

FSB- G20 - MONITORING PROGRESS – Hong Kong September 2010 [For Publication in March 2011]

#	G20/FSB RECOMMENDATIONS			DEAD-LINE	PROGRESS TO DATE	PLANNED NEXT STEPS
					<p>Explanatory notes:</p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p>Explanatory notes:</p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>
I. Building high quality capital and mitigating procyclicality						
1	(Pitts)	Basel II Adoption	All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.	By 2011	<p>The Hong Kong Monetary Authority (HKMA) adopted Basel II into its capital framework in 2007. As the capital framework applies to all banks (not just internationally active banks), a Basic Approach to credit risk, which allows the smaller banks to use the Basel I-based framework for risk weighting all credit exposures, subject to a few technical adjustments and the imposition of a capital charge for operational risk, was introduced alongside the Standardised Approach and IRB Approach. Reflecting local circumstances only the Basic Indicator Approach and the Standardised Approach are available for Operational Risk. The Advanced Measurement Approaches have yet to be introduced. http://www.info.gov.hk/hkma/eng/basel2/index.htm</p>	<ul style="list-style-type: none"> • The HKMA is now taking steps to implement the enhancements to Pillar 1 and Pillar 3 of the Basel II capital framework issued by the Basel Committee on Banking Supervision (BCBS) in July 2009 in line with the BCBS's revised timetable. Subsidiary legislation is required for this purpose.
2	(FSB 2009)	Basel II trading book revision	Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at	By end-2011	<ul style="list-style-type: none"> • The HKMA consulted the industry in September 2009 and August 2010 on proposals to implement the BCBS's July 2009 reform package regarding the trading book (as amended by the BCBS in June 2010). 	<ul style="list-style-type: none"> • Legislation is required to amend the Banking (Capital) Rules and Banking (Disclosure) Rules. Drafting is in progress to effect amendments with effect from 1 January 2012, following statutory consultation. • Key challenge is converting concepts and guiding principles into appropriately precise legislative language.

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	(Tor)		least doubling by end-2010. We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules.			
3	(Pitts)	Build-up of capital by banks to support lending	We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending.	Ongoing	<ul style="list-style-type: none"> • Hong Kong banks maintain relatively high capital adequacy ratios. Hence, provision of credit has not been constrained by banks' capital positions during the global financial crisis. As at end-September 2010, the consolidated capital adequacy ratio and consolidated tier 1 ratio of local banks were 15.6% and 11.97% respectively. • Local banks' capital management and planning (having regard to their risk profile and business plans) form part of the HKMA's supervisory assessment of banks' soundness and safety. Where there is any supervisory concern over a bank's capital adequacy, the HKMA will require the bank to reduce dividend payments or raise additional capital. • A local Quantitative Impact Study (QIS) conducted on local banks to 	<ul style="list-style-type: none"> • The HKMA's current intention is to implement Basel III in line with the timetable announced by the BCBS. All local banks have been asked to assess the overall adequacy of their regulatory capital, given the stricter definition of the capital base and the higher capital requirements in the Basel III package and their future business plans. The HKMA will discuss capital levels, capital

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					<p>assess the impact of Basel III indicates that, based on the positions as at end-December 2009, local banks should have no major difficulty in complying with the higher capital requirements.</p>	<p>management and planning and the need to conserve capital where appropriate with the banks in light of the results of their assessment.</p>
4	(FSF 2009)	Basel II – Pillar 2 enhancement	1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.	End-2009 and ongoing	<ul style="list-style-type: none"> The HKMA issued revised supervisory guidance in June 2010 on its supervisory review process (SRP) which updated and strengthened supervisory requirements for stress testing by locally-incorporated banks under their capital adequacy assessment process (CAAP), having regard to the enhanced stress-testing practices promulgated by the BCBS. <p>http://www.info.gov.hk/hkma/eng/bank/spma/attach/CA-G-5.pdf</p>	<ul style="list-style-type: none"> The HKMA will review locally-incorporated banks' stress-testing practices for the purposes of their CAAP against the relevant updated supervisory requirements when conducting its SRP. Key challenges in implementing the enhanced stress-testing practices relate mainly to data availability. Many banks still need more time to collect the required data and enhance their systems. Recruitment of staff with requisite knowledge and expertise may also pose difficulties for some institutions.

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5	(Lon)	Supplementation of Basel II by simple, transparent, non-risk based measure	Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.	Ongoing	<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <ul style="list-style-type: none"> • The HKMA is preparing for supervisory monitoring of the leverage ratio to begin in 2011 (reflecting the 26 July 2010 GHOS agreement). The HKMA will expect local banks to submit necessary data once the reporting arrangements are firmed-up by the BCBS. • Legislation will be required for the imposition of the leverage ratio as a Pillar 1 constraint on local banks.
6	(Pitts)	Development of international rules to improve quantity & quality of bank capital	We commit to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and	End-2010, implement over a timeframe that is consistent with	<ul style="list-style-type: none"> • As a member of the BCBS and its Definition of Capital Sub-group, the HKMA participated in the development of the new Basel III capital standards for banks. • Given that banks in Hong Kong are well-capitalised and already place significant reliance on common equity to meet regulatory capital requirements and given that most of the Basel III regulatory adjustments 	<ul style="list-style-type: none"> • The HKMA's current intention is to implement Basel III in Hong Kong in line with the timetable announced by the BCBS. • Implementation of the new capital requirements in Hong Kong will

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	(Tor)	<p>to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012.</p> <p>We agreed that all members will adopt the new standards and these will be phased in over a timeframe that is consistent with sustained recovery and limits market disruption, with the aim of</p>	sustained recovery and limits market disruption	<p>are already required to be deducted from Tier 1 capital under Hong Kong's existing capital rules, it is anticipated that Hong Kong banks should have little difficulty in meeting the higher capital requirements.</p>	<p>require amendment of the Banking Ordinance and of the Banking (Capital) Rules and Banking (Disclosure) Rules made by the HKMA to implement Basel II in 2007. To allow sufficient time for implementation to begin in 2013, these legislative amendments are proposed to be made in the 2011-2012 legislative session.</p> <ul style="list-style-type: none"> • Key challenge is converting concepts into appropriately precise legislative language.

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		implementation by end-2012, and a transition horizon informed by the macroeconomic impact assessment of the FSB and BCBS.				
7	(FSF 2008)	Monitoring of banks' implementation of the updated guidance	II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate,	Ongoing	<ul style="list-style-type: none"> • The HKMA has completed industry consultation on its draft supervisory guideline on "Sound Systems and Controls for Liquidity Risk Management" to provide detailed guidance to the industry on how local banks are expected to comply with the standards set out in the 2008 BCBS Liquidity Sound Principles. • The guideline requires local banks to submit and agree with the HKMA an implementation action plan setting out concrete measures, target deadlines and deliverables to phase-in necessary enhancements to meet the standards. 	<ul style="list-style-type: none"> • The HKMA expects to issue the guideline in February 2011. • The HKMA will monitor Hong Kong banks' progress in implementing the action plans agreed with the HKMA. • The need for the issuance of more specific supervisory guidance regarding some of the high-level concepts in the 2008 BCBS Liquidity Sound Principles will be considered in light of implementation experience and ongoing international discussions. • Key challenge is resourcing

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		supervisors will take more prescriptive action to improve practices.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <p>constraints in that the implementation may entail significant costs for banks arising from system upgrades and recruitment of additional risk management personnel with requisite expertise.</p>
8	(Lon)	Development of liquidity framework	The BCBS and national authorities should develop and agree by 2010 a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions.	<p>By 2010</p> <ul style="list-style-type: none"> • As a member of the BCBS's Working Group on Liquidity, the HKMA actively participated in the development of the BCBS's global liquidity framework, including two minimum global standards for banks' liquidity resilience and a set of monitoring metrics for strengthening and promoting global consistency in liquidity risk supervision. • The HKMA participated in the BCBS QIS and also conducted its own QIS to assess the impact of the global liquidity standards on a broader number and range of banks. 	<ul style="list-style-type: none"> • The HKMA's current intention is to implement the liquidity standards in Hong Kong according to the BCBS's timeline (observation period from 2011 and full implementation from 2015 (for Liquidity Coverage Ratio) and 2018 (for Net Stable Funding Ratio)). • The HKMA will consult the industry in 2011 on the implementation approach, (including the scope of application of the standards), taking into account local circumstances and results of additional impact studies to be conducted in 2011

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9	(FSB 2009)	Enhancement of supervision of banks' operation in foreign currency funding markets	Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.	Ongoing	<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p> <ul style="list-style-type: none"> • Under the supervisory guideline on “Foreign Exchange Risk Management” updated by the HKMA in January 2009, banks in Hong Kong are required to put in place effective systems and procedures for managing their foreign exchange risk exposures, including foreign currency funding needs during normal as well as stressed market conditions. http://www.info.gov.hk/hkma/eng/bank/spma/attach/TA-2.pdf • The updated liquidity risk guidance (referred to in item 7 above) includes a section on foreign currency liquidity management to reflect the BCBS Liquidity Sound Principles. • Among other things, Hong Kong banks are expected to have funding management strategies as well as systems and controls that will enable them to avoid excessive reliance on foreign exchange or currency swap markets as a source of liquidity, particularly in stressed situations. • The HKMA monitors compliance with its foreign exchange risk management requirements in its ongoing supervision of banks. Its approach to the supervision of banks' operations in foreign currency funding markets is considered to be consistent with international practices. 	

