

**PAYMENT SYSTEMS AND STORED VALUE
FACILITIES ORDINANCE**

**Guideline on
Supervision of Stored Value Facility
Licensees**

**A Guideline issued by the Monetary Authority
under Section 54(1A)(b)**

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Structure

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1. Introduction

- 1.1. The Guideline on Supervision of Stored Value Facility Licensees (the Guideline) is issued by the Hong Kong Monetary Authority (HKMA) pursuant to section 54(1A)(b) of the Payment Systems and Stored Value Facilities Ordinance (PSSVFO). It aims to set out the high level supervisory principles that the HKMA adopts in assessing whether certain requirements imposed on stored value facility (SVF) licensees are complied with.
- 1.2. In order to fulfil the relevant statutory obligations or other relevant provisions of the PSSVFO, SVF licensees should strive to adhere to those supervisory principles as set out in the Guideline. They should not only comply with the letter but, more importantly, the spirit of the various provisions of the PSSVFO as illustrated or explained by the Guideline.
- 1.3. To help SVF licensees in better understanding the standards by which the principles set out in the Guideline should be applied, the HKMA will issue Practice Notes and Frequently Asked Questions as and when necessary to provide SVF licensees with additional guidance in respect of specific sections or paragraphs of the Guideline.

2. Principal Business and Financial Resources

2.1. Introduction

2.1.1. Paragraph 1 of Part 2 of Schedule 3 of the PSSVFO stipulates that the principal business of a licensee must be the issue of SVF or the facilitation of the issue of SVF under a licence. Paragraph 2 of Part 2 stipulates the minimum licensing criteria in relation to financial resources for operating an SVF scheme. This chapter sets out the high level principle requirements a licensee must comply in relation to these two aspects.

2.2. Principal business requirement

2.2.1. A licensee can generally engage in activities that add values to its principal business or provide better services to SVF users. To ensure that such activities will not significantly disrupt or distract attention to its principal business, a licensee should conduct appropriate risk assessment to ensure that it can effectively identify, monitor and manage all relevant risks and that the safety and efficiency of the SVF as well as the interest of its SVF users are not compromised. Documentation of the risk assessment should be properly maintained for periodic review by independent parties such as Internal Auditor, External Auditors, or the HKMA. Where a licensee expects that a new activity may draw public attention or may have potential reputational implications, it should notify the HKMA about its plan.

2.2.2. For the avoidance of doubt, a licensee is not allowed to carry on financial intermediation. A licensee is also not allowed to conduct regulated activities under the Securities and Futures Ordinance, the Mandatory Provident Fund Schemes Ordinance, or the Insurance Companies Ordinance. Other types of non-payment finance-related activities (such as lending and financial intermediary activities) are generally not allowed.

2.3. Financial resources requirements

2.3.1. A licensee must satisfy the Monetary Authority (MA) that it has:

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- (i) paid-up share capital of not less than HK\$25,000,000 or an equivalent amount in any other currency approved by the MA; or
- (ii) other financial resources are equivalent to or exceed HK\$25,000,000.

2.3.2. The criteria on financial resources as stated in the PSSVFO are only meant to be a minimum requirement. As a general principle, a licensee should be able to demonstrate that its financial resources are sufficient for implementing its business model in a safe, efficient and sustainable manner, without compromising the interests of SVF users.

2.3.3. In order that the interests of SVF users can be protected at all times, a licensee should demonstrate that should it decide to exit the SVF business it will be able to maintain sufficient financial resources to facilitate an orderly exit, including a smooth refunding process.

2.3.4. The HKMA may impose a higher financial resources requirement if, taking into account the scale and complexity of a licensee's business, it considers such a requirement important in ensuring that the licensee concerned has the ability to fulfil its regulatory obligations under the PSSVFO.

