



# **Proposed Regulatory Regime for Stored Value Facilities and Retail Payment Systems**

## **Public Consultation**

**Financial Services and the  
Treasury Bureau**

**Hong Kong  
Monetary Authority**

**22 May 2013**



# Agenda

- Latest developments of retail payment products and services
- Enhancements to regulatory regime and policy objectives
- Overseas regulatory experiences
- Proposed regulatory regime

# Rapid Development of Innovative Retail Payment Products and Services

## Electronic Payment

Card payment



Internet payment

Travel Channel

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From: HONG KONG, HONG KONG (HKG) To: TAIPEI, TAIWAN (TPE)  
 Departure Date: Thu, 27 Jun 2013 Return Date: Thu, 04 Jul 2013  
 No. of ticket(s): 1 x Adult Ticket Class: Economy Round Trip Ticket

Step 1 Select flight, review combi. Step 2 Passenger(s) details Step 3 Billing Information Step 4 Final

**Your flight details:**

**Outward** Hong Kong, Hong Kong (HKG) - Taiwan Taoyuan International Airport (TPE), Taipei, Taiwan  
 Hongkong Airlines HK284 Economy Class - Non stop Departs: Thu, 27 Jun 2013 - 23:30 Arrives: Fri, 28 Jun 2013 - 01:20  
 Duration: 01 hr(s) 50 mins

**Inbound** Taiwan Taoyuan International Airport (TPE), Taipei, Taiwan - Hong Kong, Hong Kong (HKG)  
 Hongkong Airlines HK285 Economy Class - Non stop Departs: Thu, 04 Jul 2013 - 07:55 Arrives: Thu, 04 Jul 2013 - 09:40  
 Duration: 01 hr(s) 45 mins

Remark(s): 1 x adult air ticket @ HK\$ 1,448 (inclusive of HK\$ 668 tax, surcharge & other fees) **HK\$ 1,448**  
 Cancel | Air Ticket Price: HK\$ 1,448

**Passenger(s) details:**

**Adult Passenger 1**

Title:	MR	Given Name:	PETER	Family Name:	PAN
Passport/China Visa Number:	00010001	Expiry Date:	01/07/2017	HKID:	
Date of Birth:	01/01/1960	Nationality:	Hong Kong		

**Contact Information:**

Title:	MR	Given Name:	PETER	Family Name:	PAN
Contact Number:	Country	Area	Phone Number		
	852		98900008		
Your E-mail Address:	PETERPAN@PETER.COM				

- I have read and agree to the ticket conditions and p
- Yes, I agree to receive Priceline's newsletter, coup

The safer, easier way to pay. [What is PayPal?](#)