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10	(FSF 2008)	Strengthening of regulatory and capital framework for monolines	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.	Ongoing	<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>
II. Strengthening accounting standards						
11	(WAP)	Consistent application of high-quality accounting standards	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to	Ongoing	<ul style="list-style-type: none"> • Hong Kong Financial Reporting Standards (HKFRSs) have converged with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) since 2005. Implementation of HKFRSs does not require legislation. • On 5th November 2009, the IASB published an exposure draft on <i>Financial Instruments: Amortised Cost and Impairment</i>, which forms the second part of a three-part project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> with a new standard, to be known as IFRS 9 <i>Financial Instruments</i>¹. 	<ul style="list-style-type: none"> • The Hong Kong Institute of Certified Public Accountants (HKICPA), the accounting standards setting body in Hong Kong, monitors IASB exposure drafts and other international developments and would be expected to take the necessary steps to converge HKFRSs with

¹ The IASB has issued the following two exposure drafts in January 2011 and HKICPA has issued the corresponding Invitations to Comment which is available at: http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2011/i2c-ed-offsetting.pdf
 Supplement to exposure draft on Financial Instruments: Impairment

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		ensure consistent application and enforcement of high-quality accounting standards.		<ul style="list-style-type: none"> • The HKMA holds regular bilateral meetings with the HKICPA Banking Expert Panel and engages in ongoing dialogue with the Hong Kong Association of Banks (HKAB) to enable mutual understanding of key concerns in the development of global accounting standards and their implications for banks' financial reporting and the HKMA's supervisory framework. • The Insurance Authority (IA) has been in close liaison with the accounting standard setters on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards. • The Financial Reporting Council (FRC) and the HKICPA are responsible for ensuring consistent application and enforcement of high quality accounting standards for HK listed companies and Securities and Futures Commission (SFC) licensees respectively. • Most of the SFC licensed entities are incorporated in HK and are required to prepare financial statements in accordance with HKFRS. • SFC is a member of the IOSCO (International Organization of Securities Commissions) SC1 (Standing Committee 1 on Multinational Disclosure and Accounting), which is actively involved in commenting on exposure drafts issued by the IASB. • IOSCO has commented on seven IASB exposure drafts since January 	<p>new/revised IFRSs going forward. .</p> <ul style="list-style-type: none"> • The HKMA will monitor international accounting developments and work with the HKICPA and HKAB with a view to ensuring that the accounting standards adopted by banks in Hong Kong are in line with IFRSs/HKFRSs and the recommendation of the BCBS. • As a member of the BCBS, the HKMA will also continue to support the Committee's interaction with the accounting standard setters in the development of high-quality accounting standards. • The IA will continue to keep in view of international accounting developments and closely liaise

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12	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard setters and supervisors	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support	End-2009	<p>2010. They are:</p> <ul style="list-style-type: none"> - Fair value options for financial liabilities; - Amortised cost and impairment; - Measurement uncertainty analysis disclosure for fair value measurements; - Measurement of liabilities; - Conceptual framework: reporting entity; - Defined benefit plans; and - Extractive industries. <ul style="list-style-type: none"> • The HKMA updated its statutory guideline on the SRP in June 2010, following industry consultation, to inter alia include the BCBS supplemental Pillar 2 guidance on the valuation of financial instruments. http://www.info.gov.hk/hkma/eng/bank/spma/attach/CA-G-5.pdf • The HKMA consulted the industry in March 2010 upon draft supervisory guidance on “Financial Instrument Fair Valuation Practices” which incorporates the BCBS’s April 2009 “Supervisory guidance for assessing banks’ financial instrument fair value practices”. • The HKICPA has circulated it to its members and relevant stakeholders for comment and a submission has been made to the IASB². 	<ul style="list-style-type: none"> • with the accounting standard setters on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards. • SFC, as a member of the IOSCO SC1, will continue to provide its comments to SC1 on exposure drafts issued by the IASB. • HKICPA” will keep a close watch on international developments and put in place measures as appropriate. • Hong Kong Accounting Standards (HKASs) have mirrored those of International Accounting Standards (IASs) since 2005. The HKMA will continue to maintain regular dialogue with the HKICPA to ensure that both the

² http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/submission-pdf/2010/sub-muad.pdf

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		their valuation is weak.		<ul style="list-style-type: none"> • The IASB and the Financial Accounting Standards Board (FASB) are expected to issue a common fair value measurement standard in early 2011, which will include guidance on measurement when markets become less active and guidance to address valuation uncertainty. • The IA has been examining the use of valuation reserves in its supervision. • The FRC and the HKICPA are responsible for ensuring consistent application and enforcement of high quality accounting standards for HK listed companies. • Most of the SFC licensed entities are incorporated in HK and are required to prepare financial statements in accordance with HKFRS. • As noted in the response to item 11, the SFC is a member of the IOSCO SC1, which is actively involved in commenting on exposure drafts issued by the IASB. • IOSCO has commented on seven IASB exposure drafts since January 2010. They are: <ul style="list-style-type: none"> - Fair value options for financial liabilities; - Amortised cost and impairment; - Measurement uncertainty analysis disclosure for fair value measurements - Measurement of liabilities; 	<p>supervisors and the banking sector are sufficiently consulted during the standard setting process.</p> <ul style="list-style-type: none"> • The HKMA will monitor the international accounting recommendations and developments in relation to fair value measurement and assess the potential implication of Hong Kong banks' implementation of the new standard on the regulatory reporting and capital adequacy regime. • The final text of the HKMA's "Guidance on Financial Instrument Fair Valuation Practices" is expected to be released in Q1 2011 after addressing industry comments from the consultation. • The IA will continue to examine the use of valuation reserves in

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13	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the	End-2009	<ul style="list-style-type: none"> - Conceptual framework: reporting entity; - Defined benefit plans; and - Extractive industries. <ul style="list-style-type: none"> • Item 12 above describes the HKMA’s recent actions relating to fair value accounting. • The IASB issued IFRS 9 Financial Instruments in November 2009, which established a mixed amortised cost and fair value accounting model. The HKICPA adopted and issued the new standard in the HKFRSs in November 2009. HKFRS 9 will be effective from 1 January 2013 with early adoption permitted. The IASB will publish proposals on hedge accounting by the third quarter of 2010 representing the third and final part of the project to replace IAS 39³. • The International Association of Insurance Supervisors (“IAIS”) is reviewing the impact of fair value accounting. The IA will monitor the development of the matter and will consider adopting IAIS’s guidance as appropriate, taking into account the local circumstances. • The FRC and the HKICPA are responsible for ensuring consistent application and enforcement of high quality accounting standards for HK 	<ul style="list-style-type: none"> • its supervision. • SFC, as a member of the IOSCO SC1, will continue to provide its comments to SC1 on exposure drafts issued by the IASB. <ul style="list-style-type: none"> • HKICPA will keep a close watch on international developments and put in place measures as appropriate. • The HKMA will continue to closely monitor international accounting developments and work with the HKICPA and assess impacts on banks’ financial and regulatory reporting. • The IAIS is reviewing the impact of fair value accounting. The IA will monitor the development of the matter and will consider adopting IAIS’s guidance as

³ The IASB has issued an exposure draft on hedge accounting in December 2010 and the Institute has issued the corresponding Invitation to Comment which is available at http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2010/dec/i2c-hedge-accounting.pdf

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		following: (i) 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.		listed companies. <ul style="list-style-type: none"> • Most of the SFC licensed entities are incorporated in HK and are required to prepare financial statements in accordance with HKFRS. • As noted in response to item 11 above, the SFC is a member of the IOSCO SC1, which is actively involved in commenting on exposure drafts issued by the IASB. • IOSCO has commented on seven IASB exposure drafts since January 2010. They are: <ul style="list-style-type: none"> - Fair value options for financial liabilities; - Amortised cost and impairment; - Measurement uncertainty analysis disclosure for fair value measurements; - Measurement of liabilities; - Conceptual framework: reporting entity; - Defined benefit plans; and - Extractive industries. 	appropriate, taking into account the local circumstances. <ul style="list-style-type: none"> • SFC, as a member of the IOSCO SC1, will continue to provide its comments to SC1 on exposure drafts issued by the IASB.