2.3.5. The proportion of the financial resources of a licensee equivalent to the financial resources requirement (i.e. the minimum financial resources requirement of HK\$25,000,000 but if a higher financial resources requirement is imposed by the HKMA, the higher requirement) should only be used for the purposes of its business activities and should not be used for any dealing with its related companies or parties, including shareholders, directors and senior management staff.

3. Corporate Governance

3.1. Introduction

3.1.1. Section 8O(1) of the PSSVFO requires a licensee to ensure that the operation of any SVF issued is conducted in a safe and efficient manner. Section 8Q of the PSSVFO requires a licensee to ensure that all the minimum criteria set out in Schedule 3 of the PSSVFO are fulfilled. Paragraph 5 of Part 2 of Schedule 3 stipulates that a licensee must have in place appropriate risk management policies and procedures for managing the risks arising from the operation of its SVF business that are commensurate with the scale and complexity of the scheme.

3.2. Corporate governance

3.2.1. A licensee is required to have in place sound governance arrangement for the purpose of effective decision-making and proper management and control of the risks of its business and operations. Such arrangement should include, among others, clear organizational structure with well-defined, transparent and consistent lines of responsibility. There should also be clear documentations on decision making procedures, reporting lines, internal reporting and communication process.

3.2.2. A licensee's board should be ultimately responsible for the sound and prudent management of a licensee's SVF business operations. As such, the responsibilities, organization, functioning, and composition of the licensee's board of directors must be clearly defined and documented.

3.2.3. The board should have an adequate number and appropriate composition of members to ensure sufficient checks and balances and collective expertise for effective, objective decision-making. The size and composition of the board will vary from institution to institution depending on the size and complexity of the licensee and the nature and scope of its activities. As a general benchmark for demonstrating sufficiency of checks and balances, normally one-third of their board members should be independent non-executive directors (INED).

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- 3.2.4. The board should clearly define appropriate internal governance practices and procedures for the conduct of its own work and have in place the means to ensure that such practices are followed and periodically reviewed with a view to ongoing improvement.
- 3.2.5. Whilst the board is ultimately responsible for the overall soundness of a licensee, the appointment of competent management is key to achieving the objective of a soundly and efficiently run licensee. The board works with a senior management team (senior management) to achieve this and senior management remains accountable to the board.
- 3.2.6. Senior management are responsible and accountable for running the business of a licensee effectively and prudently in accordance with the business strategies, policies, risk appetite, as well as delegation of authorities set down by the board.

3.3. Fitness and propriety of officers and controllers

- 3.3.1. Section 8ZZV of the PSSVFO stipulates that a person must not become a chief executive or director of a licensee except with the MA's consent. Sections 8ZZF and 8ZZG of the PSSVFO stipulate that the MA's consent must be obtained for a person to become controller of a licensee. Paragraph 3 and 4 of Part 2, Schedule 3 of the PSSVFO stipulate the requirements concerning the fitness and propriety of the chief executive, directors, controllers and managers, as well as relevant knowledge and experience of officers responsible for implementing the SVF scheme or the day-to-day management of the scheme. In considering the fitness and propriety of the chief executive, directors, controllers and managers of a licensee, the HKMA will take into account factors including, among others, the integrity, willingness to uphold professional ethics and industry good practices, and competence of the person concerned. Paragraphs 3.3.2 to 3.3.4 below set out the HKMA's general expectations in relation to the fitness and propriety of chief executives, directors, controllers and managers of a licensee. It should be noted that the onus is on the applicant to make out a case that he is fit and proper for the position concerned.

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3.3.2. Directors and chief executives

3.3.2.1. Given the leadership role of directors and chief executives, fitness and propriety will be assessed taking into consideration of their integrity and competence, which will generally be assessed in terms of relevant knowledge, experience, judgment as well as leadership. Their commitment and ability to devote sufficient time and attention to the SVF business will also be assessed. The standards required of persons in these respects will vary considerably, depending on the scale and complexity of a licensee's operations.

