

# **Process Review Committee**

## **Annual Report to the Financial Secretary 2021-2022**

### **I. GENERAL INFORMATION**

#### **Background of establishment**

1.1 The Payment Systems and Stored Value Facilities Ordinance (“PSSVFO”) empowers the Monetary Authority (“MA”) to designate and oversee clearing and settlement systems (“CSSs”) that are material to the monetary or financial stability of Hong Kong or to its functioning as an international financial centre or having regard to matters of significant public interest. The purpose of the PSSVFO is, among other things, to promote the general safety and efficiency of designated CSSs.

1.2 To date, six CSSs have been designated under the PSSVFO. They are:

- (a) the Central Moneymarkets Unit (“CMU”)
- (b) the Hong Kong Dollar Clearing House Automated Transfer System (“HKD CHATS”)<sup>1</sup>
- (c) the US Dollar Clearing House Automated Transfer System (“USD CHATS”)
- (d) the Euro Clearing House Automated Transfer System (“EUR CHATS”)
- (e) the Renminbi Clearing House Automated Transfer System (“RMB CHATS”)<sup>2</sup>
- (f) the Continuous Linked Settlement (“CLS”) System

1.3 The system operators (“SOs”) and settlement institutions (“SIs”) of the designated CSSs are set out in the following table:

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<sup>1</sup> Including the Faster Payment System (“FPS”) which was launched on 17 September 2018 as extensions of the HKD CHATS and RMB CHATS respectively to provide 7 x 24 real-time clearing and settlement services for HKD and RMB retail payment transactions.

<sup>2</sup> The FPS also supports RMB transactions. See footnote 1.

**Table 1:**

<b>Designated CSS</b>	<b>System operator</b>	<b>Settlement institution</b>
<b>CLS System</b>	CLS Bank	CLS Bank
<b>CMU</b>	HKMA	Nil
<b>HKD CHATS</b>	HKICL*	HKMA
<b>USD CHATS</b>		The Hongkong and Shanghai Banking Corporation Limited
<b>EUR CHATS</b>		Standard Chartered Bank (Hong Kong) Limited
<b>RMB CHATS</b>		Bank of China (Hong Kong) Limited

\* The Hong Kong Monetary Authority (HKMA) and the Hong Kong Association of Banks each own 50% of the Hong Kong Interbank Clearing Limited (HKICL)

1.4 The HKMA is the owner/operator of HKD CHATS and the CMU, and has a 50% stake in the HKICL, which is the system operator of the four CHATS systems and provides computer support to the CMU. Of the six designated CSSs, the CLS System is the only one in which the HKMA does not have an interest. The CLS System is subject to the supervision of the Federal Reserve Bank of New York (“FRBNY”) and is exempted under section 11 of the PSSVFO from certain requirements under the Ordinance. FRBNY leads a CLS Oversight Committee with representatives from all of the jurisdictions (including Hong Kong) whose currencies are members of the CLS system, and the HKMA exercises oversight of CLS through participation in this committee. The HKMA exercises on-going oversight of the five local designated CSSs: the CMU, HKD CHATS, USD CHATS, EUR CHATS and RMB CHATS. Some of these designated CSSs have established links with overseas payment or securities settlement systems to facilitate cross-border transactions, for example, the payment-versus-payment (“PvP”) and the delivery-versus-payment (“DvP”) links between USD CHATS and RENTAS<sup>3</sup> in Malaysia, the PvP link between USD CHATS and BI-RTGS<sup>4</sup> in Indonesia, the PvP link between USD CHATS and BAHTNET<sup>5</sup> in

<sup>3</sup> RENTAS is the RTGS clearing and settlement system for inter-bank fund transfer and scripless securities trading in Malaysia.

<sup>4</sup> BI-RTGS is the RTGS clearing and settlement system for inter-bank fund transfer in Indonesia.

<sup>5</sup> BAHTNET is the RTGS clearing and settlement system for large value fund transfer between financial institutions or other organisations in Thailand.