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14	(FSF 2008)	Enhanced disclosure of securitised products	III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.	Ongoing	<ul style="list-style-type: none"> • IOSCO has published the report of SC1 on the disclosure principles for public offerings and listings of asset-backed securities. SFC is a member of IOSCO SC1 and had given input in the development of the disclosure principles. • IOSCO SC1 is undertaking a project to develop IOSCO principles for ongoing disclosure for asset-backed securities. SFC is a member of IOSCO SC1 and will actively participate in the development of the ongoing disclosure principles. 	<ul style="list-style-type: none"> • SFC will continue to participate in the work of IOSCO SC1 in this area.
III. Reforming compensation practices to support financial stability						
15	(Lon)	Implementation of FSB/FSF compensation principles	National supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation by financial institutions by the 2009 remuneration round.	End-2010	<ul style="list-style-type: none"> • The HKMA issued a “Guideline on a Sound Remuneration System” (developed on the basis of the FSB “Principles for Sound Compensation Practices and Implementation Standards”) on 19 March 2010. http://www.info.gov.hk/hkma/eng/bank/spma/attach/CG-5.pdf • The Guideline applies to all banks in Hong Kong, including local branches of foreign banks. Banks were expected to review their existing remuneration systems and take prompt action to bring their remuneration systems into line with the Guideline within 2010. To monitor progress, banks were required to conduct a self-assessment of compliance in Q2 2010. • The IA is keeping track of the draft standards and guidance on 	<ul style="list-style-type: none"> • The HKMA will conduct a series of thematic on-site examinations on banks’ remuneration systems and practices, covering major banks operating in Hong Kong in Q1 2011. • The IA is keeping track of the draft standards and guidance on remuneration by the IAIS and will, upon promulgation of it, issue relevant guidance to the insurance industry having regard to the local circumstances.

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(Pitts)		We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to		<p align="center">PROGRESS TO DATE</p> <p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p> <p>remuneration by the IAIS. The standards and guidance generally covers the principles as set out in the FSB "Principles for Sound Compensation Practices and Implementation Standards", and is intended to apply to all insurers.</p> <ul style="list-style-type: none"> • The IA has issued a circular to insurers in March 2010, lending support to the FSB "Principles for Sound Compensation Practices and Implementation Standards" in the interim. A copy of the circular can be found at: http://www.oci.gov.hk/download/cir_20100319.pdf • IOSCO has not issued guidance for implementation by securities firms. Nonetheless, the SFC has issued letters requesting major non-bank financial institutions to confirm that their compensation policies are in compliance with FSB "Principles for Sound Compensation Practices and Implementation Standards". 	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <ul style="list-style-type: none"> • Based on the firms' response to the letters, the SFC will conduct further assessment.

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	(Tor)	<p>those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately.</p> <p>We encouraged all countries and</p>			

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			financial institutions to fully implement the FSB principles and standards by year-end, We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011.			
16	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset	Ongoing	<ul style="list-style-type: none"> • For progress in the banking sector, please see response to item 15 above. • The IA is keeping in view of the development of a draft Standard and Guidance on Remuneration ("Standard and Guidance") by the IAIS. The Standard and Guidance generally covers the principles as set out in the FSB "Principles for Sound Compensation Practices and Implementation Standards", and is intended to apply to all insurers. • In the meantime, insurers are required under our Guidance Note on Corporate Governance of Authorized Insurers to review their remuneration policies periodically and to allow the IA to review their 	<ul style="list-style-type: none"> • For planned next steps relating to the banking sector, please see response to item 15 above. • In addition to the circular issued to insurers in March 2010 which lends support to the FSB "Principles for Sound Compensation Practices and Implementation Standards", the IA has also requested insurers to review their own remuneration

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		<p>additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.</p>		<p>policies upon requests.</p> <ul style="list-style-type: none"> • For progress in the securities sector, please see response to item 15 above. 	<p>policies and conducted a survey on insurers' remuneration systems.</p> <ul style="list-style-type: none"> • For progress in the securities sector, please see response to item 15 above.

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IV. Improving OTC derivatives markets						
17	(Lon)	Development of action plan on the standardization of CDS markets (e.g. CCP)	We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.	Autumn 2009	<ul style="list-style-type: none"> • The SFC is a member of the Sub-Group 2 on Risk Management in the joint working party between CPSS and IOSCO to review the CPSS/IOSCO requirements for central counterparties (RCCP) (in light of the interest in establishing central counterparties in certain OTC derivatives markets). The SFC participated in the discussion of the subgroup and contributed to the compilation of the consultation papers which were released on 12 May 2010. The SFC has also joined the Steering Committee of another CPSS-IOSCO Working Group to establish principles for financial market infrastructures which are also relevant to CCPs offering clearing services for OTC derivatives. • The SFC is also a member of the OTC Derivatives Regulators' Forum which was established to provide regulators with a means to cooperate, exchange views and share information related to OTC derivatives. • Hong Kong is exploring the case for developing a CCP for OTC derivatives, i.e. Interest Rate Swap (other than CDS as the size of the CDS market in Hong Kong is small) and a trade repository. 	<ul style="list-style-type: none"> • The financial regulators will continue to explore the case for developing a CCP and a trade repository for OTC derivatives in Hong Kong. • Expanding the reach of regulation to cover OTC derivatives markets presents significant challenges to Hong Kong as regulatory approaches in leading markets are still work-in-progress. The implementation of this initiative may also require legislative changes. The pace of introducing the requisite legislative changes will be subject to the domestic legislative process. The financial regulators are studying the challenges and issues faced in implementing this initiative.

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18	(Pitts)	Trading of all standardized OTC derivatives on exchanges etc.	All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.	By end-2012 at the latest	<p>Explanatory notes:</p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p>Explanatory notes:</p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <ul style="list-style-type: none"> • Supervisory standards and risk management practices for counterparty credit risk and central counterparties are still evolving. Also, the FSB’s draft report mainly provides high-level principles regarding the use of central clearing and reporting to TR. Many more implementation details will need to be developed, refined and coordinated with local as well as overseas regulators to prevent regulatory arbitrage and ensure a level playing field for financial institutions. • The HKMA is minded to implement the recommendations set out in the FSB report on “Implementing OTC Derivatives Market Reform”, once it is finalized, by developing a supervisory guideline on the central clearing and TR reporting requirements for industry

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				<p>central clearing and further standardisation of OTC derivatives products, including CDS, interest rate and other derivatives.</p> <ul style="list-style-type: none"> • Separately, Hong Kong is considering the possibility of setting up a local CCP for clearing standardized OTC derivatives contracts and developing a local TR for maintaining an electronic database of records of OTC derivatives transactions. • There are no material differences from the relevant international principles, guidelines or recommendations so far, but emphasis is put on the relevant products prominent in our jurisdiction. • The HKMA is a member of a subgroup under the OTC Derivatives Regulators' Forum, which has prepared a note on promoting fair access of local financial institutions to global CCPs on terms appropriate to the scale and scope of their business. • The HKMA, as a member of CPSS, is represented in a workgroup formed to review the standards relevant for CCPs under the CPSS/IOSCO framework. • The HKMA is also participating in a joint working group of IOSCO/CPSS in producing the "Report on Data Reporting and Aggregation Requirements for OTC Derivatives". • For the securities sector, please see response to item 17. • As noted in the response to item 17, the SFC is also a member of the OTC Derivatives Regulators' Forum. 	<p>consultation.</p> <ul style="list-style-type: none"> • Key challenges of implementation include tight timeframe for developing supervisory guidance and for banks to make necessary systems enhancements. • The HKMA will continue to participate in the OTC Derivatives Regulators' Forum and provide its views and inputs on issues related to data access and smaller local institutions' access to international CCPs. • The HKMA will monitor the outcomes of the discussions at the CPSS workgroup for reviewing CCP standards, and seek clearer guidance on how to apply these standards on payments and securities settlement to CCPs. • For the securities sector, please see response to item 17.

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V. Addressing cross-border resolutions and systemically important financial institutions						
19	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <ul style="list-style-type: none"> • The HKMA will regularly review its supervisory framework to ensure that it remains in line with international standards. • The regulatory authorities in Hong Kong will work closely together to ensure that systemically important institutions are subject to consistent, consolidated supervision, in accordance with international standards and practices. • The IA will continue to participate in the supervisory college led by the office of Thrift supervision and other supervisory colleges for major insurance groups.

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20	(Pitts)	Development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the	We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce	October 2010	<ul style="list-style-type: none"> The HKMA already has reasonably extensive powers of intervention under Part X of the Banking Ordinance (including appointment of a Manager over the affairs, business and property of a bank with the powers set out in the Ninth Schedule to the Banking Ordinance). The HKMA will assess whether any amendments should be made to Part X of the Banking Ordinance in light of the high level principles for cross-border cooperation on crisis management issued by the FSB in April 2009; the recommendations of the BCBS Cross-border Bank Resolution Group Report published in March 2010 and the “Key Attributes for 	<ul style="list-style-type: none"> The IA will keep track of the development of the revised ICP on cross-border cooperation on crisis management by the IAIS and follow as appropriate, taking into account the local circumstances. SFC will participate in IOSCO to develop methodologies to identify firms that carry out potentially systemic activities. The HKMA will continue to monitor further developments and participate in policy development in the FSB and the BCBS. This includes participation as a member in the FSB’s Steering Group on Resolution to develop the Key Attributes for Effective

⁴ The IAIS has adopted a standards paper on cross-border cooperation on crisis management in late October 2010. This standards paper, which enhances the crisis management of insurers and insurance groups operating on a cross-border basis, is a part of the revising Insurance Core Principle (“ICP”) 3 on information exchange, supervisory cooperation and coordination. The IA will keep track of the full adoption of the revised ICP3 by the IAIS and will follow as appropriate, taking into account the local circumstances.

