

# Banking Stability



The banking sector in Hong Kong remained strong and resilient in 2023 despite multiple headwinds, including the March banking turmoil in the US and Europe, a high interest rate environment and geopolitical tensions. The HKMA responded swiftly to the March banking turmoil — from managing the ripple effects to completing an internal review (covering such areas as the supervisory processes and resolution framework) drawing lessons for the local banking sector, while maintaining its focus on the credit, liquidity and market risk management of authorized institutions. In light of escalating cyber threats and the increasing use of technology services provided by third parties, the HKMA also worked closely with authorized institutions to enhance their operational and cyber resilience.

The HKMA enhanced consumer protection in respect of payment cards, and through further revision of the Code of Banking Practice as well as the launch of the Anti-Scam Consumer Protection Charter. The HKMA worked with fellow regulators on a balanced regulatory regime for virtual asset-related activities, streamlined the selling process for sophisticated professional investors, introduced enhancements to the Cross-boundary Wealth Management Connect Pilot Scheme, and commenced supervision of trust business. A pilot programme was launched to prepare for provision of consumer credit reference services under “Credit Data Smart”.

The HKMA’s efforts in anti-money laundering and counter-financing of terrorism (AML/CFT) reflect a commitment to targeting the highest threats under a risk-based approach. To address increasing digital fraud, the HKMA has strengthened ecosystem collaboration through the launch of real-time fraud monitoring and expanding the scope of public-private information-sharing partnerships, including the Fraud and Money Laundering Intelligence Taskforce. The launch of a ground-breaking platform to facilitate bank-to-bank information sharing will help address the risk of mule account networks, while the HKMA also worked closely with the industry to take concerted action to handle increasing fraud-related banking complaints and raise public awareness about different scams, including a pre-transaction alert mechanism when using the Faster Payment System. In parallel, supervisory technology capabilities were also advanced through the Macro Analytics pilot scheme.

Good progress was made on implementing international supervisory standards locally, including those on capital adequacy and disclosure. Notable efforts were also made in enhancing capacity building in the banking sector, attracting and nurturing future talents and upskilling existing practitioners. In addition, the Hong Kong Deposit Protection Board completed a public consultation on proposed enhancements to the Deposit Protection Scheme.

The HKMA continued to advance its work to ensure a credible resolution regime. A new resolution standard related to accessing critical financial market infrastructures was developed and a review on experiences of implementing loss-absorbing capacity policy standards was completed. Significant progress was made in resolution planning with banks to address early termination risk and operational continuity in resolution. The HKMA also continued to be active in international policy initiatives and regional co-operation on resolution.

## Banking Stability

### Objectives

The HKMA has a general objective to promote the safety and stability of the banking system. Achieving this objective is contingent upon a highly resilient financial system that is capable of providing the critical financial services the Hong Kong economy needs.

Banks can affect the stability of the system through the way they carry out their businesses and, in extreme cases, by failing in a disorderly manner. The Monetary Authority, as a supervisory authority, plays a key role in safeguarding financial stability by ensuring that banks are resilient to shocks and able to recover their positions in response to crises, ultimately helping to prevent failures. The Monetary Authority is responsible for the prudential supervision of banks and is tasked with the authorization of licensed banks, restricted licence banks and deposit-taking companies in Hong Kong, which are collectively known as authorized institutions (AIs).

The Hong Kong prudential regulatory framework is not designed to ensure a zero-risk financial system. Instead, the Monetary Authority, as a resolution authority, seeks to ensure that, in the event of an AI becoming non-viable, its failure can be managed in an orderly manner. To this end, a resolution regime for financial institutions in Hong Kong has been established, under which the Monetary Authority is the resolution authority for AIs, among other types of institutions. To operationalise the resolution regime in Hong Kong, it is important to lay down resolution rules and policy standards, undertake resolution planning to remove impediments to AIs' resolvability and develop the HKMA's operational capability to resolve a failing AI. In order to carry out these tasks effectively, the HKMA adopts an internationally harmonised and co-ordinated approach.

The Monetary Authority is also responsible for the designation and oversight of certain financial market infrastructures (FMIs). In overseeing FMIs, the HKMA aims to promote their general safety and efficiency, limit systemic risk and foster transparency. Making FMIs more resilient to financial crises protects the monetary and financial systems in Hong Kong from possible destabilising effects arising from disruption to the FMIs.

### Review of 2023

#### Licensing

At the end of 2023, Hong Kong had:



During the year, the HKMA granted one banking licence and one restricted bank licence to two banks incorporated outside Hong Kong. The HKMA also granted money broker approval to four foreign trading platform operators and revoked another approval granted to one money broker. The HKMA revoked authorizations of five licensed banks during the year.

More information about the AIs and local representative offices in Hong Kong can be found in the Annex and Tables D to F on pages 313 to 316 and 322 to 325 respectively.

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### Review of three-tier banking system

In 2023, the HKMA conducted a comprehensive review on the three-tier banking system in order to simplify the structure of Hong Kong's banking system. The review found that the three-tier system has become more complex than necessary to achieve the original aim to strike a balance between flexibility of entry into the banking system and protection of small depositors. Subsequently, the HKMA commenced a three-month consultation in June on a proposal to simplify the three-tier banking system into two tiers by merging deposit-taking companies into the restricted licence bank sector, thereby forming a new second tier of Hong Kong's banking system. Respondents were generally supportive of the proposal.

### Overview of supervisory activities

In 2023, the HKMA conducted 177 off-site reviews covering a broad range of issues, including CAMEL rating assessment<sup>1</sup>, corporate governance and risk management. As part of the HKMA's continued efforts to promote stronger risk governance, 38 meetings were held with the boards of directors, independent non-executive directors or board-level committees of AIs. Furthermore, 38 tripartite meetings were held among the HKMA, AIs and their external auditors.

Apart from off-site activities, the HKMA conducted regular on-site examinations on a wide range of AIs' activities. Credit risk management was a key focus given the challenging credit risk landscape amid a high interest rate environment and debt defaults by some Mainland property developers. The management of operational risk and technology risk was another major focus as the adoption of technology by AIs gathered further momentum. The HKMA also stepped up its supervisory work on climate risk management and rolled out a new round of thematic examinations focused on climate-related risk governance, and a series of consultative sessions to provide supervisory guidance to AIs.

The banking turmoil in the US and Europe that started in March 2023 was the most significant system-wide banking stress since the Great Financial Crisis of 2008 in terms of scale and scope. The HKMA stayed on high alert as the turmoil unfolded and took a number of precautionary actions to ensure that any potential fallout would not undermine confidence in the local banking and financial system. After the episode, the HKMA conducted an internal review exercise having regard to the observations and experience gained from the turmoil. Based on this exercise, the HKMA developed a detailed action plan to incorporate lessons learnt with a view to strengthening its supervisory effectiveness and augmenting its ability to handle a banking crisis if one did occur. See *Liquidity and market risks* on page 95 for more details on the HKMA's work in this respect.

On conduct supervision, the HKMA carried out on-site examinations in securities, investment products, insurance and Mandatory Provident Fund (MPF)-related businesses as well as consumer protection matters, supplemented with thematic reviews on areas assessed to be of higher risk or new initiatives.

<sup>1</sup> Comprising the Capital adequacy, Asset quality, Management, Earnings and Liquidity components.

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Table 1 contains a summary of the HKMA's supervisory activities in 2023.

**Table 1** Summary of supervisory activities

	2023	2022
<b>1 Off-site reviews and prudential interviews</b>	<b>177</b>	183
<b>2 Meetings with boards of directors, independent non-executive directors or board-level committees of AIs</b>	<b>38</b>	36
<b>3 Tripartite meetings</b>	<b>38</b>	38
<b>4 Culture dialogues</b>	<b>7</b>	7
<b>5 On-site examinations</b>	<b>125</b>	112
Operational risk and technology risk management	37	32
AML/CFT controls	15	13
Liquidity risk management	9	8
Implementation of Basel capital adequacy framework	6	3
Capital planning	6	6
Market risk, counterparty credit risk and treasury activities	11	19
Securities, investment products, insurance and MPF-related businesses	20	17
Consumer protection	3	2
Deposit Protection Scheme-related representation	12	12
Overseas examinations	6	0
<b>6 Thematic reviews</b>	<b>694</b>	637
Credit risk management and controls	43	43
Operational risk and technology risk management	76	69
AML/CFT controls	64	82
Model risk management	0	7
Investment products, insurance and MPF-related businesses	168	115
Consumer protection	216	225
Sharing and use of credit data	63	58
Liquidity risk	20	21
Market risk	20	8
Green and sustainable banking <sup>a</sup>	24	9
<b>Total</b>	<b>1,079</b>	1,013

a. Including consultative sessions with AIs to review their implementation of the HKMA's Supervisory Policy Manual module GS-1 on "Climate Risk Management".

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### Credit risk

#### Credit growth and asset quality

Total loans decreased by 3.6% in 2023, compared with a decline of 3.0% in 2022. Table 2 shows the breakdown of growth in loans and advances. Mainland-related lending decreased by 6.6% to HK\$4,226 billion in 2023 (Table 3).

**Table 2** Growth in loans and advances

% change	2023	2022
<b>Total loans and advances</b>	<b>-3.6</b>	-3.0
Of which:		
– for use in Hong Kong	<b>-0.4</b>	0.9
– trade finance	<b>-13.1</b>	-13.5
– for use outside Hong Kong	<b>-10.4</b>	-10.1

**Table 3** Growth in Mainland-related lending

% change	2023	2022
<b>Total Mainland-related lending</b>	<b>-6.6</b>	-4.3
Of which:		
– Mainland-related lending (excluding trade finance)	<b>-6.5</b>	-3.6
– trade finance	<b>-7.8</b>	-14.8

In 2023, the HKMA intensified supervisory efforts in monitoring Als' asset quality and assessing their credit risk management practices given the high interest rate environment and continued weakness in the Mainland property market. The asset quality of the banking sector deteriorated during the year but remained manageable. The classified loan ratio of the banking sector was 1.56% at the end of 2023, up from 1.40% at the end of 2022. The classified loan ratio for Mainland-related lending increased to 2.58% from 2.26% at the end of 2022.

During the year, the HKMA conducted targeted and thematic examinations to evaluate Als' credit risk management focusing on exposures to vulnerable sectors, premium financing, oversight of credit risks at operations outside Hong Kong and exposures to non-bank financial institutions.

#### Alleviating cash flow pressure faced by bank customers

The HKMA and the Banking Sector Small and Medium-sized Enterprise (SME) Lending Coordination Mechanism announced in July the commencement of an orderly exit from the Pre-approved Principal Payment Holiday Scheme. The Scheme was introduced in May 2020 to tide eligible corporates over the pandemic. Taking into account the views of the commercial sectors, the partial principal repayment options were enhanced to assist corporates' gradual return to normal repayment. Where sectors or individual borrowers were still facing challenges despite the end of the pandemic, banks continued to offer principal moratorium or other suitable credit relief measures on a case-by-case basis.

The HKMA also encouraged banks to be sympathetic in handling the funding needs of corporates which had not participated in the Scheme but were facing cash flow pressures due to individual circumstances. The HKMA reminded banks to follow the "Hong Kong Approach to Corporate Difficulties" guidelines in dealing with corporates encountering repayment problems, so that individual banks would act collaboratively in the common interest of the lenders involved.

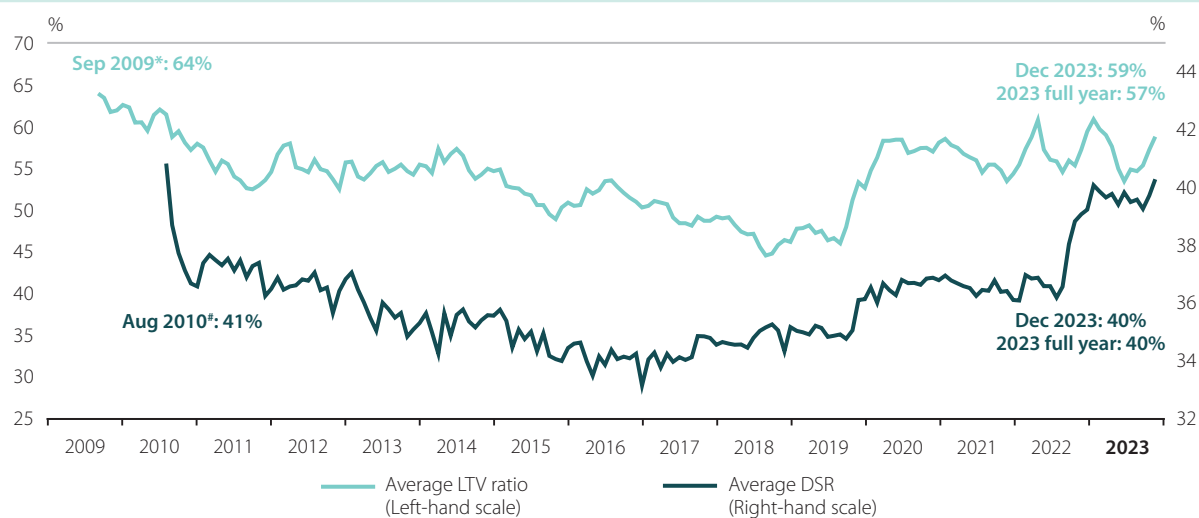
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### Property mortgage lending

The successive rounds of countercyclical macroprudential measures introduced by the HKMA since 2009 have strengthened banks' risk management of their property mortgage lending business and the banking sector's capacity to cope with challenges arising from a sharp correction in property prices. The average loan-to-value (LTV) ratio of new residential mortgage loans approved in 2023 stood at 57%, compared with 64% in September 2009 before the countercyclical measures were first introduced (Chart 1). The average debt servicing ratio (DSR) of new mortgages stayed low at 40% in 2023, compared with 41% in August 2010 when a cap on DSR was first applied.

On 7 July, the HKMA adjusted the countercyclical macroprudential measures after taking into account factors such as property prices, transaction volumes and the local and external economic environment. This was the first time the countercyclical macroprudential measures for residential properties were relaxed since their introduction in 2009. The adjustments included increasing the maximum LTV ratios for residential properties and commercial properties, as well as for mortgage loans assessed based on the net worth of mortgage applicants. In addition, the requirements to lower the applicable maximum LTV ratio and DSR limit by ten percentage points for mortgage applicants with incomes derived mainly from places outside of Hong Kong were lifted. The HKMA also removed the requirement to apply a five-percentage-point reduction on applicable DSR limits when mortgage applicants' total mortgage finance exceeded the HKMA's normal permissible LTV ceilings by 20 percentage points.

**Chart 1** Average LTV ratio and DSR of new residential mortgage loans approved



\* Before the first round of countercyclical measures was introduced by the HKMA

# When the tighter requirement on DSR was introduced by the HKMA

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### Operational and technology risk

Following the issuance of the Supervisory Policy Manual (SPM) module OR-2 on “Operational Resilience” in 2022, the HKMA monitored the industry’s implementation progress closely. Based on an industry survey completed in the third quarter of 2023, most banks had developed their operational resilience frameworks and were on track to fully implement those frameworks by May 2026 in accordance with the timeline specified by the HKMA.

