificial Intelligence by Authorized Institutions” (5 Nov 2019): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20191105e1.pdf Circular on “Range of practices” (7 Jul 2020): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200707e1.pdf https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200707e1a1.pdf Circular on “Principles for Operational Resilience and Revised Principles for Sound Management of Operational Risk” (21 Apr 2021): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210421e1.pdf Circular on “Secure Tertiary Data Backup” (18 May 2021): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210518e1.pdf Circular on “Credit risk Management for Personal Lending Business” (9 May 2018): http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2018/20180509e1.pdf Consultation on revised supervisory policy manual on “Validating Risk Rating Systems under the IRB Approach” (31 May 2017): http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-G-4_may17.pdf Circular on “Risk management for lending to property developers” (12 May 2017): http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2017/20170512e1.pdf Revised supervisory policy manual module CA-G-4 "Validating Risk Rating Systems under the IRB Approach" (17 May 2018): https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-G-4.pdf SFC Fintech contact point http://www.sfc.hk/web/EN/sfc-fintech-contact-point/ SFC policy statement on ICOs (5 September 2017) http://www.sfc.hk/web/EN/news-and-announcements/policy-statements-and-announcements/statement-on-initial-coin-offerings.html SFC circular on its regulatory sandbox (29 September 2017) http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=17EC63 SFC circular on bitcoin futures (11 December 2017) http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=17EC79 SFC press release setting out recent regulatory action taken against cryptocurrency exchanges and issuers of ICOs (9 February 2018) https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR13 SFC circular on notification requirements (1 June 2018) http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=18EC38 SFC’s statement on regulatory framework for virtual asset portfolios managers, fund distributors and trading platform operators (1 Nov 2018): https://www.sfc.hk/web/EN/news-and-announcements/policy-statements-and-announcements/reg-framework-virtual-

asset-portfolios-managers-fund-distributors-trading-platform-operators.html

SFC’s statement on security token offerings (28 Mar 2019): https://www.sfc.hk/web/EN/news-and-announcements/policy-statements-and-announcements/statement-on-security-token-offerings.html

Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading (27 Oct 2017) http://www.sfc.hk/web/EN/assets/components/codes/files-current/web/guidelines/guidelines-for-reducing-and-mitigating-hacking-risks-associated-with-internet-trading/guidelines-for-reducing-and-mitigating-hacking-risks-associated-with-internet-trading.pdf

Report on the Thematic Review of Alternative Liquidity Pools in Hong Kong (9 Apr 2018)
http://www.sfc.hk/edistributionWeb/gateway/EN/circular/openAppendix?refNo=18EC25&appendix=0

Circular to licensed corporations on client facilitation (14 Feb 2018)
http://www.sfc.hk/edistributionWeb/gateway/EN/circular/openFile?refNo=18EC11
Report on the Thematic Review of Best Execution (30 Jan 2018)
http://www.sfc.hk/edistributionWeb/gateway/EN/circular/openAppendix?refNo=18EC7&appendix=0

Consultation Conclusions on the Proposed Guidelines on Online Distribution and Advisory Platforms and Further Consultation on Offline Requirements Applicable to Complex Products
http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=17CP3

Information on GFIN published on SFC’s website:
https://www.sfc.hk/web/EN/sfc-fintech-contact-point/global-financial-innovation-network.html

Circular to Licensed Corporations:
Data Standards for Order Life Cycles (31 July 2019)
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=19EC50

Circular to Licensed Corporations:
Data Standards for Order Life Cycles (31 July 2019)
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=19EC50

Launch of Key Risk Indicator Platform (30 August 2019)
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=19EC55

IA: Guideline on Cybersecurity (“GL20”):
https://www.ia.org.hk/en/legislative_framework/files/GL20.pdf

Insurtech Sandbox and Fast Track
https://www.ia.org.hk/en/aboutus/insurtech_corner.html

IV11: Macroprudential frameworks and tools - Establishing oversight regulatory framework

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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
Before 2007

Progress to date: issue is being addressed through
Primary / Secondary legislation - N/A Regulation / Guidelines - N/A Other actions (such as supervisory actions) - Yes

Progress to date: 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.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date

Relevant web-links: please provide 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 https://www.sfc.hk/-/media/SFC/doc/EN/aboutsfc/arrangements/local-org/hkma_sfc_mou_040301.pdf

IV13: Macroprudential frameworks and tools - Enhancing monitoring and use of macropru 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)*
- IMF Macroprudential Policy Survey database

Progress to date:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected "Implementation completed" - please provide date of implementation
01.01.2015 [CCyB]; 19.08.2020 [Property mortgage lending]