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	disruption of financial institution failures and reduce moral hazard in the future	moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.		<p align="center">Explanatory notes:</p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p> <p>Effective Resolution Regimes” anticipated to be issued by the FSB in 2011.</p>	<p align="center">Explanatory notes:</p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <p>Resolution Regimes.</p>

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VI. Strengthening adherence to international supervisory and regulatory standards.

21	(Lon)	Adherence to international prudential regulatory and supervisory standards	<p>We call on all jurisdictions to adhere to the international standards in prudential, tax and AML/CFT areas.</p> <p>We are committed to strengthened adherence to international prudential regulatory and supervisory</p>	Ongoing	<ul style="list-style-type: none"> • The legislative exercise to enable Hong Kong to adopt the OECD latest standard on exchange of tax information (Eol) in our Comprehensive Avoidance of Double Taxation Agreements (CDTAs) was completed. The relevant legislation came into operation on 12 March 2010 and Hong Kong is now in a position to sign CDTAs using the latest Eol standard. • As at end August 2010, Hong Kong has signed nine new CDTAs with the Netherlands, Brunei, Indonesia, Hungary, Kuwait, Austria, UK, Ireland and Liechtenstein using the new Eol standard and have signed the third Protocol with the Mainland of China upgrading the Eol Article in the Hong Kong/Mainland CDTA to the new standard. Hong Kong has also concluded agreements with Japan, France, Switzerland, the United Arab Emirates and Czech Republic⁵. • Hong Kong has become a member of the OECD's restructured Global Forum. 	<ul style="list-style-type: none"> • More talks with other treaty partners using the new Eol standard are underway. • Hong Kong will participate in OECD restructured Global Forum's peer review process. • After the conclusion of the second-round public consultation on the proposed legislation to enhance the AML regime in respect of the financial sectors in February 2010, we are now finalizing the Bill for introduction into the Legislative Council within 2010⁷.
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⁵ Update: As at end December 2010, Hong Kong has signed 13 new CDTAs with the Netherlands, Brunei, Indonesia, Hungary, Kuwait, Austria, UK, Ireland, Liechtenstein, France, Japan, New Zealand and Switzerland using the new Eol standard and have signed the third Protocol with the Mainland of China and the Protocol with Luxembourg upgrading the Eol Article in the Hong Kong/Mainland and HK/Luxembourg CDTAs to the new standard. Hong Kong has also concluded agreements with Czech Republic, Malta, Mexico and the United Arab Emirates.

⁶ The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Bill, which seeks to enhance Hong Kong's AML/CFT Regime, was introduced into the Legislative Council on 10 November 2010.

⁷ Subject to the approval of the Legislative Council, the new AML legislation will commence operation on 1 April 2012.

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			standards.	<ul style="list-style-type: none"> • In the light of the recommendations made in the Financial Action Task Force (FATF)'s mutual evaluation report on Hong Kong, Hong Kong has devised an action plan to enhance our AML/CFT regime in implementing FATF's recommendations. Preparatory work for the proposed legislation to enhance the AML regulatory regime in respect of the financial sectors is underway. Two rounds of public consultation on the proposed legislation have been completed⁶. 	

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22	(Lon)	Periodic peer reviews	FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports.	Ongoing	<ul style="list-style-type: none"> • Hong Kong completed its FSAP in 2003. As a FSB member, Hong Kong is obliged to honour its commitment by undergoing periodic peer reviews and FSAP updates. • Hong Kong underwent the FSB thematic review on compensation which was published in March 2010. HKMA has also participated in the review teams for the thematic reviews on (i) risk disclosures by market participants; and (ii) mortgage origination practices. • SFC participated in the FSB country review of Italy. 	<ul style="list-style-type: none"> • To fulfil this commitment, Hong Kong will continue to undergo FSB peer reviews, and has submitted a request to the IMF for an FSAP update.

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23	(WAP)	Undertaking of FSAP	All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.	Ongoing	<ul style="list-style-type: none"> • Please refer to the response to Item 22. 	<ul style="list-style-type: none"> • Please refer to the response to Item 22.
24	(FSF 2008)	Additional steps to check the implementation of int'l guidance	V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees.	Ongoing	<ul style="list-style-type: none"> • The HKMA adopts the guidance/standards issued by the BCBS and by the FSB in a form appropriate to Hong Kong. The Banking Supervision Department of the HKMA monitors closely the implementation by Hong Kong banks of such guidance and standards. For example, thematic on-site examinations to assess major banks' remuneration systems against the HKMA's "Guideline on a Sound Remuneration System" (based on FSB "Principles for Sound Compensation Practices and Implementation Standards") are scheduled for Q1 2011. • The IA has been adopting the guidance/standards issued by the IAIS that are appropriate to the Hong Kong supervisory regime and additional steps are taken to monitor insurers' implementation of the guidance/standards. 	<ul style="list-style-type: none"> • HKMA will continue its close monitoring. • The IA will continue to ensure that the guidance/standards are implemented as appropriate. • The SFC will continue with this practice.

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				<p>The SFC is an active member of IOSCO and regularly evaluates the applicability of guidance issued by international committees and its implementation by SFC-licensed entities.</p>	
VII. Other issues					
Developing macroprudential frameworks and tools, realigning and ensuring an adequate balance between macroprudential and microprudential supervision					
25 (Lon)	Amendment of regulatory systems to take account of macro-prudential risks	Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of	Ongoing	<ul style="list-style-type: none"> • There are well-established cross-sectoral platforms such as the Council of Financial Regulators and the Financial Stability Committee to facilitate effective exchanges amongst regulators and the Administration for the purposes of, inter alia, the maintenance of financial stability in Hong Kong. • The HKMA has established an internal cross-departmental working group on macro-prudential surveillance. The working group provides a forum for various departments to exchange views on market trends and financial product developments with a view to identifying any warning signals of emerging systemic risk. • IOSCO Technical Committee recognizes that there is a need for IOSCO to have a better understanding of the role of securities regulators with respect to systemic risk and has set up a new Working Group on Systemic Risk (WG) to address these issues. The mandate of the WG 	<ul style="list-style-type: none"> • In collaboration with the regulators, the Administration shall continue to improve our regulatory regime, taking into account global financial developments and local market needs. • The IAIS is conducting enhanced macro-prudential surveillance of the insurance sector and committed to developing macro-prudential tools suited to the insurance industry⁸. The IA will keep in view of such development

⁸ The IAIS is also developing an ICP24 on macro-prudential supervision and market analysis. The IA will keep in view of such development and incorporate the standard(s) in the supervisory regime as appropriate upon adoption by the IAIS.

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		systemic risk.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>
26	(Lon)	Powers for gathering relevant information by national regulators	Ongoing	<p>is to develop a discussion paper on the role of securities regulators with respect to systemic risk. SFC is a member of this WG.</p> <ul style="list-style-type: none"> • The IOSCO <i>Objectives and Principles of Securities Regulation</i> were revised in June 2010 and incorporates eight new principles, two of which specifically deals with the issue of the role of securities regulators with respect to systemic risk: <ul style="list-style-type: none"> – The Regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate. (Principle 6) – The Regulator should have or contribute to a process to review the perimeter of regulation regularly. (Principle 7). • The IOSCO Implementation Task Force (ITF) has been tasked to revise the Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation taking into account the new principles. The SFC is a member of two of several sub-working groups of ITF working on the revised methodology for the eight new principles. 	<ul style="list-style-type: none"> • and incorporate the macro-prudential tools in the supervisory regime as appropriate upon promulgation by the IAIS. • The SFC will continue to engage in the work of IOSCO, ITF and the WG.
		Ensure that national regulators possess the powers for gathering relevant information on all material financial		<ul style="list-style-type: none"> • The HKMA is given wide powers under the Banking Ordinance to require banks to submit to it information which is necessary for the HKMA to perform its functions (which include promotion of the general stability and effective working of the banking system). This includes provision of information by way of both regular returns and ad hoc surveys/information requests. 	<ul style="list-style-type: none"> • The HKMA will continue to participate in SCAV. • The Working Group on Data Gaps and Systemic Linkages will next meet in October 2010 with a view to finalising its report and

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		<p>institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.</p>		<ul style="list-style-type: none"> • A review of the HKMA's supervisory data requirements and data analysis techniques was initiated in 2010. The review should help further enhance the quality of supervisory analysis and ensure compliance with new international regulatory requirements. • The HKMA participates in FSB's Standing Committee on Assessment of Vulnerabilities (SCAV) which assesses and monitors vulnerabilities in the financial system. Discussions at SCAV facilitate information exchange on systemic risks at the international level. • The HKMA is a member of the FSB Working Group on Data Gaps and Systemic Linkages and chairs one of the workstreams under it on legal and confidentiality constraints in data sharing. • The IA is empowered under the Insurance Companies Ordinance to request for insurers' financial returns and other information as considered appropriate. The IA has been entering into Memorandum of Understanding with regulators of other jurisdictions and working closely with the overseas regulators in the supervision of insurers with cross-border operations. • For securities sector, please also see response to item 25. • In addition to the regular filing and reporting requirements imposed on market operators, licensed persons and authorized funds, the SFC is 	<p>recommendations to the FSB around the end of 2010.</p> <ul style="list-style-type: none"> • For securities sector, please also see response to item 25. • The SFC will participate in a data collection exercise coordinated by the IOSCO in the fourth quarter of 2010 to collect data from managers of potentially systemically important hedge funds. • Legislation is required for the new reporting requirements on short position. The SFC aims to implement these new reporting requirements in 2011. • SFC and HKMA will continue to explore international cooperation to strengthen oversight on the activities of hedge funds and other systematically important entities/markets. • In collaboration with the

