

Jurisdiction: Hong Kong SAR

# 2014 IMN Survey of National Progress in the Implementation of G20/FSB Recommendations

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| No  | Description  | G20/FSB Recommendations  | Remarks   | Progress to date   | Next steps   |
|---|--|--|---|--|--|
| <b>I. Refining the regulatory perimeter</b> |  |  |   |  |  |
| 1<br>(1)                                    | Review of the boundaries of the regulatory framework including strengthening of oversight of shadow banking <sup>1</sup> | We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level. (London) | Jurisdictions should indicate the steps taken to expand the domestic regulatory framework to previously unregulated entities, for example, non-bank financial institutions (e.g. finance companies, mortgage insurance companies, credit hedge funds) and conduits/SIVs etc.                  | <input type="checkbox"/> Not applicable<br><input type="checkbox"/> Applicable but no action envisaged at the moment<br><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i>  | <p><b>Planned actions (if any):</b> To contribute to the FSB’s efforts to strengthening oversight and regulation of shadow banking, the BCBS has also strengthened its supervisory framework for banks’ large exposures as well as capital requirements for banks’ equity investments in funds, in order to mitigate spill-over effects from banks’ interactions with shadow banking entities. The HKMA intends to implement these new standards in accordance with the BCBS timetable. HK will continue to monitor the work of relevant standard setting bodies in policy development of shadow banking.</p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |
| (1)   |  | We agree to strengthen the regulation and oversight of the shadow banking system. <sup>2</sup> (Cannes)  | Jurisdictions should indicate policy measures to strengthen the regulation and oversight of the shadow banking system. See, for reference, the recommendations discussed in section 2 of the October 2011 FSB report: <a href="#">Shadow Banking: Strengthening Oversight and Regulation.</a> | <input checked="" type="checkbox"/> Implementation ongoing or completed :<br><p><b>Issue is being addressed through :</b></p> <input type="checkbox"/> Primary / Secondary legislation<br><input type="checkbox"/> Regulation / Guidelines<br><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:<br><br>As a member of the FSB’s workstream on other shadow banking entities (WS3), the HKMA (and other relevant domestic regulatory agencies) participated in the WS3’s initial information-sharing exercise to exchange relevant information on the status of national/regional authorities’ implementation of the high-level policy framework for shadow banking entities |  |

<sup>1</sup> Some authorities or market participants prefer to use other terms such as “market-based financing” instead of “shadow banking”. The use of the term “shadow banking” is not intended to cast a pejorative tone on this system of credit intermediation. However, the FSB is using the term “shadow banking” as this is the most commonly employed and, in particular, has been used in the earlier G20 communications.

<sup>2</sup> This recommendation will be retained until the monitoring framework for shadow banking, which is one of the designated priority areas under the CFIM, is established.

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|    |             |                         |         | <p>other than MMFs issued by the FSB in August 2013, so as to ensure international consistency in applying the framework. The SFC continues to participate in IOSCO’s workgroup on non-banking SIFIs for funds, which issued a joint consultation report with the FSB on 8 Jan 2014. The SFC also participated in the project which led to the policy recommendations on money market funds (MMF) issued in Oct 2012, and in the peer review of regulation of MMFs in Oct 2014. Currently, there are no non-UCITS SFC-authorized MMFs that adopt a constant NAV. We will continue to monitor the market and consider implementing the recommendations contained in the report if appropriate. The SFC is a member of TFUFE and took part in the exercise to collect data from managers of potentially systemically important hedge funds in Q4, 2012. The 2014 hedge fund survey was distributed on 30 Sep 2014 with submission deadline of 28 Nov, 2014. Aggregate data will be submitted to IOSCO. The IA, as member of IAIS, actively contributes to deliberations on international standards for insurance</p> |            |

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|    |             |                         |         | <p>supervision.</p> <p><b>Status of progress :</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Draft in preparation, expected publication by:</li> <li><input type="checkbox"/> Draft published as of:</li> <li><input type="checkbox"/> Final rule or legislation approved and will come into force on:</li> <li><input checked="" type="checkbox"/> Reform effective (completed) as of:<br/>Ongoing</li> </ul> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> The HKMA's current capital treatment for securitization exposures in respect of bank-sponsored securitization conduits (e.g. liquidity facilities extended to securitization conduits) is in line with the requirements under Basel II as amended by Basel 2.5 and Basel 3.</p> <p><b>Highlight main developments since last year's survey:</b></p> <p><b>Web-links to relevant documents:</b></p> |            |

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| <b>II. Hedge funds</b> |  |  |   |   |   |
| 2<br>(2)               | Registration, appropriate disclosures and oversight of hedge funds | <p>We also firmly recommitted to work in an internationally consistent and non-discriminatory manner to strengthen regulation and supervision on hedge funds. (Seoul)</p> <p>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)</p> | <p>Jurisdictions should state whether Hedge Funds(HFs) are domiciled locally and, if available, indicate the size of the industry in terms of Assets Under Management (AUM) and number of HFs. Jurisdictions should indicate the progress made in implementing the high level principles contained in IOSCO’s <a href="#">Report on Hedge Fund Oversight (Jun 2009)</a>.</p> <p>In particular, jurisdictions should specify whether:</p> <ul style="list-style-type: none"> <li>- HFs and/or HF managers are subject to mandatory registration</li> <li>- Registered HF managers are subject to appropriate ongoing requirements regarding: <ul style="list-style-type: none"> <li>• Organisational and operational standards;</li> <li>• Conflicts of interest and other conduct of business rules;</li> <li>• Disclosure to investors; and</li> <li>• Prudential regulation.</li> </ul> </li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Primary / Secondary legislation</li> <li><input checked="" type="checkbox"/> Regulation / Guidelines</li> <li><input type="checkbox"/> Other actions (such as supervisory actions), please specify:</li> </ul> <p><b>Status of progress :</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Draft in preparation, expected publication by:</li> <li><input type="checkbox"/> Draft published as of:</li> <li><input type="checkbox"/> Final rule or legislation approved and will come into force on:</li> <li><input checked="" type="checkbox"/> Reform effective (completed) as of: 01.04.2003</li> </ul> <p><b>Short description of the content of the legislation/ regulation/guideline:</b></p> <p>Generally, HF managers providing asset management services to third parties are required to be licensed by the SFC. There is no minimum size exemption from the licensing requirement. Licensed HF</p> | <p><b>If this recommendation has not yet been fully implemented, please provide reasons for delayed implementation:</b></p> <p><b>Planned actions (if any):</b> The SFC will continue to participate in TFUFE. The SFC took part in the exercise to collect data from managers of potentially systemically important hedge funds through 2014 hedge fund survey, which was distributed on 30 September with submission deadline of 28 Nov 2014. Aggregate data will be submitted to IOSCO.</p> <p><b>Expected commencement date:</b> Q4 2014</p> <p><b>Web-links to relevant documents:</b></p> |

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|    |             |                         |         | <p>managers are subject to conduct of business standards, including the Internal Control Guideline (ICG) and Fund Manager Code of Conduct issued by the SFC, which include guidance and suggested control on risk management. Based on data collected in IOSCO HF survey as of 30 September 2012, the number of HFs managed by SFC-licensed HF managers in Hong Kong was 676 whereas the total HF AUM in Hong Kong was US\$87 billion. Also, the information indicated that none of the qualifying HFs managed by SFC-licensed HF managers was domiciled in Hong Kong. HF managers are subject to on-site examination and off-site monitoring on a risk based approach. They are also required to submit their FRRs and annual audited reports on regular basis.</p> <p><b>Highlight main developments since last year's survey:</b> The SFC continues to participate in the TFUFE and aggregate data collected by the SFC will be provided to IOSCO and contribute to the report on the IOSCO HF survey. 2014 hedge fund survey was distributed on 30 Sep 2014 with submission deadline of 28 Nov 2014.</p> |            |

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|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p><b>Web-links to relevant documents:</b></p> <p>ICG: <a href="http://en-rules.sfc.hk/net_file_store/new_rulebooks/hk/HKSFC3527_162_VER10.pdf">http://en-rules.sfc.hk/net_file_store/new_rulebooks/hk/HKSFC3527_162_VER10.pdf</a></p> <p>Fund Manager Code of Conduct: <a href="http://en-rules.sfc.hk/net_file_store/new_rulebooks/hk/HKSFC3527_838_VER20.pdf">http://en-rules.sfc.hk/net_file_store/new_rulebooks/hk/HKSFC3527_838_VER20.pdf</a></p> <p>Report of the Survey on Hedge Fund Activities of SFC-licensed Managers/Advisers: <a href="http://www.sfc.hk/web/EN/files/ER/Reports/Hedge%20Fund%20Report%202012.pdf">http://www.sfc.hk/web/EN/files/ER/Reports/Hedge%20Fund%20Report%202012.pdf</a></p> |            |

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| 3<br>(3) | Establishment of international information sharing framework | 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) | <p>Jurisdictions should indicate the progress made in implementing the high level principles in IOSCO’s <a href="#">Report on Hedge Fund Oversight (Jun 2009)</a> on sharing information to facilitate the oversight of globally active fund managers.</p> <p>In addition, jurisdictions should state whether they are:</p> <ul style="list-style-type: none"> <li>- Signatory to the IOSCO MMoU</li> <li>- Signatory to bilateral agreements for supervisory cooperation that cover hedge funds and are aligned to the 2010 IOSCO <a href="#">Principles Regarding Cross-border Supervisory Cooperation</a>.</li> </ul> <p>In particular, jurisdictions should indicate those jurisdictions where an MoU is in place that provides for oversight when a hedge fund is located in one of these jurisdictions and manager is located elsewhere.</p> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>The SFC is a signatory to the IOSCO MMoU. The SFC also participates in the TFUFE. The HKMA is a signatory to the AIFMD MoU, effective 22 July 2013.</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of: Ongoing</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> The</p> | <p><b>If this recommendation has not yet been fully implemented, please provide reasons for delayed implementation:</b></p> <p><b>Planned actions (if any):</b> The SFC took part in the exercise to collect data from managers of HF in Q4, 2014. 2014 hedge fund survey was distributed on 30 Sep 2014 with submission deadline of 28 Nov 2014. Aggregate data collected by the SFC will be provided to IOSCO. The SFC will monitor international developments and review the need for further guidance if necessary.</p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |