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: short description of the content of the legislation/regulation/guideline/other actions
HKMA: [Countercyclical Capital Buffer / CCyB] The Monetary Authority may announce a jurisdictional CCyB ratio of 0-2.5%, or after consulting the banking industry a higher jurisdictional CCyB ratio, for Hong Kong. The applicable CCyB ratio for an Authorized Institution is the average of jurisdictional CCyB ratios weighted by the Authorized Institution's jurisdictional private sector credit exposures. The jurisdictional CCyB for Hong Kong was raised from 0% to 2.5% in 2015-19 gradually following the Basel III phase-in schedule. [Property mortgage lending] The HKMA has been using property-related macroprudential measures since the 1990s to strengthen banks' risk management and resilience. Since 2009, the HKMA introduced successive rounds of counter-cyclical macro-prudential measures to strengthen the risk management of banks and the resilience of the Hong Kong banking sector to cope with a possible abrupt downturn in the local property market. Other actions: Prudential Measures for Mortgage Loans on Non-residential Properties: as announced by the HKMA, in August 2020, the applicable loan-to-value ratio caps under different scenarios for non-residential properties were adjusted upward by 10 percentage points. Systemic risk assessment: Setting up the Macro Surveillance Committee (MSC) within the HKMA, which meets quarterly to monitor systemic risks by examining banking, property, leverage, macroeconomic and external indicators as well as any other relevant information; CCyB rate is also reviewed quarterly at MSC meeting to protect the banking sector against the build-up of system-wide risk. (IA): The IA regularly performs analyses, both quantitative and qualitative, on market performances and trends based on regulatory information and quarterly statistics submitted by insurers and assesses the likely risks and challenges to the industry as a whole as well as to individual insurers. IA also uses stress testing to understand the sensitivity of risk towards the individual insurers and industry as a whole. Where there are specific issues of concern, the IA would carry out thematic reviews and collect additional information. Issue(s) that arose from these analyses and assessment, in particular those that may have adverse impact on the stability of the industry/individual insurers, would be discussed with the parties concerned so as to facilitate the taking of preventive actions at an early stage.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey
(HKMA) CCyB: The jurisdictional CCyB ratio for Hong Kong was reduced from 2.5% to 1% in 2019-20 in two steps. (HKMA) Property mortgage lending: The HKMA relaxed the countercyclical macroprudential measures for mortgage loans on non-residential properties in August 2020 after taking into account factors such as the price trends and transaction volumes of these properties, economic fundamentals, and the external environment. The applicable loan-to-value ratio caps for mortgage loans on non-residential properties are adjusted upward by 10 percentage points.

Update and next steps: planned actions (if any) and expected commencement date
(IA): 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: please provide 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: https://www.hkma.gov.hk/eng/key-functions/banking/banking-legislation-policies-and-standards-implementation/countercyclical-capital-buffer-ccyb/ https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/ccyb/CCyB_announcement_191014.pdf https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/ccyb/CCyB_announcement_200316.pdf Press release relating to the prudential measures for mortgage loans on non-residential properties: https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/08/20200819-5/ HKMA's circular of 19 Aug 2020 regarding the prudential measures for mortgage loans on non-residential properties: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200819e1.pdf

V13: Improving credit rating agencies (CRAs) oversight- Enhancing regulation and supervision of CRAs

G20/FSB Recommendations

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

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

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

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

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

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

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

V14: Improving credit rating agencies (CRAs) oversight - 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your "implementation ongoing" status

Progress to date: If you have selected "Implementation completed" - please provide date of implementation
06.2016 [Supervisory guidance on Credit Risk Transfer Activities]; 01.01.2015 [Liquidity]; Ongoing (BCBS Basel III issued in Dec 2017, expected publication by end-2022)