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				<p>empowered to request information on any person’s holding, acquisition or disposal of securities, futures contract, leveraged foreign exchange contract or collective investment schemes for the purpose of enabling or assisting the SFC to perform a function under any relevant provision of the Securities and Futures Ordinance.</p> <ul style="list-style-type: none"> • Following public consultation on proposals to increase transparency on short positions, the SFC announced in 2010 the introduction of new reporting requirements on short positions (http://www.sfc.hk/sfc/doc/EN/speeches/consult/consultationconclusion2march2010english.pdf). The data on short positions will complement the existing information SFC has on short sale turnover. The increased transparency of short selling activities will, inter alia, provide (i) ready access to information on short selling to improve SFC’s insight into market dynamics and (ii) early warning signs of a build up of large short positions which help prompt appropriate regulatory actions. • Any person who carries on a business in Hong Kong to provide asset management services to third parties or advises on securities is required to be licensed by the SFC. 	<p>regulators, the Administration will continue to improve our regulatory regime, taking into account global financial developments and local market needs.</p>	
27	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep	Ongoing	<ul style="list-style-type: none"> • The Joint Forum published a report in January 2010 “Review of the Differentiate Nature and Scope of Financial Regulation – Key Issues and Recommendations”. As a follow-up to this report, the FSB has launched a thematic review of mortgage origination and underwriting practices, covering regulated and unregulated entities. The HKMA 	<ul style="list-style-type: none"> • Hong Kong shall continue to improve its regulatory regime, taking into account global financial developments and local market needs.

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		<p>pace with developments in the financial system and promote good practices and consistent approaches at an international level.</p>		<p>participates on the review team for this review.</p> <ul style="list-style-type: none"> • As a member of the FSB, the HKMA actively participates in discussions concerning unregulated entities/activities in the financial system, such as the shadow banking system. • The SFC is a member of the Technical Committee of IOSCO, which sets standards for securities regulation. The SFC is actively involved in the various Standing Committees, and Task Forces set up to address the regulatory challenges posed by the crisis. Please also see response to item 25. • In addition, the SFC participates in the FSB Standing Committee on Standards Implementation, the Experts Group and the Implementation Monitoring Network. • In September 2009, the SFC issued a consultation paper focusing on putting forward measures to strengthen our existing regulatory regime, including a new code on unlisted structured products. The SFC also proposed certain structural requirements for specific products to complement product disclosure requirements and to increase product transparency. The public consultation ended on 31 December 2009. • In May 2010, the SFC issued the conclusions paper on proposals to enhance protection for the investing public (http://www.sfc.hk/sfc/html/EN/speeches/consult/InvestingPublicConclusion.html). One of the new measures introduced under the conclusions was a consolidated product handbook – the SFC Handbook that was 	<ul style="list-style-type: none"> • The HKMA will continue to monitor and contribute to the FSB efforts to (i) assess the appropriateness of regulatory scope; and (ii) expand the regulatory perimeter to activities in the shadow banking system. • The IA will review all the relevant recommendations, standards and guidance issued by the IAIS and will consider adopting them as appropriate, taking into account the local circumstances. • The SFC will continue to participate in the work of the Technical Committee of IOSCO and its various committees and task forces, and the implementation work of the FSB. Please also see response to item 25. • The SFC will implement the various measures proposed in the Consultation Conclusions on

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				<p>gazetted and became effective on 25 June 2010.</p> <ul style="list-style-type: none"> • The SFC Handbook is a consolidated product handbook comprised revised product codes for unit trusts and mutual funds and for investment-linked assurance schemes as well as a new product code for unlisted structured investment products. • As noted in response to item 37, the SFC is in the process of establishing a regulatory regime for credit rating agencies operating in Hong Kong. 	<p>Proposals to Enhance Protection for the Investing Public in 2011.</p>
28	(FSF 2009)	Use of macro-prudential tools	3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides	End-2009 and ongoing <ul style="list-style-type: none"> • For the HKMA's approach to implementing the leverage ratio proposed by the BCBS, please see response to item 5 above. • The HKMA uses a variety of quantitative indicators and ratios as macroprudential tools for supervisory purposes. This is particularly the case with regard to property-related lending which constitutes a significant portion of banks' balance sheets. For example, the HKMA issued a circular to banks in August 2010 requiring them to observe a set of prudential measures in undertaking residential mortgage business. These measures include applying a maximum loan-to-value (LTV) ratio of 60% to properties with a value at or above \$12mn, lowering the maximum LTV ratio for properties not intended to be occupied by the owners to 60%, standardising debt servicing ratio (DSR) limits to 50%, and stress testing borrowers' repayment ability assuming a rise in mortgage rates of at least 2 percentage points and capping the stressed DSR at 60%. 	<ul style="list-style-type: none"> • The HKMA continues to monitor banks' risk management of property-related lending closely and will take further action as necessary in light of risk to the banking sector. • The SFC would monitor international developments and review the need for further guidance if necessary. • The IAIS is committed to developing macro-prudential tools suited to the insurance industry. The IA will keep in view of such development and incorporate the

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		<p>for policy, both at the institution-specific and at the macroprudential (system-wide) level. On leverage ratios for banks, work by the BCBS to supplement the risk based capital requirement with a simple, non-risk based leverage measure is welcome. Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing</p>		<ul style="list-style-type: none"> • The Financial Resources Rules of the SFC (http://www.legislation.gov.hk/blis_ind.nsf/WebView?OpenAgent&vwpg=CurAllEngDoc*496*100*-568.15#568.15) have specific capital charge requirement on OTC derivatives and securities margin financing. Moreover, OTC derivatives and securities financing transactions of most global investment banks are not booked in the SFC-licensed firms. 	<p>macro-prudential tools in the supervisory regime as appropriate upon promulgation by the IAIS⁹.</p>

⁹ The IA is also keeping track of the development of the ICP24 by the IAIS on macro-prudential supervision and market analysis.

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			transactions.			
29	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.	Ongoing	<ul style="list-style-type: none"> • The HKMA's "Half-Yearly Monetary and Financial Stability Report" includes coverage and analysis of asset price movements on a regular basis. • The SFC monitors the situation of local and international markets to assess their implications on the securities markets and issues half-yearly and annual review reports on the securities market of Hong Kong SAR of China. 	<ul style="list-style-type: none"> • The HKMA will continue to monitor asset prices on an ongoing basis. • The SFC will continue its existing practice of monitoring and releasing half-yearly and annual review reports on the securities market of Hong Kong SAR of China.
30	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and	Ongoing	<ul style="list-style-type: none"> • The HKMA's Banking Policy Department and Banking Supervision Department collaborate with the Market Research Department to collect market intelligence from various sources and analyse the constituent elements of new financial products, trading strategies and business practices with a view to identifying possible emerging risks to the banking sector and assisting in developing appropriate supervisory responses. • The HKMA keeps its resourcing requirements under regular review. It endeavours to attract and retain qualified staff by benchmarking salary scales to market analogues where practicable. It also seeks funding support to hire outside experts on specific areas as necessary from time to time. 	<ul style="list-style-type: none"> • The HKMA will continue to keep its supervisory resources under regular review. • The IA will engage additional resources to oversee the solvency risks associated with financial innovation. • The SFC will monitor international developments and review the need for further guidance.

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		manage the risks.		<ul style="list-style-type: none"> • To better assess Hong Kong banks' capacity to understand and manage their risks, the HKMA has recently upgraded the treasury supervisory team in its Banking Supervision Department into a specialized division, and has recruited additional staff with specialized expertise in the area. In addition to carrying out specialized on-site examinations, the Division will monitor market and product developments on a macro basis, with a view to identifying possible concentrations of risk and shifts in fund flows. To make the best use of staff resources with specialised knowledge, the Division will also be responsible for reviewing the effectiveness of Hong Kong banks' liquidity risk management and stress testing practices. • It is an established requirement of the HKMA that banks should fully understand the risks involved before they purchase a new product or engage in a new activity. This requirement is stated in various risk management guidelines of the HKMA. Compliance with this requirement is monitored through onsite examinations. • The IA has necessary expertise to oversee the solvency risks associated with financial innovation; and the IA will seek to ensure that insurers have the ability to identify, monitor, measure, report and control the risks associated with their investment activities. • The staff of SFC have different background and experience. They possess knowledge about, and working experience in, different aspects of the financial market, ranging from financial products, quantitative 	

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31	(FSF 2008)	Supervisory communication with firms' boards and senior management	V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and the quality of risk management and the need for firms to take responsive action. Those	<p>Ongoing</p> <ul style="list-style-type: none"> • If the HKMA has supervisory concerns about a bank, it will formally communicate with the bank's Board of Directors and senior management at an early stage and require the institution to take prompt remedial action. The progress of the bank's remedial action will be monitored through the HKMA's offsite surveillance process, supplemented by onsite examinations where necessary. • As part of its supervisory process, the HKMA meets the Boards of local banks regularly. At such meetings, the HKMA will communicate its assessment of the quality of the bank's risk management and internal controls as well as any major supervisory concerns to the Board. • The IA ensures that insurers have effective procedures in place for monitoring and managing their asset/liability position. Should there be concern at the early stage, the IA will discuss with the insurers about the need for their responsive action so as to ensure that their investment 	<ul style="list-style-type: none"> • The HKMA will continue to follow this existing practice. • The IA will continue the existing practice. • The SFC will continue with this practice.

