

For information
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**LEGISLATIVE COUNCIL
PANEL ON FINANCIAL AFFAIRS**

**ESTABLISHMENT OF A COMMERCIAL
CREDIT REFERENCE AGENCY IN HONG KONG**

PURPOSE

This paper reports on the latest developments in relation to the establishment of a commercial credit reference agency (CCRA) in Hong Kong.

BACKGROUND

2. As part of the reform programme to strengthen the infrastructure of the banking sector, the Hong Kong Monetary Authority (HKMA) has proposed to establish a CCRA in Hong Kong. The HKMA believes that a CCRA, which gathers and collates information about the indebtedness and credit history of commercial enterprises and makes available the information to lending institutions, will bring about significant benefits to Hong Kong. It will provide lending institutions with a fuller picture of the credit worthiness of their corporate customers, thus helping to strengthen their credit risk management. In addition, a CCRA will improve the credit transparency of the corporate sector, thereby making it easier for borrowers to seek bank finance.

3. These benefits of a CCRA are widely recognised by the banking industry and the corporate sector. In fact, there is general agreement that the scheme will benefit small and medium-sized enterprises (SMEs) particularly. The HKMA's proposal has also received the support of the Legislative Council (LegCo). On 25 April 2001, LegCo passed a motion requesting the Administration to expedite the establishment of a CCRA.

4. Following the motion debate, the HKMA has on various occasions reported the progress of the project to LegCo (e.g. during the HKMA's quarterly briefings to the Panel on Financial Affairs). Since the project has now entered the final phase of development, the HKMA considers that it is time to provide a more comprehensive update to Members. The succeeding paragraphs will first outline the key features of the CCRA scheme being established in Hong Kong and then describe the recent developments of the project.

KEY FEATURES OF THE SCHEME

5. As reported to Members previously, the Hong Kong Association of Banks and the DTC Association jointly formed an Industry Working Party in May 2002, with participation from the HKMA, to work out the detailed arrangements for the establishment of a CCRA. Since then, the Industry Working Party has developed, and published in June 2003, a set of recommendations on how the CCRA scheme should be structured. A summary of these recommendations is set out below:-

A non-statutory scheme

- The banking industry's concerted efforts in the promotion of greater sharing of consumer credit data demonstrate that authorized institutions (AIs) are increasingly willing to share credit information among themselves. In view of this development, the Industry Working Party considers it feasible to establish a non-statutory CCRA scheme. Compared with a scheme established by legislation, a non-statutory scheme is easier, quicker and less costly to implement. It is also more flexible and thus more responsive to the changing needs of the banking sector.

Comprehensive participation

- Although participation is not mandated by legislation, the HKMA still expects all AIs involved in SME lending to participate in the CCRA scheme. This will not only benefit the AIs themselves, but is also important to ensure the comprehensiveness and hence the usefulness of the CCRA database. Subsidiaries of AIs involved in SME lending are allowed to join the scheme on a voluntary basis (references to AIs below include these participating subsidiaries).

Coverage

- The CCRA will cover only the SME customers of AIs. As shown in the public consultation conducted in 2000, credit assessment for the SME sector is hampered by the lack of reliable information. It is expected that this sector will benefit most from a CCRA scheme in terms of enhanced credit transparency and improved access to bank funding.
- For the purposes of the proposed scheme, a commercial enterprise will be regarded as an SME if it is an unlisted company with an annual turnover not exceeding HK\$50 million. In order to expedite the implementation process, sole

proprietors and partnerships will not be covered at the initial stage.

Scope of data to be reported and shared

- Both positive and negative credit information will be collected by the CCRA. The former will include the limits of the credit facilities granted by AIs to the SME and the extent to which the facilities are supported by collateral. As regards the latter, AIs should report the amount of facilities that are overdue for more than 60 days. They should also report the amount of loans that have been written off.
- The CCRA will collect data only from its start-up date onwards. Default data of past facilities or overdue payments of current facilities that have been subsequently settled will not be reported. Moreover, information such as the assets of the company and the personal wealth of the company's shareholders will not be covered.
- The information contained in the CCRA will be updated by AIs on a monthly basis. In general, credit information relating to each facility will be retained by the CCRA for five years from the date of full repayment of that particular facility.