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: 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 encourages / requires banks to have their own internal risk management capabilities and not to rely unduly on external credit ratings) and has incorporated sound practices on due diligence when investing in securitisation products, emphasising on the importance of banks' conducting their own due diligence without undue or mechanical reliance on credit ratings. Liquidity: For the purpose of implementing the Basel III liquidity standards (including the Liquidity Coverage Ratio ("LCR")) and a simplified local liquidity measure for the smaller and non-internationally active banks in Hong Kong, the HKMA made a set of Banking (Liquidity) Rules ("BLR") which came into operation on 1 January 2015. Further amendment was made to the BLR to implement another Basel III liquidity standard (Net Stable Funding Ratio ("NSFR")) effective from 1 January 2018. References to CRA reference are retained in the BLR only to the extent that they are adopted in the Basel III standards (e.g. as one of the qualifying criteria for classifying certain types of high quality liquid assets ("HQLA")) and comparable applications in respect of the simplified local liquidity measure. Capital: The capital framework in Hong Kong is closely in line with the latest BCBS capital standards, and the HKMA is committed to implementing enhancements released by the BCBS on the standards (such as the revisions to the Standardised Approach for credit risk issued in December 2017) for addressing reliance on CRA ratings and to closely track 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 CRAs. The only references to CRA rating for publicly offered CIS in the regulations are in the Code on Unit Trusts and Mutual Funds (UT Code) but these references are purely disclosure-based and they do not constitute reliance. Furthermore, the credit rating information is only disclosable where it is applicable. For example, if a CIS engages in securities financing transactions and/or holds collateral, it is required to disclose the criteria for selecting counterparties, including legal and regulatory status, country of origin and minimum credit rating. Description of the holdings of collateral, including the nature and credit quality of the collateral, including asset type, issuer, maturity and liquidity should also be disclosed. On holdings of collateral, the CIS should also disclose the value of the CIS (by percentage) secured/covered by collateral, with breakdown by asset class/nature and credit rating (if applicable). The disclosure of the credit rating is only one part of the disclosure requirements. The purpose of these types of disclosure requirements is to provide more information to investors. The SFC does not mandate any form of reliance (mechanical or otherwise) on CRA ratings. In addition, the management company of a publicly offered CIS is subject to the general obligations to put in place proper risk management and control systems to effectively monitor and measure the risks of the positions of the CIS and their contribution to the overall risk profile of the CIS's portfolio under the UT Code. Among others, the management company must maintain and implement effective internal policies and procedures in assessing the credit risk of securities or instruments invested by the CIS. The UT Code further provides that external ratings shall only be one of the factors to take into consideration in assessing the credit quality of an instrument and mechanistic reliance on external ratings should be avoided. For publicly offered unlisted structured investment products ("SIP"), references to credit rating are identified in three areas: (i) eligibility of issuers/ guarantors; (ii) criteria for collateral; and (iii) disclosure requirements in offering documents/ advertisements. Pursuant to the Code on Unlisted Structured Investment Products ("SIP Code"), in order to satisfy the core eligibility requirements as an issuer/ guarantor, an entity shall, among other things, either be a regulated entity or have a credit rating meeting the relevant requirements stipulated in the SIP Code. Credit rating is only one of many eligibility criteria. Where a SIP is collateralised, the collateral shall have a credit rating meeting the relevant requirements stipulated in the SIP Code, and credit rating is only one of the many criteria to be met by the collateral. Credit rating is required to be disclosed in offering documents and advertisements only if the issuer/ guarantor relies on its credit rating to be eligible or where the product is collateralised. Where a credit rating is disclosed, it shall be accompanied by certain warning statements to reduce any mechanistic reliance on credit ratings. Currently there is no issuer/ guarantor relying on its credit rating to be eligible and no SIP is collateralised, hence there is very limited reliance on CRA rating in our authorisation of publicly offered SIP. Investment and risk management processes are discussed with SFC-licensed firms during the course of supervision by the SFC. Under the SFC's Internal Control Guidelines, firms are required to have an effective system of credit ratings and limits for clients which reflects multiple specified risk factors. External credit rating is only one of the factors. Per the IOSCO Sound Practices at Large Intermediaries Relating to the Assessment of Creditworthiness and the Use of External Credit Ratings published in December 2015, Hong Kong is one of the jurisdictions that have requirements for securities firms to make their own credit risk assessments for the purposes of making investment or lending decisions. The requirements include appropriate credit risk assessment processes and risk management procedures. Under the SFC Fund Manager Code of Conduct, SFC-licensed fund managers should establish and maintain an effective credit assessment system to evaluate the creditworthiness of the funds' counterparties and the credit risk of the fund's investments.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date
(HKMA): Revisions to the Standardised Approach for credit risk: The local implementation is currently planned for 1 July 2023 to allow more time for the industry to prepare for the implementation.

Relevant web-links: please provide 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): https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/guidelines/management-supervision-and-internal-control-gu/management-supervision-and-internal-control-guidelines-for-persons-licensed.pdf SFC Fund Manager Code of Conduct: https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/codes/fund-manager-code-of-conduct/fund-manager-code-of-conduct.pdf SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products: https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/codes/sfc-handbook-for-unit-trusts-and-mutual-funds/sfc-handbook-for-unit-trusts-and-mutual-funds.pdf

VI15: Enhancing accounting standards - 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: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/.

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

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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
01.01.2005