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		supervisors who do not already do so should adopt this practice.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p> <p>activities and asset positions are appropriate to their liability profiles.</p> <ul style="list-style-type: none"> • The Management, Supervision and Internal Control Guidelines¹⁰ issued by the SFC require licensed firms to have effective policies and procedures to ensure proper risk management. By way of example, a circular¹¹ was issued in February 2008 to all SFC's licensed corporations to draw their attention to certain unacceptable risk management practices identified and to remind them to critically assess the appropriateness of their risk management policies and procedures in light of the SFC's requirements and their own business activities from time to time. 	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>	
32	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of	Ongoing	<ul style="list-style-type: none"> • There are monthly meetings of the Financial Stability Committee and the quarterly meetings of the Council of Financial Regulators among the Government and all financial regulators to discuss key issues and trends with a view to identifying financial stability risks and other concerns pertaining to the financial markets and financial industry in Hong Kong. • The HKMA is both the central bank and the supervisor of the banking industry of Hong Kong. There are established and effective communication channels between the monetary side (which is responsible for central banking functions) and the banking side (which is responsible for banking supervisory functions) of the HKMA. 	<ul style="list-style-type: none"> • Hong Kong will continue this practice of exchange of information.

¹⁰ <http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H196>

¹¹ <http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H491>

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		information should be rapid during periods of market strain.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>
Hedge funds					
33	(Lon)	Registration of hedge funds	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	End-2009	<ul style="list-style-type: none"> • In general, hedge fund 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 hedge fund managers are subject to the Management, Supervision and Internal Control Guidelines issued by the SFC. These Guidelines include guidance and suggested controls on risk management. <ul style="list-style-type: none"> • SFC is a member of the IOSCO Task Force on Unregulated Financial Entities. The SFC will participate in a data collection exercise coordinated by the IOSCO in the fourth quarter of 2010 to collect data from managers of potentially systemically important hedge funds.

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			<p>registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management.</p>			
34	(Lon)	Effective oversight of cross-border funds	We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a	End-2009	<ul style="list-style-type: none"> The SFC is a member of the IOSCO Task Force on Supervisory Cooperation. IOSCO published the Task Force's final report on the <i>Principles Regarding Cross-Border Supervisory Cooperation</i>¹² in May 2010 that sets out a set of principles to guide IOSCO members in developing arrangements amongst themselves to increase supervisory cooperation and information-sharing in relation to globally-active regulated entities which includes collective investment schemes. 	<ul style="list-style-type: none"> Information sharing is intended to be discussed among IOSCO Task Force on Unregulated Financial Entities members after the data collection mentioned in Item 33 above.

¹² <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD322.pdf>

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			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.			
35	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set	Ongoing	<ul style="list-style-type: none"> • The HKMA's Supervisory Policy Manual module on "Credit Approval, Review and Records" provides that Hong Kong banks should exercise due caution when entering into transactions with highly leveraged institutions (HLIs) including hedge funds. In particular, banks in Hong Kong are required to: <ul style="list-style-type: none"> - perform a thorough credit analysis of HLIs' activities, risks and operations; - set meaningful overall credit limits for HLIs; - monitor credit exposures vis-a-vis HLIs, including their trading activities, risk concentration, degree of leverage and risk management 	<ul style="list-style-type: none"> • The HKMA will keep its guidelines on dealing with HLIs under review having regard to any future guidance provided by the BCBS or other relevant international organisations. • The SFC would monitor international developments and review the need for further guidance if necessary.

¹³ <http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H197>

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		limits for single counterparty exposures.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p> <p>processes. http://www.info.gov.hk/hkma/eng/bank/spma/attach/CR-G-2.pdf</p> <ul style="list-style-type: none"> • Licensed persons are required to comply with the SFC's Management, Supervision and Internal Control Guidelines which set out guidance in managing counterparty risk as well as SFC's Core Operational and Financial Risk Management Controls for OTC Derivatives Activities of Registered Persons.¹³ • Most major prime brokers do not book their hedge fund counterparty risk in the SFC-licensed entities. 	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>
36	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	Ongoing	<ul style="list-style-type: none"> • As noted in the response to item 35 above, the HKMA will keep its guidelines on dealing with leveraged counterparties under review and update them having regard to any future guidance provided by the BCBS or other relevant international organisations. • As noted in the response to item 35 above, the SFC has issued the Management, Supervision and Internal Control Guidelines, which include guidance and suggested control techniques for credit risk management, and Core Operational and Financial Risk Management Controls for OTC Derivatives Activities for Registered Persons. The Financial Resources Rules contain specific requirements to address client concentration and investment concentration risk. 	<ul style="list-style-type: none"> • The SFC would monitor international developments and review the need for further guidance if necessary.

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Credit rating agencies						
37	(Lon)	Registration of CRAs etc.	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.	End-2009	<ul style="list-style-type: none"> • Currently, the credit rating agencies (CRAs) that operate in Hong Kong are not subject to any registration or regulatory oversight. The SFC has been monitoring international regulatory developments relating to credit rating agencies. • On 19 July 2010, the SFC commenced a one-month public consultation regarding establishing a regulatory regime for CRAs operating in Hong Kong. • The SFC is a member of, and an active participant, in IOSCO Standing Committee 6 on CRAs (SC6). • The HKMA's policy provisions with regard to recognizing a CRA as an "external credit assessment institution" (ECAI) for Basel II and liquidity ratio purposes are based on the standards published by the BCBS in its Basel II capital framework. <p>http://www.info.gov.hk/hkma/eng/guide/circu_date/20060623e1.htm</p>	<ul style="list-style-type: none"> • The SFC anticipates releasing its consultation conclusions in October 2010. • The SFC will work with the Government, with the objective of securing amendments to the Securities and Futures Ordinance and the relevant subsidiary legislation, for the purpose of creating a regulatory regime for CRAs. It is anticipated that this regime will become effective on 1 June 2011. • The HKMA proposes to update its policy on ECAI recognition in 2011 to incorporate the proposed revisions to ECAI recognition criteria contained in the consultative document "Strengthening the Resilience of the Banking Sector" issued by the BCBS in December 2009.

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38	(Lon)	CRA practices and procedures etc.	National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight	End-2009	<ul style="list-style-type: none"> • Please see response to item 37 above. • As noted above, the SFC is a member of SC6. This Standing Committee has been mandated to (i) regularly discuss, evaluate and consider regulatory and policy initiatives vis-à-vis credit rating agency activities and oversight, in an effort to seek cross-border regulatory consensus through such means as the IOSCO credit rating agency code; and (2) facilitate regular dialogue between securities regulators and the credit rating industry. • In May 2010, IOSCO published SC6's Consultative Report on Regulatory Implementation of the <i>Statement of Principles Regarding the Activities of Credit Rating Agencies</i> (IOSCO CRA Principles). The report reviewed and evaluated how the CRA supervisory programmes in different jurisdictions implement the IOSCO CRA Principles. The Report concluded that, while the structure and specific provisions of those programmes may differ, the objectives of the IOSCO CRA Principles are embedded into each of the programmes. The consultation closed in August 2010. Comments received in response to the consultation did not suggest any change to the report was necessary. This report is expected to be published after the IOSCO Technical Committee approves its publication. 	<ul style="list-style-type: none"> • Please see response to item 37 above. • The SFC started dialogue with the Committee of European Securities Regulators on cooperation arrangements for the supervision of CRAs that have cross-border activities. • The SFC will continue to engage in the work of SC6.