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|    |             |                         |         | <p>SFC has cooperative agreements with major jurisdictions through IOSCO MMoU, including eg Cayman Islands where HF's of SFC-licensed HF managers are typically located. The SFC also has bilateral MoUs with various international securities regulators. In 2013, the HKMA entered into MoUs with authorities of 28 European Union or European Economic Area countries to develop a framework for mutual assistance in the supervision and oversight of authorized institutions acting as depositaries appointed for alternative investment funds that operate on a cross border basis, and for exchange of information for supervisory and enforcement purpose. The MoUs came into effect on 22 July 2013</p> <p><b>Highlight main developments since last year's survey:</b> The SFC signed MoU with authorities from 28 European Union / European Economic Area countries on the supervision of alternative investment fund managers.</p> <p><b>Web-links to relevant documents:</b><br/>Overseas collaboration:<br/><a href="http://www.sfc.hk/web/EN/about-the-sfc/collaboration/overseas/">http://www.sfc.hk/web/EN/about-the-sfc/collaboration/overseas/</a></p> |            |

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| 4<br>(4) | Enhancing counterparty risk management | 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) | <p>Jurisdictions should indicate specific policy measures taken for enhancing counterparty risk management and strengthening their existing guidance on the management of exposure to leveraged counterparties.</p> <p>In particular, jurisdictions should indicate whether they have implemented the Basel III rules for credit exposures to highly leveraged counterparties (para 112 of <a href="#">Basel III (Jun 2011)</a> – see also <a href="#">FAQ no 1b.4 on Basel III counterparty credit risk, Dec 2012</a>), and principle 2.iii of IOSCO <a href="#">Report on Hedge Fund Oversight (Jun 2009)</a>. Jurisdictions should also indicate the steps they are taking to implement the new standards on equity exposures (<a href="#">Capital requirements for banks' equity investments in funds, Dec 2013</a>) by 1 January 2017.</p> <p>For further reference, see also the following documents :</p> <ul style="list-style-type: none"> <li>• BCBS <a href="#">Sound Practices for Banks' Interactions with Highly Leveraged Institutions (Jan 1999)</a></li> <li>• BCBS <a href="#">Banks' Interactions with Highly Leveraged Institutions (Jan 1999)</a></li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Primary / Secondary legislation</li> <li><input checked="" type="checkbox"/> Regulation / Guidelines</li> <li><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</li> </ul> <p>SFC licensed persons are required to comply with the ICG which set out guidance in managing counterparty risk as well as the OTCRMC. Most major prime brokers do not book their HF counterparty risk in the SFC-licensed entities. BCBS requirements are not applicable to the securities sector in Hong Kong. The HKMA issued circular letter to banks.</p> <p><b>Status of progress :</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Draft in preparation, expected publication by:</li> <li><input type="checkbox"/> Draft published as of:</li> <li><input type="checkbox"/> Final rule or legislation approved and will come into force on:</li> </ul> | <p><b>Planned actions (if any):</b> The SFC will monitor international developments and review the need for further guidance if necessary. The HKMA intends to implement the capital requirements for banks' equity investments in funds in accordance with the timetable set by the Basel Committee. Industry consultation and the necessary legislative amendments will be conducted in due course.</p> <p><b>Expected commencement date:</b> 1 January 2017</p> <p><b>Web-links to relevant documents:</b></p> |
| (4)      |  | Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties. (Rec. II.17,FSF 2008)  |   |   |   |

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|    |             |                         |         | <p><input checked="" type="checkbox"/> Reform effective (completed) as of: 01.01.2013 (for legislation), 19.01.2001 and 03.06.2009 (for supervisory guidance) and 09.01.1999 (for circular letter)</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> The legislation implemented the enhanced counterparty credit risk standards on highly leveraged counterparties incorporated under Basel III. The circular letter requested banks to review their risk management processes and systems in light of BCBS papers issued in 1999 on highly leveraged institutions (HLIs). The supervisory guidance requires banks to (i) exercise due caution when entering into transactions with HLIs; (ii) take into account the specific risk characteristics of HLIs before doing business with them and (iii) obtain more detailed information on counterparties to support credit assessment and trade decisions if the counterparties conduct highly leveraged activities.</p> <p><b>Highlight main developments since last year's survey:</b> The HKMA guidance on counterparty credit risk management is under review in order to reflect recent development in this area. The SFC will monitor international developments and</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p>review the need for further guidance if necessary.</p> <p><b>Web-links to relevant documents:</b><br/> <a href="http://www.legislation.gov.hk/eng/home.htm">http://www.legislation.gov.hk/eng/home.htm</a><br/> <a href="http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/2001/20010119.shtml">http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/2001/20010119.shtml</a><br/> <a href="http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/2009/20090603-1.shtml">http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/2009/20090603-1.shtml</a><br/> <a href="http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/1999/circu_090399b.shtml">http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/1999/circu_090399b.shtml</a><br/>                     ICG: <a href="http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_162_VER10.pdf">http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_162_VER10.pdf</a><br/>                     OTCRMC: <a href="http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_2372_VER10.pdf">http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_2372_VER10.pdf</a></p> |            |

| No                         | Description                                     | G20/FSB Recommendations  | Remarks   | Progress to date   | Next steps   |
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| <b>III. Securitisation</b> |   |  |   |  |  |
| 5<br>(5)                   | Improving the risk management of securitisation | <p>During 2010, supervisors and regulators will:</p> <ul style="list-style-type: none"> <li>implement IOSCO’s proposals to strengthen practices in securitisation markets. (FSB 2009)</li> </ul> <p>The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010. (London)</p> <p>Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently. (Pittsburgh)</p> | <p>Jurisdictions should indicate the progress made in implementing the recommendations contained in:</p> <ul style="list-style-type: none"> <li>IOSCO’s <i>Unregulated Financial Markets and Products (Sep 2009)</i>, including justification for any exemptions to the IOSCO recommendations; and</li> <li>BCBS’s Basel 2.5 standards on exposures to securitisations (Jul 2009), <a href="http://www.bis.org/publ/bcbs157.pdf">http://www.bis.org/publ/bcbs157.pdf</a> and <a href="http://www.bis.org/publ/bcbs158.pdf">http://www.bis.org/publ/bcbs158.pdf</a>.</li> </ul> <p><i>Jurisdictions may also indicate progress in implementing the recommendations of the IOSCO’s Report on Global Developments in Securitisation Regulation (Nov 2012).</i><sup>3</sup></p> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><b><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></b></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input checked="" type="checkbox"/> Primary / Secondary legislation</p> <p><input checked="" type="checkbox"/> Regulation / Guidelines</p> <p><input type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of: 01.01.2012 (legislation)</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> The legislation implemented the Basel 2.5</p> | <p><b>If this recommendation has not yet been fully implemented, please provide reasons for delayed implementation:</b></p> <p>Given the minimal securitization origination activities conducted by banks in HK, the HKMA is considering the need for introducing retention requirements in HK, having regard to the results of the BCBS' review on retention requirements issued in October 2010 and local circumstances.</p> <p><b>Planned actions (if any):</b> Supervisory guidance on "Credit Risk Transfer Activities"</p> <p><b>Expected commencement date:</b> 2015</p> <p><b>Web-links to relevant documents:</b></p> |

<sup>3</sup> Jurisdictions should not provide responses on IOSCO recommendations concerning the alignment incentives associated with securitisation (including risk retention requirements) since these will be covered by an IOSCO peer review in 2014.

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
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|    |             |                         |         | <p>standards on securitization exposures. The HKMA is developing supervisory guidance on "Credit Risk Transfer Activities" (expanding upon existing guidelines on securitization and credit derivatives) with a view to bringing supervisory policy into line with the latest international standards.</p> <p><b>Highlight main developments since last year's survey:</b></p> <p><b>Web-links to relevant documents:</b><br/> <a href="http://www.legislation.gov.hk/eng/home.htm">http://www.legislation.gov.hk/eng/home.htm</a></p> |            |

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|----------|---|---|--|---|---|
| 6<br>(6) | Strengthening of regulatory and capital framework for monolines | Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit. (Rec II.8 ,FSF 2008) | <p>Jurisdictions should indicate the policy measures taken for strengthening the regulatory and capital framework for monolines.</p> <p>See, for reference, the following principles issued by IAIS:</p> <ul style="list-style-type: none"> <li>• <a href="#">ICP 13</a> – Reinsurance and Other Forms of Risk Transfer;</li> <li>• <a href="#">ICP 15</a> – Investments; and</li> <li>• <a href="#">ICP 17</a> - Capital Adequacy.</li> </ul> <p>Jurisdictions may also refer to:</p> <ul style="list-style-type: none"> <li>• IAIS <a href="#">Guidance paper on enterprise risk management for capital adequacy and solvency purposes (Oct 2008)</a>.</li> <li>• Joint Forum’s consultative document on <a href="#">Mortgage insurance: market structure, underwriting cycle and policy implications (Feb 2013)</a>.</li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input checked="" type="checkbox"/> Regulation / Guidelines</p> <p><input type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of: 2010</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> In Hong Kong, mortgage insurance is subject to supervisory measures in the existing regulatory regime overseen by the IA. The specific requirement on mortgage insurers is set out in the Guidance Note on Reserving for</p> | <p><b>Planned actions (if any):</b> The IA will keep in view of all the relevant recommendations, standards and guidance issued by the FSB and the IAIS.</p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>Mortgage Guarantee Business (GN6). GN 6 were introduced and revised in 2000 and 2010 respectively. The measures have been implemented for some years and the existing regulatory framework is effective under the current business environment for the monoline mortgage insurer. As such, no further action is envisaged at the moment.</p> <p>GN6 states that an insurer as well as a reinsurer in respect of its mortgage guarantee business carried on in or from Hong Kong are expected to establish and maintain an Unearned Premium Reserve, a Provision for Claims Outstanding (including claims incurred but not reported) and Contingency Reserve (CR). For each year of account, mortgage insurers are to set aside a prescribed percentage of net earned premium income as CR, which should be maintained for a certain years. Mortgage insurers are allowed to withdraw from the CR where the claims incurred in any year of account exceeds a certain percent of the net earned premium income in that year of account.</p> <p><b>Highlight main developments since last year's survey:</b></p> |            |



| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p><b>Web-links to relevant documents:</b><br/>           Guidance Note on Reserving for Mortgage Guarantee Business (GN6) can be accessed<br/> <a href="http://www.oci.gov.hk/download/e-gn6.pdf">http://www.oci.gov.hk/download/e-gn6.pdf</a></p> |            |

| No    | Description   | G20/FSB Recommendations  | Remarks   | Progress to date   | Next steps  |
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| 7 (7) | Strengthening of supervisory requirements or best practices for investment in structured products | Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products. (Rec II.18 ,FSF 2008) | <p>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 product.</p> <p>Jurisdictions may reference IOSCO's report on <a href="#">Good Practices in Relation to Investment Managers' Due Diligence When Investing in Structured Finance Instruments (Jul 2009)</a>.</p> <p>Jurisdictions may also refer to the Joint Forum report on <a href="#">Credit Risk Transfer-Developments from 2005-2007 (Jul 2008)</a>.</p> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input checked="" type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>The Financial Resources Rules (FRRs) have capital charge requirement on SFC licensed firms' 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 to investing public. The IA has included this area in its monitoring of insurers' investment positions. Presently, the IA is considering the adoption of the approaches under ICP15 on Investment, including the guidance on investments in structured products, with regard to</p> | <p><b>If this recommendation has not yet been fully implemented, please provide reasons for delayed implementation:</b></p> <p><b>Planned actions (if any):</b> The SFC will monitor international developments and review the need for further guidance. The IA will issue relevant guidance as appropriate, taking into account local circumstances</p> <p><b>Expected commencement date:</b> 2015 (for the supervisory guidance on “Credit Risk Transfer Activities”)</p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p>the local circumstances.</p> <p><b>Status of progress :</b></p> <p><input checked="" type="checkbox"/> Draft in preparation, expected publication by: 2015</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input type="checkbox"/> Reform effective (completed) as of:</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> The HKMA is developing supervisory guidance on "Credit Risk Transfer Activities" (expanding upon existing guidelines on securitization and credit derivatives) with a view to bringing supervisory policy into line with the latest international standards including the recommendations made in the Joint Forum report on Credit Risk Transfer – Developments from 2005-2007 (Jul 2008).</p> <p><b>Highlight main developments since last year’s survey:</b></p> <p><b>Web-links to relevant documents:</b> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission: <a href="http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_1868_VER30.pdf">http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_1868_VER30.pdf</a></p> |            |

| No       | Description                                 | G20/FSB Recommendations   | Remarks   | Progress to date   | Next steps   |
|----------|---|---|---|--|--|
| 8<br>(8) | Enhanced disclosure of securitised products | 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) | <p>Jurisdictions should indicate the policy measures taken for enhancing disclosure of securitised products.</p> <p>See, for reference, IOSCO’s <a href="#">Report on Principles for Ongoing Disclosure for Asset-Backed Securities (Nov 2012)</a> and IOSCO’s <a href="#">Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities (Apr 2010)</a>.</p> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input type="checkbox"/> Regulation / Guidelines</p> <p><input type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of: 1 Jan 2012</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> 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</p> | <p><b>If this recommendation has not yet been fully implemented, please provide reasons for delayed implementation:</b></p> <p><b>Planned actions (if any):</b></p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | January 2012.<br><b>Highlight main developments since last year's survey:</b><br><b>Web-links to relevant documents:</b> |            |

| No                               | Description  | G20/FSB Recommendations   | Remarks  | Progress to date  | Next steps  |
|----------------------------------|--|---|--|---|---|
| <b>IV. Enhancing supervision</b> |  |   |  |   |   |
| 9 (9)                            | Consistent, consolidated supervision and regulation of SIFIs | All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards. (Pittsburgh) | <p>Jurisdictions should indicate the policy measures taken for implementing consistent, consolidated supervision and regulation of SIFIs.<sup>4</sup></p> <p>See, for reference, the following documents:</p> <p>BCBS:</p> <ul style="list-style-type: none"> <li>• <a href="#">Framework for G-SIBs (Nov 2011)</a></li> <li>• <a href="#">Framework for D-SIBs (Oct 2012)</a></li> <li>• <a href="#">BCP 12 (Sep 2012)</a></li> </ul> <p>IAIS:</p> <ul style="list-style-type: none"> <li>• <a href="#">Global Systemically Important Insurers: Policy Measures (Jul 2013)</a></li> <li>• <a href="#">ICP 23– Group wide supervision</a></li> </ul> <p>FSB:</p> <ul style="list-style-type: none"> <li>• <a href="#">Framework for addressing SIFIs (Nov 2011)</a></li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><b><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></b></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Primary / Secondary legislation</li> <li><input checked="" type="checkbox"/> Regulation / Guidelines</li> <li><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</li> </ul> <p>The SFC continues to participate in the relevant work under IOSCO. According to the initial list of G-SIIs published by the FSB in July 2013, Hong Kong is not the home jurisdiction of the designated G-SIIs. That said, the IA continues to participate in the relevant works under the IAIS, e.g. IA has participated in supervisory colleges for major insurance groups on an on-going basis and is reviewing the standards and guidance in respect of group-wide</p> | <p><b>Planned actions (if any):</b> While the list of G-SIIs will be updated by the FSB annually, the IAIS is still further developing the policy measures, especially the basic capital requirement to be applied to G-SIIs. The IA will keep in view of these international developments and consider adopting the recommended measures as appropriate, taking into account the local circumstances.</p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |

<sup>4</sup> The scope of the follow-up to this recommendation will be revised once the monitoring framework on policy measures for G-SIFIs, which is one of the designated priority areas under the CFIM, is established.

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>supervision under ICP 23.</p> <p><b>Status of progress :</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Draft in preparation, expected publication by:</li> <li><input checked="" type="checkbox"/> Draft published as of: Oct 2014</li> <li><input type="checkbox"/> Final rule or legislation approved and will come into force on:</li> <li><input type="checkbox"/> Reform effective (completed) as of:</li> </ul> <p><b>Short description of the content of the legislation/ regulation/guideline:</b><br/> Legislative amendments to the banking capital rules to incorporate rules on capital buffer mechanism, including the application of capital buffer for systemically important banks in Hong Kong are in progress. The assessment methodology, calibration of Higher Loss Absorbency capital requirements and other policy / supervisory measures (e.g. enhanced supervision) to be applied to systemically important banks are set out in a draft supervisory policy manual module (currently under industry consultation).</p> <p><b>Highlight main developments since last year's survey:</b> Industry consultation on draft Supervisory Policy Manual module paper on systemically important banks in Hong Kong issued in October 2014.</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p>The SFC has participated in the joint consultative document: Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions by FSB and IOSCO.</p> <p><b>Web-links to relevant documents:</b><br/>           Consultation on draft Supervisory Policy Manual module on systemically important banks:<br/> <a href="http://www.hkma.gov.hk/eng/key-functions/banking-stability/basel-3/consultation_on_draft_spm_module_si_b.shtml">http://www.hkma.gov.hk/eng/key-functions/banking-stability/basel-3/consultation_on_draft_spm_module_si_b.shtml</a></p> <p>Consultative Document: Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions<br/> <a href="http://www.financialstabilityboard.org/publications/r_140108.htm">http://www.financialstabilityboard.org/publications/r_140108.htm</a></p> |            |



| No                             | Description  | G20/FSB Recommendations  | Remarks  | Progress to date   | Next steps   |
|--------------------------------|--|--|--|--|--|
| <p>10<br/>(10)</p> <p>(10)</p> | <p>Establishing supervisory colleges and conducting risk assessments</p> | <p>To establish the remaining supervisory colleges for significant cross-border firms by June 2009. (London)</p> <p>We agreed to conduct rigorous risk assessment on these firms [G-SIFIs] through international supervisory colleges. (Seoul)</p> | <p>Reporting in this area should be undertaken solely by home jurisdictions of significant cross-border firms. Please indicate whether supervisory colleges for all significant cross-border firms (both banks and insurance companies) have been established and whether the supervisory colleges for G-SIFIs are conducting rigorous risk assessments.</p> <p>Principle 13 of BCBS <u>Core Principles for Effective Banking Supervision</u> and <u>Good practice principles on supervisory colleges (Oct 2010)</u> may be used as a guide for supervisor to indicate the implementation progress. For further reference, see the following documents:</p> <p>BCBS:</p> <ul style="list-style-type: none"> <li>• <u>Core Principles for Effective Banking Supervision (Sep 2012)</u></li> </ul> <p>IAIS :</p> <ul style="list-style-type: none"> <li>• <u>ICP 25 and Guidance 25.1.1 – 25.1.6 on establishment of supervisory colleges</u></li> <li>• <u>Guidance 25.6.20 and 25.8.16 on risk assessments by supervisory colleges</u></li> </ul> <p>IOSCO:</p> <ul style="list-style-type: none"> <li>• <u>Principles Regarding Cross-Border</u></li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>For the insurance group that is based in Hong Kong, the IA organised a supervisory college with relevant regulators for a more coordinated group-wide supervision. The IA also led the coordination of work, particularly in areas such as risk assessment and stress testing amongst college members. Being the host regulator of a number of insurance groups with operations in HK, the IA has been actively participating in supervisory colleges for major insurance groups on an on-going basis. The international activities of those</p> | <p><b>If this recommendation has not yet been fully implemented, please provide reasons for delayed implementation:</b></p> <p><b>Planned actions (if any):</b></p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks  | Progress to date  | Next steps |
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|    |             |                         | <p><i>Supervisory Cooperation (May 2010)</i></p> | <p>institutions for which the HKMA is the home supervisor are not considered so significant as to warrant the establishment of supervisory colleges. The HKMA will continue to supervise their cross-border activities making use of its bilateral relationships with the relevant host supervisors. The HKMA is the host supervisor of a number of significant cross-border institutions. It participates in the supervisory colleges established by the relevant home supervisors for these institutions to monitor and assess their risk profiles. In a case where the HKMA is the intermediate home supervisor of an institution which is a subsidiary of an international banking group, the HKMA has organized regional supervisory college meetings for that institution to promote the discussion of prudential matters of mutual interest with major host supervisors in the region (i.e. those relevant host authorities in the jurisdictions where the institution has operations). Given that significant firms in HK's securities market are subsidiaries or branches of overseas financial firms, the SFC would not be establishing supervisory</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>colleges.</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of:<br/>Ongoing</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b></p> <p><b>Highlight main developments since last year's survey:</b></p> <p><b>Web-links to relevant documents:</b></p> |            |