Progress to date: issue is being addressed through
Primary / Secondary legislation - No Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: 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. 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. (IA): Insurers authorized in Hong Kong are required to prepare their financial statements in accordance with HKFRS issued by the HKICPA and requirements under Schedule 3 to the Insurance Ordinance. (FSTB): Other actions: As mentioned above, the HKFRS issued by the HKICPA achieved full convergence with IFRS issued by the IASB since 2005. This includes the latest COVID-related amendments to HKFRS 16 Leases and the June 2020 amendments to HKFRS 17 Insurance Contracts, which are the equivalent of the respective IFRS Standards as issued by the IASB. To support implementation and promote consistent application of standards, the HKICPA regularly meets with preparers, auditors, accounting advisors and regulators, about their experience or challenges after standards are issued; and seeks the input of its constituents when commenting on IASB consultative documents. The HKICPA also ensures consistent application of HKFRS through its professional standards monitoring and practice review programs in accordance with the Professional Accountants Ordinance (Cap. 50). Since 1 October 2019, the Hong Kong Financial Reporting Council (FRC) became responsible for the inspection, investigation and discipline of auditors of public interest entities (PIE) under the Financial Reporting Council Ordinance (Cap. 588). Meanwhile, the HKICPA continues to be responsible for, inter alia, the inspection, investigation and discipline of auditors of non-PIE entities, and standards setting. Under the professional standards monitoring programme, the HKICPA reviews, on a sample basis, the published financial statements of listed companies to identify any potential issues relating to the application of professional standards. The HKICPA publishes annual reports on findings identified from its review of the financial statements and provides suggestions to members on how to enhance the quality of the future financial statements. In summary, full convergence of HKFRS and IFRS has been maintained.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey
(FSTB): ESG (Environmental, Social, and Governance): Discussions on the accounting for green bonds and other ESG investments are ongoing. ECL (Expected Credit Loss): It is understood that banks have had to adjust their original ECL models to take into account changes in debtors' credit risks brought about by COVID. The determination of ECL continues to be an area of focus for preparers, auditors and regulators particularly given the higher uncertainties created by the COVID pandemic. COVID-related: The HKICPA has issued various COVID-related financial reporting publications during the past year to highlight areas that entities should focus on when preparing financial statements to support entities in producing consistent and high-quality financial statements under the current circumstances. The HKICPA is not aware of any major issues regarding the accounting for COVID-related government subsidies or rent concessions. HKFRS 17: The HKICPA will continue to work with the HKIA, preparers and auditors in monitoring the implementation of HKFRS 17.

Update and next steps: planned actions (if any) and expected commencement date
(HKMA): 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. The HKMA will continue its dialogue with banks and external auditors regarding the governance and controls exercised by banks over the calculation of expected credit losses. The HKMA will consider the long-term regulatory treatment of provisions required to be made by banks under IFRS/HKFRS 9, having regard to the developments of BCBS guidance and proposals. As for the interest rate benchmark reforms, the HKMA noted that the HKICPA has adopted the amendments to relevant accounting standards issued by the IASB. (IA): In June 2020, IASB issued amendments to IFRS 17 and the revised IFRS 17 will be effective from 1 January 2023. HKICPA subsequently issued equivalent amendments to HKFRS 17 in October 2020. The IA will keep in view of the developments of IFRS 17 in the Hong Kong insurance industry. (SFC): The SFC is a member of IOSCO's policy committee on Issuer Accounting, Audit and Disclosure (C1). The SFC will continue to provide IOSCO with comments on exposure drafts issued by the IASB.

Relevant web-links: please provide web-links to relevant documents
HKICPA accounting standards: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Members-Handbook-and-Due-Process/HandBook/Volume-II--Financial-Reporting-Standards/Index HKICPA financial reporting comment letters: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Our-views/pcd/financial-reporting-submissions/2020 HKICPA technical events: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Meetings-and-events/Hong-Kong-Events HKICPA new and major standards resource centre: https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Resource-centre The HKMA issued a circular to banks dated 23 December 2015 regarding the BCBS guidance on credit risk and accounting for expected credit losses: http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2015/20151223e1.pdf The implementation of an interim treatment of expected loss provisions: Capital Adequacy Ratio Return – Regulatory Treatment of Expected Loss Provisions under HKFRS 9 (Annex II-C in the link below): https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/banking-policy-and-supervision/regulatory-framework/MA(BS)3/MA(BS)3(II)_CIs_Annex_201906.pdf The HKMA issued a circular to AIs regarding the application of BCBS Covid-19 guidance in the context of Hong Kong (including an item on expected credit loss provisioning): https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200525e1.pdf

VII16: Enhancing risk management - Enhancing guidance to strengthen banks' risk management practic

G20/FSB Recommendations

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

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

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

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

Remarks

Jurisdictions should indicate the measures taken in the following areas:

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

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

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

Progress to date:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your "implementation ongoing" status

Progress to date: If you have selected "Implementation completed" - please provide date of implementation
01.01.2015