Thailand, and the DvP link between HKD CHATS and BOJ-NET JGB Services<sup>6</sup> in Japan. Although these overseas systems are not overseen by the HKMA, the HKMA oversees these external links in cooperation with the respective home overseers.

1.5 The HKMA has implemented a number of measures to address the potential or perceived conflict of interest arising from the HKMA being the SO or SI of certain CSSs and also the overseer of designated CSSs. These include a clear segregation of duties within the HKMA and the promotion of transparency in the designation and oversight processes. In addition, the Process Review Committee (“PRC”), a non-statutory committee, was established by the Chief Executive of the Hong Kong Special Administrative Region (“CE/HKSAR”) in December 2004 to review the processes and procedures adopted by the HKMA in applying oversight standards on designated CSSs to ensure that the same set of standards is applied to all designated CSSs, whether or not the HKMA has an interest in them.

### **Scope of work and terms of reference**

1.6 The terms of reference of the PRC are:

- (a) to review and advise the HKMA upon the adequacy of the HKMA’s internal operational procedures and guidelines for applying the standards set under the PSSVFO to those designated systems in which the HKMA has a legal or beneficial interest;
- (b) to receive and consider periodic reports from the HKMA on all completed or discontinued files in respect of alleged non-compliance of the PSSVFO by those designated systems in which the HKMA has a legal or beneficial interest; and
- (c) to submit annual reports and, if appropriate, special reports on designated systems in which the HKMA has a legal or beneficial interest, to the Financial Secretary.

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<sup>6</sup> BOJ-NET JGB Services is the government securities settlement system in Japan.

1.7 The PRC has agreed that, in discharging its functions, it should focus on whether there were any discrepancies in the HKMA’s oversight of designated CSSs in which the HKMA has an interest, as compared with other systems. In other words, the PRC would review the processes and procedures adopted by the HKMA to ensure that the same oversight standards were applied to all designated CSSs. The PRC also agreed that its scope could be expanded in future if the HKMA had a legal or beneficial interest in a designated retail payment system (“RPS”) or a licensed stored value facility (“SVF”) under the PSSVFO. This is consistent with the policy intention of the establishment of the PRC in 2004. So far, the HKMA had not acquired any interest in any designated RPS or licensed SVF under the PSSVFO.

1.8 The Financial Secretary may cause the reports submitted by the PRC to be published, subject to relevant confidentiality requirements.

### **Membership of the PRC**

1.9 The PRC is in its sixth term of service. Members of the PRC are appointed by the CE/HKSAR in their personal capacity for a three-year term from 1 December 2019 to 30 November 2022. The membership of the PRC as at 30 November 2022 was:

#### Chairman

**Professor Francis Chin Yuk-lun**

Emeritus and Honorary Professor  
Department of Computer Science  
The University of Hong Kong

#### Members

**Ms Annie Chan Wai-hing**

Managing Director  
Annie Chan & Associates Limited

**Mr Jack Chan**

Chairman, China

Regional Managing Partner, Greater China

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**Ms Sabita Prakash**

Managing Director

Asia Debt Management Hong Kong Limited

**Mr Michael Shue**

Managing Director - Trust Services

Tricor Services Limited

## **II. HIGHLIGHTS OF THE WORK OF THE PRC**

2.1 This is the 18<sup>th</sup> Annual Report of the PRC, which covers the work of the Committee from 1 December 2021 to 30 November 2022. This is also the last annual report for the current term of the PRC.

### **Meetings held and major deliberations of the PRC**

2.2 The PRC held two meetings in 2022. At the first meeting in June 2022, Members reviewed the regular report covering the oversight activities of the HKMA from December 2021 to March 2022 and were briefed on the oversight activities conducted by the HKMA from April to June 2022. In particular, Members discussed and noted how the HKMA handled abnormal events encountered by the designated CSSs, the implications of these events and the follow-up actions taken.