3.3.3. Controllers

3.3.3.1. In assessing the fitness and propriety of controllers, a key consideration is the influence that a controller could potentially have on the interests of the users and potential users of the scheme concerned. This has to be assessed in the context of the circumstances of individual cases. The general presumption is that the greater the influence on the licensee, the higher the standard will be for the controller to fulfil the criterion. Willingness and ability to work collaboratively with other controllers and the management team will also be a key factor of consideration.

3.3.3.2. Pursuant to section 3(1) of Schedule 3 to the PSSVFO, a licensee should have in place appropriate and adequate systems of control to ensure that the HKMA is kept informed of the identity of each of its controller.

3.3.4. Managers

3.3.4.1. Similar principles as set out for directors and chief executives will be applied for assessing the fitness and propriety of managers, but assessment will be made in the context of the specific businesses or control areas of the managers. Pursuant to section 3(3) of Schedule 3 to the PSSVFO, a licensee should have in place appropriate and adequate systems of control to ensure that each of its managers is a fit and proper person to hold the position concerned.

3.3.4.2. A licensee should have in place appropriate and adequate systems of control

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to ensure that the HKMA is notified of, among other things: (a) the date of appointment of a manager; (b) particulars of the affairs or business of the licensee in relation to which the person has been appointed as a manager; and (c) any subsequent changes. The notification must be made within 14 days after the date on which a person became a manager of the licensee or ceased to be a manager of the licensee or any changes associated with such appointments.

3.4. Outsourcing

- 3.4.1. In the context of good governance, while a licensee may outsource its operations to service providers (including independent third parties, affiliates or companies within the licensee's group), the licensee, including its board members, chief executive, and relevant managers and officers, remains solely responsible for meeting its regulatory obligations under the PSSVFO and other relevant regulatory requirements, including guidelines, prescribed by the HKMA from time to time.
- 3.4.2. A licensee should be ultimately responsible for the quality and security, including the reliability, robustness, stability and availability, of the outsourced activity as well as the integrity and protection of the information held by the service providers to ensure the operation of the SVF is conducted in a safe and efficient manner. A licensee should retain ultimate control of the outsourced activities and obligations to its users.
- 3.4.3. When outsourcing any of its operations or functions, a licensee should (a) properly plan for the outsourcing arrangements by conducting a comprehensive risk assessment to identify and evaluate all risks involved and structuring the outsourcing arrangements to ensure that all material risks identified (including business interruption risk) have been adequately managed before launch and that the outsourcing arrangements will not impair the effectiveness of its internal controls or compromise the interest of the SVF users; (b) properly implement the outsourcing arrangements by performing appropriate due diligence on the service providers, conducting appropriate testing to ensure that the services to be rendered fully meet the agreed performance standards, executing appropriate outsourcing

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agreements with the service providers to set out clearly the outsourcing arrangements and the related rights and obligations, and carrying out proper transfer of the related operations or functions to ensure smooth transition; and (c) properly manage the outsourcing arrangements on an on-going basis by performing appropriate regular quality review of the outsourced operations or functions to ensure that the services being rendered continue to meet the agreed performance standards in full and all deficiencies identified are duly rectified, conducting appropriate regular risk assessment to ensure that all material risks are duly identified, evaluated and adequately managed on an on-going basis, and reviewing the outsourcing agreements at appropriate intervals to assess whether the agreements should be renegotiated and renewed to bring them in line with current market standards and to cope with changes in the licensee's business strategies.

3.4.4. A licensee should ensure that its outsourcing arrangements comply with the Personal Data (Privacy) Ordinance ("PDPO") and any relevant codes of practice, guidelines and best practices issued by the Office of the Privacy Commissioner for Personal Data ("PCPD") from time to time.

3.4.5. Access to data by the relevant authorities' examiners and the licensee's internal and external auditors should not be impeded by outsourcing. A licensee should ensure that adequate and effective arrangements are in place to facilitate the on-site examinations or off-site reviews, both announced and unannounced by authorized third parties (e.g. licensee's internal auditors, external auditors/assessors and the HKMA).