| No         | Description  | G20/FSB Recommendations  | Remarks  | Progress to date  | Next steps   |
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| 11<br>(11) | Supervisory exchange of information and coordination | <p>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)</p> <p>Enhance the effectiveness of core supervisory colleges. (FSB 2012)</p> | <p>Jurisdictions should include any feedback received from recent FSAPs/ROSC assessments on the <a href="#">September 2012</a> 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.</p> <p>Jurisdictions should describe any regulatory, supervisory or legislative changes that will contribute to the sharing of supervisory information (e.g. within supervisory colleges or via bilateral or multilateral MoUs).</p> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>At the national level, there are MoUs between the HKMA, SFC and OCI to exchange supervisory information. The SFC is a signatory of the IOSCO MMoUs and various MoUs with international securities regulators. At international level, in 2013, the HKMA entered into MoUs with authorities of 28 European Union or European Economic Area countries to develop a framework for mutual assistance in the supervision and oversight of authorized institutions acting as depositories appointed for alternative investment funds that operate on a cross border</p> | <p><b>Planned actions (if any):</b> The HKMA, SFC and IA 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.</p> <p><b>Expected commencement date:</b> ongoing</p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p>basis, and for exchange of information for supervisory and enforcement purpose. The MoUs came into effect on 22 July 2013. The IA became a signatory to the IAIS MMoU on cross-border cooperation and information exchange in June 2012. The HKMA, SFC and IA participate in the supervisory colleges relevant to them where appropriate.</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of:<br/>Ongoing</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b></p> <p><b>Highlight main developments since last year’s survey:</b> The SFC signed MoU with authorities from 28 European Union / European Economic Area countries on the supervision of alternative investment fund managers.</p> <p><b>Web-links to relevant documents:</b><br/>Overseas collaboration<br/><a href="http://www.sfc.hk/web/EN/about-the-">http://www.sfc.hk/web/EN/about-the-</a></p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date            | Next steps |
|----|-------------|-------------------------|---------|-----------------------------|------------|
|    |             |                         |         | sfc/collaboration/overseas/ |            |

| No         | Description                                       | G20/FSB Recommendations   | Remarks   | Progress to date | Next steps |
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| 12<br>(12) | Strengthening resources and effective supervision | 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) | No information on this recommendation will be collected in the current IMN survey since a peer review is taking place in this area during 2014. |                  |            |
| (12)       |   | 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)                                  |   |                  |            |
| (12)       |   | 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)   |   |                  |            |

| No   | Description  | G20/FSB Recommendations   | Remarks   | Progress to date   | Next steps  |
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| <b>V. Building and implementing macroprudential frameworks and tools</b> |  |   |   |  |   |
| 13<br>(13)   | Establishing regulatory framework for macro-prudential oversight | 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 <sup>5</sup> and private pools of capital to limit the build up of systemic risk. (London)  | Please describe major changes in the institutional arrangements for macroprudential policy that have taken place in the past two years, including changes in: i) mandates and objectives; ii) powers and instruments; iii) transparency and accountability arrangements; iv) composition and independence of the decision-making body; and v) mechanisms for domestic policy coordination and consistency.                            | <input type="checkbox"/> Not applicable<br><input type="checkbox"/> Applicable but no action envisaged at the moment<br><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i><br><input checked="" type="checkbox"/> Implementation ongoing or completed :<br><b>Issue is being addressed through :</b><br><input type="checkbox"/> Primary / Secondary legislation<br><input type="checkbox"/> Regulation / Guidelines<br><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:<br>HKMA, SFC and IA have powers under the BO, SFO and ICO respectively to require institutions under their remit to provide information, on regular or ad hoc basis. There are well-established cross-sector platforms such as the Council on Financial Regulators (CFR) and the Financial Stability Committee (FSC) to facilitate effective exchanges amongst | <b>Planned actions (if any):</b> The HKMA is currently in the process of implementing the Basel III countercyclical capital buffer according to the Basel schedule. In the context of this new macroprudential instrument, the HKMA is reviewing its internal institutional framework for systemic risk monitoring and macroprudential policy coordination to identify potential needs for further improvement.<br><br><b>Expected commencement date:</b><br>Ongoing<br><br><b>Web-links to relevant documents:</b> |
| (13)   |  | 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) | Please indicate whether an assessment has been conducted with respect to the powers to collect and share relevant information among different authorities – where this applies – on financial institutions, markets and instruments to assess the potential for systemic risk. Please indicate whether the assessment has indicated any gaps in the powers to collect information, and whether any follow-up actions have been taken. |  |   |

<sup>5</sup> The recommendation as applicable to shadow banks will be retained until the monitoring framework for shadow banking, which is one of the designated priority areas under the CFIM, is established.



| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p>regulators and the Administration for the purposes of, inter alia, the maintenance of financial stability in HK. The HKMA set up the Macro Surveillance Committee (MSC), consisting of the Chief Executive and other senior executives of the HKMA, to facilitate regular monitoring of risks and vulnerabilities to the HK monetary and financial system. The Financial Stability Surveillance Division was established to strengthen the HKMA's surveillance capability for financial stability issues. The HKMA publishes a half-yearly monetary and financial stability report that includes the aggregate results of macro stress testing of credit risk and an assessment of systemic risk in the banking sector. The HKMA participates in the FSB's SCAV which assesses and monitors vulnerabilities in the financial system. Discussions at the SCAV facilitate information exchange on systemic risks at the international level.</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of:<br/>Ongoing</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b></p> <p><b>Highlight main developments since last year's survey:</b></p> <p><b>Web-links to relevant documents:</b></p> |            |

| No                             | Description   | G20/FSB Recommendations  | Remarks   | Progress to date   | Next steps   |
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| <p>14<br/>(14)</p> <p>(14)</p> | <p>Enhancing system-wide monitoring and the use of macro-prudential instruments</p> | <p>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)</p> <p>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)</p> <p>Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system. (Washington)</p> | <p>Please describe at a high level (including by making reference to financial stability or other public reports, where available) the types of systems, methodologies and processes that have been put in place to identify macroprudential risks, including the analysis of risk transmission channels. Please indicate the use of macroprudential tools in the past two years, including the objective for their use and the process used to select, calibrate, and apply them.</p> <p>See, for reference, the CGFS document on <a href="#">Operationalising the selection and application of macroprudential instruments (Dec 2012)</a>.</p> <p>Jurisdictions can also refer to the FSB-IMF-BIS progress report to the G20 on <a href="#">Macroprudential policy tools and frameworks (Oct 2011)</a>, and the IMF staff papers on <a href="#">Macroprudential policy, an organizing framework (Mar 2011)</a> and on <a href="#">Key Aspects of Macroprudential policy (Jun 2013)</a>.</p> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>Given the increased risk of a property price bubble in recent years, the HKMA has introduced six rounds of countercyclical measures on property mortgage lending by authorized institutions (AIs) from Oct 2009 to Feb 2013 to strengthen their resilience. The six rounds of measures introduced mainly included: (i) More stringent LTV caps for higher risk property mortgage loans; (ii) More stringent DSR and stressed DSR requirements; (iii) A uniform risk weight floor of 15% for all new residential mortgage loans granted by AIs adopting the internal-</p> | <p><b>Planned actions (if any):</b> The HKMA will continue to monitor the risk within the banking sector closely and introduce appropriate additional macroprudential measures to safeguard banking stability in HK as and when necessary. The HKMA intends to have regulations implementing the Basel III countercyclical buffer and internal procedures for its operation in place by Q1 2015. The SFC will continue to monitor the market situations and assess risk implications of evolving local and overseas market developments. The risk monitoring mechanism will be reviewed and enhanced from time to time to address evolving systemic risks. The IA will incorporate the macro-prudential approaches/tools in the supervisory regime where appropriate.</p> <p><b>Expected commencement date:</b><br/>Ongoing</p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p>ratings based approach to calculate credit risk capital charge under the Basel Committee standards; and(iv) Maximum loan tenor of 30 years for all new property mortgage loans. The choice of countercyclical parameters (e.g. caps on LTV, DSR and loan tenor), the setting (or adjustment) of the respective maximum loan amounts and the type of mortgage loans that are subject to the countercyclical measures are principally based on professional judgement. In accordance with IOSCO's principles, the SFC develops indicators to monitor and manage systemic risks in the securities market. These indicators include times series, cross sector and cross-market assessments in the trends and patterns in the equities and derivatives markets to detect, among other things, market risk, liquidity risk and counterparty risk and to gauge the market's resilience to the building up of such risks. Follow-up analysis will be conducted in case of signs of possible building up and concentration of positions. We published regular global market reviews to cover latest market developments and risk assessment. The</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p>SFC conducts stress testing of SFC-licensed firms' compliance with liquid capital requirement from time to time. Firms licensed with the SFC are required to have effective policies and procedures for proper risk management. The FRRs also set out capital requirements in respect of the risks. Having regard to the insurance supervisory regime in HK, the IA is considering the approaches as set out in ICP24 on Macroprudential Surveillance and Insurance Supervision. The IA regularly uses the financial information submitted by insurers and the industry statistics to perform analysis, both qualitative and quantitative, on market performances and trends, and to assess the likely risks and challenges both to the insurance industry as a whole, and to individual insurers.</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of:<br/>Ongoing</p> <p><b>Short description of the content of the</b></p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p><b>legislation/ regulation/guideline:</b></p> <p><b>Highlight main developments since last year's survey:</b> The average loan-to-value ratio for new RMLs declined to 55% in September 2014, from 64% in September 2009 before the first round of these measures was introduced. The average debt servicing ratio for new RMLs decreased to 35% in September 2014, from 41% in August 2010 when the tighter requirement on debt servicing ratio was first introduced. The HKMA will continue to closely monitor the market situation and consider introduction of appropriate measures in response to changes in the property market cycle.</p> <p><b>Web-links to relevant documents:</b> The weblink to the summary of the HKMA's six rounds of countercyclical measures:</p> <ol style="list-style-type: none"> <li>1. <a href="http://www.hkma.gov.hk/eng/other-information/pws-faq/banking-stability.shtml#loans1">http://www.hkma.gov.hk/eng/other-information/pws-faq/banking-stability.shtml#loans1</a>; and</li> <li>2. <a href="http://www.hkma.gov.hk/eng/other-information/pws-faq/banking-stability.shtml#loans2">http://www.hkma.gov.hk/eng/other-information/pws-faq/banking-stability.shtml#loans2</a></li> </ol> |            |