In light of escalating cyber threats, the HKMA further stepped up the supervision of banks’ cyber resilience. Since the launch of the Cyber Resilience Assessment Framework in 2016, AIs had completed two rounds of cyber defence maturity assessments and intelligence-led cyber simulation tests by the end of 2023. Where these assessments and tests revealed possible rooms for improvement, AIs had taken prompt actions to strengthen their cybersecurity controls. Separately, major banks had taken on board the HKMA’s recommendation to maintain a secure tertiary data backup, an air-gapped data vault designed to be separate from the primary and secondary data centres. The implementation of the backup would substantially enhance these banks’ capability to respond to and recover from destructive ransomware attacks. In response to an increasing number and the growing sophistication of supply chain attacks that impacted a multitude of global institutions, the HKMA issued a circular to share with the industry a set of sound practices for managing cyber risk associated with the use of third-party service providers. To further strengthen the industry’s collective preparedness against potential cyberattacks, the HKMA facilitated and actively participated in the Whole Industry Simulation Exercise 2023, a cross-sectoral crisis simulation exercise spanning the banking, securities and insurance sectors. The key theme of 2023 exercise was supply chain attacks.



*The kick-off session of the Whole Industry Simulation Exercise 2023 is convened in the HKMA office in July*

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With digital fraud on the rise, the HKMA further stepped up its efforts in countering new fraud tactics and introduced a number of measures to protect bank customers. In April, the HKMA required card-issuing banks to tighten authentication controls for the binding of payment cards with contactless mobile payment services. In October, the HKMA unveiled ten new measures to fortify the security of e-banking services. These measures required Als to enhance their fraud monitoring mechanisms, implement ambush customer authentication and provide a mechanism for immediate suspension of bank accounts. In response to the emergence of malware scams in neighbouring economies, the HKMA swiftly provided the industry with guidance on effective protective measures to counter these scams. The number of bank customers affected by malware scams has since been kept at a very low level. Two workshops were jointly organised by the HKMA and the Hong Kong Police Force (HKPF) in July and December respectively to keep the banking industry abreast of the latest fraud trends. The HKMA also launched a new public awareness campaign featuring the slogan “Protect your Personal Digital Keys; Beware of Fraudulent Links!” to increase public alertness about digital fraud.



*Display for the public awareness campaign featuring the slogan “Protect your Personal Digital Keys; Beware of Fraudulent Links!”*

### Liquidity and market risks

The HKMA stepped up the supervision of Als’ liquidity and market risk management, particularly after the outbreak of the US and Europe banking turmoil in March, to ensure that Als continued to manage these risks prudently. The results of the HKMA’s solvency and liquidity stress tests continued to indicate that the banking sector maintained sufficient capital and liquidity buffers to withstand possible stress and liquidity outflows.

The liquidity risk supervision team enhanced its surveillance of Als’ liquidity risk profiles, and assessed their risk management and controls with respect to deposit concentration, social media surveillance and contingency funding management. The market risk supervision team examined Als’ use of behavioural models in measuring interest rate risk in the banking book (IRRBB) and evaluated their controls over investments classified as held-to-maturity (HTM) securities. The findings arising from these supervisory activities were incorporated into the HKMA’s circular letter issued to Als in December to share its supervisory expectations with respect to liquidity and market risk management.

The Hong Kong banking sector transitioned smoothly away from the remaining US dollar London Interbank Offered Rate (LIBOR) settings, which ceased to be compiled after June. During the process, the HKMA closely monitored Als’ progress of preparation and assisted them in raising the corporate sector’s readiness for the transition. The Hong Kong Interbank Offered Rate (HIBOR) was widely recognised by market participants as a credible and reliable benchmark, and would be maintained notwithstanding the introduction of the Hong Kong Dollar Overnight Index Average (HONIA). Given the multi-rate approach adopted by Hong Kong, the market risk supervision team undertook a round of reviews to ensure the robustness of Als’ control frameworks for the submission of rates as inputs to the compilation of HIBOR fixings.

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### Internal review following the banking turmoil in the US and Europe – Key lessons learnt

Notwithstanding the strength and resilience demonstrated by the Hong Kong banking sector during the March banking turmoil, the HKMA noted that lessons could be drawn from the episode to enhance its supervisory effectiveness and agility to handle a banking crisis if one did occur. It therefore completed an internal review exercise covering the supervisory processes, resolution framework, and the interface between supervision, deposit protection and resolution.

The internal review concluded that the HKMA's relevant frameworks and processes remained generally appropriate and fit-for-purpose. Nevertheless, the review also identified several areas where improvements could be made. Based on these findings, the HKMA is taking follow-up actions focused on the below areas:

- **Strengthening the supervision of Als' management of interest rate risk in the banking book and debt securities investment.** The HKMA is stepping up its scrutiny of the behavioural models and surrounding controls adopted by Als in managing IRRBB. It is also in the process of enhancing the sensitivity of the capital framework to capture Als' exposure to IRRBB. As for debt securities investment, supervisory teams are paying increased attention to how Als manage their HTM securities, including their arrangements for (i) designating HTM securities for liquidity purposes, (ii) incorporating the potential impact of valuation losses on these securities into their internal processes (e.g. stress testing), and (iii) making disclosures on the impact of such losses on their capital position.

- **Ensuring Als' liquidity risk management practices remain adequate against the backdrop of continued digitalisation of banking services and growing social media influence.** These developments have increased the speed at which bank runs can unfold and compressed the time available for banks to respond. The HKMA will place greater emphasis on Als' related risk mitigation measures, including their contingency funding arrangements, controls for managing the risks associated with deposit concentration and social media monitoring mechanisms.

- **Enhancing the HKMA's capability to respond to banking crises within shorter timeframes.** The internal review reaffirmed the importance for the HKMA – like banks – to be prepared and able to nimbly respond to a variety of crisis scenarios. With this in mind, the HKMA is progressing work to streamline its crisis management processes, and enhance the resolution framework and its readiness to operationalise a range of resolution options. It is also strengthening inter-agency and cross-border supervisory co-ordination to bolster its ability to address incidents that may span across sectors and borders.

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### Anti-money laundering and counter-financing of terrorism

Financial crime continued to be a significant global challenge in 2023 and in response, the HKMA improved measures to protect customers of Hong Kong banks from digital fraud, and reduced the harm caused by mule account networks. The HKMA worked alongside partners in Hong Kong's AML/CFT ecosystem to strengthen the banking and stored value facility (SVF) sectors' ability to detect fraud, alert potential victims and provide more actionable financial intelligence. The HKMA strengthened collaboration with the 28 member banks of the Fraud and Money Laundering Intelligence Taskforce (FMLIT)<sup>2</sup>, thereby enhancing their capacity to detect and prevent illicit activity, leading to the identification of about 6,400 new suspicious accounts associated with crimes under investigation by law enforcement agencies and the restraint or confiscation of about HK\$400 million in criminal proceeds in 2023. The work of the Anti-Deception Coordination Centre (ADCC)<sup>3</sup> and 28 retail banks also saw further enhancement, resulting in about HK\$1.3 billion in suspected fraudulent payments being intercepted in 2023.

During the year, the HKMA continued to work with the banking industry and the HKPF to make changes to Hong Kong's AML/CFT ecosystem in areas where the HKMA sees the greatest value. In 2023, a number of joint initiatives were launched, including the Financial Intelligence Evaluation Sharing Tool, a bank-to-bank information-sharing platform which is already improving the detection and disruption of fraud and mule account networks; the launch of real-time fraud monitoring, which enhances banks' early detection of fraud and mule accounts to alert potential victims; the Anti-Deception Alliance, which strengthens the effectiveness of the existing 24/7 stop-payment mechanism operated by

the ADCC by bringing together ADCC officers and bank staff; and a new alert based on the "Scameter" anti-fraud search engine, which warns customers using the Faster Payment System (FPS) whenever a higher-risk transaction is spotted. To enhance public awareness of fraud and mule accounts, the HKMA and banks have stepped up joint efforts with various stakeholders through publicity initiatives on "Don't Lend/Sell Your Account" and a new protocol to expedite alerts to the public of new trends and types of fraud.

The HKMA engaged the banking and SVF industries in amending the *Guidelines on Anti-Money Laundering and Counter-Financing of Terrorism (For Authorized Institutions and Stored Value Facility Licensees respectively)* (AML/CFT Guidelines) in response to changes in the global risk landscape, supporting legislative amendments which came into effect in June. These included changes to support a risk-based approach in determining the degree of customer due diligence (CDD) for "politically exposed persons" and supporting the use of technology for CDD where a customer is not physically present.

<sup>2</sup> FMLIT is a public-private partnership for information sharing among the HKMA, the HKPF and banks. Established in 2017, FMLIT expanded membership from ten banks initially to 28 in 2023.

<sup>3</sup> The ADCC was established in July 2017 by the HKPF to combat against deception and enhance public awareness of various kinds of scams.

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Senior representatives from the HKMA, HKPF and major retail banks at a sharing session on anti-fraud efforts



The HKMA collaborates with The Hong Kong Association of Banks and HKPF to launch the Financial Intelligence Evaluation Sharing Tool



Senior representatives from the HKMA, HKPF and 10 participating banks officiate at the inauguration of the Anti-Deception Alliance



Poster on real-time fraud monitoring systems launched by 28 retail banks with support from the HKMA



Educational messages on social media and public event around the theme "Don't Lend/Sell Your Account" for money or a job



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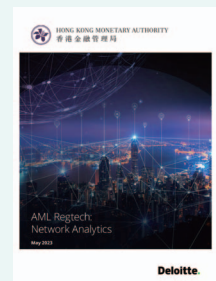
Under the “Fintech 2025” strategy, the HKMA continued to support the adoption of AML regulatory technology (Regtech) to enhance the use of data and technology by banks. The fourth AML Regtech Lab (AMLab 4) was co-hosted with Cyberport in June to bring together retail banks, SVF licensees, technology companies and industry experts to innovate and develop a sector-wide approach to real-time fraud monitoring, and help customers identify and take action to prevent fraud. Two reports, *AML Regtech: Network Analytics* and *AML/CFT Regtech: Case Studies and Insights Volume 2*, were published in May and September respectively to highlight how Regtech tools can enhance the effectiveness and efficiency of anti-deception efforts (Figure 1). The reports also share actual use cases from banks adopting more sophisticated AML Regtech solutions to enhance the effectiveness and efficiency of AML efforts.

**Figure 1** Regtech reports published in 2023



### AML Regtech: Network Analytics

To promote the adoption of network analytics capability to strengthen the response of banks’ AML systems to deception and other financial crimes



### AML/CFT Regtech: Case Studies and Insights Volume 2

To share real-life use cases from banks in their Regtech adoption to make their AML efforts effective and efficient; this volume covers sophisticated AML Regtech solutions, building on the first volume of January 2021



*Ms Carmen Chu, the then Executive Director (Enforcement and AML), delivers remarks at AMLab 4, during which representatives from the HKMA, banks and technology firms share insights and views on how Regtech solutions can detect and disrupt fraud as well as how banks can enhance their anti-fraud capabilities*



*Technology companies, including Cyberport start-ups, demonstrate relevant Regtech tools and solutions to participating banks and SVF licensees at Regtech Connect*

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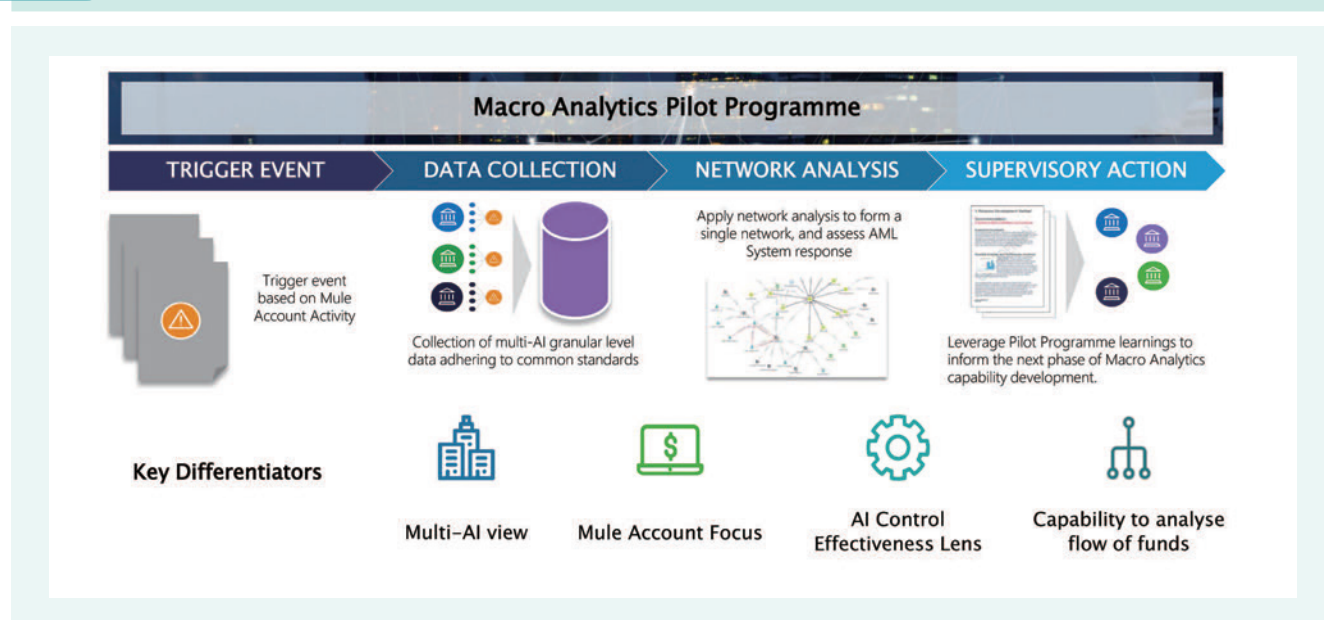
To remain responsive to changes in money laundering and terrorist financing (ML/TF) risks globally and domestically, the HKMA continued to improve its data and technology capabilities. A prototype Intelligent Risk and Incident Scanning tool was developed using natural language processing technology to automate and prioritise media and public source information with ML/TF implications to support risk-based supervision. AML/CFT supervisory data collection, validation and analysis were enhanced and streamlined through a secure, user-friendly interface with banks using a web-based Common Submission Platform.

In parallel with these developments, the HKMA implemented a pilot applying analytics to granular financial crime data across multiple banks (Figure 2). Eight retail and virtual banks participated in the pilot, which generated new supervisory insights targeting high risk areas, including mule account networks.

The HKMA carries out risk-based supervision of AIs' and SVF licensees' AML/CFT systems. During the year, 15 risk-focused on-site examinations were completed, including thematic work on transaction monitoring, high-end ML/TF screening systems. In addition, 64 desk-based reviews and assessments were undertaken covering topics including the effectiveness of AIs' controls and incident-triggered reviews. The HKMA provided training and knowledge sharing on AML/CFT in 23 engagements with local and international partners, including financial crime seminars in Hong Kong and Singapore on data analytics and financial investigation training courses for local law enforcement agencies.