3.5. Location of senior management

3.5.1. Section 8ZZU(2) of the PSSVFO requires the chief executive and the alternate chief executive to be individuals who are ordinarily residents in Hong Kong. Licensee should ensure that this requirement is being complied with on an on-going basis. Furthermore, the senior management team and the key personnel responsible for scheme operation, IT systems, financial management, control and risk management functions, compliance and internal audit of the licensee should basically be based in Hong Kong. Nevertheless, depending on the nature, scale, complexity of

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business, and the organization structure of the licensee, part of the senior management team may be based outside Hong Kong, provided that proper arrangement is made to timely respond to the HKMA.

4. General Risk Management and Internal Control Systems

4.1. Introduction

4.1.1. Paragraph 5 of Part 2, Schedule 3 of the PSSVFO stipulates that the licensee must have in place appropriate risk management policies and procedures for managing the risks arising from the operation of its SVF scheme that are commensurate with the scale and complexity of the scheme. This chapter sets out the high level principles on the requirements on a licensee's general risk management and internal control systems.

4.2. Risk management

4.2.1. A licensee should have in place effective risk management framework that is commensurate with the nature, scale and complexity of their operations to help ensure proper identification, monitoring and management of various risks. The risk management framework should be approved by the Board. A licensee should demonstrate that it has dedicated staff resources with sufficient professional knowledge, experience, and independence to oversee the quality of its risk management and internal control processes.

4.3. Internal controls

4.3.1. A robust internal control system must be put in place to promote effective and efficient operation, safeguard assets, provide reliable financial and management information, enable prevention or early detection of irregularities, fraud and errors, and ensure compliance with relevant statutory and regulatory requirements and internal policies.

4.4. Compliance and internal audit functions

4.4.1. A licensee should maintain effective (i) compliance function; and (ii)

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internal audit function to ensure compliance with all applicable legal and regulatory requirements as well as its own policies, procedures and controls. Among other factors, the quality of a licensee's compliance and internal audit functions will be assessed based on its (i) clear governance framework with board level support to ensure effective policies and sufficient authorities to perform the functions; (ii) relevant professional knowledge and experience; (iii) independence from business units; (iv) direct and unfettered access to the board; (v) coverage, comprehensiveness and effectiveness of compliance and internal audit programs; and (vi) ability to take timely and pro-active rectifying actions upon identifying non-compliance or other control deficiencies.

4.4.2. The compliance function should not be substituted by the internal audit function. In exceptional cases where a licensee's scale of operations may not justify having a separate function, the licensee should propose to the satisfaction of the HKMA effective alternative arrangements (e.g. hire of external services for internal audit function) that do not compromise the effectiveness of controls.

4.5. Reporting to regulators

4.5.1. A licensee should have effective procedures to ensure submission of data and information requested by the HKMA in a timely and accurate manner.

4.5.2. A licensee should have in place effective policies and procedures to ensure timely reporting to the HKMA on (i) incidents having a material adverse impact on its business, operation, assets, risks or reputation; and (ii) breach of any statutory and regulatory requirements by the licensee or its officers or employees.

5. Information and Accounting Systems

5.1. Introduction

5.1.1. Section 80 of the PSSVFO stipulates that a licensee must ensure that its SVF operation is conducted in a safe and efficient manner calculated to minimize the likelihood of any disruption to the functioning of the facility. This chapter sets out the high level principle requirements on a licensee's information and accounting systems which are essential to the smooth operation of a licensee's SVF scheme.

5.2. Information and accounting systems

5.2.1. A licensee should have in place robust information and accounting systems to (i) record all business activities in a timely and accurate manner; (ii) provide quality management information to enable effective and efficient management of business and operations; and (iii) maintain appropriate audit trails to demonstrate effectiveness of controls.