| No         | Description  | G20/FSB Recommendations   | Remarks   | Progress to date   | Next steps   |
|------------|--|---|---|--|--|
| 15<br>(15) | Improved cooperation between supervisors and central banks | Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain. (Rec. V.8 , FSF 2008) | Please describe the institutional framework through which information sharing between supervisors and the central bank takes place, e.g. through internal or inter-agency committee or bilateral MoUs. Please also describe any initiative to remove identified obstacles to enhance cooperation and information sharing. | <input type="checkbox"/> Not applicable<br><input type="checkbox"/> Applicable but no action envisaged at the moment<br><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i><br><input checked="" type="checkbox"/> Implementation ongoing or completed :<br><b>Issue is being addressed through :</b><br><input type="checkbox"/> Primary / Secondary legislation<br><input type="checkbox"/> Regulation / Guidelines<br><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:<br>Please refer to comments under item 13. Regulators in Hong Kong hold monthly and quarterly meetings, to discuss key issues and trends to identify financial stability risks and other concerns pertaining to the financial markets and industry in HK.<br><b>Status of progress :</b><br><input type="checkbox"/> Draft in preparation, expected publication by:<br><input type="checkbox"/> Draft published as of:<br><input type="checkbox"/> Final rule or legislation approved and will come into force on:<br><input checked="" type="checkbox"/> Reform effective (completed) as of:<br>Ongoing | <b>Planned actions (if any):</b> HK will continue the current practice of exchange of information.<br><br><b>Expected commencement date:</b> on-going<br><br><b>Web-links to relevant documents:</b> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>Short description of the content of the legislation/ regulation/guideline:</p> <p>Highlight main developments since last year's survey:</p> <p>Web-links to relevant documents:</p> |            |



| No  | Description                                  | G20/FSB Recommendations   | Remarks   | Progress to date  | Next steps   |
|---|--|---|---|---|--|
| <b>VI. Improving oversight of credit rating agencies (CRAs)</b> |  |   |   |   |  |
| 16  | Enhancing regulation and supervision of CRAs | 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) | Jurisdictions should indicate the policy measures undertaken for enhancing regulation and supervision of CRAs including registration, oversight and sharing of information between national authorities. They should also indicate their consistency with the following IOSCO document:   | <input type="checkbox"/> Not applicable<br><input type="checkbox"/> Applicable but no action envisaged at the moment<br><br><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i><br><input checked="" type="checkbox"/> Implementation ongoing or completed :<br><b>Issue is being addressed through :</b><br><input checked="" type="checkbox"/> Primary / Secondary legislation<br><input checked="" type="checkbox"/> Regulation / Guidelines<br><input type="checkbox"/> Other actions (such as supervisory actions), please specify:<br><b>Status of progress :</b><br><input type="checkbox"/> Draft in preparation, expected publication by:<br><input type="checkbox"/> Draft published as of:<br><input type="checkbox"/> Final rule or legislation approved and will come into force on:<br><input checked="" type="checkbox"/> Reform effective (completed) as of: 01.06.2011<br><br><b>Short description of the content of the legislation/ regulation/guideline:</b> CRAs that provide credit rating services and their rating analysts in HK are required to be licensed and are subject to supervision by the SFC. Licensed CRAs are required | <b>If this recommendation has not yet been fully implemented, please provide reasons for delayed implementation:</b><br><br><b>Planned actions (if any):</b> The SFC will continue to participate in IOSCO’s work on CRAs.<br><br><b>Expected commencement date:</b><br>Ongoing<br><br><b>Web-links to relevant documents:</b> |
| (16)  |  | 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.  | Jurisdictions may also refer to the following IOSCO documents:  |   |  |
|   |  | 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.  | <ul style="list-style-type: none"> <li>• <a href="#">Code of Conduct Fundamentals for Credit Rating Agencies (May 2008)</a></li> </ul>  |   |  |
|   |  | The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO. (London)   | <ul style="list-style-type: none"> <li>• Principle 22 of <a href="#">Principles and Objectives of Securities Regulation (Jun 2010)</a> which calls for registration and oversight programs for CRAs</li> <li>• <a href="#">Statement of Principles Regarding the Activities of Credit Rating Agencies (Sep 2003)</a></li> <li>• <a href="#">Final Report on Supervisory Colleges for Credit Rating Agencies (Jul 2013)</a></li> </ul> |   |  |
| (16)  |  | Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010. (FSB 2009)  |   |   |  |
| (New)   |  | We encourage further steps to enhance transparency and competition among credit rating agencies. (St Petersburg)  |   |   |  |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>to comply with the "Code of Conduct for Persons Providing Credit Rating Services", which is based on the IOSCO CRA Code. The SFC actively participates in the policy committee of IOSCO on the regulation of CRAs. In March 2012, the SFC entered into a cooperative arrangement with ESMA for the supervision of CRAs that have cross borders activities to facilitate regulatory exchange of information. Credit rating activities in Hong Kong are relatively small in terms of number of ratings prepared by SFC-licensed CRAs.</p> <p><b>Highlight main developments since last year's survey:</b> On 28 April 2014, European Commission announced its adoption of the implementing decision to recognize that the CRA regime in Hong Kong is equivalent to the one in EU based on the positive technical assessment on Hong Kong's regulatory environment by ESMA. The equivalence decision would allow small CRAs in Hong Kong to apply for certification in EU, so that their ratings can be used by EU financial institutions for regulatory purposes. The SFC has agreed to participate in CRA supervisory colleges.</p> <p><b>Web-links to relevant documents:</b> SFC</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>issued a press release on 2 June 2011 announcing that the new regulatory regime governing CRAs operating in Hong Kong became effective on 1 June 2011:<br/> <a href="http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=11PR63">http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=11PR63</a><br/>                     Code of Conduct for Persons Providing Credit Rating Services<br/> <a href="http://www.sfc.hk/web/EN/pdf/sfcRegulatoryHandbook/EN_H636.pdf">http://www.sfc.hk/web/EN/pdf/sfcRegulatoryHandbook/EN_H636.pdf</a> EC announcement: <a href="http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.132.01.0076.01.ENG">http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.132.01.0076.01.ENG</a></p> |            |

| No         | Description                      | G20/FSB Recommendations  | Remarks  | Progress to date | Next steps |
|------------|----------------------------------|--|--|------------------|------------|
| 17<br>(17) | Reducing the reliance on ratings | <p>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)</p> <p>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)</p> <p>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)</p> <p>We call for accelerated progress by national authorities and standard setting bodies in ending the mechanistic reliance on credit ratings and encourage steps that</p> | No information on this recommendation will be collected in the current IMN survey since the report of the second stage of the thematic peer review has been published recently [insert link whenever published]. |                  |            |

| No    | Description | G20/FSB Recommendations  | Remarks | Progress to date | Next steps |
|-------|-------------|--|---------|------------------|------------|
| (New) |             | <p>would enhance transparency of and competition among credit rating agencies. (Los Cabos)</p> <p>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)</p> |         |                  |            |

| No  | Description   | G20/FSB Recommendations  | Remarks   | Progress to date   | Next steps   |
|---|---|--|---|--|--|
| <b>VII. Enhancing and aligning accounting standards</b> |   |  |   |  |  |
| 18<br>(18)  | Consistent application of high-quality accounting standards | Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards. (Washington) | <p>Jurisdictions should indicate the accounting standards that they follow and whether (and on what basis) they are deemed to be equivalent to IFRSs as published by the IASB or are otherwise of a high and internationally acceptable quality, and provide accurate and relevant information on financial performance. They should also explain the system they have for enforcement of consistent application of those standards.</p> <p>Jurisdictions may want to refer to their jurisdictional profile prepared by the IFRS Foundation, which can be accessed at: <a href="http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx">http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx</a>.</p> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input checked="" type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>To ensure consistent application of (IFRS 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 (eg, see item 19 for details); (3) engaging with HKICPA and HKAB to share the development of converged global accounting standards.</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected</p> | <p><b>Planned actions (if any):</b> HK will continue to maintain convergence of HKFRS with IFRS. 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 prudent global accounting standards. Most of the SFC licensed entities are incorporated in HK and are required to prepare financial statements in accordance with HKFRS. As a member of IOSCO’s policy committee on Multinational Disclosure and Accounting (C1), the SFC will continue to provide IOSCO with comments on exposure drafts issued by the IASB. The IA will continue to keep in view of developments in international accounting standards (in particular the international accounting convergence project for insurance contracts).</p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps   |
|----|-------------|-------------------------|---------|---|--|
|    |             |                         |         | <p>publication by:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Draft published as of:</li> <li><input type="checkbox"/> Final rule or legislation approved and will come into force on:</li> <li><input checked="" type="checkbox"/> Reform effective (completed) as of: 2005</li> </ul> <p><b>Short description of the content of the legislation/ regulation/guideline:</b><br/>           HKFRS, issued by the HKICPA, have achieved convergence with IFRS issued by the IASB since 2005. The HKICPA monitors and comments on IASB exposure drafts and will take necessary steps to maintain convergence of HKFRS with IFRS.</p> <p><b>Highlight main developments since last year's survey:</b> HKFRS has remained converged with IFRS since the survey last year.</p> <p><b>Web-links to relevant documents:</b></p> | <p><b>Expected commencement date:</b><br/>Ongoing</p> <p><b>Web-links to relevant documents:</b><br/> <a href="http://app1.hkicpa.org.hk/ebook/index.php">http://app1.hkicpa.org.hk/ebook/index.php</a> (This link is to the HKICPA Members Handbook which contains all professional standards issued by the Institute.)</p> |