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		framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>	
39	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRAs	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.	As early as possible in 2010	<ul style="list-style-type: none"> • Please see response to Items 37 and 38 above. 	<ul style="list-style-type: none"> • The SFC will continue to engage in the work of SC6.
40	(FSF 2008)	Review of roles of ratings in regulations and	IV. 8 Authorities should check that the roles that they	Ongoing	<ul style="list-style-type: none"> • The HKMA uses external credit ratings in its capital and liquidity frameworks. The BCBS is reviewing proposals to mitigate adverse 	<ul style="list-style-type: none"> • The HKMA will implement the measures contained in the BCBS

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	supervisory rules	have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.		<p align="center">PROGRESS TO DATE</p> <p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>
Supervisory colleges					
41	(Lon) Supervisory colleges	To establish the remaining supervisory colleges for	June 2009	<ul style="list-style-type: none"> The HKMA is the host regulatory authority of a number of major financial institutions with significant operations in Hong Kong and has participated in eight supervisory colleges established by the relevant home supervisors for these institutions. The international activities of those 	<ul style="list-style-type: none"> The HKMA will continue to participate in the eight supervisory colleges to keep itself abreast of supervisory

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			significant cross-border firms by June 2009.	<p>institutions for which the HKMA is the home supervisor are considered to be not so significant. The HKMA will for present purposes therefore continue to supervise these institutions' cross-border activities making use of its bilateral relationships with the relevant host supervisors.</p> <ul style="list-style-type: none"> • The IA has been participating in the supervisory college led by the office of Thrift Supervision, and it will continue to participate in supervisory colleges for major insurance groups. • Given that significant firms in Hong Kong's securities market are subsidiaries or branches of overseas financial firms, the SFC would not be establishing supervisory colleges. 	<p>developments in relation to the relevant institutions.</p> <ul style="list-style-type: none"> • The IAIS has recently adopted a guidance paper on the use of supervisory colleges in group-wide supervision and the IA is currently reviewing the approaches as set out in the guidance paper with regards to the insurance supervisory regime in Hong Kong¹⁴.
42	(FSF 2008)	Supervisory exchange of information and coordination	V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of	Ongoing <ul style="list-style-type: none"> • The HKMA participates actively in supervisory colleges organised by overseas home regulators. It endeavours to share information with its fellow regulators in a timely manner, through both the supervisory colleges (in accordance with the principles and standard set out by the FSB/BCBS) and its bilateral relationships with them in accordance with the terms of the established MoUs. • The IA has been participating in supervisory colleges and it will continue to participate in supervisory colleges for major insurance groups. Furthermore, the IA has also been in close contact with local financial 	<ul style="list-style-type: none"> • The HKMA will continue to work closely with overseas regulators on the supervision of banks with cross-border operations in line with the various principles and standards set out by the BCBS. • The IA will continue to participate in supervisory colleges and maintain close contact with local

¹⁴ The IAIS has re-formatted the guidance paper on the use of supervisory colleges in group-wide supervision into ICP3, which is still under development. The IA is keeping in view of the complete adoption of ICP3 and will follow as appropriate with regards to the insurance supervisory regime in Hong Kong.

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		information and coordination in the development of best practice benchmarks should be improved at both national and international levels.		<p>regulators on matters of common interests.</p> <ul style="list-style-type: none"> • The SFC participates in a supervisory college organised by an overseas regulator. 	<p>financial regulators on matters of common interest.</p> <ul style="list-style-type: none"> • The IAIS is developing an ICP on supervisory cooperation, coordination and information exchange. The IA will keep in view of the full adoption of the ICP and follow as appropriate, taking into account the local circumstances. • SFC will continue to participate in the supervisory college. In addition, SFC will maintain regular contact with major regulators to facilitate supervisory exchange of information.
Crisis management					
43	(Lon)	Implementation of FSF principles for cross-border crisis management	To implement the FSF principles for cross-border crisis management immediately. Home authorities of each	Immediate	<ul style="list-style-type: none"> • The HKMA is the host regulatory authority of a number of major financial institutions. It has been actively involved in the Crisis Management Groups (CMGs) organised by the relevant home authorities of these institutions to discuss and plan for cross-border crisis management in accordance with the relevant FSB principles . • The HKMA will continue to play an active role in the CMGs organised by the relevant home authorities of the major financial institutions to discuss and plan for cross-border crisis management.

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		major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.		<ul style="list-style-type: none"> • The HKMA is a member of the FSB Cross-Border Crisis Management Group (CBCMG) responsible for giving guidance to and overseeing implementation of the relevant FSB principles by the individual CMGs. • The IA has been participating in the IAIS and the Asian Forum of Insurance Regulators (AFIR) meetings which are held at least annually, and has been exchanging views with other participants during meetings on matters of common concern. 	<ul style="list-style-type: none"> • The HKMA will continue to make known its views and keep abreast of developments through its membership of the FSB CBCMG. • The IAIS has recently finalised a draft standard on cross-border cooperation on crisis management which will be reformatted into the revising ICP. The IA will keep track of the adoption by the IAIS and will follow as appropriate, taking into account the local circumstances. 	
44	(Pitts)	Development of contingency and resolution plans by SIFIs and the establishment of crisis management	Systemically important financial firms should develop internationally-consistent firm-specific contingency and	End-2010	<ul style="list-style-type: none"> • See response to item 43 above regarding HKMA's participation in CMGs. • Work is in progress within the CMGs to produce a Recovery and Resolution Plan for each applicable institution in accordance with the relevant FSB requirements. • The IAIS has recently finalized a draft standard on cross-border cooperation on crisis management which will be re-formatted into the 	<ul style="list-style-type: none"> • The HKMA will continue to play an active part in the CMGs to produce a Recovery and Resolution Plan for each applicable institution in accordance with the relevant FSB requirements. • The IA will keep track of the

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	groups etc.	resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress.		<p align="center">Explanatory notes:</p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p>Explanatory notes:</p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <p>adoption by the IAIS and will follow as appropriate, taking into account the local circumstances.</p> <ul style="list-style-type: none"> • SFC will participate in IOSCO to develop methodologies to identify firms that carry out potentially systemic activities.

¹⁵ The IAIS has adopted a standards paper on cross-border cooperation on crisis management in late October 2010 which is a part of ICP3. The IA will keep track of the full adoption of ICP3 by the IAIS and follow as appropriate, taking into account the local circumstances.

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		<p>recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.</p> <p>VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.</p>		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>
46	(FSF 2008)	Review of national deposit insurance	Ongoing	<ul style="list-style-type: none"> The Hong Kong Deposit Protection Board (“HKDPB”) has preliminarily reviewed Hong Kong’s Deposit Protection Scheme (DPS) against the draft version of the “Core Principles for Effective Deposit Insurance Systems” (“Core Principles”) issued by the BCBS and the International Association of Deposit Insurers in June 2009. The DPS (which is a 	<ul style="list-style-type: none"> The HKDPB conducted a review of the DPS in 2009. A number of enhancements for further strengthening the DPS were identified, and legislative changes

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	arrangements	international principles, and authorities should strengthen arrangements where needed.		<p>“paybox” type scheme) is considered to be in substantial compliance with the Core Principles. The design features of the DPS are also largely consistent with the convergent trends in deposit insurance practices observed prior to and since the outbreak of the financial crisis: in terms of objective and scope of coverage, pre-funding, independence in terms of governance structure, well-known to the public, etc. A detailed review on the compliance with the final version of the Core Principles will be conducted in 2011.</p> <ul style="list-style-type: none"> • A potential area for improvement identified from the review against the Core Principles is on cross-border co-operation with other deposit insurers. The HKDPB has been participating actively in international forums on deposit insurance with a view to assisting in the development of international best practices on cross-border cooperation. 	<p>have been made for giving effect to the enhancements. The enhancements, including raising the DPS protection limit from the current HK\$100,000 to HK\$500,000, take effect on 1 January 2011.</p> <ul style="list-style-type: none"> • The HKMA will monitor closely the discussions in international forums on deposit insurance and financial safety nets. 	
Risk management						
47	(WAP)	Development of enhanced guidance for banks' risk management practices	Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage	Ongoing	<ul style="list-style-type: none"> • The HKMA's supervisory approach is consistent with this recommendation. The HKMA has issued circulars to urge local banks to review their internal control systems with reference to the lessons learned from the financial crisis and, where appropriate, adopt the risk management practices recommended by international supervisory bodies. • Since October 2009, the HKMA has enhanced its supervisory guidance based on the recommendations of the BCBS and other international supervisory bodies, for example by the issuance of guidelines on sound 	<ul style="list-style-type: none"> • The HKMA will continue to develop and revise supervisory guidelines to ensure that local banks' risk management practices meet international standards (ongoing). • Supervisory guidance on corporate governance, market risk management, central

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			financial firms to re-examine their internal controls and implement strengthened policies for sound risk management.		<p>remuneration systems and general risk management controls. Enhanced guidance on prudent fair valuation practices and stress testing will be finalised in Q1 2011.</p> <ul style="list-style-type: none"> • The HKMA has issued various circular letters requiring banks to observe new prudential measures to address the risk for the banking sector associated with a potential property price asset bubble, and to review and assess their lending practices for residential mortgage loans and, where necessary, to take immediate measures to bring them in line with the best practices set out in the circular letters. • The Management, Supervision and Internal Control Guidelines issued by the SFC require licensed firms to have effective policies for sound risk management. • In February 2008, a circular was sent to all SFC-licensed corporations drawing their attention to certain unacceptable risk management practices identified and to remind them to critically assess the appropriateness of their risk management policies and procedures in light of the SFC's requirements and their own business activities from time to time. 	<p>counterparty clearing and reporting requirements, and credit risk transfer activities will be developed and enhanced in 2011.</p> <ul style="list-style-type: none"> • The HKMA will continue to encourage banks to adopt international best practices for sound risk management on an ongoing basis and direct them to review and strengthen their risk management systems and controls when necessary. • The SFC will monitor international developments and review the need for further guidance.
48	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	<ul style="list-style-type: none"> • The HKMA reviewed and enhanced its supervisory stress-testing programme in Q209, taking into account the lessons from the global financial crisis, the BCBS's new guidance on stress-testing and market developments. 	<ul style="list-style-type: none"> • The HKMA is updating its supervisory guidance on stress-testing to incorporate the BCBS's guidance on stress-testing (where not already covered or adequately