5.2.2. A licensee should properly maintain books and accounts and prepare financial statements and returns in compliance with all applicable regulatory reporting requirements and accounting standards in Hong Kong.

5.2.3. A licensee should put in place sufficient back up facilities and disaster recovery arrangements for their information and accounting systems.

5.3. Record keeping

5.3.1. A licensee should have in place adequate record keeping policies and systems for maintaining accurate and sufficient records of its books, accounts, management decisions and business activities, including transactions of users. Such records should be maintained for a sufficiently long period, taking into account relevant statutory and regulatory requirements.

5.4. Data protection

5.4.1. A licensee should have in place adequate policies, measures and procedures to protect their information and accounting systems, databases, books and accounts, and other records and documents from unauthorized access, unauthorized retrieval, tampering and misuse.

5.5. Information and accounting systems located outside Hong Kong

5.5.1. A licensee with operations, information and accounting systems located outside Hong Kong should have in place effective arrangements to enable the regular and ad hoc review of the system, either on-site or off-site, by authorized parties including the HKMA. The arrangements should allow unrestricted access to the licensee's premises and systems outside Hong Kong, and that necessary prescribed consent to the arrangements should be obtained from the local authorities, if any, in the relevant jurisdictions.

6. Management of Float and SVF Deposit

6.1. Introduction

6.1.1. Section 7 of Part 2 of Schedule 3 of the PSSVFO sets out the minimum criteria regarding protection and management of float and SVF deposit which licensees must fulfill. This chapter sets out the high level principles and requirements in respect of protection and management of the float and SVF deposit.

6.2. General principle

6.2.1. A licensee should have in place an effective and robust system to protect and manage the float and SVF deposit to ensure that all funds are deployed for prescribed usage only, that funds belonging to SVF users are protected against claims by other creditors of SVF issuers in all circumstances, and that funds are protected from operational and other relevant risks.

6.3. Protection of float and SVF deposit

6.3.1. A licensee should put in place an effective trust arrangement to ensure the legal right and priority claim of the float and SVF deposit by users in the event of insolvency of a licensee. If justifications are provided by a licensee, an effective bank guarantee and/or insurance coverage may be used as an alternative or supplementary arrangement. For the avoidance of doubt, money in transit arising from an SVF user choosing direct debit from his/her bank account or credit card account instead of his/her SVF user account are treated as float received from the SVF user and should accordingly be accorded the same level of protection.

6.3.2. Where circumstances warrant a trigger to refund the float and SVF deposit to users, the trust arrangement should operate to the effect that proper legal positions and authorisations are in place to ensure a smooth and efficient refund process.

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- 6.3.3. A licensee should ensure that there are sufficient funds for the refund of the float and SVF deposit to all SVF users at all times and there are sufficient additional funds to pay for the costs of distributing the float and SVF deposit to all SVF users in case of need.
- 6.3.4. A licensee should ensure that all user accounts in the SVF scheme users ledger are maintained in an accurate and timely manner and that the aggregate balance of all user accounts in the ledger accurately reflects the total amount of the float and SVF deposit of the SVF scheme at all times.
- 6.3.5. The assets, including cash and bank deposits, in which the float and SVF deposit of an SVF scheme are held should be segregated from the licensee's own funds as well as funds received for the licensee's other business activities.
- 6.3.6. A licensee should put in place effective internal control measures and procedures, which constitute an integral part of the licensee's overall robust internal control system, to protect the float and SVF deposit from all operational risks, including the risk of theft, fraud and misappropriation.

6.4. Management of float and SVF deposit

- 6.4.1. Float and SVF deposit of an SVF scheme should be managed mainly for the purpose of liquidity management to ensure that there will always be sufficient funds for redemption. A licensee should put in place effective liquidity management policies, guidelines and control measures commensurate with the mode of operation of the SVF scheme in respect of the assets in which the float and SVF deposit are held.
- 6.4.2. A licensee should not adopt a business model that takes investment returns from float management as a significant source of income. A licensee proposes to hold a proportion of the float and SVF deposit in low risk financial assets other than cash or bank deposits should obtain the HKMA's prior written consent by demonstrating to the HKMA that the float and SVF deposit will be adequately protected from all relevant risks, including investment risk, market risk, concentration risk and liquidity

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risk, etc. The licensee seeking the HKMA's prior consent should at least put in place adequate investment policies and guidelines and effective control measures to protect the float and SVF deposit from all relevant risks.