In November, the HKMA provided guidance and training during its AML seminar for the banking and SVF sectors, including on amendments to the AML/CFT Guidelines, as well as feedback from the thematic review on the transaction monitoring system.

**Figure 2** Overview of the Macro Analytics Pilot Programme



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### Wealth management and MPF-related businesses

The HKMA co-operates closely with other financial regulators in Hong Kong to provide guidance on and supervise Als' practices in the sale of securities, investment, insurance and MPF products. The HKMA maintains regular dialogue with fellow regulators through bilateral and multilateral meetings, as well as under the auspices of the Council of Financial Regulators, to ensure co-ordinated and effective supervisory actions.

The HKMA conducted 20 on-site examinations, 168 thematic reviews and 28 analyses of surveys and returns of Als, covering the sale of investment products, and insurance and MPF-related businesses, focusing in particular on high-risk investment products, green and sustainable investment products, virtual asset (VA)-related investment products, non-investment-linked long term insurance products, premium financing activities and Cross-boundary Wealth Management Connect (Cross-boundary WMC) business. The HKMA and the Securities and Futures Commission (SFC) completed a concurrent thematic review on intermediaries' distribution of non-exchange traded investment products. In addition, the HKMA and the SFC announced the findings of the third annual joint survey on the sale of non-exchange traded investment products, which provide useful information on the industry landscape and market trends. Moreover, the HKMA and the Insurance Authority (IA) commenced a new round of joint inspection on selected insurers and insurance intermediaries (including Als) regarding their premium financing activities, with a view to assessing the industry's compliance with the relevant regulatory requirements. Apart from the above, the HKMA also conducted analyses of attestation services for Hong Kong customers by pilot banks to open Mainland bank accounts.

To facilitate the development of the VA sector in a sustainable and responsible manner, the HKMA made specific efforts in enhancing consumer protection on Als' VA-related activities, having regard to local and international market trends and regulatory developments. The HKMA, jointly with the SFC, updated guidance to intermediaries concerning VA-related activities in October and December to expand retail access to VA dealing, advising and asset management services and more types of VA-related investment products, with appropriate safeguards. In view of growing interest of Als in custody services of digital assets and sale and distribution of tokenised products, the HKMA consulted the industry on new guidance. As part of anti-fraud efforts, the HKMA stepped up surveillance work with alerts issued to the public about suspected breaches of the Banking Ordinance (BO) by some firms claiming to be offering VA products and services, and strengthened public education through social media and mass media to alert the public to misrepresentation by such firms and common tactics used in VA scams.

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To bring growth opportunities to the wealth management industries in Hong Kong, financial regulators in the Mainland, Hong Kong and Macao jointly announced in September enhancements to the Cross-boundary WMC, including refining the eligibility criteria of investors; expanding the scope of participating institutions to include eligible securities firms; expanding the scope of Southbound and Northbound eligible products; increasing the individual investor quota; and further enhancing promotion and sale arrangements. The HKMA consulted the industry on the updated implementation guidance, and handled applications from a number of banks for additional partnerships and/or expansion of service scope during the year. The HKMA has been monitoring the participating banks to ensure smooth implementation of the scheme. In addition, in view of increasing cross-boundary business activities, the HKMA consulted the banking industry on a new arrangement to allow registered institutions (RIs) to engage individuals who repeatedly visit Hong Kong for a short period each time to perform regulated activities as itinerant professionals.

The HKMA continued engagement with the industry on the selling process of investment products. While safeguarding investor protection, the HKMA also attaches importance to enhancing customer experience. In February, the HKMA shared observations of steps taken by some banks that could have made their selling processes unnecessarily long (as identified from a special thematic review), and clarified the relevant regulatory standards to encourage banks to streamline their selling processes. In light of the industry's feedback and to strengthen Hong Kong's position as a premier private wealth management centre, the HKMA and the SFC jointly introduced a streamlined approach on suitability assessment and product disclosure processes when dealing with sophisticated professional investors in July, and participated in an industry briefing in August. The HKMA also engaged the industry on updating guidance on a portfolio-based approach to suitability assessment with a view to facilitating adoption by banks. In November, in view of the growing demand of green and sustainable investment products, the HKMA issued a circular to share good practices noted and standards expected of banks in the sale and distribution of green and sustainable investment products to facilitate such business whilst addressing greenwashing risks.



Mr Alan Au (middle of two photos), Executive Director (Banking Conduct), shares to the industry at the Private Wealth Management Association's events

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Furthermore, with a view to enhancing confidence in Hong Kong's private wealth management business, the HKMA commenced the supervision of Als' trust business, including introducing a list of trustees on the HKMA website, rolling out a new half-yearly survey and commissioning self-assessments under the SPM module TB-1 on *"Regulation and Supervision of Trust Business"* and the Code of Practice for Trust Business which came into effect on 1 June.



Mr Alan Au (second from right), Executive Director (Banking Conduct), speaks at the Hong Kong Trustees' Association Conference 2023 on the HKMA's supervisory regime on banks' trust business

To improve access by banks to the HKMA's regulatory requirements, the HKMA consulted the industry on an enhanced SPM module SB-1 on *"Supervision of Regulated Activities of SFC – Registered Authorized Institutions"*, which serves as a single document providing a comprehensive overview of the regulatory framework, supervisory approach, as well as major requirements in respect of RIs' securities business. Furthermore, the HKMA launched a compendium of circulars related to the sale and distribution of securities and investment products to facilitate easy access by banks for compliance work.

In light of market developments and to enhance the customer experience while according protection to customers, the HKMA issued a circular in August to provide Als with the flexibility to adopt an alternative arrangement for meeting the audio recording requirement in selling protection linked plans to non-vulnerable customers. In October, the HKMA issued a circular to remind Als of the need for proper disclosure of interest rates in respect of premium financing and to clarify the relevant disclosure requirements, both with the aim of strengthening customer protection.

During the year, the HKMA processed two applications, both of which were from virtual banks for registration as RIs; one application for the addition of a regulated activity under the Securities and Futures Ordinance; and one application to become a licensed insurance intermediary under the Insurance Ordinance. The HKMA also granted consent to 130 executive officers responsible for supervising the securities activities of RIs and conducted background checks on 7,063 individuals whose information was submitted by RIs for inclusion in the Register of Securities Staff of Als maintained by the HKMA.

### Other supervisory activities

The Banking Supervision Review Committee<sup>4</sup> considered seven cases in 2023. Six of them concerned the authorization of Als and the approval of money brokers. The remaining one was related to the review of the three-tier banking system (Table 4).

During the year, the HKMA commissioned five reports under section 59(2) of the BO, requiring Als to appoint external professional firms to report on the effectiveness of their controls in specified areas of operation. These reports covered various aspects of risk management including controls in AML/CFT and in securities related activities.

In 2023, there were no incidents reported by Als involving breaches of the requirements of the BO relating to capital adequacy or liquidity ratio. There were 75 instances of breach of other provisions of the BO, mostly related to Als' reporting obligations under the law. These breaches did not affect the interests of depositors and were promptly rectified by the relevant Als.

<sup>4</sup> A senior management committee set up within the HKMA to consider, advise and make recommendations to the Monetary Authority on major authorization matters under the BO, with a view to ensuring that decisions on authorization matters are taken in a fair and reasonable manner.

## Banking Stability

The CAMEL Approval Committee<sup>5</sup> completed a review of the CAMEL ratings of all the 178 AIs. No AIs appealed against the Committee's decisions.

**Table 4** Summary of other supervisory activities

	2023	2022
1 Cases considered by the Banking Supervision Review Committee	7	7
2 Reports commissioned under section 59(2) of the BO	5	8
3 Approval of applications to become controllers, directors, chief executives or alternate chief executives of AIs	192	175

### Promoting fintech adoption

As part of the "All banks go Fintech" initiative under the "Fintech 2025" strategy, the HKMA, in collaboration with the SFC and the IA, published a new Fintech Promotion Roadmap in August to promote further developments in the focus areas of Wealthtech, Insurtech, Greentech, artificial intelligence and distributed ledger technology. The new Fintech Promotion Roadmap was informed by a market study which highlighted that awareness was no longer a hurdle in fintech adoption, and the focus of the promotion efforts should be placed on addressing practical challenges and nurturing a balanced and sustainable fintech ecosystem. Accordingly, the new Roadmap put forth a series of initiatives with the aim of enhancing the accessibility of resources, establishing more in-depth communication and encouraging the exchange of practical knowledge amongst financial institutions and fintech firms.

### Adoption of supervisory technology

During the year, the HKMA successfully implemented an end-to-end digital supervisory platform, which provided one-stop access to critical information and risk metrics about supervised institutions and empowered supervisors to manage workflows more effectively. The HKMA also enhanced operational efficiency by automating and streamlining multiple supervisory operations through the implementation of a robotic process automation tool and a speech-to-text engine. The latter supports automatic transcription and analysis of audio recordings to assist on-site examinations in identifying potential non-compliance issues in banks' selling processes of investment and insurance products. Having completed additional proof-of-concept exercises, the HKMA began implementing a number of advanced analytics solutions that had the ability to convert data into valuable supervisory insights, thereby paving the way for more forward-looking supervisory processes.

### International co-operation

#### Co-operation with overseas authorities

In 2023, the HKMA participated in 34 college-of-supervisors meetings organised by the home supervisors of 25 banking groups with significant operations in Hong Kong. A broad range of issues were discussed, covering areas such as financial soundness, risk management controls and operational resilience.

The HKMA participated in the cross-border resolution planning of 14 global systemically important banks (G-SIBs) through Crisis Management Groups (CMGs) and Resolution Colleges to enhance the resolvability of these banks and the crisis preparedness of the relevant home and host authorities. The HKMA also led the regional resolution planning and hosted the Asia CMG meeting for a G-SIB's Asia resolution group in May with participation from 18 supervisory/resolution authorities and deposit insurers. At this meeting, progress made in enhancing resolvability was reviewed and forward priorities were set.

<sup>5</sup> The CAMEL Approval Committee was established to review the CAMEL assessments conducted on individual AIs. The Committee is chaired by an Executive Director, and includes at least two senior staff members within the banking departments of the HKMA who have not been involved in conducting the CAMEL assessments in question.

## Banking Stability

Bilateral meetings were held during the year with overseas banking supervisors and resolution authorities. There were also regular exchanges with overseas authorities on institution-specific issues and developments in financial markets.

### Participation in international and regional forums

The HKMA participates as a member in a number of international forums for banking supervisors:

- The Group of Central Bank Governors and Heads of Supervision;
- The Basel Committee on Banking Supervision (Basel Committee);
- The Basel Committee's Risks and Vulnerabilities Assessment Group;
- The Basel Committee's Supervisory Cooperation Group; and
- The Basel Committee's Policy and Standards Group.

Under the structure of the Basel Committee, the HKMA served as a co-chair of the Policy and Standards Group and the chair of the Pillar 2 Expert Group<sup>6</sup>. It is also represented in the Task Force on Climate-related Financial Risks, the Basel Core Principles Task Force and the following Expert Groups:

- Accounting and Audit;
- Anti-money Laundering and Counter-financing of Terrorism;
- Capital and Leverage Ratio;
- Credit Risk and Large Exposures;
- Disclosure;
- Financial Technology;
- Liquidity;
- Margin Requirements;
- Market Risk;
- Operational Resilience;
- Pillar 2; and
- Stress Testing.

The HKMA is a member of the Central Banks and Supervisors Network for Greening the Financial System and, jointly with the SFC, represents Hong Kong in the International Platform on Sustainable Finance.

At the regional level, the HKMA is a member of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)<sup>7</sup>; and the South East Asian Central Banks (SEACEN) Research and Training Centre.

As part of its work in the EMEAP Working Group on Banking Supervision, the HKMA is the champion of the Interest Group on Liquidity. The HKMA is also the champion of the Interest Group on Sustainable Finance, which aims to promote information sharing on the management of climate-related risks faced by banks in the region.

The HKMA participates actively in the work of the G20/OECD<sup>8</sup> Task Force on Financial Consumer Protection, which supports the ongoing implementation of the *G20/OECD High-level Principles on Financial Consumer Protection* last updated in 2022, taking into account the importance of advancements, such as financial innovation and operations in an increasingly digital environment.

The HKMA also participates actively in the International Financial Consumer Protection Organisation (FinCoNet) as a member institution. In particular, the HKMA participates in the workstream of FinCoNet Standing Committee 2 and contributes towards the exploration of supervisory approaches and suitability assessment in respect of "Buy Now, Pay Later" products. The HKMA is also a member of the Supervisors Roundtable on Governance Effectiveness chaired by the Federal Reserve Bank of New York, which aims to advance innovation in influencing culture reform in the financial sector.

<sup>6</sup> Pillar 2 is a framework for determining any additional capital that a bank should hold principally to cover risks either not captured, or not adequately captured, under the minimum capital requirement (i.e. Pillar 1) of the Basel capital standard. The HKMA chaired the Pillar 2 Expert Group up to November.

<sup>7</sup> The EMEAP is a co-operative organisation of central banks and monetary authorities in the East Asia and Pacific region.

<sup>8</sup> OECD refers to the Organisation for Economic Co-operation and Development.

## Banking Stability



*At the FinCoNet Annual General Meeting 2023 in Port Louis, Mauritius, the HKMA celebrates the tenth anniversary of the establishment of the organisation with fellow member institutions*

On invitation from the International Committee on Credit Reporting (ICCR), the HKMA joined ICCR's newly established Asia Pacific Regional Consultative Group (RCG). The HKMA attended the inaugural meeting of the RCG and shared experiences and exchanged views on credit referencing with other stakeholders.



*The HKMA attends the inaugural meeting of the Asia Pacific RCG of ICCR in Bali, Indonesia*

The HKMA continued its engagement with international standard setters by co-chairing the Evaluations and Compliance Working Group of the Financial Action Task Force, leading work to prepare for the fifth round of mutual evaluations that will commence in 2024, and participating in the working group on Cross-border Payments Data and Identifiers established under the Financial Stability Board (FSB).



*Mr Stewart McGlynn (middle), Head (AML and Financial Crime Risk), chairs a Financial Action Task Force Evaluations and Compliance Working Group meeting in Paris, France*

In the area of resolution reforms, the HKMA is a member of the FSB Resolution Steering Group (ReSG) and its Expanded Group on alternative financial resources for the resolution of central counterparties (CCP Expanded Group), as well as the Cross-Border Crisis Management Group for banks (bankCBCM), which is the primary global forum for the development and implementation monitoring of standards and guidance for resolution regimes, and planning and execution for systemically important financial institutions. During the year, the HKMA also chaired the 2023 FSB Country Peer Review of Switzerland, examining Switzerland's implementation of too-big-to-fail reforms. At the regional level, the HKMA chairs the EMEAP's Study Group on Resolution (SGR), which supports knowledge sharing among authorities in relation to resolution. See *International and cross-border co-operation* on page 116 for more details.

### Basel Committee Regulatory Consistency Assessment Programme

Through its Regulatory Consistency Assessment Programme, the Basel Committee monitors, assesses and evaluates its members' implementation of the Basel standards. The HKMA participated in the assessment of Switzerland's net stable funding ratio standard; the related report was published in December. The HKMA also participated as a member of the review team for the assessment of the net stable funding ratio and large exposures framework of the US; the related reports were published in July.