2.3 During the meeting in June 2022, Members noted that the operations of the designated CSSs continued to remain safe and efficient under the COVID-19 pandemic, with proper business continuity plans in place and implemented having regard to the evolving pandemic situation. Moreover, Members were briefed on the background and progress of the CMU enhancement programme where CMU system will be upgraded by phases to facilitate more cross-boundary links with the CMU and to develop CMU into a major international central securities depository (“ICSD”) in Asia.

2.4 At the second meeting held in November 2022, Members reviewed the regular report covering the period from July to September 2022 and were briefed on the oversight activities conducted by the HKMA from October to November 2022. Members were briefed on a minor breach of the PSSVFO that happened in the third quarter of 2022 relating to a late notification to the HKMA of the change of particulars of a designated CSS under section 6(2) of the PSSVFO. The case had no direct or adverse implication on the safety and efficiency of the designated CSS and was handled in accordance with the relevant handling procedures set out in the Internal Operating Manual. During the meeting, Members also discussed the drafting of the Committee’s 18<sup>th</sup> Annual Report to be submitted to the Financial Secretary.

2.5 As agreed by Members, regular reports covering the HKMA’s oversight activities were sent to Members for review by circulation between meetings. If Members have questions about the reports, they may raise them with the Secretary of the Committee. Subject to the agreement of the Chairman, the questions will be discussed at the next regular meeting or, if needed, at a special meeting. During 2022, four regular reports had been circulated to Members for review. Members noted that the HKMA had met the performance benchmarks for oversight activities.

### **Comments and recommendations of the PRC**

2.6 The format of the regular report and the accompanying oversight activities management reports were designed based on suggestions from Members. During the year, Members reviewed four regular reports and 36 accompanying oversight activities management reports covering the period from December 2021 to November 2022. Statistics showing the oversight activities contained in each regular report under the review of the PRC are summarised below:

**Table 2: Oversight activities of HKMA under the review of PRC from December 2021 to November 2022**

<b>HKMA’s oversight activities conducted during the quarter</b>	<b>1<sup>st</sup> Regular Report (Dec- Mar)</b>	<b>2<sup>nd</sup> Regular Report (Apr-Jun)</b>	<b>3<sup>rd</sup> Regular Report (Jul-Sep)</b>	<b>4<sup>th</sup> Regular Report (Oct-Nov)</b>
Processing of monthly return submitted by SO/SI	24	18	18	12
Granting approval to changes in operating rules	2	9	7	0
Vetting of changes in particulars of SO/SI	6	13	9	2
Reviewing of ad-hoc information submitted by SO/SI	70	39	40	20
Conducting on-site examinations	0	0	0	0
Handling of abnormal events/ production incidents	10	8	4	3

Handling of possible contravention cases	0	0	1	0
Holding of meetings with management of SO/SI	6	0	0	0

2.7 At the meeting in November 2022, Members discussed the draft 2021 - 2022 PRC Annual Report. Members agreed to adopt the same publication approach as previous annual reports, and comments from Members were incorporated in the Report. The PRC would propose to the Financial Secretary that the annual report be published in its entirety and be posted on the website of the HKMA for wider dissemination to the public in the interests of promoting transparency and accountability.

### **III. CONCLUSION AND WAY FORWARD**

3.1 The PRC reviewed four regular reports and 36 accompanying oversight activities management reports covering the period from December 2021 to November 2022. No complaints were received from the SOs and SIs. The review covered, among other things, submissions by the HKMA on its processing of 72 monthly returns and 30 cases of changes in particulars; granting of approvals to 18 changes in operating rules; handling of 25 abnormal events; reviewing of 169 submissions of ad-hoc information; and holding of 6 meetings with the management of the SOs and the SIs.

3.2 The PRC was not aware of any cases where the HKMA had not followed duly the internal operational procedures, or where the HKMA had not been procedurally fair in carrying out its oversight activities across different designated systems.

3.3 The PRC will continue to review the processes and procedures adopted by the HKMA in overseeing the existing designated CSSs and, where appropriate, any additional designated systems or licensed SVF under the PSSVFO in which the HKMA has a legal or beneficial interest.