- 6.4.3. Unless effective currency risk management policies, guidelines and control measures are put in place, mismatch between the currency denomination of the float or SVF deposit and that of the assets in which the float and SVF deposit are held is generally not allowed except for the mismatch between HK dollar and US dollar positions.

6.5. Additional regulatory requirements

- 6.5.1. Additional requirements in respect of the protection and management of float and SVF deposit may be imposed if the circumstances of the licensee concerned so require, e.g. when there are inherent insufficiencies in the control environment of the licensee concerned.

6.6. Reporting to the HKMA

- 6.6.1. In respect of the protection and management of float and SVF deposit, any material non-compliance with any regulatory requirements or internal policies, procedures and controls as well as any material unresolved discrepancies identified in any reconciliation should be reported to the HKMA immediately through the established communication channels.

7. Specific Risk Management

7.1. Introduction

7.1.1. Paragraph 5 of Part 2 of Schedule 3 of the PSSVFO stipulates that the licensee must have in place appropriate risk management policies and procedures for managing the risks arising from the operation of its SVF scheme that are commensurate with the scale and complexity of the scheme. This chapter sets out the high level principles on the requirements in relation to specific risk management for the purpose of complying with the relevant statutory requirements.

7.2. Technology risk management

7.2.1. A licensee should establish an effective technology risk management framework to ensure (i) the adequacy of IT controls, (ii) the quality and security, including the reliability, robustness, stability and availability, of its computer systems, and (iii) the safety and efficiency of the operations of the SVF. The framework should be “fit for purpose”, i.e. commensurate with the risks associated with the nature, size, complexity and types of business and operations, the technologies adopted and the overall risk management systems of the licensee. A licensee should allocate its technology resources between business development and risk management appropriately to ensure that sufficient resources are devoted to the latter.

7.2.2. Given that the risk of IT operational incidents (e.g. service interruptions) cannot be completely eliminated, a licensee should establish an incident management framework with sufficient management oversight to ensure effective incident response and management capability to deal with significant incidents properly. This includes (i) timely reporting to the HKMA of any confirmed IT-related fraud cases or major security breaches, including cyber attacks, cases of prolonged disruption of service, and systemic incidents where users suffer from monetary loss or frustrating user experience (e.g. data leakage) and (ii) a communication strategy to address the concerns of any stakeholders may have arising from the

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incidents and restore the reputational damage that the incidents may cause.

- 7.2.3. A licensee should have in place adequate measures to maintain appropriate segregation of databases for different purposes to prevent unauthorized or unintended access or retrieval and that robust access controls are enforced to ensure the confidentiality and integrity of the databases. In respect of any personal data of users, including merchants, a licensee should at all times comply with the PDPO as well as any relevant codes of practice, guidelines or best practice issued by the Office of the PCPD from time to time.

7.3. Payment security management

- 7.3.1. A licensee should put in place a robust payment security management framework that is commensurate with the scale and nature of payment security risks associated with its SVF schemes to effectively monitor, identify, evaluate, respond and mitigate the payment security risks arising from the operation of the SVF schemes.
- 7.3.2. A licensee should have adequate policies and procedures on the ownership, classification, storage, transmission, processing and retention of information collected from users through registration of SVF service and execution of payment transactions to ensure confidentiality and integrity of the information.
- 7.3.3. A licensee should implement adequate security measures to protect each payment channel (including cards and user devices) provided to users for using its SVF against all material vulnerabilities and attacks.
- 7.3.4. A licensee should implement adequate payment security controls to ensure the authenticity and traceability of payment transactions and detect fraudulent transactions.
- 7.3.5. A licensee should authenticate the identity of SVF users before they can administer their SVF accounts and initiate high-risk transactions. Timely notification should be sent to users after these activities.