## Banking Stability

### Implementation of Basel Standards in Hong Kong

#### Capital standards

In October, the Banking (Capital) (Amendment) Rules 2023 (BCAR) were issued for statutory consultation as required under the BO to implement the Basel III final reform package (Final Package). Taking this opportunity, the BCAR also incorporated other updates, such as those for introducing the option of a positive neutral countercyclical capital buffer (CCyB) to strengthen the protection of the banking sector against possible system-wide shocks and for aligning the capital treatment of sovereign concentration risk consequential to the amendments of the Banking (Exposure Limits) Rules (BELR). Further to the consultation, the BCAR were revised, gazetted on 29 December, and introduced into the Legislative Council for negative vetting in January 2024. Having regard to comments received from the industry as well as the implementation timelines of other jurisdictions, the BCAR are intended to take effect according to the following schedule:

1 Apr  
2024

For provisions (including those on CCyB) that are not related to the Final Package

1 Jan  
2025

For provisions related to the Final Package (with the implementation of those on market risk and credit valuation adjustment (CVA) risk preceded by a reporting-only requirement from 1 July 2024)

To support the application of the BCAR, the HKMA also worked closely with the industry in developing and updating the associated regulatory reporting package and supervisory guidance. In this regard, industry consultations were conducted on the revised banking returns of the capital adequacy ratio and leverage ratio. The two new SPM modules, MR-1 on *"Market Risk Capital Charge"* and MR-2 on *"CVA Risk Capital Charge"*, were gazetted in March 2024. In relation to CCyB, the HKMA also finalised and published in March 2024 the corresponding revisions to the SPM module CA-B-1 on *"Countercyclical Capital Buffer – Approach to its implementation"*.

In line with the Basel Committee's framework for dealing with domestic systemically important banks (D-SIBs), the HKMA announced in December an updated list of D-SIBs for 2024 and their corresponding higher loss-absorbency capital requirements.

In February 2024, the HKMA launched a consultation on the local implementation of the Basel Committee's prudential treatment of crypto-asset exposures of banks.

#### Exposure limits

Proposed amendments to the BELR consequential to the implementation of the Final Package in Hong Kong were finalised during the year further to statutory consultation in October. The amended parts of the BELR will be implemented in tandem with the related parts of the BCAR. The industry was also consulted on the associated updates to the prudential reporting requirements of AIs on risk concentration and exposure limits. Meanwhile, the related Code of Practice and SPM modules, e.g. CR-G-8 on *"Large Exposures and Risk Concentrations"* and CR-G-9 on *"Exposures to Connected Parties"*, are being updated for consultation with the industry in 2024.

#### Disclosure standards

Implementation of the Final Package also requires corresponding updates to the disclosure framework. To this end, the Banking (Disclosure) (Amendment) Rules 2023 (BDAR) underwent statutory consultation in October and will be implemented when the Final Package takes effect under the BCAR. The HKMA consulted the industry on and is working towards finalising a revised set of standard templates and tables for AIs to fulfil the disclosure requirements under the BDAR.

#### Liquidity standards

During the year, the HKMA consulted the industry on proposed amendments to the Banking (Liquidity) Rules consequential to the implementation of the Final Package in Hong Kong.

## Banking Stability

### Regulatory regime for over-the-counter derivatives market

The HKMA oversees compliance of AIs and approved money brokers (AMBs) with the mandatory reporting, clearing and related record-keeping requirements on over-the-counter (OTC) derivatives transactions under the Securities and Futures Ordinance. Close dialogue is maintained with AIs, AMBs and other industry participants on various reporting issues arising from OTC derivatives market developments and evolving international standards to ensure compliance with the relevant requirements by AIs and AMBs.

### Enhancing the supervisory policy framework

#### Regulation of over-the-counter derivatives transactions

With the completion of the final implementation phase of the initial margin requirements for non-centrally cleared OTC derivatives transactions, the HKMA continued to engage with the industry to assess the implications of market developments on the exchange of margin, and to co-ordinate with other member jurisdictions of the Basel Committee and International Organization of Securities Commissions (IOSCO) Working Group on Margin Requirements on implementation-related matters.

#### Other supervisory policies and risk management guidelines

In 2023, the HKMA progressed with its work on various policies and guidelines, including the release in November of the revised SPM module CR-S-4 on “*New Share Subscription and Share Margin Financing*” to reflect changes consequential to the initial public offering settlement reform by Hong Kong Exchanges and Clearing Limited through the launch of Fast Interface for New Issuance. The opportunity was also taken to provide further guidance on a holistic approach to risk management of share margin financing, taking into account the latest incidents in the market.

### Review of the Banking Ordinance

The HKMA embarked on a review of the BO in 2023 that seeks to reflect developments in banking industry practices and supervisory approaches, address specific issues identified from the HKMA’s supervisory experience and continue the process of aligning Hong Kong’s system of regulation with that of other major financial centres. The intention of the review is to focus on the priority areas for enhancement in the BO where amendments are necessary and timely.

The HKMA is preparing necessary amendments to the BO as a result of the review. The priority areas for enhancement include, among others, simplification of the three-tier banking system, establishment of a statutory regime for the regulation and supervision of bank holding companies and extension of the Monetary Authority’s enforcement powers. A number of technical amendments to the BO are also proposed to be included as part of this package, to help streamline the regulatory and supervisory processes, and thereby reduce the compliance burdens faced by AIs.

## Banking Stability

### Balanced and responsive supervision

As part of the ongoing communication with the banking industry, the HKMA held a roundtable with major retail banks to share the observations identified on bank account opening and maintenance, as well as provide further guidance to assist banks in achieving effective outcomes and enhancing customer experience in opening bank accounts. The HKMA also clarified its supervisory expectations on due diligence requirements for corporate on-boarding. Noting the increasing demand for green and sustainable investment products by the public and the growing adoption of technology by banks, the HKMA provided guidance to banks on the sale and distribution of green and sustainable investment products and shared views and use cases in relation to the use of advanced artificial intelligence and machine learning tools. The HKMA also clarified its regulatory stance on RIs' VA-related activities and discussed the proposed streamlined approach for negative disclosure requirements on non-protected deposit transactions for private banking customers. Separately, taking into account the views from virtual banks in relation to the introduction of new products/services, the HKMA streamlined the relevant supervisory requirements and communication arrangements to facilitate virtual banks' use of the Fintech Supervisory Sandbox and speed up the processes for launch of new products/services.

### Accounting standards

Regular dialogues were held between the HKMA and the Banking Regulatory Advisory Panel of the Hong Kong Institute of Certified Public Accountants on topics of common interest. These included updates on accounting, auditing and financial reporting standards and their implications for banks, as well as major international and domestic banking regulatory developments. The HKMA worked with other authorities on issues related to the new or revised standards proposed by the international accounting and auditing standard-setting bodies.

### Green and sustainable banking

The HKMA incorporated climate-related considerations into its supervisory framework, taking into account the Basel Committee's principles for the effective management and supervision of climate-related financial risks. A series of consultative sessions was undertaken to provide targeted feedback to support Als' efforts in strengthening their climate risk management capabilities. A round of thematic examinations to review Als' progress of implementing the HKMA's supervisory expectations on climate risk management was also completed during the year.

The HKMA continued its efforts to strengthen the banking sector's resilience against climate risks and enhance the green finance ecosystem, including completing the consultation on a prototype of a green classification framework for Hong Kong and issuing high-level principles to assist banks in maintaining safety and soundness in the net-zero transition. To accelerate the banking sector's progress in managing climate risks, the HKMA worked to promote the application of technology to green and sustainable banking. More details about the HKMA's policy and supervisory work on green and sustainable banking are given in the *Building a Climate-resilient Financial System* chapter of the *Sustainability Report 2023*.

## Banking Stability

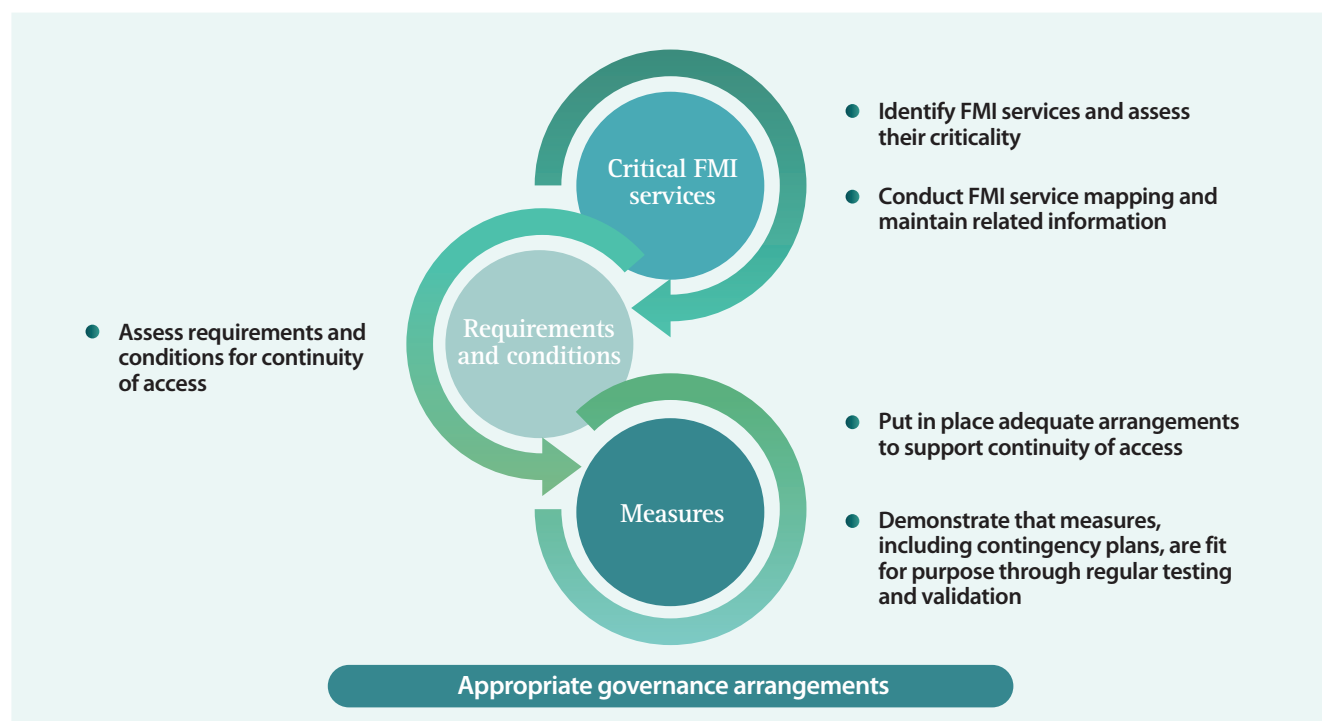
### Resolution

In 2023, the HKMA responded swiftly to the banking turmoil in the US and Europe in March. Effective cross-sectoral and cross-border co-ordination by the HKMA as the lead resolution authority facilitated the safeguarding of Hong Kong's financial stability amid fast-unfolding events. At the same time, progress was made in establishing resolution standards, undertaking resolution planning and developing resolution execution capability to operationalise the Hong Kong resolution regime for banks. In addition, the HKMA actively participated in cross-border co-operation on resolution through both institution-specific engagements such as the CMGs for G-SIBs, as well as international and regional fora, including the FSB ReSG and the EMEAP SGR.

### Resolution standards

The HKMA continued to formulate policy standards with which AIs need to comply in order to enhance their resilience and resolvability. Further to an industry consultation in 2023, the HKMA issued on 15 February 2024 the Financial Institutions (Resolution) Ordinance (FIRO) Code of Practice chapter on *Resolution Planning – Continuity of Access to Financial Market Infrastructure Services*, which sets out the Monetary Authority's expectations, in line with relevant FSB guidance<sup>9</sup>, in relation to the ex-ante capabilities and arrangements that an AI should put in place to maintain, in a resolution scenario, the continuity of access to critical FMI services. The key expectations are summarised in Figure 3 below. Work to be done by the AIs towards satisfying the expectations outlined in the chapter will be an integral part of the HKMA's bilateral resolution planning programmes with the AIs.

**Figure 3** Key expectations on an AI's capabilities and arrangements for maintaining continuity of access to critical FMI services in a resolution scenario



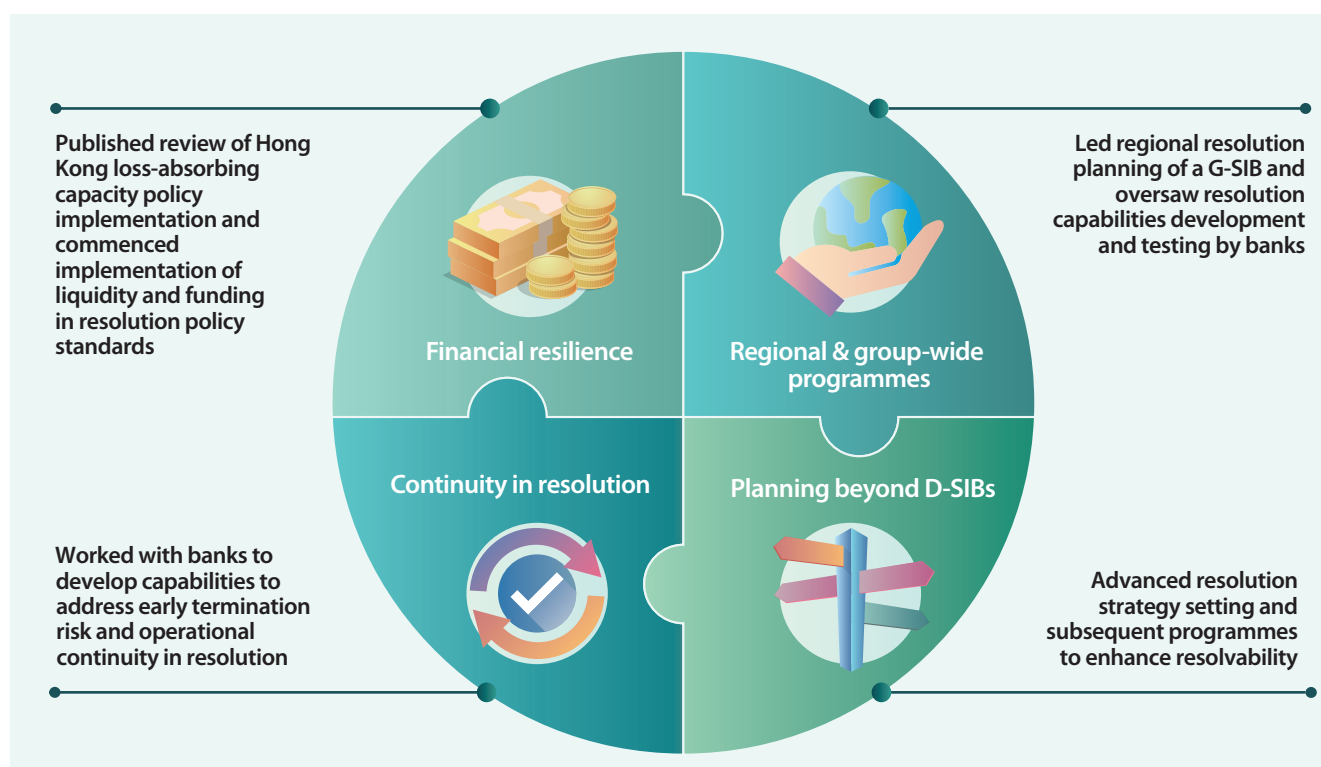
<sup>9</sup> The FSB has identified continuity of access to critical FMI services as an important element to resolvability and issued related guidance in July 2017, *Guidance on Continuity of Access to Financial Market Infrastructures ("FMIs") for a Firm in Resolution* (<https://www.fsb.org/wp-content/uploads/P060717-2.pdf>), on arrangements to support continuity of access to FMIs for a firm in resolution, complementing the *Key Attributes of Effective Resolution Regimes for Financial Institutions* ([https://www.fsb.org/wp-content/uploads/r\\_141015.pdf](https://www.fsb.org/wp-content/uploads/r_141015.pdf)) (Key Attributes).