| No                             | Description   | G20/FSB Recommendations   | Remarks   | Progress to date   | Next steps   |
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| <p>19<br/>(19)</p> <p>(19)</p> | <p>Appropriate application of Fair Value Accounting</p> | <p>Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak. (Rec. 3.4, FSF 2009)</p> <p>Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements. (Rec 3.5, FSF 2009)</p> | <p>Jurisdictions should indicate the policy measures taken for appropriate application of fair value accounting.</p> <p>See, for reference, the following BCBS documents:</p> <ul style="list-style-type: none"> <li>• <u>Basel 2.5 standards on prudent valuation (Jul 2009)</u></li> <li>• <u>Supervisory guidance for assessing banks' financial instrument fair value practices (Apr 2009)</u></li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input checked="" type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>IA is reviewing the use of valuation reserves and guidance on valuation under ICP14.</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of: 31.12.2011</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> The HKMA issued supervisory guidance on “Financial Instrument Fair Valuation</p> | <p><b>If this recommendation has not yet been fully implemented, please provide reasons for delayed implementation:</b></p> <p><b>Planned actions (if any):</b> HKICPA monitors and comments the IASB exposure drafts and will take necessary steps to maintain convergence of HKFRS with IFRS. As a member of IOSCO’s policy committee on Multinational Disclosure and Accounting (C1), the SFC will continue to provide IOSCO with comments on exposure drafts issued by the IASB.(See item 18) The HKMA updated its guidance “Financial Instrument Fair Valuation Practices” in December 2013 to reflect the new definition of capital introduced under Basel III. The HKMA will continue to closely monitor international accounting developments and work with the HKICPA to assess impacts on banks’ financial and regulatory reporting. The IASB has issued the exposure draft of Insurance Contracts. IA will monitor its development, especially the extent of convergence of the standard of insurance contracts between the FASB and IASB and continue to examine the use of valuation reserves in its supervision with</p> |



| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps   |
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|    |             |                         |         | <p>Practices” in December 2011. In December 2013, the HKMA further updated the guideline to incorporate amendments relating to the full recognition, for regulatory capital purposes, of fair-value gains arising from fair-valued financial instruments as a component of “Common Equity Tier 1 capital” under Basel III . Relevant authorities will monitor the progress of IASB's work in this area: (1) discussion paper of accounting for dynamic risk management: a portfolio revaluation approach to macro hedging; (issued in Q2 2014) (2) exposure draft of disclosure initiative (proposed amendments to IAS 1) (issued in Q1 2014); and (3) request for information on post-implementation review: IFRS 3 Business Combinations (issued in Q1 2014) ); (4) exposure draft of measuring quoted investments in subsidiaries, joint ventures and associates at fair value (proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and illustrative examples for IFRS 13)</p> <p><b>Highlight main developments since last year’s survey:</b></p> <p><b>Web-links to relevant documents:</b><br/>HKICPA submissions to IASB in 2013:</p> | <p>reference to the standards in ICP14.</p> <p><b>Expected commencement date:</b><br/>Ongoing</p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p><a href="http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/financial-reporting-submissions/2013/">http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/financial-reporting-submissions/2013/</a></p> <p>HKICPA submissions to IASB in 2014:<br/> <a href="http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/financial-reporting-submissions/2014/">http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/financial-reporting-submissions/2014/</a></p> |            |

| No                                     | Description  | G20/FSB Recommendations  | Remarks  | Progress to date   | Next steps  |
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| <b>VIII. Enhancing risk management</b> |  |  |  |  |   |
| 20<br>(20)                             | Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks | 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)                                    | Jurisdictions should indicate the policy measures taken to enhance guidance to strengthen banks' risk management practices.<br>In particular, please indicate the status of implementation of the following standards:   | <input type="checkbox"/> Not applicable<br><input type="checkbox"/> Applicable but no action envisaged at the moment<br><i>If "Not applicable" or "Applicable but no action envisaged ..." has been selected, please provide a brief justification:</i><br><input checked="" type="checkbox"/> Implementation ongoing or completed :<br><b>Issue is being addressed through :</b><br><input type="checkbox"/> Primary / Secondary legislation<br><input checked="" type="checkbox"/> Regulation / Guidelines<br><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:<br><br>The HKMA conducted a round of thematic examinations on selected AIs' stress testing programmes in 2013 to assess their compliance with the standards and guidance set out in the Supervisory Policy Manual on "Stress-testing", which was updated in 2012 and drew principally on the "Principles for sound stress testing practices and supervision" issued by the Basel Committee. Stress testing is conducted | <b>Planned actions (if any):</b> Further SGs being drafted cover credit risk transfer activities; market risk management (2015); foreign exchange risk management (2016); risk governance (taking into account the FSB thematic peer review report on risk governance). The HKMA, SFC and IA will continue with stress testing of firms under their respective remit. The HKMA intends to publish the BLR in the gazette on 24 October 2014 and table it at the Legislative Council on 29 October 2014, for implementation of the LCR on 1 January 2015. As a consequence, the HKMA will revise the guidance set out in the Supervisory Policy Manual on "Liquidity Risk Management".<br><br><b>Expected commencement date:</b> 2015 (SG on credit risk transfer; 2016 (revised SG relevant to risk governance); 1 January 2015 (Banking (Liquidity) Rules) and revised SG on Liquidity Risk Management); As for NSFR, once the BCBS has finalised the modifications of |
| (20)                                   |  | 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) | <ul style="list-style-type: none"> <li>• BCBS <u>Basel III: International framework for liquidity risk measurement, standards and monitoring (Dec 2010)</u></li> <li>• BCBS <u>Principles for sound stress testing practices and supervision (May 2009)</u></li> </ul> |  |   |
| (20)                                   |  | Regulators and supervisors in emerging markets <sup>6</sup> will enhance their supervision of banks' operation in foreign currency funding markets. (FSB 2009)   | Jurisdictions may also refer to FSB's <u>thematic peer review report on risk governance (Feb 2013)</u> and BCBS <u>Peer review of supervisory authorities' implementation of stress testing principles (Apr 2012)</u>  |  |   |
| (20)                                   |  | We commit to conduct robust, transparent stress tests as needed. (Pittsburgh)  |  |  |   |

<sup>6</sup> Only the emerging market jurisdictions that are members of the FSB may respond to this recommendation.

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps  |
|----|-------------|-------------------------|---------|--|---|
|    |             |                         |         | <p>from time to time by the HKMA, SFC and IA on firms under their respective remit to assess potential risks and vulnerabilities.</p> <p><b>Status of progress :</b></p> <p><input checked="" type="checkbox"/> Draft in preparation, expected publication by: Q4 2014. Having completed three rounds of consultation on policy proposals for local implementation of the Basel III liquidity standards (viz., the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)), the HKMA has submitted a set of draft banking (liquidity) Rules (BLR) (relating to the LCR) to Legislative Council for negative vetting, with a view to bringing the rules into effect from 1 January 2015.</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of: HKMA issued revised supervisory guideline (SG) on: (1) Supervisory Review Process (Jun 2010 updated in Dec 2012); (2) Use of internal models approach to calculate market risk (Oct 2012); (3) Stress-testing (May 2012); (4) Sound Systems and Controls for Liquidity Risk Management (Apr 2011); (5) General Risk Management Controls (Dec 2010); (6) Foreign exchange risk management (Jan 2009) The HKMA consulted the industry on</p> | <p>this standard (by year end 2014), the HKMA will develop policy proposals for local implementation (target at 1 Jan 2018) and will consult the local industry in due course.</p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>the implementation of the Basel guidance on monitoring tools for intraday liquidity management during Mar – May 2014.</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> For details of the six SG, please refer to web-links below. The HKMA is developing a SG on Credit Risk Transfer Activities, expanding upon existing guidelines on securitization and credit derivatives based on international standards. The HKMA is also reviewing the FSB’s thematic peer review report on risk governance of February 2013 to identify necessary enhancements to its relevant supervisory guidelines.</p> <p><b>Highlight main developments since last year’s survey:</b></p> <p><b>Web-links to relevant documents:</b> Use of internal models approach to calculate market risk (Oct 2012);<br/> <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-G-3.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-G-3.pdf</a></p> <p>Stress-testing (May 2012);</p> <p>Sound Systems and Controls for Liquidity Risk Management (Apr 2011);</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p><a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/IC-5.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/IC-5.pdf</a></p> <p>Sound Systems and Controls for Liquidity Risk Management (Apr 2011):<br/> <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/LM-2.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/LM-2.pdf</a></p> <p>Foreign exchange risk management (Jan 2009):<br/> <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/TA-2.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/TA-2.pdf</a></p> <p>Draft Banking (Liquidity) Rules and related Code of Practice:<br/> <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_draft_banking_liquidity_rules/annex1.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_draft_banking_liquidity_rules/annex1.pdf</a>, and<br/> <a href="http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_draft_banking_liquidity_rules/annex2.pdf">http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_draft_banking_liquidity_rules/annex2.pdf</a></p> |            |

| No         | Description   | G20/FSB Recommendations   | Remarks   | Progress to date  | Next steps  |
|------------|---|---|---|---|---|
| 21<br>(21) | Efforts to deal with impaired assets and raise additional capital | Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed. (Pittsburgh) | Jurisdictions should indicate steps taken to reduce impaired assets and encourage additional capital raising. For example, jurisdictions could include here the amount of new equity raised by banks operating in their jurisdictions during 2013. Jurisdictions may also refer to the relevant IMF Financial Soundness Indicators at <a href="http://fsi.imf.org/">http://fsi.imf.org/</a> . | <input type="checkbox"/> Not applicable<br><input type="checkbox"/> Applicable but no action envisaged at the moment<br><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i><br><input checked="" type="checkbox"/> Implementation ongoing or completed :<br><b>Issue is being addressed through :</b><br><input type="checkbox"/> Primary / Secondary legislation<br><input type="checkbox"/> Regulation / Guidelines<br><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify: Supervisory monitoring<br><b>Status of progress :</b><br><input type="checkbox"/> Draft in preparation, expected publication by:<br><input type="checkbox"/> Draft published as of:<br><input type="checkbox"/> Final rule or legislation approved and will come into force on:<br><input type="checkbox"/> Reform effective (completed) as of:<br><b>Short description of the content of the legislation/ regulation/guideline:</b><br><b>Highlight main developments since last year’s survey:</b><br><b>Web-links to relevant documents:</b> | <b>Planned actions (if any):</b> The HKMA will monitor closely accounting developments in relation to expected loss provisioning and will continue to require banks to maintain an adequate regulatory reserve to cater for expected but not yet incurred future losses.<br><br><b>Expected commencement date:</b> ongoing<br><br><b>Web-links to relevant documents:</b> |