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: short description of the content of the legislation/regulation/guideline/other actions
(HKMA): The HKMA has issued comprehensive supervisory guidance, mainly under the Supervisory Policy Manual (SPM), relating to the management of various risks borne by AIs, covering corporate governance, credit risk, market risk, operational risk, liquidity risk, stress-testing, etc. The HKMA monitors compliance of AIs with applicable supervisory requirements by adopting a risk-based supervisory approach based on a policy of “continuous supervision”, through on-site examinations, off-site reviews, prudential meetings, co-operation with external auditors and sharing information with other supervisors. The HKMA also requires AIs to report their risk profiles regularly using standard returns. Liquidity: The Banking (Liquidity) Rules (“BLR”), which implement the Basel III LCR liquidity standards, took effect on 1 January 2015. The BLR have been further amended to implement the Basel III NSFR standard starting from 1 January 2018. SPM module LM-2 “Sound Systems and Controls for Liquidity Risk Management” has incorporated the BCBS “Liquidity Sound Principles” published in 2008. The various liquidity monitoring tools per BCBS guidance were also introduced in the course of 2015. The HKMA continued to monitor the level and trend of AIs’ liquidity positions including LCR and NSFR of category 1 institutions. The average LCR and NSFR of category 1 institutions were 148.2% and 135.7% respectively in the first quarter of 2021, which were well above the statutory minimum requirement of 100%. Stress testing: Stress testing SPM module IC-5 “Stress Testing”: Guidance to AIs on the key elements of an effective stress-testing programme and the HKMA’s supervisory approach to assessing the adequacy of their stress-testing practices. Risk controls: These are covered in a number of SPM modules. For example, IC-1 “Risk Management Framework” specifies the key elements of a risk management framework for AIs; IC-2 “Internal Audit Function” sets out the HKMA’s expectations on the key role, responsibilities and qualities of an AI’s internal audit function. This module has incorporated good practices from the BCBS document “internal audit function in banks” as appropriate. Counterparty credit risk management: Revised supervisory guidance on counterparty credit risk (CCR) management (SPM module CR-G-13) issued on 3 July 2018 are intended to reflect recent developments in CCR management practices (including those associated with the latest capital treatment for CCR under the BCBS CCR framework). The supervisory guidance on “Credit Risk Transfer Activities” issued on 30 June 2016 supplements existing guidance on credit risk management and incorporates the latest international standards including the recommendations made in the Joint Forum report on Credit Risk Transfer - Developments from 2005-2007 (Jul 2008). External audits of banks: The HKMA’s existing SPM IC-3 “Reporting Requirements Relating to Authorized Institutions’ External Auditors under the Banking Ordinance” includes guidance in respect of auditors’ reporting on various matters other than financial statements (e.g. banking returns, internal control systems), appointment, removal and resignation of external auditors for the purpose of reporting under the Banking Ordinance, communication between the external auditors and the HKMA. This SPM is currently under review and considered for the consultation comments received from banks and HKICPA. Other actions: Stress testing: The HKMA continues to require selected AIs to conduct the Supervisor-driven Stress Testing (“SDST”) on a regular basis. Apart from capital stress testing which is the focus of SDST, the HKMA also review AIs’ liquidity stress testing capabilities and assess the adequacy of other areas of AIs liquidity risk management through onsite examinations and thematic reviews. The HKMA also continues to conduct supervisory liquidity stress testing regularly and, where necessary, has requested individual AIs to enhance their capabilities to cope with stressful but plausible liquidity stress scenarios. The HKMA continues to monitor the level and trend of AIs’ liquidity positions including LCR and NSFR of category 1 institutions, which generally maintained the ratios at a level well above the statutory minimum requirement of 100%. External audits of banks: The supervisory teams of the HKMA maintained dialogues with the boards of directors and external auditors of selected AIs. They held tripartite meetings with the senior management and external auditors of AIs to cover topics related to external audit, such as, auditors’ audit approach, key areas of significant risk of material misstatement in the financial statements, significant internal control deficiencies identified. In addition, external auditors of the AI would normally communicate to management and/or those charged with governance of the AI on the significant matters relating to financial reporting. The related written communications may be accessed by the supervisory teams of HKMA. There were also discussions between the HKMA and the Banking Regulatory Advisory Panel of the Hong Kong institute of Certified public Accountants (HKICPA) on the international and domestic developments in relation to new or revised accounting, auditing and financial reporting standards and their implications for banks, as well as major international and domestic banking regulatory developments.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date
(HKMA): Liquidity risk management: In 2021, the HKMA continues to assess AIs' capability to cope with possible liquidity shocks by reviewing their internal liquidity stress testing programmes, given potential increase in volatility of global financial markets, possible re-emergence of tightness in USD funding markets caused by, e.g. resurgence in COVID-19 cases; heightened concerns about solvency of corporates or banks; or unexpected changes in accommodative monetary policies may result in fund outflows or tightness in local money market going forward. In addition, the HKMA is conducting a round of thematic reviews to assess the adequacy of AIs' liquidity risk management, focusing on their liquidity metrics, limits setting, as well as relevant monitoring and control processes. Stress testing: To provide additional operational capacity for AIs to respond to the challenges brought by the outbreak of COVID-19 in 2020, the 2020 SDST was postponed to 2021. Nevertheless, the HKMA closely monitored AIs' internal COVID-19 stress tests regarding the impact of COVID-19 in 2020 to ensure that AIs were fully aware of the pandemic's potential impact on them and put in place proper measures to prudently manage the risks associated with their exposures. The 2021 SDST has been launched and AIs are expected to submit their results by Q3 2021. External audits of banks: Revised SPM module IC-3 "Reporting Requirements Relating to Authorized Institutions' External Auditors under the Banking Ordinance" was issued for consultation in Q4 2019; responses to consultation comments are expected to be issued in H2 2021.