## Banking Stability

### Resolution planning

The HKMA continued to advance resolution planning for each of the D-SIBs and other locally incorporated AIs with total consolidated assets above HK\$300 billion in co-ordination with the home and host authorities to enhance the resolvability of these banks (Figure 4).

**Figure 4** Highlights of 2023 progress made in resolution planning programmes



Through resolution planning programmes, the HKMA works with AIs to implement the changes needed to address identified impediments to their orderly resolution. In particular, the HKMA drove the build-up and maintenance of loss-absorbing capacity (LAC) resources at all D-SIBs and other relevant AIs, including engaging in discussions on issuance strategy and working with AIs on implementing the issuance plans. At the end of 2023, the LAC resources<sup>10</sup> of all D-SIBs stood at 26.3% of risk-weighted amounts (RWAs). The implementation of LAC requirements has significantly enhanced the resolvability of relevant AIs and the resilience of the banking system.

During 2023, the HKMA conducted a review of LAC implementation from December 2018 to June 2023, the observations from which were set out in a report titled *Report on Loss-Absorbing Capacity Requirements Implementation in Hong Kong*<sup>11</sup> published on 8 February 2024 (see *Loss-absorbing capacity requirements implementation in Hong Kong* on page 113 for the key highlights of the report).

<sup>10</sup> Including capital and non-capital LAC resources.

<sup>11</sup> The report is available on the HKMA website ([https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/resolution/Report\\_on\\_Loss\\_Absorbing\\_Capacity\\_Requirements\\_Implementation\\_in\\_Hong\\_Kong.pdf](https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/resolution/Report_on_Loss_Absorbing_Capacity_Requirements_Implementation_in_Hong_Kong.pdf)).

## Banking Stability

The HKMA has commenced the implementation of policy standards on liquidity and funding in resolution in order to strengthen the AIs' capabilities to project liquidity needs and positions, as well as to identify and mobilise collateral for meeting liquidity needs in resolution. Initial scoping and self-assessments of existing capabilities by AIs against the expectations set out by the HKMA were conducted and workplans to address the gaps identified were developed.

In addition, the HKMA has continued to advance the implementation of policy standards on operational continuity in resolution. Further to the review of self-assessments of existing capabilities conducted by AIs, the HKMA monitored and reviewed the AIs' progress of developing arrangements and capabilities, such as service mapping, service catalogue, contracts remediation and resolution manuals, for securing the continuity of services that are essential to the performance of critical financial functions and to support orderly resolution.

To address the risk of disorderly early termination of financial contracts in resolution, AIs have been progressing work for meeting the HKMA requirements set out under the Financial Institutions (Resolution)(Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules (Stay Rules). The HKMA worked closely with relevant AIs to address early termination risks in resolution. The AIs' efforts included developing an effective approach to cross-border client outreach, putting in place systems of control, as well as updating the relevant securities, commodities and derivatives contracts. The first initial period for compliance under the Stay Rules concluded on 27 August 2023, by which time the contractual recognition requirements for covered contracts entered into by a covered entity with an AI or a G-SIB should have been met. The requirements for any other covered contracts should be met by the end of 27 February 2024.

In terms of home-host co-ordination, the HKMA led the regional resolution planning for the Asia resolution group of a G-SIB and hosted the Asia CMG meeting in Hong Kong in May with participation from 18 supervisory/resolution authorities and deposit insurers. During this meeting, progress of enhancing resolvability was reviewed and forward priorities were set, with a view to driving the work to enhance resolvability of the G-SIB's Asia resolution group. In addition, banks continued to build up and test resolution capabilities as part of their group-wide programmes. This involved a wide spectrum of actions, such as enhancement of processes for valuations in resolution, demonstration of restructuring planning capabilities, as well as cross-border drills of contingency arrangements for access to payment clearing. The HKMA also continued discussions among authorities on the management and deployment of unallocated total loss-absorbing capacity (uTLAC) resources within resolution groups, and the enhancement of home-host co-ordination arrangements, including authorities' playbooks on resolution execution.



*The HKMA hosts the Asia CMG meeting for a G-SIB's Asia resolution group with participation from 18 supervisory/resolution authorities and deposit insurers*

## Banking Stability

### Loss-absorbing capacity requirements implementation in Hong Kong

The HKMA conducted a review of the implementation of LAC requirements in Hong Kong over the past five years, from the commencement of the Financial Institutions (Resolution)(Loss-absorbing Capacity Requirements — Banking Sector) Rules (LAC Rules) in December 2018 to June 2023.

#### Implementation programme and progress

LAC implementation is a key aspect of the bilateral resolution planning programmes between the HKMA Resolution Office and AIs. Since the commencement of the LAC Rules, the HKMA has been working closely with each D-SIB to drive the build-up of its LAC resources.

All D-SIBs have met their respective LAC requirements from 1 January, representing a milestone in enhancing the resolvability of these banks and the resilience of the banking system in Hong Kong.

Furthermore, the HKMA has been extending the implementation of LAC requirements beyond D-SIBs to other locally incorporated AIs with total consolidated assets above HK\$300 billion. One of these AIs issued the first non-capital LAC debt instrument to market investors in the Asia ex-Japan bond markets.

This HK\$300 billion threshold for LAC implementation remains appropriate in the view of the HKMA, having regard to a range of factors, including international experiences and the approaches adopted by other jurisdictions, lessons learnt from the 2023 overseas banking turmoil, the size of Hong Kong's economy, the landscape of the banking sector, the LAC implementation experience and resolvability of AIs, as well as the HKMA's approach to ex-ante resolution planning.

It should be noted that the HK\$300 billion threshold is a planning assumption, which acts as an indicative benchmark rather than an automatic trigger point for the implementation of LAC requirements. Hence, it does not imply that an AI with HK\$300 billion or more in total consolidated assets will automatically be required to comply with LAC requirements.

The HKMA has been applying a proportionate, risk-based approach to commencing and advancing resolution planning programmes with relevant AIs, including identifying preferred resolution strategies and implementing LAC requirements. In addition to total consolidated assets, the HKMA takes into account other factors, such as the potential risks to financial stability in Hong Kong in the event of the failure of relevant AIs and other institution-specific factors, in determining the need for setting preferred resolution strategies and imposing LAC requirements.

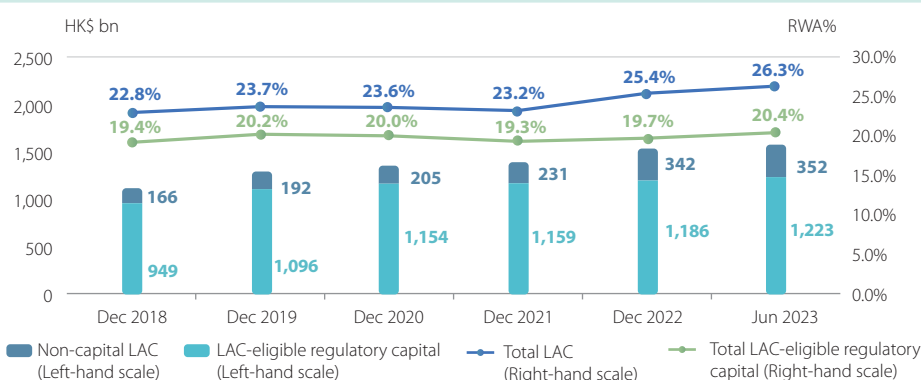
The HKMA will keep the indicative threshold for LAC requirements implementation under review.

## Banking Stability

### Observations and related policy expectations

**LAC position** The implementation of LAC requirements has driven the build-up of a significant layer of non-capital LAC resources at D-SIBs, amounting to HK\$352 billion or 5.9% of RWAs. As at end-June, the total LAC resources (including capital and non-capital LAC resources) of D-SIBs stood at HK\$1,575 billion or 26.3% of RWAs, above the international minimum requirement of 18%.

**Chart A** Total LAC resources of D-SIBs

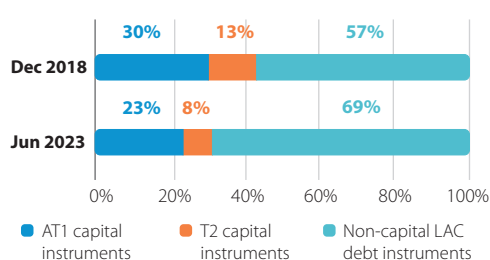


Notes:

- (1) The chart shows the total amount of LAC resources at period ends from end-December 2018 to end-June 2023, which is the sum of LAC-eligible regulatory capital and non-capital LAC resources, of all currently designated D-SIBs. Adjustments are made in arriving at the total amount of LAC resources of D-SIBs, taking into account their issuance structures and preferred resolution strategies.
- (2) LAC-eligible regulatory capital refers to regulatory capital (i.e. Common Equity Tier 1 capital, Additional Tier 1 (AT1) capital and Tier 2 (T2) capital) eligible for meeting LAC requirements.
- (3) The amount of non-capital LAC resources as at end-December 2018 (i.e. HK\$166 billion) represented non-capital financial resources already put in place by D-SIBs before the introduction of the LAC Rules in preparation of the implementation of LAC requirements.
- (4) Changes in total LAC resources were mainly driven by issuance/redemption of LAC debt instruments, changes in retained earnings as well as movements in other reserves during the period.

**Composition and currency mix** In terms of instrument class and currency mix, non-capital LAC debt instruments (69%) and US dollar (79%) contributed the largest proportions respectively based on the outstanding LAC debt instruments as at the end of June 2023.

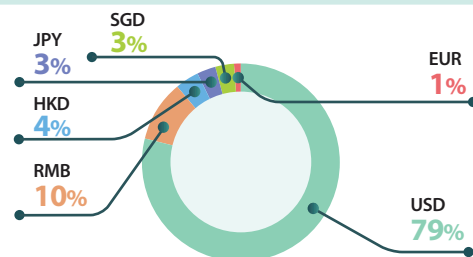
**Chart B** Composition of LAC debt instruments issued by relevant AIs



Notes:

- (1) The chart comprises data of AIs which have been classified as resolution entities or material subsidiaries under the LAC Rules, including D-SIBs and non-D-SIBs.
- (2) Data is based on the accounting value of outstanding LAC debt instruments as at end-December 2018 and end-June 2023.

**Chart C** Currency mix of outstanding LAC debt instruments issued by relevant AIs



Notes:

- (1) The chart comprises data of AIs which have been classified as resolution entities or material subsidiaries under the LAC Rules, including D-SIBs and non-D-SIBs.
- (2) Data is based on the accounting value of outstanding LAC debt instruments as at end-June 2023.

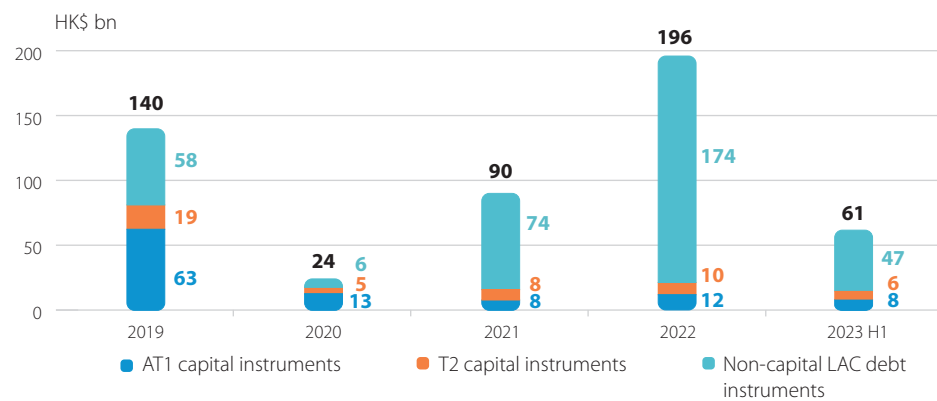
## Banking Stability

### Issuance volume and structure

From January 2019 to June 2023, relevant AIs issued a gross total of HK\$511 billion of LAC debt instruments. The issuance structure follows their group structures and preferred resolution strategies. AIs that are part of a G-SIB banking group typically issue on an intragroup basis and adopt a back-to-back model. The issuance activities generally coincide with those of their parent companies to a considerable extent, as demonstrated by changes in issuance volume during the COVID-19 pandemic and in the aftermath of the full write-down of all Credit Suisse's Additional Tier 1 capital instruments.

**Chart D**

**Gross issuance volume of LAC debt instruments by relevant AIs**



Note: The chart shows the total gross notional amount of LAC debt instruments issued by resolution entities and material subsidiaries since their classification under the LAC Rules.

### Other observations and related policy expectations

Observations and policy expectations, where applicable, relating to other matters pertinent to the implementation were discussed, such as pricing, maturity, documentation, subordination, loss-absorption trigger, governing law, accounting treatment, self-assessment, disclosures and reporting, cross-holding, cross-bank comparison, interaction between LAC requirements and the capital regime, and non-pre-positioned LAC.

### Next steps

Resolution planning, including actions to enhance resolvability, is an ongoing process. The HKMA will continue to work closely with relevant AIs on their build-up and maintenance of LAC resources in a prudent and proportionate manner.

## Banking Stability

### Resolution execution capability

Reflecting on the lessons learnt from the overseas banking turmoil and taking into account the developments and implementation experiences since the FIRO commenced operations, the HKMA conducted a comprehensive review of its frameworks and approaches related to crisis management and resolution execution in 2023. Enhancements were made with a view to strengthening cross-departmental and cross-sectoral co-ordination. In addition, the HKMA has advanced work on operationalisation of resolution stabilization options, including engaging an external legal advisor under the Resolution Advisory Framework to facilitate the analysis of the legal and practical issues involved.

On 4 December, the Monetary Authority entered into a Memorandum of Understanding (MoU) with the IA and the SFC, which establishes a framework to strengthen and support effective co-operation and co-ordination among the resolution authorities in relation to within scope financial institutions under the FIRO.

### International and cross-border co-operation

The 2023 bank failures constituted the first larger-scale real test of the international resolution framework established by the FSB's *Key Attributes*. The HKMA was actively engaged in the international review at the FSB of lessons learnt and formulation of the follow-up policy initiatives, the resulting report was published on 10 October<sup>12</sup>. The FSB states that the review of the 2023 bank failures underscored the strengths of the international resolution framework and the work carried out by banks and authorities to increase resilience and crisis preparedness, while also identifying areas for further work.