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49	(Pitts)	Efforts to deal with impaired assets and	Our efforts to deal with impaired assets and to	Ongoing	<ul style="list-style-type: none"> • The supervisory stress scenarios and risk parameters are subject to ongoing review. • There are no material differences from international standards. • The HKMA has been making more use of stress-testing results in determining the supervisory plans for Hong Kong banks. • Apart from the routine supervision and stress testing, the IA will carry out ad hoc stress testing of the insurers when and where necessary. • The SFC conducts stress testing of SFC-licensed firms' compliance with liquid capital requirement from time to time. 	<p>covered in the existing guidance). Legislative changes are not required.</p> <ul style="list-style-type: none"> • A benchmarking review of Hong Kong banks' stress-testing procedures will be conducted within 2010. • Key challenges include evolving methodologies for credit and liquidity risk stress testing and integrating interlinkages, second round and behavioural effects into stress scenarios. • The IA will continue with routine stress testing and ad hoc stress testing as necessary. • The SFC will continue to stress test SFC-licensed firms' compliance with liquid capital requirement from time to time.
					<ul style="list-style-type: none"> • Hong Kong banks' asset quality has remained sound despite the global financial crisis and economic downturn. Impaired assets were adequately provided for and capital positions remained well above 	<ul style="list-style-type: none"> • The HKMA is formulating a programme for the implementation of Basel III in

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#	G20/FSB RECOMMENDATIONS		DEAD-LINE	PROGRESS TO DATE	PLANNED NEXT STEPS
	raise additional capital	encourage the raising of additional capital must continue, where needed.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p> <p>international standards.</p> <ul style="list-style-type: none"> • Banks' capital management and planning, having regard to their risk profile and business plans, form part of the HKMA's supervisory assessment of locally-incorporated banks' soundness and safety. Where there is supervisory concern over a bank's capital adequacy, the HKMA will require the bank to reduce dividend payouts or raise additional capital. • The local QIS on the impact of Basel III conducted by the HKMA in 2010 indicated that locally-incorporated banks are generally well-positioned for meeting the strengthened capital standards. 	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <p>Hong Kong, and will discuss with banks their plans for implementation in the coming months.</p> <ul style="list-style-type: none"> • Legislation will be required to implement Basel III in Hong Kong. To meet the 2013 deadline for the beginning of Basel III implementation, the HKMA will need to complete the required legislative process within the 2011-2012 legislative session to allow sufficient time for the development of supervisory guidelines and for banks to effect necessary operational changes and systems enhancements. • Key challenge: tight time schedule for introducing legislative change. • The IASB is expected to publish a refined Expected Cash Flow loan loss provisioning proposal in Q1 2011 to address concerns about

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						<p>procyclicality under the current incurred loss provisioning model. The HKMA will closely monitor developments in respect of expected loss provisioning and will continue to require banks to maintain an adequate regulatory reserve (a non-distributable reserve, earmarked against retained earnings, introduced in 2005 to reduce the impact of changes in accounting standards on provisioning levels) to cater for expected but not yet incurred future losses.</p>
50	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	During 2010, supervisors and regulators will:	During 2010	<ul style="list-style-type: none"> • Following industry consultation, amendments to the Banking (Capital) Rules and Banking (Disclosure) Rules to implement the enhancements to the Basel II capital framework issued by the BCBS in July 2009 are in progress. • The HKMA has also updated its Pillar 2 assessment framework and guideline to incorporate the supplemental guidance issued by the BCBS in July 2009. http://www.info.gov.hk/hkma/eng/bank/spma/attach/CA-G-5.pdf 	<ul style="list-style-type: none"> • The HKMA expects to implement the Pillar 1 and Pillar 3 enhancements to the Basel II capital framework from 1 January 2012. • Enhancements to the regulatory framework and the implementation timetable are in line with the BCBS's

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		capital requirement of securitisation and establish clear rules for banks' management and disclosure; <ul style="list-style-type: none"> implement IOSCO's proposals to strengthen practices in securitisation markets. 		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p> <p>recommendations.</p> <ul style="list-style-type: none"> Industry consultation on the supervisory guidance on Credit Risk Transfer Activities is expected to take place in the first half of 2011. The SFC will closely monitor international developments and consider implementation, as appropriate.
51	(Lon)	Improvement in the risk management of securitisation	By 2010	<ul style="list-style-type: none"> The HKMA will implement the enhancements made by the BCBS in July 2009 to the Basel securitization capital framework to introduce:- <ul style="list-style-type: none"> - into Pillar 1 operational requirements on credit analysis and measures to mitigate the negative effects associated with the use of external ratings; and - into Pillar 2 detailed guidance on risk management of securitization exposures and credit risk assessments. 	Please refer to the response to item 50.

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		considering due diligence and quantitative retention requirements by 2010.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>
52	(Pitts)	Retainment of a part of the risk of the underlying assets by securitisation sponsors or originators	Ongoing	<ul style="list-style-type: none"> • Also see the HKMA’s response to item 50 on supervisory guidance on “Credit Risk Transfer Activities”. • The BCBS has reviewed quantitative retention requirements and shared the results among regulators. 	<ul style="list-style-type: none"> • The HKMA will consider the need for the introduction of retention requirements in Hong Kong, having regard to the results of the BCBS’s review and local circumstances.
53	(WAP)	Enhanced risk disclosures by financial institutions	Ongoing	<ul style="list-style-type: none"> • Locally incorporated, internationally active banks have enhanced their financial disclosures in line with the Senior Supervisors Group (SSG) report on “Leading-Practice Disclosures for Selected Exposures”. • The HKMA is in the process of updating the Banking (Disclosure) Rules to incorporate the BCBS’s proposed enhancements to the Basel II disclosure requirements issued in July 2009; the IASB improved disclosure standards; the recommendations of the SSG report, and other international best practices, as appropriate. 	<ul style="list-style-type: none"> • The new Pillar 3 disclosures requirements will be effective from 1 January 2012, in line with the deferred implementation schedule for the enhancements to the market risk and credit risk framework. • The IA will keep in view the

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		best practice, as appropriate.		<p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <ol style="list-style-type: none"> 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? <p>Also, please provide links to the relevant documents that are published.</p>	<p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>	
54	(FSF 2008)	Strengthening of supervisory requirements or best practices for investment in structured products	II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	Ongoing	<ul style="list-style-type: none"> • The HKMA participated as a member of the FSB peer review team on risk disclosures by market participants. The review is scheduled to be completed by Q1 2011. • The IAIS is reviewing revising its ICP on disclosure. The IA will keep track of the adoption by the IAIS and follow as appropriate, taking into account the local circumstances. • Risk and loss disclosures of SFC-licensed entities are required to be made in compliance with accounting standards. 	<ul style="list-style-type: none"> • The HKMA aims to issue the guidance in 2011. No legislative changes are required. • The IA will keep in view of the development of the relevant regulatory guidance by the IAIS on this issue and will consider adopting them as appropriate, taking into account the local circumstances. • The SFC will monitor international developments and review the

¹⁶ The IAIS has, in late October 2010, revised its ICP 15 on investments which takes into account of the investments in structured credit products. The IA is reviewing the ICP15 and will, upon review, consider adopting it as appropriate, taking into account of the local circumstances.

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					need for further guidance.	
Others						
55	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies	Ongoing	<ul style="list-style-type: none"> • Temporary liquidity assistance measures were allowed to lapse at end-March 2009, although two (foreign exchange swaps and term repos) were adopted into the HKMA's ongoing market operations on a permanent basis. • The Government's full deposit guarantee and the Contingent Bank Capital Facility announced in October 2008 have not been called upon and lapse with effect from 31 December 2010. • A tripartite working group between the HKMA, the Monetary Authority of Singapore and Bank Negara Malaysia was formed to coordinate the scheduled exit from the full deposit guarantee in the respective jurisdictions. • See response to item 46 above regarding increase in deposit protection coverage under Deposit Protection Scheme timed to coordinate with lapse of Government's full deposit guarantee and thereby to facilitate smooth exit. • The HKMA has also strengthened its Lender of Last Resort ("LOLR") framework by expanding the types of assets and facilities eligible for obtaining LOLR support. Specifically, foreign exchange swaps have been included among the basic instruments to be used by the HKMA to provide LOLR support, and the definition of eligible securities for LOLR 	<ul style="list-style-type: none"> • Extensive publicity campaign, and close engagement with the banking industry undertaken to prepare for exit from the Government's full deposit guarantee and the coordinated raising of coverage limit under the ongoing Deposit Protection Scheme. • Continued engagement in tripartite working group to coordinate deposit guarantee exit strategy up to 31 December 2010.

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		recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures.		repos has been expanded to include securities in foreign currencies with acceptable ratings.	

Origin of recommendations:

- Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)
- Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)
- Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)
- WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)
- FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)
- FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)
- FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)