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- 7.3.6. A licensee should provide advice and assistance to users on the secure use of SVF through an effective communication channel.
- 7.3.7. A licensee should guard against current and upcoming cyber security risks associated with its SVF by monitoring the trends in cyber threats, implementing adequate protective measures and performing periodic security testing.
- 7.3.8. A licensee should provide efficient and reliable SVF payment services which are commensurate with the mode of operation of its SVF.

7.4. Business continuity management

- 7.4.1. A licensee should have in place adequate business continuity management (BCM) programs to ensure continuation, timely recovery, or in extreme situations orderly scale-down of critical operations in the event of major disruptions caused by different contingent scenarios.
- 7.4.2. The board and senior management of a licensee have the ultimate responsibility for BCM and the effectiveness of their business continuity plans. It should ensure that BCM programs are duly implemented and taken seriously by all levels of staff and that sufficient resources are devoted to implementing the plan.

7.5. Reputation risk management

- 7.5.1. A licensee should establish and implement an effective process for managing reputation risk that is appropriate for the size and complexity of its operations. A licensee should integrate into its business processes proper due diligence work to (i) critically assess the potential reputational implications of its plans and activities for itself and for the industry; (ii) take proactive actions to avoid or contain the identified risks; and (iii) respond swiftly to mitigate the potential impact should such risks materialise. A licensee should also devote appropriate resources to conduct surveillance work with a view to identifying any issues with reputational implications for its operations. The objective is to protect the licensee from potential threats to its reputation and, should there be a

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reputation event, minimize the effects of such an event.

- 7.5.2. In implementing reputation risk management process, licensees should ensure that the relevant process is capable of detecting and responding swiftly to new and emerging threats to reputation, monitoring the changing status of risks, providing early warning of potential problems to enable remedial actions to be taken, and providing assurance that the risks affecting reputation are under control. A licensee should notify the HKMA promptly of any incident which, in its view, may have significant implications for its reputation.

7.6. Liquidity risk management

- 7.6.1. A licensee should establish and implement an effective process for managing liquidity risk that is appropriate for the size and complexity of its operations. The objective is to ensure that the licensee will have sufficient liquidity to meet different financial obligations arising from its day-to-day operations as well as redemption requests under all plausible circumstances.

8. Business Practices and Conduct

8.1. Introduction

8.1.1. Section 10(2)(b) of Part 2 of Schedule 3 of the PSSVFO stipulates that the SVF schemes must be operated prudently and with competence in a manner that will not adversely affect the interests of the user or potential user of the SVF. This chapter sets out the high level principles and requirements applicable to a licensee's business practices and conduct for the purpose of complying with the relevant statutory requirements.

8.2. Standard of conduct and business practices

8.2.1. A licensee should ensure that its business is operated in a responsible, honest and professional manner. A licensee should treat all users, including merchants, equitably, honestly and fairly at all stages of their relationship with the licensee. A licensee should also act in a manner that will not adversely affect the interests of the user or potential user or the stability of any payment system in Hong Kong.

8.2.2. A licensee should be responsible for the acts or omissions of its employees, service providers and agents in respect of the conduct of its business. Employees and agents of a licensee should be properly trained and qualified.

8.2.3. A licensee should ensure that it adopts, and if needed develops, good business practices that can demonstrate its standard of conduct.

8.2.4. A licensee is not allowed to provide interest payment or interest-like incentive scheme based on the volume of float.

8.3. Schemes and operating rules

8.3.1. The operating rules of an SVF scheme should be fair to all parties concerned. A licensee should operate its SVF scheme in strict accordance with the relevant operating rules.