Additionally, the HKMA continued to contribute actively to various international resolution initiatives via its membership in the primary global resolution forum of the FSB ReSG, its CCP Expanded Group, the bankCBCM, as well as the workstreams on total loss-absorbing capacity standard, funding in resolution, bail-in execution, digital innovation and resolution, and continuity of access to FMI services. See *International resolution policy* on page 118 for details.

Moreover, the HKMA chaired the 2023 FSB Country Peer Review of Switzerland, examining Switzerland's implementation of too-big-to-fail reforms, which is particularly important after the merger of the two Swiss G-SIBs into a bigger G-SIB whose failure could have severe impact on the global financial system. The review provided recommendations to further strengthen the supervisory and resolution frameworks. The report was published on 29 February 2024<sup>13</sup>.

<sup>12</sup> The report is available on FSB website (<https://www.fsb.org/wp-content/uploads/P101023.pdf>).

<sup>13</sup> The report is available on FSB website (<https://www.fsb.org/wp-content/uploads/P290224.pdf>).

## Banking Stability

At the regional level, the HKMA chaired and served as the secretariat of the EMEAP SGR, which facilitated discussions and studies on resolution by central banks, supervisory/resolution authorities and deposit insurers in the region. The HKMA organised in-person SGR meetings in April and September, and hosted a resolution workshop at the HKMA office in June, covering topics such as a reflection on the 2023 US and Europe banking turmoil, co-ordination and communication between supervisory and resolution authorities, a critical financial functions assessment and operational continuity in resolution. The HKMA also continued to engage with relevant stakeholders and contribute to resolution-related events, for example those organised by the FSB, the Financial Stability Institute of the Bank for International Settlements as well as the SEACEN Research and Training Centre.

As the 2023 overseas bank failure cases illustrated, cross-border co-operation is an important component of resolution planning and execution for G-SIBs given the international nature of their operations. During the year, the HKMA continued to participate in the cross-border resolution planning of 14 G-SIBs through CMGs and Resolution Colleges. As part of this work, the HKMA shared updates on resolution policy and planning development, contributed to the FSB's ninth resolvability assessment process for these G-SIBs and worked with the relevant authorities to enhance cross-border crisis preparedness.



*The HKMA hosts a resolution workshop for EMEAP SGR members, with guest speakers sharing thematic resolution topics and crisis management experience*

## Banking Stability

### International resolution policy

Effective resolution requires internationally harmonised resolution policies setting and implementation, given the cross-border nature of many large financial institutions. This is pertinent to Hong Kong as a host of the operations of all G-SIBs<sup>14</sup> as well as a regional home for the resolution entities of some of these internationally active banking groups. The HKMA takes an active part in formulating and implementing international resolution policy standards through its membership in the FSB ReSG and its CCP Expanded Group as well as the bankCBCM.

In particular, the HKMA contributed to a wide range of work in 2023 as a member of the following workstreams of the bankCBCM:

#### The Unallocated TLAC Technical Expert Group

Led the development of the FSB report on Deployment of Unallocated Total Loss-Absorbing Capacity: Considerations for CMGs published in July. The report aims to assist home and host authorities on the form, location and deployment approaches of uTLAC resources both in resolution planning as well as in the run-up to and during resolution<sup>15</sup>.

#### The Funding in Resolution workstream

Organised deep dive sessions for authorities to share practices and views pertaining to cross-border funding in resolution, analysed obstacles to mobilising collateral or liquidity across borders and identified practical ways for G-SIBs and authorities to mitigate those obstacles<sup>16</sup>.

#### The Bail-in Execution workstream

Organised a technical roundtable for authorities and legal experts to share knowledge and practices on cross-border recognition of bail-in, as well as the related preparatory steps and legal and operational requirements, with a view to enhancing mutual understanding of available options to achieve cross-border recognition of bail-in decisions<sup>17</sup>.

#### The Digital Innovation and Resolution workstream

Conducted a review of the FSB 2016 Guidance on Arrangements to Support Operational Continuity in Resolution in light of the changes to the technological landscape<sup>18</sup>. The workstream also continued to explore how resolution authorities can be better prepared for situations involving accelerated deposit runs in light of fast payment technology and the wide use of social media<sup>19</sup>.

#### The Continuity of Access (CoA) to FMI workstream

Supported the FSB's work to promote cross-border co-operation for its Guidance on CoA to FMIs for a firm in Resolution<sup>20</sup>.

<sup>14</sup> See 2023 List of Global Systemically Important Banks (G-SIBs), FSB (2023) (<https://www.fsb.org/wp-content/uploads/P271123.pdf>).

<sup>15</sup> The report is available on FSB website (<https://www.fsb.org/wp-content/uploads/P260723-1.pdf>).

<sup>16</sup> For more detail on the FSB's latest progress on analysing obstacles to funding in resolution, see Section 2.3 of 2023 Resolution Report: "Applying lessons learnt", FSB (2023) (<https://www.fsb.org/wp-content/uploads/P151223.pdf>).

<sup>17</sup> For more detail on the FSB's latest progress on operationalising bail-in execution, see Section 2.5 of 2023 Resolution Report: "Applying lessons learnt", FSB (2023).

<sup>18</sup> The revised version of the guidance including a supplementary note on the digitalisation of critical shared services as an addendum is available on FSB website (<https://www.fsb.org/wp-content/uploads/P180324.pdf>).

<sup>19</sup> For more detail on the FSB's latest progress on digital innovation issues and implications for resolution, see Section 2.4 of 2023 Resolution Report: "Applying lessons learnt", FSB (2023).

<sup>20</sup> For more detail on the FSB's latest progress on CoA to FMIs, see Section 2.7 of 2023 Resolution Report: "Applying lessons learnt", FSB (2023).

## Banking Stability

### Bank consumer protection

#### Code of Banking Practice

Following the second phase of a comprehensive review by the Code of Banking Practice Committee, with the active participation of the HKMA, the Code was further revised in December to ensure proper safeguards to consumers in digital banking environment and further customer empowerment for better control over their financial matters. Als are expected to achieve full compliance with

the new provisions as quickly as possible within six months of the effective date, with an extension of up to 12 months for provisions requiring more extensive system enhancements.

In respect of the revised Code of Banking Practice effective since 2021, the HKMA conducted a progress survey in the fourth quarter of 2023 to monitor Als' implementation of the revised Code and noted no significant delay in the implementation. The HKMA will continue to monitor Als' compliance as part of its supervision of Als.

### Updating the Code of Banking Practice

#### Further enhancing consumer protection in digital banking services

- Ensure customers receive important information on loans and general banking products and services upon application and conducting transactions on Internet banking platforms
- Provide security advice on new authentication technologies adopted in banking services, and update other relevant advice to enhance customers' understanding of digital security risks and the related protection measures
- Properly retain records of marketing and promotional materials used in digital channels for reference when needed

#### Empowering customers on financial management

- Enrich disclosure of risk and potential repayment obligations in Key Facts Statements of lending products
- Provide loan calculators on Internet banking platforms for customers to assess costs of borrowing and expected repayment requirements
- Extend advance notice period to customers from the existing 30 days to at least 60 days for significant changes to the terms and conditions of lending products
- Advise customers with potential financial difficulties of possible options to avoid further worsening of financial conditions, and notify customers of loan set-off in advance, where practicable

#### Ensuring fair treatment of customers

- Enhance transparency of opening, maintenance and closure of bank accounts, and provide channels for customers to request a review of the related decisions
- Enhance the customer complaint handling process, provide customers with an audio or video recording of the sales process of wealth management products, and offer support to customers in dispute with third-party service providers of products and services
- Enhance transparency of promotional benefits of banking products
- Strengthen controls over debt collection activities of banks and third-party debt collection agencies

#### Continuous promotion of international good banking practices in Hong Kong

- Introduce recent updates of the *G20/OECD High-Level Principles on Financial Consumer Protection* to ensure consistency with the latest international banking consumer protection practices

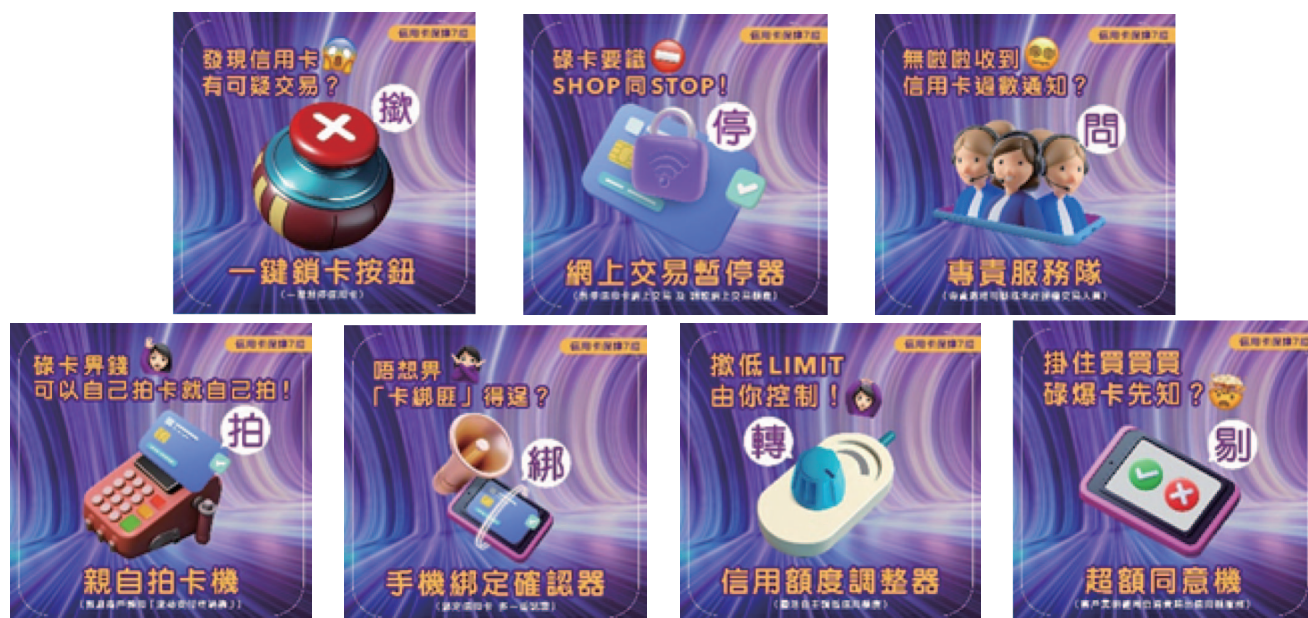
## Banking Stability

### Payment arrangement for property transactions

Since the rollout of the additional payment arrangement for property transactions (PAPT) to enable direct bank-to-bank transfer of funds in respect of mortgage refinancing transactions in November 2022, the banking industry has been actively encouraging bank customers to use this new payment means, and the operational processes of the PAPT have run smoothly and effectively. Given the benefits offered by the PAPT to enhance payment efficiency and minimise the risks associated with funds transfer faced by Als and their customers, the HKMA will continue to engage the banking industry to promote wider adoption of the PAPT.

### Enhanced protection of payment card customers

In view of the changing patterns of payment card usage by customers and the growing number of related unauthorised transactions involving frauds and scams, the HKMA collaborated with a dedicated industry taskforce set up in early 2023 and issued a set of comprehensive guidance with 33 measures in April and June to enhance protection of payment card customers. The new guidance strengthened protection in four areas: customer empowerment; customer support, communication and education; unauthorised transactions handling and security; and responsible borrowing.



Educational messages on social media – Key enhanced measures on protection of credit cards

## Banking Stability

### Enhancing protection of payment card customers across multiple facets



#### Card Limit

- Customers to choose whether to undertake card-not-present transactions and the related limits
- Customers to agree on credit limits of newly approved cards and subsequent increases, with convenient limit reduction channels
- Customers to agree on over-the-limit facilities



#### Card Transactions

##### Transaction Notification

- Customers to receive notifications for card-present transactions with higher risk
- Enhance clarity on transaction notifications to facilitate identification of suspicious transactions and prompt actions by customers

##### Authentication and Security

- Encourage merchants to use mobile point-of-sale terminals so that the cards remain in cardholders' possession throughout transactions
- Offer alternative authentication factors, apart from one-time passwords through SMS, for customers to choose
- Utilise rich data from 3D Secure 2.0 to enhance fraud monitoring
- Industry to share fraud- and scam-related intelligence and good practices on fraud detection
- Encourage the use of fraud detection tools of card scheme operators
- Obtain additional confirmation from customers on suspicious transactions
- Conduct additional authentication for binding cards with new contactless mobile payment services
- Promote tokenisation of card data to minimise the impact of data breaches
- Encourage retrieval of card information via Internet banking platforms instead of showing the information on physical cards

##### Responsible Borrowing

- Allow customers to better understand the financial implications of different card repayment practices to make appropriate repayment arrangements

- Remind customers when card spending approaches credit limits and that further spending may result in over-the-limit fees and charges
- Encourage customers with potential persistent card borrowing to improve repayment conditions and provide options for consideration
- Provide clearer disclosure on the billing of interest on cash advance transactions to help cardholders make repayment arrangements



#### Unauthorised Transactions

- Customers to suspend cards instantly via Internet banking platforms
- Customers to report unauthorised transactions through more convenient channels
- Follow up on not-yet-posted unauthorised transactions
- Specialised teams to handle unauthorised transactions
- Customers to receive clearer information and advice upon reporting unauthorised transactions
- Adopt a pragmatic and sensitive approach throughout the handling and investigation process
- Give due regard to the circumstances of individual cases
- Duly consider the respective roles of banks and cardholders when considering liability for losses
- Industry to share common practices on handling of unauthorised transactions
- Ensure transparency of investigation process and results
- Put in place an appeal mechanism



#### Consumer Education

- Provide security advice on cards to customers from time to time
- Provide information on the latest large-scale modus operandi of card frauds and scams and related precautionary measures
- Industry to collaborate to raise public awareness of card security and anti-deception



**Engage other stakeholders to explore enhancing protection of card consumers**

## Banking Stability

### Anti-Scam Consumer Protection Charter

To raise public awareness on safeguarding credit card and personal information, the HKMA, in collaboration with The Hong Kong Association of Banks (HKAB), launched the Anti-Scam Consumer Protection Charter in June. Under the Charter, all 23 card-issuing banks and 15 major merchants institutions across different sectors (including retail, telecommunications, food and beverage, transport and logistics) in Hong Kong committed not to send instant electronic messages to customers with embedded hyperlinks to ask for personal and credit card information online, and committed to convey the message of “Beware of scams” to the public through various channels. The Charter also received the full support of the HKPF and the Consumer Council.



