(A) Guideline on Corporate Governance of Locally Incorporated Authorized Institutions

The HKMA issued a new guideline on "Corporate Governance of Locally Incorporated Authorized Institutions" ("the Guideline") in May 2000. The objective of the Guideline is to enhance corporate governance in the banking sector by setting out the minimum standards that locally incorporated authorized institutions should follow in respect of corporate governance.

Amongst other things, the Guideline also aims at strengthening communication between the HKMA and the locally incorporated banks ("banks") at the highest level. The HKMA supervisory team plans to meet the full board of directors of each bank once a year. Banks may be interested to know what will be covered in such meetings. Set out below are some details.

Q. Does the HKMA have any preference on the timing for the meeting?

A. There is no set timing but the HKMA would normally try to schedule the meeting in such a way that it coincides with one of the bank's board meetings to alleviate the administrative burden on the bank of organising the meeting.

Q. Will the HKMA's representatives attend a full board meeting?

A. It is not the intention of the HKMA to participate in a bank's board meeting. Unless a bank requests otherwise, the HKMA meeting should normally be the first item on the agenda for the board meeting. The HKMA representatives will leave the meeting after that item.

Q. Who should attend this meeting?

A. As mentioned in the Guideline, the HKMA would like to meet the full board. It is recommended that all Directors (including the Chairman, Executive and Non-executive Directors) should attend the meeting as far as possible.

Banks are free to invite other relevant persons, such as the Chief Executive (if not a director), internal or external auditors, or the Compliance Officer to join the meeting for that item.

Representatives from the HKMA will normally include the HKMA team responsible for the supervision of the bank (comprising the Division Head, Senior Manager, Manager and/or Assistant Manager). The Deputy Chief Executive and/or Executive Director (Banking Supervision) may also participate in certain meetings.

Q. What topics will usually be covered in the meeting?

A. Items to be discussed would normally include the following:

(i) Performance of the bank

The HKMA will give its comments on the financial position and performance of the bank. The review, mainly through peer group comparison, will cover the bank's:

- ranking (in terms of total assets, total loans, total deposits and total classified loans) amongst all banks and/or the bank's peers with similar characteristics;
- performance indicators such as profit growth, net interest margin, cost/income ratio etc;
- capital adequacy and liquidity; and
- asset quality and provisioning coverage.

(ii) Quality of risk management and internal controls of the bank

The HKMA will summarise the results and findings of its assessment (through its risk-based examination) of:

- the risk profile of the bank;
- the effectiveness of the bank's systems of risk management;
- the direction of the bank's risks; and
- the composite CAMEL rating of the bank.

(iii) Issues requiring the Board's attention

This normally covers issues important to the bank from the regulator's point of view. Examples may include inadequate corporate governance, breaches of statutory requirements, deterioration in asset quality, inadequate level of provisioning, excessive connected lending, introduction of high risk products etc.

(iv) Feedback from the bank

This is an open forum. Board members are free to provide any comments or additional information to the HKMA.

Q. How long will the meeting take?

A. Normally, it will take less than one hour.

(B) Amendment to the Prevention of Money Laundering Guideline

Q. What is the background to the recent amendment to the Prevention of Money Laundering Guideline issued by the HKMA and what are the amendments?

A. The Organised and Serious Crime (Amendment) Ordinance 2000 (OSCAO) came into operation on 1 June 2000. Among other things, this Amendment Ordinance requires remittance agents and money changers to keep records of customers' identity and particulars of remittance and exchange transactions of HK$20,000 or more or of an equivalent amount in any other currency. Section 24C of the OSCAO provides that a remittance agent or money changer shall not complete a remittance or exchange transaction unless the remittance agent or money changer keeps a record of the particulars of that transaction as specified in the relevant Parts of Schedule 6 to the OSCAO.

Although AIs are exempted from the statutory requirements for remittance agents and money changers under the OSCAO, it is important for us to ensure that the anti-money laundering standards of the banking sector is in line with the overall Government policy to combat money laundering activities. In this connection, we have consulted the Hong Kong Association of Banks and the DTC Association on our proposal to revise the HKMA Guideline for Prevention of Money Laundering to incorporate the customer identification and record keeping requirements similar to that of above Section 24C and Schedule 6 for exchange and remittance transactions undertaken for non-account holders of AIs. Transactions undertaken for account-holders of AIs will not be subject to such requirements as the Guideline has already required AIs to verify the identity of account-holders before entering into business relationships with them and to keep relevant transaction records thereafter.

The above two industry associations have agreed with our proposal to revise the Guideline to reflect the customer identification and record keeping requirements. Opportunity has also been taken to update other parts of the Guideline where appropriate.

The revised Guideline, which includes the above new requirements and the updating can be seen in our websites at www.hkma.gov.hk and www.hkfin.net.

AIs should continue to exercise caution and be alert when conducting transactions with all customers, irrespective of whether they are walk-in customers or existing account-holders. If an AI has a suspicion of possible money laundering activity over a transaction of whatever amount, it should report the transaction to the Joint Financial Intelligence Unit (JFIU), a unit operated by the Hong Kong Police and the Customs and Excise Department. The JFIU has recently established a website (www.jfiuhk.com), which provides useful guidance on the systematic approach to identifying suspicious transactions.