Relevant web-links: please provide web-links to relevant documents
Liquidity: http://www.hkma.gov.hk/eng/key-functions/banking-stability/implementation-of-international-standards/liquidity.shtml SPM: http://www.hkma.gov.hk/eng/key-functions/banking-stability/supervisory-policy-manual.shtml Stress testing SPM module IC-5 "Stress Testing": http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/IC-5.pdf SPM module CR-G-13 "Counterparty Credit Risk Management": https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CR-G-13.pdf SPM module IC-3 "Reporting Requirements Relating to Authorized Institutions' External Auditors under the Banking Ordinance" (Consultation version): https://www.hkma.gov.hk/media/eng/regulatory-resources/consultations/IC-3_v2_consultation_28_Nov_2019.pdf

VII17: Enhancing risk management - 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your "implementation ongoing" status

Progress to date: If you have selected "Implementation completed" - please provide date of implementation
Phase I: completed on 31.3.2017. Phase II: completed on 30.6.2018. Phase III: on-going

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Progress to date: short description of the content of the legislation/regulation/guideline/other actions
(HKMA): The Banking (Disclosure)(Amendment) Rules 2016 amended the Banking (Disclosure) Rules ("BDR") with effect from 31 March 2017 to (i) incorporate the January 2015 BCBS revised Pillar 3 disclosure requirements (Phase 1); (ii) address the lack of quarterly disclosure in Hong Kong of certain key regulatory capital and leverage ratios (and their constituent components), as identified by the BCBS under its Regulatory Consistency Assessment Programme; and (iii) revise the existing provisions of the BDR in relation to the financial disclosure requirements for locally incorporated AIs (as opposed to regulatory disclosures required for prudential reasons) to remove duplication and inconsistencies with similar requirements that already exist in applicable financial reporting standards. The Banking (Disclosure)(Amendment) Rules 2018 ("BDAR 2018") further amended the BDR with effect from 30 June 2018 to implement the March 2017 BCBS Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework (Phase 2). In December 2018, the BCBS released the Pillar 3 Disclosure Requirements – Updated Framework ("2018 package") to incorporate revisions to the Pillar 3 framework, mainly to reflect requirements arising from the Final Basel III package. These requirements constitute the third and final phase of the revised Pillar 3 disclosure framework. The HKMA will consider these requirements, taking into account local circumstances, and consult the industry on its proposed implementation approach in due course. The HKMA will amend the BDR to implement the 2018 package where necessary. The Supervisory Policy Manual (SPM) module CA-D-1 "Guideline on the Application of the Banking (Disclosure) Rules" was revised on 16 August 2019 to provide updated interpretative guidance on the application of the BDR which have been substantially amended since 2017 to incorporate the first two phases of the Basel revised Pillar 3 Framework. 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 guidelines 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; exposure to risks arising from financial instruments; risk management/enterprise risk management; financial performance; insurance risk exposures and management; and corporate governance and controls. (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.

Update and next steps: highlight main developments since 2019 survey
(HKMA): Revised SPM module CA-D-1 "Guideline on the Application of the Banking (Disclosure) Rules" was issued on 16 August 2019. In October 2019, the HKMA issued a set of standard disclosure templates (with accompanying explanatory notes) with respect to loss-absorbing capacity under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (Cap. 628B) ("LAC Rules") to be used by resolution entities and material subsidiaries for making disclosures under the LAC Rules. The standard templates are modelled on the five relevant templates, namely KM2, CCA, TLAC1, TLAC2 and TLAC3, from the BCBS's March 2017 publication on Pillar 3 disclosure requirements – consolidated and enhanced framework (Phase 2) and their applicability is adjusted as appropriate to reflect that both resolution entities and material subsidiaries are subject to relevant disclosure obligations under the LAC Rules. Relevant disclosure templates were updated on 4 June 2021 in view of the implementation of revised counterparty credit risk framework in Hong Kong.

Update and next steps: planned actions (if any) and expected commencement date
(IA): Pillar 3 of the upcoming RBC framework focuses on disclosures which involve (i) reporting requirements to IA and (ii) public disclosure requirement. IA is currently consulting the industry and in the process of developing the framework.

Relevant web-links: please provide 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 https://www.legco.gov.hk/yr17-18/english/hc/sub_leg/sc09/general/sc09.htm https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-D-1.pdf https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210604e1.pdf https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20191031e1.pdf

VIII18: Strengthening deposit insurance - 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your "implementation ongoing" status

Progress to date: If you have selected "Implementation completed" - please provide date of implementation
24.03.2016

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - No Other actions (such as supervisory actions) - No

Progress to date: 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. To further enhance payout efficiency, the electronic compensation payment functionality was launched in mid-2021 to supplement paper cheque payment. The faster payout speed can help promote general banking stability and increase depositors confidence in the financial safety net.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date
(HKMA) - Conducting a self-assessment on compliance with IADI Core Principles for Effective Deposit Insurance Systems according to the IADI's 2016 Handbook.

Relevant web-links: please provide 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

IX19: Safeguarding financial markets integrity and efficiency - Enhancing 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
16.01.2017

Progress to date: issue is being addressed through
Primary / Secondary legislation - No Regulation / Guidelines - No Other actions (such as supervisory actions) - Yes

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Progress to date: 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. HKEXs VCM is in essence dynamic price bands with a short cooling off period after which trading can continue.