| No                              | Description  | G20/FSB Recommendations   | Remarks   | Progress to date   | Next steps  |
|---------------------------------|--|---|---|--|---|
| <p>22<br/>(22)</p> <p>(New)</p> | <p>Enhanced risk disclosures by financial institutions</p> | <p>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)</p> <p>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)</p> | <p>Jurisdictions should indicate the status of implementation of the disclosures requirements of IFRSs (in particular IFRS7 and 13) or equivalent. Jurisdictions may also use as reference the recommendations of the October 2012 report by the Enhanced Disclosure Task Force on <a href="#">Enhancing the Risk Disclosures of Banks</a> and <a href="#">Implementation Progress Report by the EDTF (Aug 2013)</a>.</p> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Primary / Secondary legislation</li> <li><input checked="" type="checkbox"/> Regulation / Guidelines</li> <li><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</li> </ul> <p>Risk and loss disclosures of SFC licensed entities are required to be made in compliance with accounting standards. All insurers are required by law to submit to the IA their audited accounts and other reports. The financial information submitted by the insurers includes, among others, a description of risks pertaining to the insurer and the qualitative and quantitative information of technical provisions. Besides, the IA is reviewing the standards in ICP20 on Public Disclosure with regard to the insurance supervisory regime in HK.</p> | <p><b>Planned actions (if any):</b> To complete the legislative process required for the inclusion into the BDR of the BCBS disclosure requirements for leverage ratio, liquidity coverage ratio, capital buffer and global systemically important banks (“G-SIBs”). The Banking (Disclosure) (Amendment) Rules 2014 is expected to take effect from 1 January 2015. The IA will keep in view the second phase development of HKFRS4 on Insurance Contracts regarding disclosure requirements of financial statements on risks. The IA will, upon review, adopt the standards of ICP20 as appropriate, taking into account the local circumstances.</p> <p><b>Expected commencement date:</b> 1 January 2015</p> <p><b>Web-links to relevant documents:</b></p> |



| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p><b>Status of progress :</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Draft in preparation, expected publication by:</li> <li><input type="checkbox"/> Draft published as of:</li> <li><input type="checkbox"/> Final rule or legislation approved and will come into force on:</li> <li><input checked="" type="checkbox"/> Reform effective (completed) as of: 01.01.2012</li> </ul> <p><b>Short description of the content of the legislation/ regulation/guideline:</b></p> <p>Amendments were made to the Banking (Disclosure) Rules (BDR) to incorporate the Basel 2.5 enhancements to the Basel II disclosure requirements; the IASB improved disclosure standards; the recommendations of the Senior Supervisors Group report on disclosure, and other international best practices. The amendments took effect from 1 January 2012. A set of amendments to the BDR to incorporate the new capital disclosure requirements under Basel III also took effect from 30 June 2013. Preparation for another set of amendments to the BDR to implement disclosure requirements associated with the second phase of Basel III implementation (i.e. capital buffer, higher loss absorbency requirements for G-SIBs, leverage ratio and, liquidity coverage ratio) is in progress. Having</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>regard to the implementation timetable set by Basel, the plan is for banks in Hong Kong to be subject to these disclosure requirements starting from their first financial disclosure in 2015.</p> <p><b>Highlight main developments since last year's survey:</b></p> <p><b>Web-links to relevant documents:</b><br/> <a href="http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2011/20111123e1.pdf">http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2011/20111123e1.pdf</a><br/> <a href="http://www.legislation.gov.hk/blis_pdf.nsf/6799165D2FEE3FA94825755E0033E532/1D9FB2E246B2BA50482575EE00464098/\$FILE/CAP_155M_e_b5.pdf">http://www.legislation.gov.hk/blis_pdf.nsf/6799165D2FEE3FA94825755E0033E532/1D9FB2E246B2BA50482575EE00464098/\$FILE/CAP_155M_e_b5.pdf</a></p> |            |

| No   | Description  | G20/FSB Recommendations  | Remarks   | Progress to date   | Next steps   |
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| <b>IX. Strengthening deposit insurance</b> |  |  |   |  |  |
| 23<br>(23)                                 | Strengthening of national deposit insurance arrangements | National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed. (Rec. VI.9, FSF 2008) | <p>Jurisdictions should describe any revisions made to national deposit insurance system, including steps taken to address the following recommendations of the FSB’s February 2012 <a href="#">thematic peer review report on deposit insurance systems</a>:</p> <ul style="list-style-type: none"> <li>• Adoption of an explicit deposit insurance system (for those who do not have one)</li> <li>• Full implementation of the <a href="#">Core Principles for Effective Deposit Insurance Systems</a> jointly issued by BCBS and IADI in June 2009 (by addressing the weaknesses and gaps identified in peer review)</li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>The Hong Kong Deposit Protection Board (HKDPB) completed a self assessment of the design of the existing Deposit Protection Scheme (DPS) in HK against the Core Principles for Effective Deposit Insurance Systems (Core Principles) in 2012. HKDPB has formulated an implementation plan to improve the payout efficiency, taking into account the relevant international trends and results of a full-scope rehearsal conducted in October 2012. Amendments were made to the Information Guideline in 2013.</p> <p><b>Status of progress :</b></p> | <p><b>Planned actions (if any):</b> In respect of the DPS enhancements for adopting the “gross payout” approach, a public consultation, which has taken into account the latest reform experience of overseas deposit insurers and the recommendations of the International Monetary Fund-led Financial Sector Assessment Programme, was launched in September 2014 for three months.</p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <input type="checkbox"/> Draft in preparation, expected publication by:<br><input type="checkbox"/> Draft published as of:<br><input checked="" type="checkbox"/> Final rule or legislation approved and will come into force on: The revised Information Guideline was issued to DPS member banks in September 2013.<br><input type="checkbox"/> Reform effective (completed) as of:<br><p><b>Short description of the content of the legislation/ regulation/guideline:</b> The requirements on submission of depositor information by banks have been tightened to ensure that a complete set of accurate depositor records can be obtained from a failed bank within a specified time period.</p> <p><b>Highlight main developments since last year's survey:</b> DPS member banks are implementing the new requirements of the revised Information Guideline. Their level of compliance is being monitored by a bi-monthly survey and compliance reviews under an enhanced compliance review program.</p> <p><b>Web-links to relevant documents:</b><br/> <a href="http://www.dps.org.hk/en/download/guideline/ISG_2013-ENG.pdf">http://www.dps.org.hk/en/download/guideline/ISG_2013-ENG.pdf</a></p> |            |

| No   | Description                               | G20/FSB Recommendations   | Remarks   | Progress to date   | Next steps   |
|--|---|---|---|--|--|
| <b>X. Safeguarding the integrity and efficiency of financial markets</b> |   |   |   |  |  |
| 24<br>(24)   | Enhancing market integrity and efficiency | 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) | <p>Jurisdictions should indicate whether high frequency trading and dark pools exist in their national markets.</p> <p>Jurisdictions should indicate the progress made in implementing the recommendation in the following IOSCO reports in their regulatory framework:</p> <ul style="list-style-type: none"> <li>• <a href="#">Report on Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency (Oct 2011)</a>; and</li> <li>• <a href="#">Report on Principles for Dark Liquidity (May 2011)</a>.</li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input checked="" type="checkbox"/> Regulation / Guidelines</p> <p><input type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input checked="" type="checkbox"/> Draft published as of: 27 February 2014 - Consultation Paper concerning the regulation of alternative liquidity pools</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of: 1 January 2014 - Regulation of Electronic Trading</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b> The SFC published a consultation conclusions paper on proposals to enhance the regulatory framework for electronic</p> | <p><b>Planned actions (if any):</b> The SFC intends to publish a consultation conclusions paper concerning the regulation of alternative liquidity pools by end 2014.</p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p>trading on 22 March 2013. It sets out an enhanced regulatory framework and standards for licensed intermediaries in conducting electronic trading which includes internet trading, DMA and algorithmic trading. There is little high frequency trading in the stock market due to a stamp duty (0.1%) imposed on both side of a transaction. The SFC published a consultation paper concerning the regulation of alternative liquidity pools on 27 February 2014. Currently there are 16 dark pools operated by brokers in Hong Kong. The current regulatory requirements are imposed as licensing conditions. The proposal will codify the existing requirements.</p> <p><b>Highlight main developments since last year’s survey:</b> The enhanced regulatory framework for electronic trading has come into effect since 1 January 2014. The consultation concerning the regulation of alternative liquidity pools was closed on 25 April 2014.</p> <p><b>Web-links to relevant documents:</b><br/>           Consultation conclusions on regulation of electronic trading:<br/> <a href="http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=12CP3">http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/conclusion?refNo=12CP3</a></p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | Consultation paper concerning the regulation of alternative liquidity pools:<br><a href="http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/openFile?refNo=14CP3">http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/openFile?refNo=14CP3</a> |            |