Customer consent

- In keeping with their contractual duty to maintain customer data confidentiality, AIs should seek SME customers' consent before disclosing their credit data to the CCRA for the purpose of conducting credit checks or assisting other AIs to conduct credit checks.
- An SME may revoke its consent by giving the AI 90 days' prior notice in writing. In such a situation, the AI should report the revocation to the CCRA as soon as practicable and stop reporting the credit data of that SME to the CCRA after the 90-day period.

Data protection

- AIs will be required to observe a set of data protection rules issued by the HKMA in the form of a statutory guideline under the Banking Ordinance. Consistent with the framework for protection of personal credit information, the rules will specify that AIs can access the CCRA database only in relation to the grant, review or renewal of an SME's credit facilities. They should not access the database for other

purposes such as marketing. The guideline will also require AIs to maintain adequate systems of control to properly protect the data of their SME customers. Failure to comply with these rules will call into question the AI's ability to satisfy the relevant authorization criteria in the Banking Ordinance.

- Moreover, the data protection rules require AIs to use only the service of a CCRA that has taken appropriate steps to safeguard the security and accuracy of the data it holds, and to respond to an access or correction request by an SME promptly. These requirements should be incorporated into the terms of the CCRA's service agreement. Non-compliance with the agreement will amount to a breach of contract that may result in the termination of the services of the CCRA.

Complaints handling

- The HKMA will play an active role to ensure that complaints against AIs and the CCRA operator are properly handled and that the data protection rules are complied with by all parties concerned.

LATEST DEVELOPMENTS

6. With the design of the proposed scheme finalised, the project of establishing a CCRA in Hong Kong has entered the implementation phase. In August 2003, the Industry Working Party appointed Dun & Bradstreet (HK) Ltd (D&B) to operate the CCRA. Meanwhile, the HKMA and the Industry Working Party continue to promote the SME sector's understanding and acceptance of the scheme by attending the meetings of relevant SME bodies and providing briefings to SMEs¹. The Hong Kong Association of Banks and the DTC Association have also issued a leaflet to explain the proposed scheme to SMEs (a copy is enclosed at the Annex).

7. Since October 2003, AIs have been seeking the consent of SME customers to disclosure of their data to the CCRA. According to a survey conducted by the HKMA to monitor AIs' consent seeking efforts, by the end of March 2004, AIs have, on average, sought consent from 55% of their SME customers. Over 60% of these customers have responded to AIs' requests for

¹ For example, a luncheon with various SME associations was co-hosted by the HKMA and the two industry associations on 11 June 2003; a briefing was given on 2 September 2003 to the SME Committee which advises the Government on SME related matters; a briefing was given in a roundtable luncheon organised by the Hong Kong General Chamber of Commerce on 29 September 2003; and a seminar open to SMEs was held on 13 November 2003.

consent, and of those responding, about 96% have given consent. The high consent rate is encouraging. It suggests that the SME sector is generally receptive to the scheme. It is expected that the consent seeking process will be completed in the third quarter of 2004.

8. By now, the Industry Working Party and D&B have largely finalised the operational details, including the systems and reporting requirements, of the scheme. Over the past few months, several briefing and training sessions were held to explain these reporting requirements to AIs, and most AIs have started amending their systems to meet these requirements. With reference to the Code of Practice on Consumer Credit Data issued by the Privacy Commissioner for Personal Data, the HKMA has also developed the statutory guideline governing the sharing and use of credit data through a CCRA. The guideline has recently been finalised following two rounds of consultation with the banking industry and was circulated to all AIs in June 2004.

9. Based on the present schedule, if everything goes smoothly, AIs can start uploading credit data to the CCRA in September 2004 and the scheme is expected to be fully operational by the end of 2004.

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