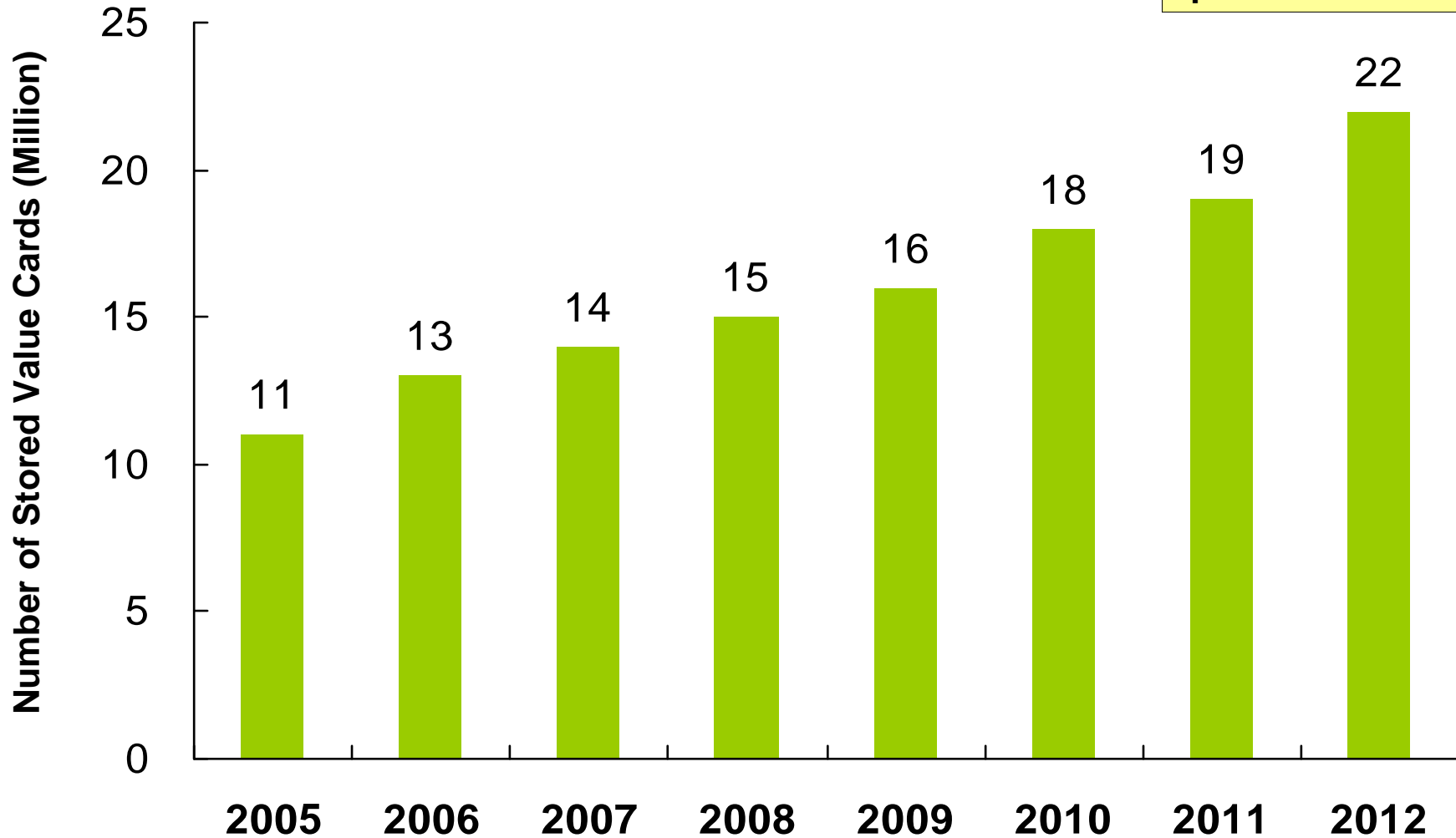


## Mobile Payment

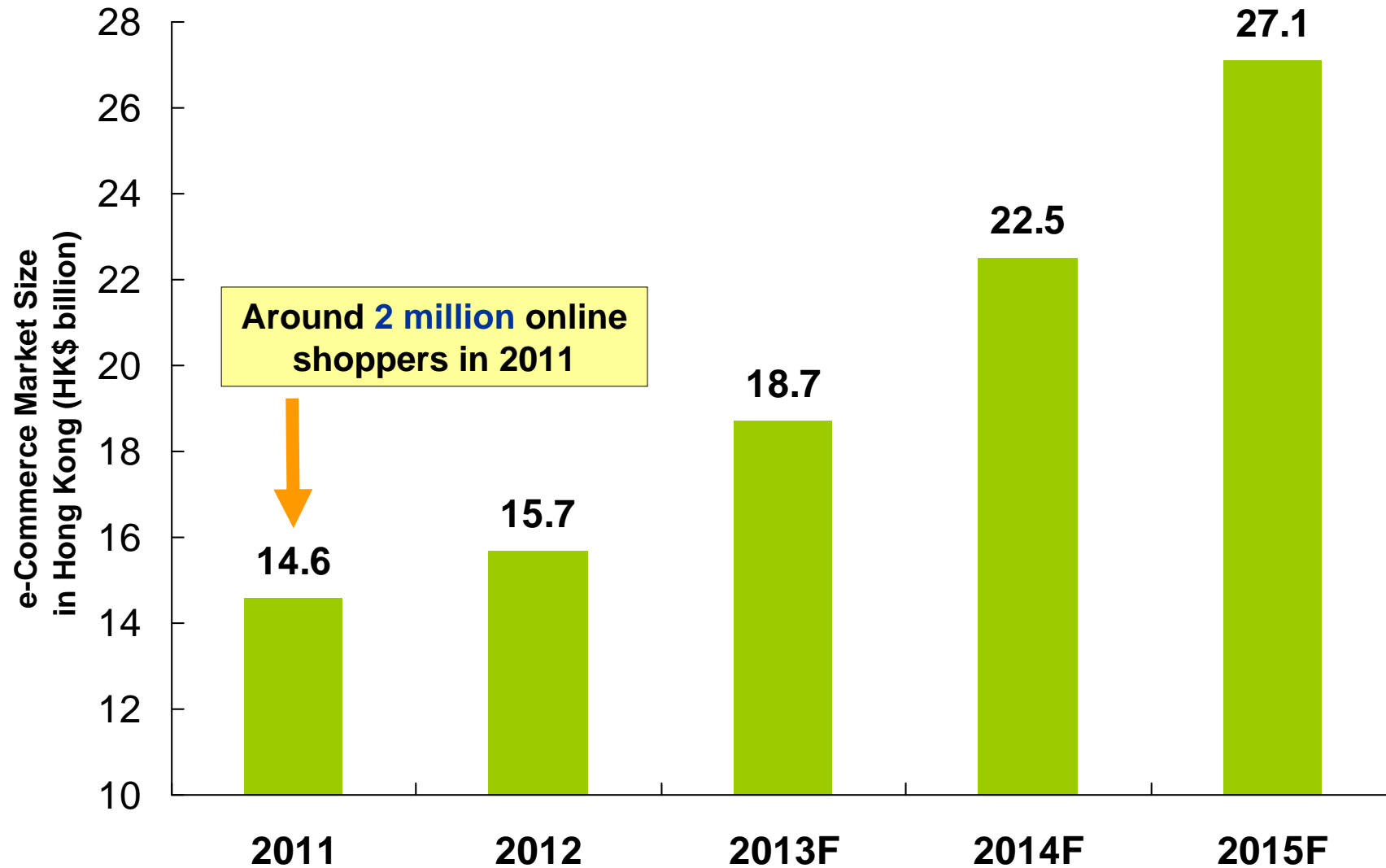


# Increasing Acceptance of Stored Value Cards in Hong Kong

3 cards  
per HK citizen on average

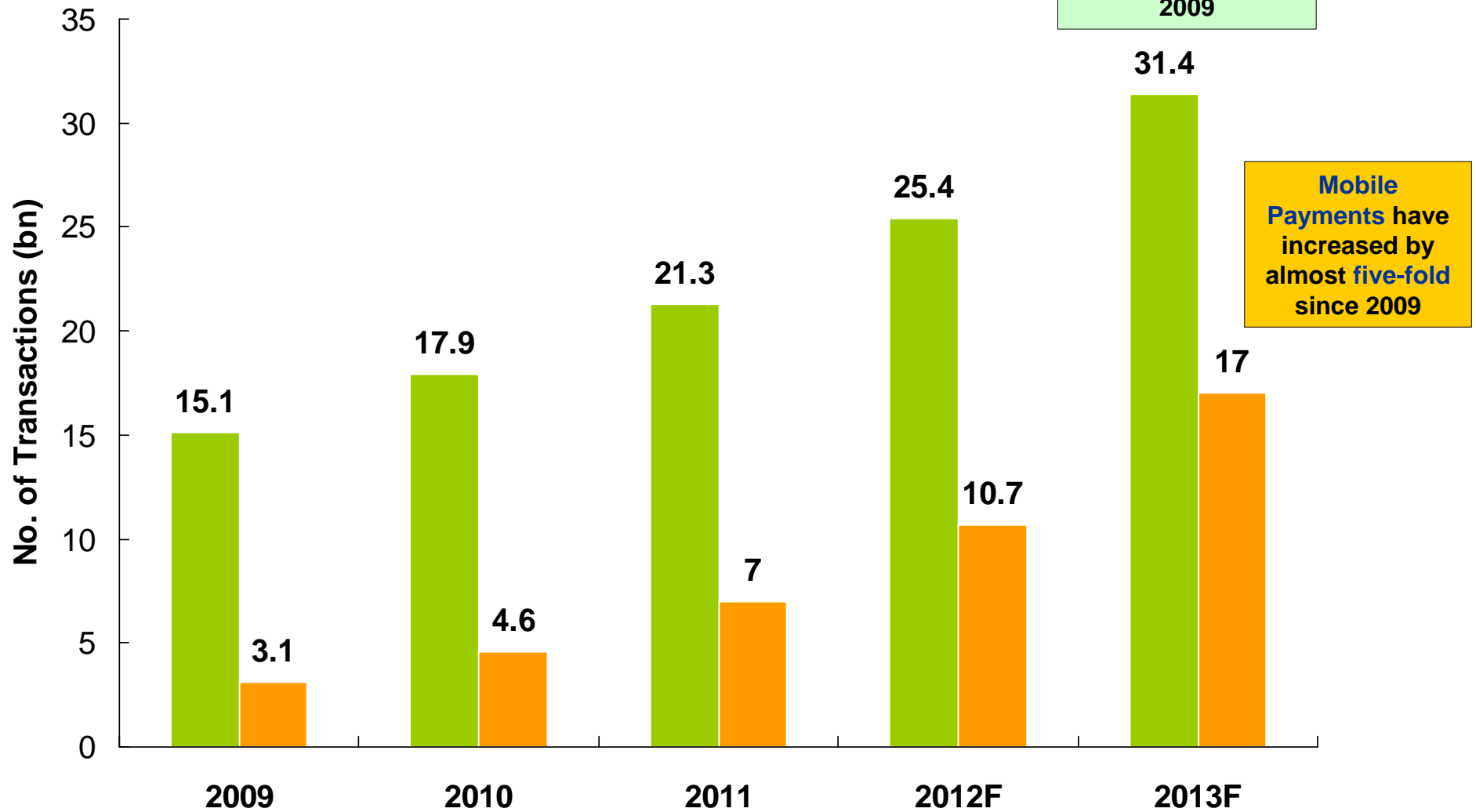


# Rapid Growth of e-Commerce Activities in Hong Kong



Source: Paypal's Market Opportunity & Assessment Research

# Increasing Use of Electronic Payment and Mobile Payment in the World



Source: The World Payments Report 2012 from Capgemini, The Royal Bank of Scotland, and Efma

# Existing Regulatory Regime for Stored Value Facilities and Payment Systems

**Stored Value Facilities (SVF)**

Multi-purpose stored value card regime under the Banking Ordinance (BO)

Device-based SVF

Non-device based SVF