Representatives from card-issuing banks in Hong Kong and merchant institutions across different sectors attend the launch of the Anti-Scam Consumer Protection Charter



Mr Eddie Yue, Chief Executive, gives opening remarks at the Anti-Scam Consumer Protection Charter launch



Publicity campaigns on “Beware of Fraudulent Links!” in relation to the Anti-Scam Consumer Protection Charter to raise public awareness of safeguarding credit card and personal information

## Banking Stability

### Cross-Boundary Credit Referencing

To enable the cross-boundary transfer of credit data in the Greater Bay Area to facilitate credit assessment by banks and support lending to SMEs so they can better serve the real economy, the HKMA worked closely with relevant Mainland authorities on the Cross-Boundary Credit Referencing initiative. Following the announcement by the Hong Kong's Innovation, Technology and Industry Bureau and the Cyberspace Administration of China in December of facilitation measures and pilot implementation arrangements, of which credit referencing is one of the areas covered, the HKMA continued to engage with Hong Kong banks and credit referencing agencies and to work with relevant authorities on cross-boundary transfer of credit data in support of banks' credit risk management in SME lending.

### Culture dialogues

Since its commencement in 2019, the culture dialogue initiative has enhanced the HKMA's engagement with leadership of Als to discuss the effectiveness of Als' culture enhancement efforts and provide supervisory feedback, including observations from the HKMA's ongoing supervision. During 2023, the HKMA conducted seven culture dialogue meetings with senior management of Als.

### Addressing the risks of hiring of individuals with misconduct

The Mandatory Reference Checking (MRC) Scheme, which is an industry-led initiative endorsed by the HKMA and an important component for enhancing bank culture in Hong Kong, was launched successfully in May to tackle the "rolling bad apples"<sup>21</sup> phenomenon in the local banking sector. Under the MRC Scheme, all Als share and obtain conduct-specific reference information about prospective employees using a common protocol that covers seven years prior to the application for the position, so that the recruiting Als can make more informed employment decisions.

In March, at the invitation of the Independent Commission Against Corruption (ICAC), the HKMA gave a presentation at the Professional Anti-Corruption Training in Banking Management attended by more than 30 senior managerial staff from the sector to discuss sound bank culture and its strong relevance to conduct supervision and anti-corruption in banks, as well as the new MRC Scheme to address the "rolling bad apples" phenomenon in the banking sector.



*The HKMA presentation at the ICAC's Professional Anti-Corruption Training in Banking Management for senior managerial staff from the banking sector*

<sup>21</sup> "Rolling bad apples" refers to the situation where individuals have engaged in misconduct behaviour in one institution but can obtain employment elsewhere without disclosing their earlier misconduct to the new employer.

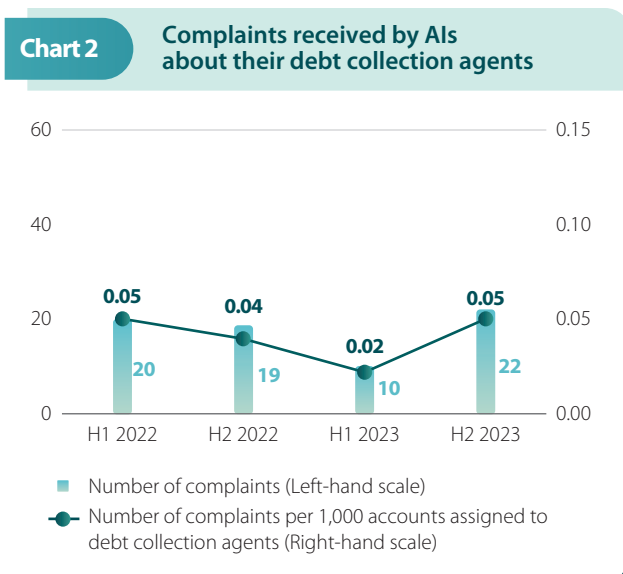
## Banking Stability

### Engagement of intermediaries by authorized institutions

Measures were introduced to further protect bank customers and reduce potential risks to the reputation of the banking industry from possible malpractices by fraudulent lending intermediaries. In particular, the HKMA reminded the public to stay alert to bogus phone calls. Retail banks' hotlines have been widely and effectively used by the public to verify callers' identities, with a total of over 24,000 enquiries received during 2023.

### Customer complaints relating to debt collection agents employed by authorized institutions

The number of complaints received by AIs about their debt collection agents decreased to 32 from 39<sup>22</sup> in 2022 (Chart 2). The HKMA will continue to monitor AIs' engagement with debt collection agents.



### Credit Data Smart

The HKMA continued to work closely with industry associations, including HKAB, the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies, and the Hong Kong S.A.R. Licensed Money Lenders Association Limited, to introduce more than one consumer credit reference agency (CRA) in Hong Kong through the Credit Reference Platform, with a view to enhancing the service quality of consumer CRAs and reducing the operational risk of having only one commercially run service provider in the market, particularly the risk of single point of failure. This project was officially named "Credit Data Smart" in 2023.

A pilot programme under "Credit Data Smart" was launched in November as an important step in the implementation of the project. Under the pilot programme, individual participants obtained their consumer credit reports from the selected CRAs to review the data accuracy and assess the overall service performance of the CRAs. The pilot programme paved way for the official launch of consumer credit reference services by the selected CRAs.

<sup>22</sup> The figure for 2022 has been revised to reflect the updated figure reported by AIs.

## Banking Stability

### Financial inclusion

#### Branch network

The HKMA is committed to promoting financial inclusion in Hong Kong, and has been encouraging the banking industry to enhance the coverage of the branch network through conventional and innovative channels. Continuous efforts were made by banks to support the banking needs of the local community. During the year, an additional mobile bank branch was launched by a retail bank, covering five public housing estates in different districts in Hong Kong. To date, the total number of mobile bank branches in Hong Kong has increased to seven, covering a total of 33 public housing estates.

#### Physical banking facilities inventory

In September, the HKMA launched two additional spatial datasets, providing information on physical branches and Automated Teller Machines (ATMs) of retail banks in Hong Kong respectively, for public use through Open Application Programming Interface (Open API). These datasets are made available on the HKMA's Open API portal to enable app developers, technology service providers as well as the public at large to make use of the open information for any potential applications development. To make available the relevant information in a user-friendly way, the HKMA has also collaborated with the Office of the Government Chief Information Officer (OGCIO) to show the locations of physical branches and ATMs of the 20 retail banks on a digital map on the OGCIO's Open Data Portal through the adoption of the spatial datasets.

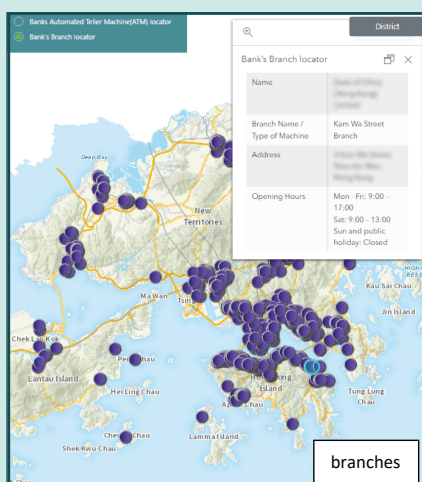
More details on financial inclusion can be found in the *Sustainable HKMA* chapter of the *Sustainability Report 2023*.



The HKMA's Open API portal:



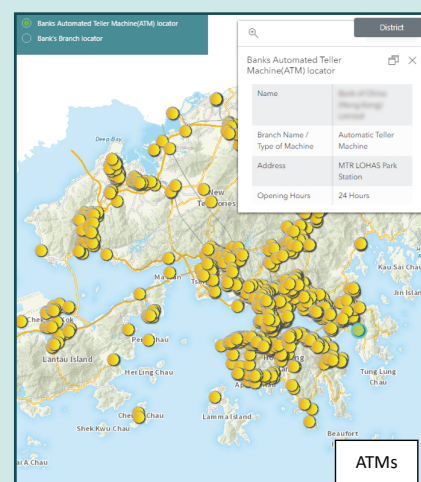
Information of branches of retail banks



branches



Information of ATMs of retail banks



ATMs

The locations and information of branches and ATMs are showcased on a digital map on the OGCIO's Open Data Portal



## Banking Stability

### Opening and maintaining bank accounts

The HKMA has sustained its dedicated efforts in promoting access to banking services and has been closely engaging with the business community on bank account opening and maintenance matters. The HKMA's dedicated Account Opening and Maintenance Team handles and follows up on enquiries received from the public as well as business communities through a dedicated email account and a hotline. Feedback collected was also communicated to the banking industry for improved understanding on issues of common interest.

The HKMA convened a roundtable with the senior management of major retail banks to share the observations identified and clarify the expectations in relation to bank account opening and maintenance. The HKMA also issued a circular in April providing further guidance to AIs on corporates' access to banking services, to assist AIs in conducting effective and appropriate CDD measures for achieving effective outcomes and enhancing customer experience. In light of market development, the HKMA published an *inSight*<sup>23</sup> article titled *Embracing new opportunities and accessing banking services* to clearly set out its stance on providing inclusive access to banking services and the responses in support of the development of the VA sector as well as markets with promising potential and opportunities.

In support of the Government's initiatives in exploring new markets of opportunities, including in particular economies in the Middle East and Southeast Asia, and to follow up on the visits of the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) to various Middle Eastern countries in February, the HKMA has taken proactive steps to reach out to the relevant business communities, including the Arab Chamber of Commerce & Industry (ACCI). The HKMA arranged two meetings with the ACCI in March and June to discuss access to banking services in Hong Kong, and also hosted a roundtable session in July with the ACCI and representatives from both HKAB and the major banks, with a view to further promoting direct dialogue among the relevant key stakeholders.



*Meeting between the HKMA and ACCI in March*



*Roundtable session with the ACCI and representatives from HKAB and major banks in July*

<sup>23</sup> *inSight* is the HKMA's official column, featuring articles written by senior executives on the major new policies and initiatives of the HKMA, or other topical issues of interest to the public.

## Banking Stability

The HKMA, in collaboration with the SFC, hosted two roundtable sessions in April and June respectively with a view to promoting interactive exchanges between the banking industry and the VA sector on banking services in support of general company operations and SFC licensees looking to carry out VA-related regulated activities. About 100 representatives from more than 80 VA-related companies, professional services firms and banks attended the sessions.



*First roundtable session with the SFC in April*

Banks have responded positively to the call for the provision of Simple Bank Account (SBA) services to meet the needs of SMEs and start-ups that only require basic banking services. Following the launch of SBA services by four banks during 2023, there are now eight banks offering SBA services. In 2023, about 8,300 such accounts were opened by banks, with the cumulative total number of such accounts increasing to over 21,000 since the service was introduced in 2019.

The average unsuccessful rate of account opening applications was below 4% in 2023, representing a significant improvement from around 10% in early 2016. The HKMA will continue its close dialogue with the banking industry and relevant stakeholders to ensure banks implement appropriate measures and do not undermine access to banking services by legitimate businesses and ordinary residents.



*Second roundtable session with the SFC in June*

## Banking Stability

### Deposit protection

With the primary objective of protecting small depositors and hence contributing to banking stability, the Deposit Protection Scheme (DPS) is reviewed by the Hong Kong Deposit Protection Board (HKDPB) regularly to ensure that it remains effective in contributing to banking stability and keeps up with international best practice. The HKDPB completed its latest round of comprehensive review of the DPS and launched a three-month public consultation during July to October, inviting the public and other stakeholders to provide their views on a number of policy recommendations aimed at enhancing the DPS.

In addition to ensuring that the DPS provides adequate protection to depositors, the HKDPB also seeks to compensate depositors as quickly as possible should a payout be triggered. As such, the HKDPB conducts payout drills and rehearsals regularly to ensure the payout readiness of the DPS. Specifically, the HKDPB conducted a payout rehearsal together with its payout agents in November to test out the payout operations under the contingency arrangement. The rehearsal was successfully completed without identifying any major issues. Moreover, the HKDPB continued with its programme to monitor and ensure DPS member banks' readiness in submitting information in compliance with the Information System Guideline.

Promoting the public's awareness and understanding of the DPS is key to maintaining the effectiveness of the DPS. With this in mind, the HKDPB continued its efforts in reinforcing the image of the DPS as the "Guardian of Deposits" with the re-run of the TV commercial themed "Keep Calm and Deposit Safely On". Apart from the implementation of multi-media advertising campaigns, the HKDPB also extended its reach to the younger generation by launching an Instagram fanpage, thereby enriching its social media presence. Furthermore, the HKDPB launched a "Money-Saving Challenge for Athletes" consumer campaign with a series of videos (with DPS messages incorporated) featuring well-known athletes sharing their saving habits and perseverance in achieving their saving goals. The HKDPB also conducted the sixth "Hongkongers' Sense of Security on Savings" survey to monitor the public's saving behaviour.

### Banking complaints

The HKMA received 3,102 banking complaints against AIs or their staff, and 9,014 enforcement-related enquiries, in 2023. The HKMA completed the handling of 3,287 complaint cases (Table 5) and responded to the enquiries. The HKMA's performance pledges on the response time to complaints and related enquiries were met (Table 6).

**Table 5 Banking complaints received by the HKMA**

	2023			2022
	Conduct-related issues	General banking services	Total	Total
Received during the year	303	2,799	3,102	3,459
Completed during the year	382	2,905	3,287	3,202

**Table 6 Performance Pledges of the HKMA in Handling Banking Complaints**

Items	Performance Pledge	Achievement Rate
Preliminary response to complaints	10 working days	100%
Reply to complaint-related enquiries	15 working days	100%

The number of fraud-related banking complaints increased by 116% to 1,201 in 2023. Among these cases, 67% were related to credit card transactions while about 33% were related to remittance transactions, payment transactions and bank loans. In view of the ever-changing modus operandi of fraudsters, apart from the *Complaints Watch*<sup>24</sup> publications, the HKMA also raised public awareness by delivering educational messages through social media platforms, including educating the public through a series of "Beware of Fraudulent Link" messages and alerting people about WhatsApp scams.

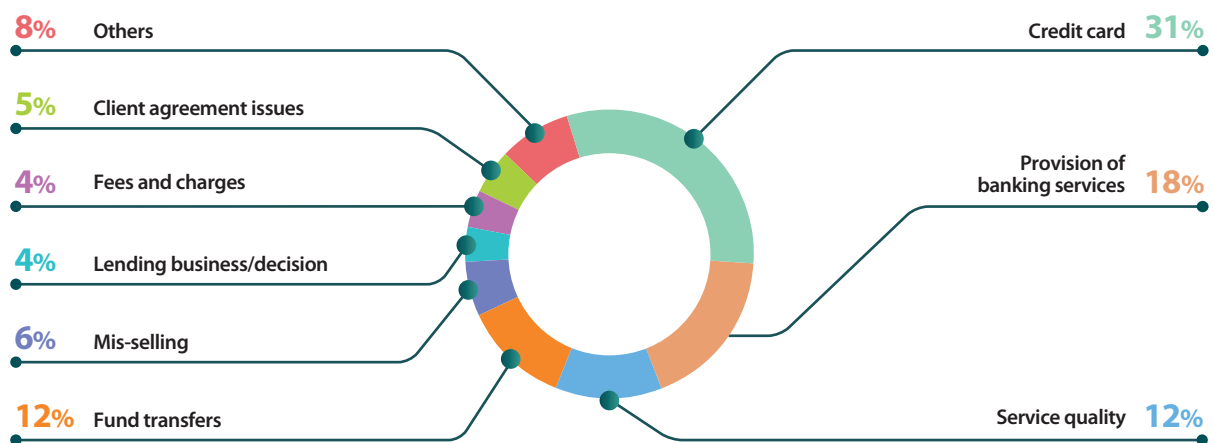
<sup>24</sup> *Complaints Watch* is a periodic newsletter issued by the HKMA to highlight the latest banking complaint trends, emerging topical issues, and areas that AIs and members of the public should be alert to. It aims at promoting proper standards of conduct and prudent business practices among AIs as well as fostering financial consumer education.