Update and next steps: highlight main developments since 2019 survey
Following a market consultation in 2019, HKEX enhanced the VCM of its securities market in 2 phases in May 2020 and March 2021 respectively. Phase 1 expanded the coverage of VCM from around 80 major constituent stocks to over 500 composite index constituent stocks. Phase 2 removed the restriction of at most one trigger of VCM in each trading session. HKEX’s derivatives market removed the same restriction in April 2021.

Update and next steps: planned actions (if any) and expected commencement date
HKEX plans expand the coverage of VCM to other major exchange traded products. No commencement date has been decided yet.

Relevant web-links: please provide web-links to relevant documents
Securities Market: https://www.hkex.com.hk/Services/Trading/Securities/Overview/Trading-Mechanism/VCM-Enhancements-Initiative?sc_lang=en Derivatives Market: https://www.hkex.com.hk/Services/Trading/Derivatives/Overview/Trading-Mechanism/Volatility-Control-Mechanism-(VCM)?sc_lang=en

IX20: Safeguarding financial markets integrity and efficiency - Regulation 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:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your "implementation ongoing" status

Progress to date: If you have selected "Implementation completed" - please provide date of implementation
27.03.2002

Progress to date: issue is being addressed through
Primary / Secondary legislation - Yes Regulation / Guidelines - No Other actions (such as supervisory actions) - No

Progress to date: 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.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date

Relevant web-links: please provide web-links to relevant documents

IX21: Safeguarding financial markets integrity and efficiency - Reform of financial benchmarks

G20/FSB Recommendations

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

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

X22: Enhancing financial consumer protection - Enhancing financial consumer protection

G20/FSB Recommendations

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

Remarks

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

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

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

Progress to date:
Implementation completed

Progress to date: If you have selected "Not applicable" or "Applicable but no action envisaged at the moment" - please provide a brief justification

Progress to date: please provide a date for your “implementation ongoing” status

Progress to date: If you have selected “Implementation completed” - please provide date of implementation
06.02.2015 [Consumer Protection]

Progress to date: issue is being addressed through
Primary / Secondary legislation - No Regulation / Guidelines - Yes Other actions (such as supervisory actions) - Yes

Progress to date: short description of the content of the legislation/regulation/guideline/other actions
(HKMA): Public and Consumer Education: As part of the efforts to promote financial education, the HKMA has been launching various public and consumer education initiatives to promote public understanding of the HKMA's work, and educate the public to be smart and responsible financial consumers. Through television programmes, educational videos, audio clips, marketing collaterals, print, web and social media (including the HKMA website, Facebook, Instagram, YouTube Channel, LinkedIN), mobile and out-of-home publicity, the HKMA has been disseminating smart tips on using internet / mobile banking, e-wallets and digital financial services (such as online and mobile payment, and peer-to-peer funds transfer via smartphone apps) to reinforce public's sense of cybersecurity, particularly on the importance of proper safeguard of account login credentials and other personal information, and staying vigilant against online frauds such as phishing emails/ SMS messages purportedly from banks or other merchants, as well as advocating proper attitude in handling personal credit products (including credit cards and personal loans), and introducing the Faster Payment System (the payment financial infrastructure introduced in 2018 to enable instant cross-bank/stored value facility payments on a 24x7 basis) to the public, etc. Consumer Protection: The HKMA has contributed to the work of the OECD Task Force in developing effective approaches to support the implementation of the G20 High-level Principles on Financial Consumer Protection. Riding on the good practices promulgated under the G20 High-Level Principles on Financial Consumer Protection, the HKMA has worked with the banking industry to introduce a Treat Customers Fairly (TCF) Charter as a catalyst for fostering a stronger risk culture towards fair treatment of customers at all levels of banks and at all stages of their relationship with customers. All retail banks in Hong Kong signed up to the Charter on 28 October 2013. The promotion of a strong corporate culture to ensure fair treatment of customers has been extended to the private wealth management industry: On 8 June 2017, the HKMA and the Private Wealth Management Association (PWMA) jointly announced all PWMA member institutions' commitment to implement the Treat Customers Fairly Charter for Private Wealth Management Industry. The HKMA has worked together with the industry to complete a comprehensive review of the Code of Banking Practice. The revised Code was issued on 6 February 2015. The revised Code has, among other things, incorporated the G20 High-level Principles on Financial Consumer Protection as general principles for AIs to observe when providing products and services to their customers, thereby helping to promote international good banking practices in Hong Kong; and enhancing the disclosure and transparency about terms and conditions by AIs, which include the provision of new standardized Key Facts Statements by AIs as promulgated under Principle 4 of the G20 principles. (IA): (1) The IA, riding on the principle of fair treatment of customers under the IAIS ICP 19 on Conduct of Business, promulgated two guidelines, namely GL15 - Guideline on Underwriting Class C Business and GL 16 - Guideline on Underwriting Long Term Insurance Business (Other than Class C). These guidelines set out the comprehensive requirements for insurers underwriting long-term (including Class C) business from product design to post-sale control. (2) IA has also refined and issued the guidelines relating to sale and disclosures of long term insurance policies (GL25-GL30), and medical insurance business (GL31), which follow the principle of fair treatment of customers. (IFEC): The Investor and Financial Education Council (IFEC) is an independent public organization and a subsidiary of the Securities and Futures Commission (SFC) dedicated to improving financial literacy in the Hong Kong SAR. The IFEC provides free and impartial content, resources and programmes to help people in Hong Kong plan and manage their finances. Recent campaigns launched by the IFEC covered themes on debt management and borrowing, digital financial literacy, and anti-scam and fraud prevention. These topical campaigns reflect the evolving and pressing needs for the public to develop the knowledge and skills to make sound decisions and protect themselves financially. In line with regulatory and market developments, the IFEC provides investor education on a wide range of topics, including the proposed investor identification regime, investment scams, ramp and dump schemes, warehousing of shares, ESG and sustainable investing, real estate investment trusts, listed structured products, commodity futures ETFs, leverage forex, delisting, short-selling, robo-advisers, virtual assets. The IFEC imparts sound investment concepts to the public in a bid to enhance product knowledge and support investment decision making. To combat the rise of online investment scams, in March 2021 the IFEC ran a campaign and designed an online behavioural quiz to raise awareness around the more typical email phishing and scam tactics. The campaign videos generated 9.5 million views and 513,000 web clicks. These investor education and protection messages are disseminated through mass media campaigns utilising traditional and digital media, and via the IFEC's social media channels (Facebook, Instagram, YouTube) and stakeholder networks. In the last financial year, the IFEC website recorded 2.5 million page views with close to 800,000 website users.