← Not yet covered under the current regulatory regime

**Payment Systems**

Retail Payment Systems (RPS)

← The 'Code of Practice for Payment Card Scheme Operators', endorsed by the HKMA, was drawn up by eight payment card operators and observed on a voluntary basis

Clearing and Settlement Systems Ordinance (CSSO)

Large-value payment systems



# Enhancements to Regulatory Regime and Policy Objectives

## Increasing need to enhance the regulatory regime

- Rapid development and growing acceptance of retail payment products and services in Hong Kong
- Current regulatory regime for multi-purpose stored value card needs to be broadened to cover emerging non-device based (e.g. non-card based) products and services
- Expand the regulatory regime to cover important RPS

## Policy objectives

- Strengthen the safety and soundness of the operation of SVF and RPS in Hong Kong
- Protect the float of SVF
- Foster innovation and development of retail payment products and services by providing clarity in the laws and an effective regulatory regime





# Overseas Regulatory Experiences

- Some of the jurisdictions have strengthened regulatory regime for SVF and RPS
- Common regulatory approaches adopted
  - e-money / SVF → **Mandatory licensing regime**
  - RPS → **Designation regime to regulate important RPS**
- Legal requirements on float protection
- Empower the authorities to conduct on-going supervision and enforcement functions
- Establishment of an appeal channel to cater for appeals against the authorities' decisions