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- 8.3.2. The operating rules of an SVF scheme should provide that a value of an amount no less than the amount of funds received by a licensee or its agent from a user will be credited to the account of the user and made available for use by the user in a timely manner according to the operating rules.
- 8.3.3. A reasonable limit, supported by business justifications and control measures, should be set for the maximum amount that can be stored in each type of user accounts under a scheme. Different storage limits can be set for different types of user accounts according to their respective features. All limits should be set out in the operating rules. The HKMA may request a licensee to change the limits if the business justifications and control measures put up by the licensee is considered unsatisfactory.
- 8.3.4. A licensee should set out and explain clearly the key features, risks, terms and conditions, and applicable fees, charges and commissions of its schemes, facilities, services and products. Such details should be effectively communicated and made available to the relevant users, including merchants. Additional disclosures, including appropriate warnings, should be developed to provide information commensurate with the nature, complexity and risks of the schemes, facilities, services and products. In particular, the related contract with a user under a scheme should state clearly and prominently the amount of the fee and charge payable and the circumstances in which the fee and charge becomes payable.
- 8.3.5. A licensee should be solely responsible for the robustness of its SVF scheme and as such it should bear the full loss of the value stored in a user account where there is no fault on the part of the user.
- 8.3.6. Except for anonymous cards, a licensee should have in place convenient and timely means to enable users to (i) report and/or disable lost cards; and (ii) report that the SVF has been compromised. Such means should be effectively communicated to users. A licensee on being advised of a loss, theft or possible misuse of a card/SVF should take prompt action to prevent further use of the card/SVF. A licensee should give clear and

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prominent notice to users if they may have to bear a loss when a card has been used for an unauthorized transaction before the user has reported and/or disabled lost cards/compromised SVF.

- 8.3.7. A licensee should, where technically feasible, provide timely transaction notifications to users and, to a reasonable extent, make available to users transaction records with sufficient details and the outstanding stored value of user accounts. A licensee should provide a service to users who need to obtain records of their transactions with sufficient details for a reasonable time period.
- 8.3.8. A licensee should have in place fair and effective rules and mechanisms to deal with alleged unauthorized transactions claimed by users and effectively communicated such rules and mechanisms to users.

8.4. Complaints handling

- 8.4.1. A licensee should have in place an effective complaint management system to ensure that complaints from SVF users are fully and promptly handled and resolved in a satisfactory manner.
- 8.4.2. The complaint management system of a licensee should be comprehensive, transparent, accessible to SVF users and easy to invoke, fair and impartial, consistent in its approach to the provision of redress, flexible and efficient, and able to maintain appropriate confidentiality, keep sufficient records, resolve complaints, identify and remedy the problems revealed by the complaints and provide appropriate feedback to the HKMA.

8.5. Business exit plan

- 8.5.1. With a view to minimizing the potential impact that a failure, disruption, or exit of a licensee would have on SVF users and the payment systems in Hong Kong, a licensee is required to maintain viable plans for an orderly exit of its business and operations should other options be proven not possible.
- 8.5.2. Among other things, a business exit plan should (i) identify a range of

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remote but plausible scenarios which may render it necessary for a licensee to consider an exit; (ii) develop risk indicators to gauge the plausibility of the identified scenarios; (iii) set out detailed, concrete, and feasible action steps to be taken upon triggering the exit plan; (iv) assess the time and cost required to implement the exit plan in an orderly manner; and (v) set out clear procedures to ensure that sufficient time and financial resources are available to implement the exit plan.

- 8.5.3. A licensee's business exit plans should form part of the operating rules of the SVF scheme and the arrangement should where appropriate be reflected in the terms and conditions of the SVF schemes and made known to SVF users. A licensee should ensure that its business exit plans have made sufficient provisions for financial and administrative resources to meet the float redemption and other relevant administrative processes.
- 8.5.4. A licensee is required to discuss with the HKMA in devising and introducing changes to its business wind-down plans.