



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Our Ref: B1/15C  
B9/67C

29 December 2021

The Chief Executive  
All Authorized Institutions

Dear Sir / Madam,

**Payment Arrangements for Property Transactions (“PAPT”)**

I am writing to draw your attention to the progress made to date in reviewing and developing proposals for the disbursement of mortgage loan funds on the completion of sale and purchase transactions for residential property in Hong Kong. I strongly encourage your institution both to provide comments to the industry associations on the operational feasibility of the PAPT Proposal and to review the provision of the resources within your institution which will be necessary to enable you to prepare for, and ultimately implement, the PAPT once finalised and launched.

**Background**

In order to minimise the significant impact that may be caused to residential mortgage customers in the event that the completion of a property transaction is disrupted as a result of the suspension of the operations of the law firm engaged to handle the transaction, The Hong Kong Association of Banks (“HKAB”), The DTC Association (“DTCA”) and The Hong Kong S.A.R. Licensed Money Lenders Association (collectively the “industry associations”) have been working on an initiative to explore other means of making the sizable payments involved in residential property conveyancing transactions which could be adopted instead of the current practice of routing such payments through the client accounts of the law firms handling the transactions.

The Hong Kong Monetary Authority (“HKMA”) strongly supports this initiative to better protect bank customers in the conduct of property transactions and to reduce the credit and operational risks of Authorized Institutions (“AIs”) in their mortgage business.

The industry associations, in consultation with the HKMA, have formulated the PAPT Proposal and have been engaging with various stakeholders including The Law Society of Hong Kong (“Law Society”), the Consumer Council and the Estate Agents Authority to solicit their input in the course of developing the Proposal. Such engagement is ongoing.

### **The PAPT Proposal**

Under the PAPT Proposal, in essence, the mortgage loan proceeds advanced to the buyer in a residential property transaction will be disbursed by the buyer’s mortgage institution directly to the seller’s mortgage institution (assuming the seller has an outstanding mortgage over the property in question) through the Clearing House Automated Transfer System (“CHATS”). This will enable any outstanding balance of the seller’s mortgage loan to be settled, and any surplus proceeds (in excess of such outstanding balance) will thereafter be paid by the seller’s mortgage institution to the bank account designated by the seller, again through CHATS. In cases where the seller does not have any outstanding mortgage over the property, the proceeds of the buyer’s mortgage loan will be disbursed directly to the seller’s bank for credit to the seller’s account by CHATS. The use of such electronic means to make payments directly from bank to bank offers the benefits of safety, certainty and speed and should avoid, or at least mitigate, the risk to the parties concerned that sizable payments could be held up due to unforeseen disruption to the operations of a conveyancing law firm. For any remaining balance to be paid by the buyer, payments will be made by means of cashier’s order to be arranged by the buyer.

In scenarios where the buyer does not need to apply for a mortgage loan, it is recommended that cashier’s order be used by the buyer to make the necessary payments to the seller and, where the property is currently mortgaged by the seller, to the seller’s mortgage institution. Replacing the use of solicitor’s cheques by cashier’s orders as far as practicable should likewise mitigate the risk in payments in the conveyancing transaction in case of any intervening suspension of operations at the law firm engaged to handle the transaction.

It is expected that in its initial phase, the PAPT Proposal will only be used for residential property transactions in the secondary market as well as mortgage refinancing, and that only licensed banks will adopt the PAPT Proposal in respect of their mortgage loan transactions. Taking into account operational experience in implementation, the coverage of the PAPT Proposal may thereafter be extended by the industry associations in terms of both types of transaction and participating institutions.

### **Preparation for Implementation**

HKAB and DTCA have today issued letters consulting their members on the PAPT Proposal, for the purpose of both seeking comments on its operational

feasibility and enabling their member institutions to begin early preparation to pave the way for its implementation. The industry associations are continuing to discuss the PAPT Proposal with the Law Society to ensure it can operate effectively within the overall context of the conveyancing process and they may further refine the PAPT Proposal taking into account comments from the Law Society, as well as from their member institutions and other relevant stakeholders. Meanwhile, the documentation templates necessary to give effect to the adoption of the PAPT Proposal (the contents of some of which are outlined in the consultation) are currently being developed. HKAB and DTCA are also making preparations for the conduct of a series of pilot transactions using the PAPT Proposal to test out the operational processes and identify any necessary refinements as a result.

Subject to the further deliberation of the industry associations in consultation with the HKMA, it is envisaged that, the initial phase of the PAPT will be put into operation within a period of 3 to 6 months after the finalisation of the PAPT Proposal. AIs (especially licensed banks which, as noted above, are expected to adopt the PAPT Proposal in its initial phase) are therefore reminded to study, and provide their comments on, the PAPT Proposal circulated by the industry associations and to assess and plan for the resources likely to be required for its implementation, including any necessary system and process development and any future staff deployment. In particular, it is envisaged that thorough testing of the systems and processes as well as adequate staff training and customer communication plans will be necessary for a smooth launch of the PAPT Proposal.

If you have any questions on this circular, please contact Mr Kevin Sham at 2878 1594 or Ms Edna Cheng at 2597 0848. For questions about the PAPT Proposal, please contact the industry associations.

Yours faithfully,

Arthur Yuen  
Deputy Chief Executive

- c.c. The Hong Kong Association of Banks (Attn: Mr Steve Choi, Secretary)
- The DTC Association (Attn: Mr P C Lund, Association Secretary)
- Secretary for Financial Services and the Treasury (Attn: Mr Desmond Wu, Principal Assistant Secretary (Financial Services))
- The Law Society of Hong Kong (Attn: Ms Heidi Chu, Secretary General)
- Consumer Council (Attn: Ms Gilly Wong, Chief Executive)
- Estate Agents Authority (Attn: Ms Ruby Hon, Chief Executive Officer)