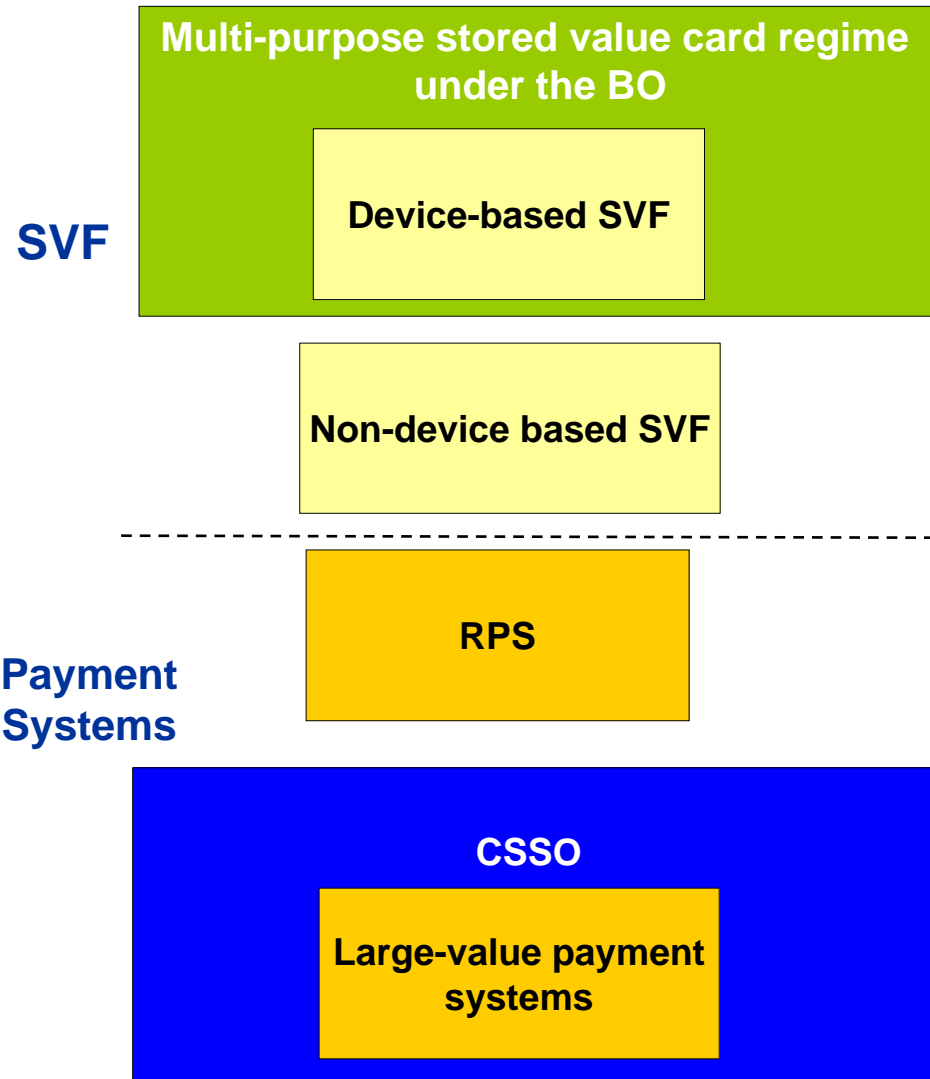
## Proposed Legislative Approach

- Amend the CSSO in order to:
  - Establish a licensing regime for SVF
  - Empower the HKMA to designate certain RPS to be subject to its supervision
  - Empower the HKMA to perform on-going supervisory and enforcement functions

