



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
B9/67C

21 October 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Customer Protection in respect of Reform of Interest Rate Benchmarks

Further to the circulars previously issued by the Hong Kong Monetary Authority (“HKMA”) relating to the reform of interest rate benchmarks, I am writing to remind authorized institutions (“AIs”) to pay attention to the customer protection aspects.

As mentioned in the previous circulars, the London Interbank Offered Rate (“LIBOR”) may be discontinued after the end of 2021. Following the recommendations of the Financial Stability Board (“FSB”) to identify a reliable and robust alternative reference rate (“ARR”), the Treasury Markets Association (“TMA”) has identified the Hong Kong Dollar Overnight Index Average (“HONIA”) as the ARR which serves as a fallback for the Hong Kong Interbank Offered Rate (“HIBOR”), and there is no plan to discontinue HIBOR. The HKMA has reminded AIs to make early preparations for the transitions to the ARR, and to keep abreast of both international and local developments of the reform of interest rate benchmarks and take them into account in their preparation for the transition.

Fair Treatment of Customers

In line with the above, the HKMA would also like to remind AIs to uphold customer protection principles in line with the Treat Customers Fairly Charter and other applicable requirements (e.g. Code of Banking Practice) throughout the processes of the reform and transition of interest rate benchmarks. As always, treating customers fairly and protecting customers should be an integral part of the good governance and corporate culture of all AIs. Hence, AIs are reminded to act with due skills, care and diligence in their approaches to the transition of interest rate benchmarks and when making decisions impacting customers, so as

to reduce conduct risks and ensure that customer protection principles are upheld throughout the processes.

For example, in line with existing requirements on product design and product due diligence, AIs should identify any potential impact of the transition of interest rate benchmarks of their products before distributing the products to the customers, and clearly explain such impact to customers in the selling process, especially retail banking customers. AIs are also reminded to manage the customer impact of the transition ahead of end-2021, including identifying the extent of their clients' exposures, ensuring the associated risks of their clients (such as the impact on contract continuity, the risk of declining liquidity in the affected products, and the need to engage with product issuers for the transition) are assessed and managed. Customers' interest should be upheld throughout the processes.

Customer Communication and Education

Effective customer communication can help avoid potential disputes and protect the interests of customers by ensuring adequate transparency and helping them understand the implications involved. In this connection, AIs are expected to develop robust customer communication programmes for consumer education and outreach. Such programmes should be introduced at an earlier stage to increase customers' awareness and understanding of the reform of interest rate benchmarks, and help them make informed decisions as appropriate. They should be conducted through appropriate channels (such as newsletters, Frequently Asked Questions (FAQs) or animated videos).

Specifically, when AIs reach out to and communicate with the affected customers, AIs should endeavour to help their customers understand the implications and options available (if applicable) related to the transition, for example, possible fallbacks for interbank offered rates. Communication should be clear, fair and not misleading, and should take into account the knowledge and experience of the audience and be easy to understand. AIs should also provide customers with appropriate and accessible channels to make enquiries and complaints, and put in place relevant handling mechanisms/procedures which should be proper and fair.

In respect of the above, it is essential for AIs to make the necessary planning and preparation in advance, for instance, gearing up resources for the relevant hotlines and/or other communication or customer-facing channels. AIs should also provide sufficient training and up-to-date information to all relevant frontline staff, especially those who will engage in reaching out to customers or answering customers' enquiries regarding matters on the reform of interest rate

benchmarks in order to ensure their relevant staff have adequate knowledge and competence to appropriately handle communications with customers.

Should you have any questions regarding this circular, please feel free to contact Ms Stella Ma on 2878-8601 or Ms Teresa Chu on 2878-1563.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)