Progress to date: if this recommendation has not yet been fully implemented, please provide reasons for delayed implementation

Update and next steps: highlight main developments since 2019 survey

Update and next steps: planned actions (if any) and expected commencement date
(HKMA): Public and Consumer education: The HKMA will continue to promote smart and responsible use of banking and related products and services through different public and consumer education initiatives. (IA): The IA aims to finalize the draft legislation for the policyholders' protection by 2023/2024. IA also engages the public through running thematic education programmes and sharing practical advice about insurance. (IFEC): An IFEC Retail Investor Study conducted in May 2021 found that about half of respondents obtain information from different digital and social media sources, and young investors, in particular, are more likely to focus on short-term trading for quick profits. With the increasingly strong influence of social media and the need to enhance investor discipline, the IFEC is planning a public campaign themed "Cultivate Good Investment Attitudes" to be launched in late 2021 to reinforce the importance of sound fundamental investment principles and prudent investment attitudes, to help investors build financial resilience with a view to long-term investment goals. The IFEC is also digitalising its educational materials and designing more education programmes targeted at different segments including students, working adults, pre-retirees and retirees.

Relevant web-links: please provide 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 Smart Consumers section of the HKMA: https://www.hkma.gov.hk/eng/smart-consumers/ Bank Culture: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2018/20181219e1.pdf Treat Customers Fairly Charter for Private Wealth Management Industry: https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2017/20170608e1.pdf Circular "Expansion of Types of Life Insurance Products Eligible for Exemption from Financial Needs Analysis": https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2018/20180525e2.pdf Circular "Selling of Annuity Insurance Products": https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2018/20180606e1.pdf Circular "Guideline issued by the Insurance Authority on Qualifying Deferred Annuity Policy": https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20190402e1.pdf Circular "Sale of Medical Insurance Products": https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20190606e1.pdf https://www.ia.org.hk/en/infocenter/publications_publicity_materials.html https://ia.org.hk/en/infocenter/files/Medical_insurance_applying_for_insurance_en.pdf https://ia.org.hk/en/infocenter/files/Medical_insurance_making_a_claim_en.pdf Insurance guidelines: Guideline on Underwriting Class C Business ("GL15"): https://ia.org.hk/en/legislative_framework/files/GL15.pdf Guideline on Underwriting Long Term Insurance Business (other than Class C Business) ("GL16"): https://ia.org.hk/en/legislative_framework/files/GL16.pdf Guideline on Medical Insurance Business ("GL31"): https://ia.org.hk/en/legislative_framework/files/GL31.pdf (IFEC) Investor and Financial Education Council website: https://www.ifec.org.hk/web/en/index.page Investor and Financial Education Council Annual Report 2020-21: https://www.ifec.org.hk/common/pdf/about_iec/ifec-ar-2020-21.pdf

List of abbreviations used

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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 FSTB: Financial Services and the Treasury Bureau (Hong Kong SAR Government) 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 (previously 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 IFEC: The Investor and Financial Education Council IFRS: International Financial Reporting Standards ICG: Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission IOSCO: International Organization of Securities Commissions 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 PAO: Professional Accountants Ordinance FSB Standing Committee on Assessment of Vulnerabilities SFC: Securities and Futures Commission of Hong Kong SFO: Securities and Futures Ordinance UT Code: Code on Unit Trusts and Mutual Funds