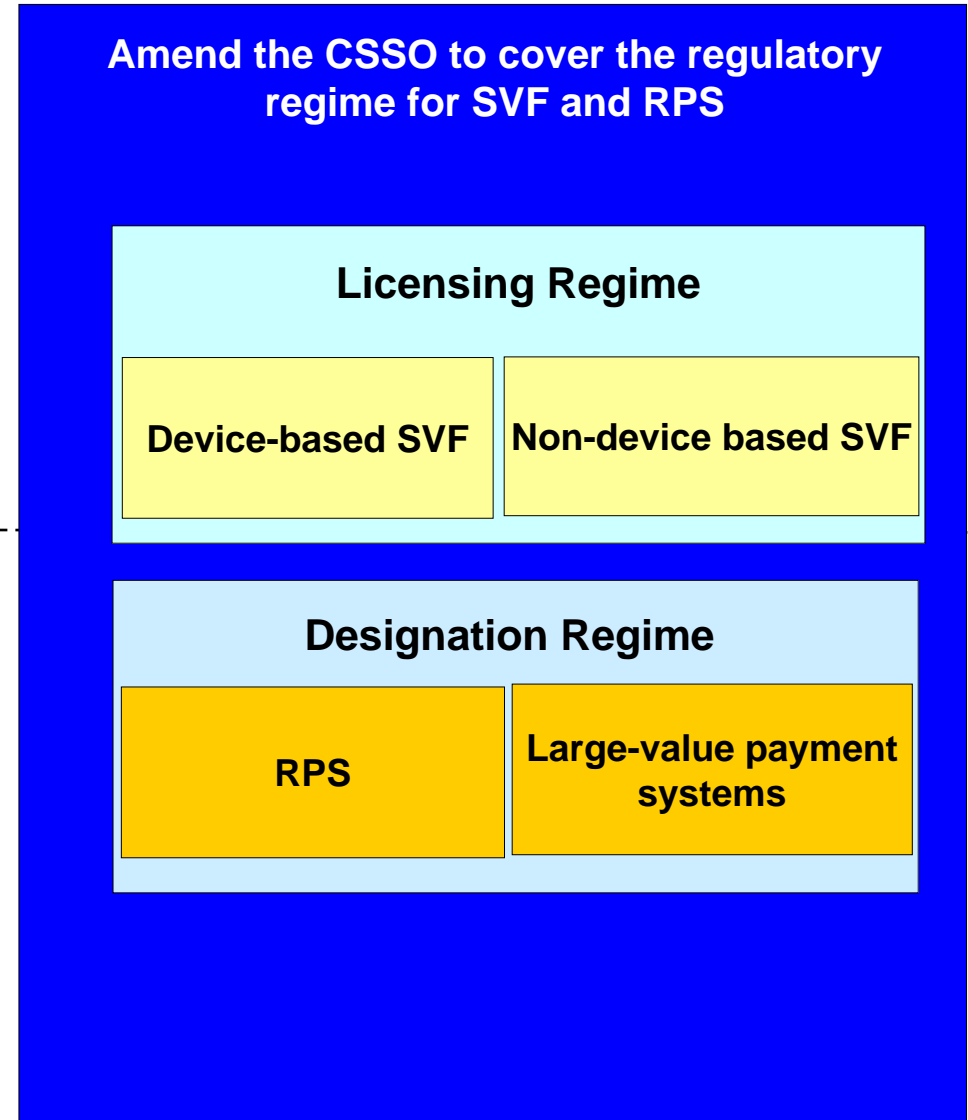
Note: The multi-purpose stored value card regime under the BO will be incorporated into the amended CSSO

# Proposed Legislative Approach (cont'd)

Existing regulatory regime



Proposed regulatory regime





# Licensing Regime for SVF

## ■ Mandatory licensing regime

- It is an offence to issue SVF without a SVF licence in Hong Kong

## ■ Licensing criteria

- Physical presence: The company must be incorporated under the laws in Hong Kong, with a local registered office
- Principal business: Principal business must be the issuance of multi-purpose SVF
- Adequate financial resources: On-going minimum (paid up) capital requirement of HK\$25 million
- Other licensing conditions: e.g. fit and proper requirements on management and ownership, prudential and risk management requirements, anti-money laundering and counter-terrorist financing requirements, purpose and soundness of scheme, etc
- Licensing conditions may be attached: e.g. restrictions on business, higher capital requirements, etc