| No                              | Description  | G20/FSB Recommendations  | Remarks  | Progress to date   | Next steps   |
|---------------------------------|--|--|--|--|--|
| <p>25<br/>(25)</p> <p>(New)</p> | <p>Regulation and supervision of commodity markets</p> | <p>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)</p> <p>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)</p> | <p>Jurisdictions should indicate whether commodity markets of any type exist in their national markets.</p> <p>Jurisdictions should indicate the policy measures taken to implement the principles found in IOSCO’s report on <a href="#">Principles for the Regulation and Supervision of Commodity Derivatives Markets (Sep 2011)</a>.</p> <p>Jurisdictions, in responding to this recommendation, may also make use of the responses contained in the <a href="#">report</a> published by the IOSCO’s Committee on Commodity Futures Markets based on a survey conducted amongst its members in April 2012 on regulation in commodity derivatives market.</p> | <p><input type="checkbox"/> Not applicable</p> <p><input checked="" type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i> Currently in Hong Kong, the regulation of commodity derivatives markets comes under the regulatory framework for futures markets under the Securities and Futures Ordinance, which has proven to be robust and effective through 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). With the acquisition of the London Metal Exchange by HKEx in December 2012, the commodity futures markets operated by the HKEx Group are expanding. According to the outcome of the survey conducted by IOSCO in April 2012 on the implementation of 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.</p> | <p><b>Planned actions (if any):</b></p> <p><b>Expected commencement date:</b></p> <p><b>Web-links to relevant documents:</b></p> |



| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>At the moment, Hong Kong envisages no action to be taken. The SFC will keep in view the development of the commodity futures market in Hong Kong and ensure that Hong Kong would continue to implement the Principles for the Regulation and Supervision of Commodity Futures Markets.</p> <p><input type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input type="checkbox"/> Regulation / Guidelines</p> <p><input type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input type="checkbox"/> Reform effective (completed) as of:</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b></p> <p><b>Highlight main developments since last year's survey:</b></p> <p><b>Web-links to relevant documents:</b></p> |            |

| No          | Description                    | G20/FSB Recommendations   | Remarks   | Progress to date | Next steps |
|-------------|--------------------------------|---|---|------------------|------------|
| 26<br>(New) | Reform of financial benchmarks | 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 be deferred to the 2015 IMN survey given the ongoing policy work in this area, the reviews of interest rate and foreign exchange benchmarks during 2014, and the recent publication of IOSCO's Principles for Financial Benchmarks. |                  |            |

| No   | Description                             | G20/FSB Recommendations  | Remarks  | Progress to date  | Next steps   |
|--|---|--|--|---|--|
| <b>XI. Enhancing financial consumer protection</b> |   |  |  |   |  |
| 27<br>(27)   | Enhancing financial consumer protection | 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) | <p>Jurisdictions should describe progress toward implementation of the OECD’s <a href="#">G-20 high-level principles on financial consumer protection (Oct 2011)</a>.</p> <p>Jurisdictions may also refer to OECD’s update <a href="#">report</a> including the <a href="#">Annex to the report on effective approaches to support the implementation of the High-level Principles</a> based around the following three priority principles:</p> <ul style="list-style-type: none"> <li>• <i>Disclosure and transparency</i></li> <li>• <i>Responsible business conduct of financial services providers and their authorised agents</i></li> <li>• <i>Complaints handling and redress</i></li> </ul> | <p><input type="checkbox"/> Not applicable</p> <p><input type="checkbox"/> Applicable but no action envisaged at the moment</p> <p><b><i>If “ Not applicable “ or “Applicable but no action envisaged ...” has been selected, please provide a brief justification:</i></b></p> <p><input checked="" type="checkbox"/> Implementation ongoing or completed :</p> <p><b>Issue is being addressed through :</b></p> <p><input type="checkbox"/> Primary / Secondary legislation</p> <p><input type="checkbox"/> Regulation / Guidelines</p> <p><input checked="" type="checkbox"/> Other actions (such as supervisory actions), please specify:</p> <p>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. The Task Force has prepared a Summary Report on Effective Approaches for the remaining 7 principles which was approved by the Finance Ministers and Central Bank Governors’ meeting held in September. Hong Kong authorities have updated the Annex to the Report. The Report will be submitted to the G20 Summit for endorsement in November. The</p> | <p><b>Planned actions (if any):</b> Financial regulators in HK will consider how to implement the effective approaches in Hong Kong as appropriate after the Summary Report is endorsed by the G20. The HKMA will continue to promote “smart and responsible” use of banking services through its consumer education programme. The legislation for the proposed establishment of an independent IA has been put to the legislature for examination. To further enhance policyholder protection, the IA has drafted the enabling legislation to the legislature for the proposed establishment of a policyholders’ protection fund in Hong Kong. The IEC is planning to hold a conference in Nov 2014 to share experience and discuss topical issues about financial education with key stakeholders in Hong Kong and from overseas, including mainland China. It will continue to expand the depth and breadth of the financial education in Hong Kong according to its strategic plan.</p> <p><b>Expected commencement date:</b><br/>Ongoing</p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps  |
|----|-------------|-------------------------|---------|---|---|
|    |             |                         |         | <p>HKMA has issued a Supervisory Policy Manual (“SPM”) module providing guidance to banks on procedures to handle customer complaints effectively. Banks’ replies to complainants are reviewed individually by the HKMA to ensure that they comply with the SPM requirements. As part of the efforts to promote financial education, the HKMA has launched a consumer education programme to help the public learn more about how to become a “smart and responsible” user of banking services. Under the programme, educational messages are spread out via radio broadcasting, print publicity, public education seminars, as well as consumer education videos and roving exhibitions. Various smart tips are also posted on the HKMA website. 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 to investing public. It has also set out requirements on complaints handling.</p> <p><b>Status of progress :</b></p> <p><input type="checkbox"/> Draft in preparation, expected publication by:</p> <p><input type="checkbox"/> Draft published as of:</p> | <p><b>Web-links to relevant documents:</b></p> <p><a href="http://www.hkma.gov.hk/eng/key-functions/banking-stability/consumer-corner/strengthening-financial-consumer-protection/consumer-education-programme/">http://www.hkma.gov.hk/eng/key-functions/banking-stability/consumer-corner/strengthening-financial-consumer-protection/consumer-education-programme/</a></p> |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date  | Next steps |
|----|-------------|-------------------------|---------|---|------------|
|    |             |                         |         | <p><input type="checkbox"/> Final rule or legislation approved and will come into force on:</p> <p><input checked="" type="checkbox"/> Reform effective (completed) as of:<br/>Ongoing</p> <p><b>Short description of the content of the legislation/ regulation/guideline:</b></p> <p><b>Highlight main developments since last year's survey:</b> The SFC has issued a circular reminding licensed entities on selling practices of complex / high-yield bonds. The Investor Education Centre (IEC) is entering into a new phase of development. Since launching in November 2012, IEC has launched a wide range of education initiatives via its website, outreach activities and mass media campaigns. Research conducted by the IEC supports the premise that financial knowledge is high amongst the HK population but people don't always use that knowledge when making money related decisions. Ongoing education effort is therefore required to alter attitudes and motivate people to make informed decisions. To further identify learning needs at different life stages, the IEC plans to develop a financial competency framework which will help the IEC tailor relevant education resources and content for different groups. In line with global trends, the</p> |            |

| No | Description | G20/FSB Recommendations | Remarks | Progress to date   | Next steps |
|----|-------------|-------------------------|---------|--|------------|
|    |             |                         |         | <p>IEC will also co-ordinate a Hong Kong strategy for financial literacy across the next two years.</p> <p><b>Web-links to relevant documents:</b><br/>           Circular to Licensed Corporations<br/>           Selling of complex bonds and high-yield: bonds<br/> <a href="http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=14EC18">http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=14EC18</a></p> <p>Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission:<br/> <a href="http://en-rules.sfc.hk/net_file_store/new_rulebooks/hk/HKSFC3527_1868_VER30.pdf">http://en-rules.sfc.hk/net_file_store/new_rulebooks/hk/HKSFC3527_1868_VER30.pdf</a></p> |            |

**XII. Source of recommendations:**

[St Petersburg: The G20 Leaders' Declaration \(5-6 September 2013\)](#)

[Los Cabos: The G20 Leaders' Declaration \(18-19 June 2012\)](#)

[Cannes: The Cannes Summit Final Declaration \(3-4 November 2011\)](#)

[Seoul: The Seoul Summit Document \(11-12 November 2010\)](#)

[Toronto: The G-20 Toronto Summit Declaration \(26-27 June 2010\)](#)

[Pittsburgh: Leaders' Statement at the Pittsburgh Summit \(25 September 2009\)](#)

[London: The London Summit Declaration on Strengthening the Financial System \(2 April 2009\)](#)

[Washington: The Washington Summit Action Plan to Implement Principles for Reform \(15 November 2008\)](#)

[FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience \(7 April 2008\)](#)

[FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System \(2 April 2009\)](#)

[FSB 2009: The FSB Report on Improving Financial Regulation \(25 September 2009\)](#)

[FSB 2012: The FSB Report on Increasing the Intensity and Effectiveness of SIFI Supervision \(1 November 2012\)](#)

**XIII. List of Abbreviations used:**

BO: Banking Ordinance  
 BCBS: Basel Committee on Banking Supervision  
 Code of Conduct: Code of Conduct by Persons licensed by or registered with the Securities and Futures Commission  
 ComFrame: Common Framework for the Supervision of Internationally Active Insurance Groups  
 CFR: Council of Financial Regulators  
 DPS: Deposit Protection Scheme  
 FRC: Financial Reporting Council  
 FRR: Financial Resource Rules  
 FSB: Financial Stability Board  
 FSC: Financial Stability Committee  
 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  
 ICG: Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission

ICO: Insurance Companies Ordinance  
 IOSCO: International Organization of Securities Commissions IOSCO  
 CRA Code: IOSCO Code of Conduct Fundamentals for Credit Rating Agencies  
 LTV: Loan to Value  
 MMoU: Multilateral Memorandum of Understanding  
 MMFs: Money Market Funds  
 MOUs: Memorandum of understanding  
 MSC: Macro Surveillance Committee  
 NAV: Net Asset Value  
 OCI: Office of the Commissioner of Insurance  
 OTCRMC: Core Operational and Financial Risk Management Controls For Over-the-Counter Derivatives Activities of Persons Licensed by or Registered with the Securities and Futures Commission  
 SCAV: FSB Standing Committee on Assessment of Vulnerabilities  
 SFC: Securities and Futures Commission  
 SFO: Securities and Futures Ordinance  
 TFUFE: IOSCO Task Force on Unregulated Financial Entities  
 IA: Insurance Authority of Hong Kong  
 IAIS: International Association of Insurance Supervisors  
 IASB: International Accounting Standards Board  
 IFRS: International Financial Reporting Standards