## Licensing Regime for SVF (cont'd)

### In line with current practices of the BO:

- Licensed banks deemed to be licensed
- Single-purpose SVF not required to be licensed because:
  - Similar to prepayment for specific goods and services provided by the issuer rather than electronic surrogate for coins and notes
- Exemption of certain SVF from licensing if it poses minimal risk to the users or the payment and financial systems of Hong Kong



## Licensing Regime for SVF (cont'd)

### Management of the float:

- Float must be segregated from the SVF issuer's own funds and at least 100% protected by safeguarding measures, e.g.:
  - **Guarantee** from a licensed bank in Hong Kong; or
  - Establish a **trust account** with a licensed bank in Hong Kong
- To discuss investment of float with the HKMA in advance

### Maximum amount to be stored on a SVF:

- The HKMA may impose a limit on the maximum value that can be stored on a SVF on a case-by-case basis by attaching a licensing condition
- In line with the existing treatment under the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, SVF licensees are required to comply with customer due diligence and record-keeping requirements with stored value limit over HK\$3,000



## Designation Regime for RPS

- **Eligible systems:** Operates and provides retail payment services in Hong Kong; or process Hong Kong dollar or other prescribed currencies (e.g. RMB/USD)
- **Designation criteria:** A RPS may be designated if any disruptions to the RPS have implications to the monetary or financial stability of Hong Kong; public confidence in payment systems or the financial system of Hong Kong; or day-to-day commercial activities in Hong Kong
- **Potential coverage:**
  - Credit card schemes
  - Debit card schemes
  - Merchant acquirers
  - Payment gateways
  - Mobile payment infrastructures



## Designation Regime for RPS (cont'd)

### Requirements on designated systems:

- Safety and efficiency requirements (similar to the existing CSSO, e.g. sufficient expertise commensurate with its business schemes, measures to ensure data integrity, appropriate contingency measures, proper risk management controls, etc)
- Proper operating rules in place (e.g. soundness of system operations, relevant default arrangements, etc)
- Exemption of designated RPS established outside Hong Kong from certain requirements if it is already subject to adequate supervision by the home regulator





## Functions and Powers of the HKMA

- General powers for the HKMA to conduct supervision of SVF and RPS, e.g.:
  - Make regulations
  - Issue guidelines
  - Gather information
  - Impose operating rules
  - Give directions
  
- Investigation powers for the HKMA to perform enforcement functions over SVF and RPS, e.g.:
  - Direct an investigator to conduct investigation
  - Apply to a Magistrate for search warrants and seizures when necessary



# Offences, Sanctions and Appeal Mechanisms

## Offences and sanctions:

- Reference will be drawn from the existing provision of the BO, CSSO and Securities and Futures Ordinance (SFO) in determining the level of fines and length of imprisonment applicable to offences under the new regulatory regime
- The HKMA will be empowered to impose sanctions, e.g. suspension, revocation of license, warning, reprimand, pecuniary penalty, etc

## Appeal mechanisms:

- Appealable decisions of the HKMA under the Ordinance can be brought to the proposed Payment Systems and Stored Value Facilities Appeals Tribunal (currently Clearing and Settlement Systems Appeals Tribunal under the CSSO) for review



## Legislative Timetable

- Industry consultation conducted between December 2012 and January 2013
  - The Consumer Council and over 40 industry stakeholders were consulted
  - Feedback of the Consumer Council and the industry stakeholders were generally supportive
  - Comments have been incorporated in the public consultation paper where appropriate
- To commence public consultation on 22 May 2013 for a three-month period
- Legislative proposal to be introduced to LegCo within year 2013-2014 after taking into account comments received from public consultation



## Submission of Comments

- The public may submit comments on or before **22 August 2013** by one of the following means:

Mail: Financial Infrastructure Development Division  
Financial Infrastructure Department  
Hong Kong Monetary Authority  
55/F, IFC II, 8 Finance Street, Central, HK

Fax: (852) 2878 7914

Email: [cssab@hkma.gov.hk](mailto:cssab@hkma.gov.hk)