## Banking Stability

Another common category of complaints concerned the provision of banking services, including the opening and maintenance of bank accounts. This category of complaints accounted for 18% of the total number of complaints received in 2023. The majority of complaints in this category concerned the relevant AIs' account review process effectiveness. In response to issues identified from complaints, the HKMA followed up with the AIs concerned to improve the effectiveness of their account review process to be "fit-for-purpose" and enhance their complaint handling process to address customer grievances (Chart 3).

Apart from complaints, the HKMA handled 163 informant reports, which mainly concerned fund transfers in potential fraud cases and use of personal accounts for commercial purposes. For complaints or informer reports with supervisory concerns and/or staff conduct issues identified, follow-up actions, such as sharing of intelligence with law enforcement agencies and banks, were taken as appropriate.

**Chart 3** Types of services or products concerned in banking complaints received by the HKMA



### Enforcement

The HKMA exercised its enforcement power over AIs' CDD and record-keeping obligations as stipulated in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance to safeguard the stability and integrity of the banking system. The disciplinary cases in 2023 involved control lapses in conducting onboarding and on-going CDD, and transaction monitoring. The HKMA also exercised the power under the Payment Systems and Stored Value Facilities Ordinance (PSSVFO) on an SVF licensee for deficiencies in transaction monitoring controls, governance arrangement and risk management framework (Table 7).

The HKMA adopted technology tools in the complaint handling process, such as robotic process automation and speech-to-text technology, to enhance the analysis of data and audio recordings for identifying patterns, sentiments and key themes. This resulted in better effectiveness and efficiency of complaint handling and investigatory work.

## Banking Stability

**Table 7** Enforcement actions taken by the HKMA under different ordinances in 2023

Ordinance	Actions
<b>Anti-Money Laundering and Counter-Terrorist Financing Ordinance</b>	<ul style="list-style-type: none"> <li>Imposed penalties totalling HK\$23.5 million against three banks for failures in CDD and transaction monitoring.</li> </ul>
<b>Payment Systems and Stored Value Facilities Ordinance</b>	<ul style="list-style-type: none"> <li>Imposed a penalty of HK\$1.575 million against an SVF licensee for failures in transaction monitoring, governance and risk management.</li> </ul>
<b>Securities and Futures Ordinance</b>	<ul style="list-style-type: none"> <li>Referred 18 cases to the SFC after the HKMA's assessment/investigation.</li> <li>The SFC, based on enforcement collaboration with the HKMA, banned two former relevant individuals from re-entering the industry for life<sup>a</sup>.</li> </ul>
<b>Insurance Ordinance</b>	<ul style="list-style-type: none"> <li>Received 156 insurance-related cases of AIs, of which 29 cases were referred by the IA. Completed the handling of 186 insurance-related cases of AIs.</li> <li>Following investigation and subsequent referral by the HKMA, the IA banned a former technical representative of a bank from applying to be licensed for six months<sup>b</sup>. A joint press release was issued to convey a clear message to the financial services industry to deter improper behaviour.</li> </ul>
<b>Banking Ordinance and other relevant ordinances</b>	<ul style="list-style-type: none"> <li>Issued 37 compliance advice letters to AIs and their staff members to remind them of the importance of regulatory compliance.</li> </ul>

a. The ban was over concerns about the fitness and properness of the former relevant individuals, and were related to misappropriation of a client's funds and a conviction of a bribery offence.

b. The ban was over a concern about the fitness and properness of a former technical representative, and was related to fabrication of a client's direct debit authorisation form for payment of insurance premium.

### Sharing insights and good practices with the banking industry

As an ongoing initiative to promote proper standards of conduct and prudent business practices among AIs, *Complaints Watch* newsletters were published in 2023 to highlight matters identified from complaints that AIs should take note of and to share good practices for AIs' appropriate actions, including (i) consumer protection against online shopping and phishing scams, (ii) disclosure regarding investment products, (iii) premium financing for purchase of insurance plans, and (iv) safeguards regarding the use of instant messaging communications on financial services. Tips were also shared with banks' complaint handling officers on the "do's and don'ts" of day-to-day interface with customers, including proactively clarifying information discrepancies and avoiding being rigid or bureaucratic.

The HKMA also encouraged the industry to engage in collective educational initiatives, utilising social media and other channels, to raise customers' awareness regarding different scams prevalent in complaints, including WhatsApp and malware scams.



*Social media posts alerting the public to various types of scams and encouraging the careful use of instant messaging communications with bank staff*

## Banking Stability

### The Ombudsman's Awards for Officers of Public Organisations

Two HKMA staff, Mr Gabriel Au, Manager of the Enforcement Division, and Ms Grace Hui, Manager of the Banking Conduct Department, received Ombudsman's Awards for Officers of Public Organisations 2023 in recognition of their efforts in fostering a positive culture of service and promoting professionalism in handling complaints and enquiries.

Mr Au handles banking complaints with passion and professionalism, helping enhance public confidence in banking services.

Ms Hui has been empathetic to the needs of the public and provided useful assistance to enquirers to solve their problems proactively and responsibly, and has received commendations from members of the public many times.



*Dual awards for public service: Ms Carmen Chu (second from left), the then Executive Director (Enforcement and AML); Mr Alan Au (second from right), Executive Director (Banking Conduct); Mr Gabriel Au (third from left), Manager (Enforcement); Ms Grace Hui (third from right), Manager (Banking Conduct); Ms Cathy Chan (first from left), Senior Manager (Enforcement); and Ms Candy Leung (first from right), Senior Manager (Banking Conduct), at the awards ceremony with Ms Winnie Chiu, The Ombudsman (middle)*

The HKMA remains committed to diligently handling customer complaints and enquiries on banks, aiming to strengthen consumer protection and set a commendable standard for the industry on treating customers fairly.

### Capacity building in the banking sector

In collaboration with the Government, the Hong Kong Institute of Bankers (HKIB) and other industry stakeholders, the HKMA organised a series of initiatives with the aim of enhancing capacity building in the banking sector. The HKMA's efforts focused on two fronts: (i) attracting students to the banking industry and better equipping them to build a sustainable pipeline of future talent, and (ii) upskilling and reskilling existing practitioners to ensure they stay relevant in the modern banking era.

## Banking Stability

### Attracting and nurturing future talent

#### Future Banking Bridging Programme

In view of the good response from university students in the previous two years, the HKMA conducted the third round of the Future Banking Bridging Programme in November. Around 300 students who aspire to pursue a career in banking took part in the Programme, during which they received professional training from industry experts; worked with their peers from other universities on group projects; and interacted with mentors from the banking industry, hearing first-hand advice and guidance on developing a banking career.



*Participants of the Future Banking Bridging Programme work in group projects and win different awards*

#### Apprenticeship Programme for Private Wealth Management

Building on its success in previous years, the HKMA co-organised a new round of the Apprenticeship Programme for Private Wealth Management with the Private Wealth Management Association to equip university students with practical skills and work experience for a career in the private wealth management industry. The Recruitment Day for a new batch of apprentices for 2024–2025 was conducted in November with more than 700 students in attendance. In addition to the recruitment booths of individual firms, a new Career Clinic was set up during the Recruitment Day to provide advice and assistance to participating students on job searching, resume writing and job interviews. Since its inception in 2017, the Programme has offered a total of almost 400 apprenticeship opportunities to university students.



*More than 700 university students attend the Recruitment Day of the Apprenticeship Programme for Private Wealth Management*

## Banking Stability

### Banking Career Talk Series

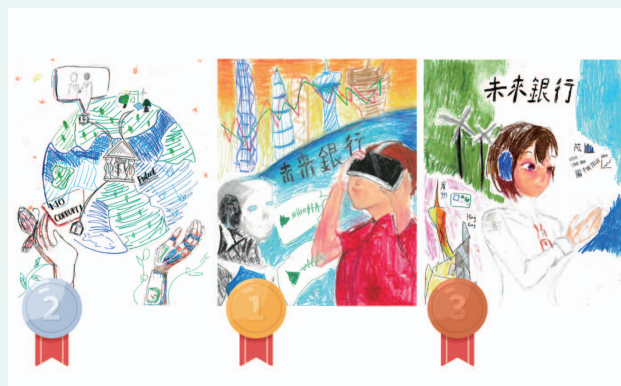
Together with the banking industry and the HKIB, the HKMA organised the Banking Career Talk Series at universities in Hong Kong to introduce the latest developments and trending job roles in the banking industry to university students. During academic year 2022–2023, the career talks attracted about 550 students from different universities and disciplines. During the talks, bankers were invited to share their banking knowledge and valuable experience to shed light on how students can better prepare themselves for a job in the banking industry.

### Career guidance for secondary school students

To foster the next generation's interest in the banking industry at an early stage of their life planning, the HKMA actively engaged with secondary school students and

teachers through a range of activities. For instance, the HKMA organised a workshop and a poster drawing competition titled “Future Banker – Planning for Future Career” in collaboration with the Education Bureau in July as well as a talk on pursuing a career in banking in December for nearly 1,300 secondary school students and teachers.

The HKMA also partnered with the Education Bureau and the Chinese Banking Association of Hong Kong in organising the Young Bankers' Summer Programme in July for about 30 students and teachers, where the HKMA provided an introduction on the evolution of the banking and financial system in Hong Kong and the HKMA's work on banking supervision to the participants. The Programme also included a cross-boundary visit to deepen students' understanding of the latest developments on the Mainland.



Winning posters designed by high school students as part of “Future Banker – Planning for Future Career”



30 young bankers and their teachers attend the Young Bankers' Summer Programme

## Banking Stability

### Upskilling and reskilling banking workforce

#### Skills Transformation and Empowerment Programme

To drive the momentum of upskilling and reskilling in the banking sector, the HKMA conducted a focused review of talent development practices adopted by major retail banks. In September, the HKMA shared with the industry its key observations and supervisory expectations in four key areas, covering (i) manpower planning, (ii) upskilling the workforce, (iii) reskilling the workforce, and (iv) recruiting talent in the banking sector. A new Survey on Talent Development was also rolled out to track Als' efforts in this area starting from 2024.

As a further step, the HKMA updated the SPM module CG-6 on *"Competence and Ethical Behaviour"* to provide additional guidance on talent management to the industry. The updated module was issued for industry consultation in December and is expected to be implemented in 2024.

#### Enhanced Competency Framework

The HKMA developed the Enhanced Competency Framework (ECF) for Banking Practitioners in collaboration with the banking industry and relevant professional bodies, with the aim of facilitating talent development and enhancing the overall level of professional competence of banking practitioners. During the year, the Core Level of the ECF module on Green and Sustainable Finance was launched; the Professional Level is being developed to meet the rapidly growing demand for Green and Sustainable Finance practitioners. Up to the end of 2023, more than 18,000 banking practitioners had obtained certifications in various professional areas under the ECF.

#### Pilot Scheme on Training Subsidy for Fintech Practitioners

The Pilot Scheme on Training Subsidy for Fintech Practitioners aims to promote the professional development of fintech talent in Hong Kong by offering subsidies of up to 80% of training costs to practitioners who have attained eligible fintech professional qualifications, subject to a cap of HK\$25,000. As the ECF module on Fintech became the first set of eligible fintech professional qualifications under the Scheme, the HKMA is supporting the Government in administering the Scheme for the banking industry.

#### Regulator's Dialogue

The HKMA worked with the industry in supporting the development of the Corruption Prevention Guide for Banks by the ICAC, which offers practical guidance on anti-bribery legislation as well as effective corporate governance and internal controls to mitigate corruption risks in business operations of Als. The HKMA took the opportunity of the publication of the updated Guide to resume organisation of the Regulator's Dialogue for banking practitioners in May after a brief pause during the pandemic. About 450 practitioners attended the Dialogue to discuss the updated Guide and the relevant supervisory requirements as outlined in the SPM module CG-3 on *"Code of Conduct"*.



About 450 banking practitioners attend the Regulator's Dialogue

## Banking Stability

### Cross-boundary flows of banking talents

In view of the importance of the Mainland opportunities, especially those in the Greater Bay Area, for further development of banking business, the HKMA and the HKIB co-organised a cross-boundary study tour to Shenzhen and Qianhai in June for about 100 banking practitioners to enhance their knowledge on fintech and the latest developments in the Mainland.



*Around 100 bankers take part in the cross-boundary study tour*

With the support of the HKMA, the HKIB and the China Banking Association entered into an MoU in September on mutual recognition of the qualification of ECF module on Retail Wealth Management in Hong Kong and the Qualification Certificate of Banking Professional in the Mainland in an effort to promote cross-boundary flows of banking talent.



*Mr Michael Wong (middle), Deputy Financial Secretary of the Government of HKSAR, witnesses the signing of the MoU by Ms Carrie Leung (right), Chief Executive Officer of HKIB, and Mr Xing Wei (left), Deputy Chairman of China Banking Association*

### Talent retention

In addition to upskilling and reskilling efforts, the HKMA is also mindful of the importance of talent retention in the banking sector. In October, the HKMA co-organised the *Fulfilling Career for Young Bankers* seminar with HKAB to provide career guidance to about 170 young bankers, with a view to supporting them to develop a long-term career in the banking industry.



*Mr Arthur Yuen (middle), Deputy Chief Executive; Mr Stephen Chan (third from right), representative of the Chairman of HKAB; and other guests at the Fulfilling Career for Young Bankers seminar*

## Banking Stability

### Financial market infrastructures oversight

The PSSVFO empowers the Monetary Authority to designate and oversee clearing and settlement systems (CSSs) that are material to the monetary and financial stability of Hong Kong, and to the functioning of Hong Kong as an international financial centre.

The purposes of the PSSVFO include promoting the general safety and efficiency of the designated CSSs:

- the Central Moneymarkets Unit;
- the Hong Kong dollar Clearing House Automated Transfer System (CHATS), including the Hong Kong dollar FPS;
- the US dollar CHATS;
- the euro CHATS;
- the renminbi CHATS, including the renminbi FPS; and
- the Continuous Linked Settlement (CLS) System.

The PSSVFO also provides statutory backing to the finality of settlement for transactions made through the designated CSSs by protecting the settlement finality from insolvency laws and any other laws.

The HKMA is also responsible for overseeing the Hong Kong Trade Repository (HKTR), the OTC derivatives trade repository in Hong Kong. While the HKTR is not a clearing or settlement system and is thus not designated as such under the PSSVFO, the Monetary Authority ensures that the HKTR is operated in a safe and efficient manner, which is in line with one of the functions of the Monetary Authority to maintain the stability and integrity of the monetary and financial systems of Hong Kong.

### Monitoring and assessment

The HKMA oversees local FMIs under its purview through off-site reviews, continuous monitoring, on-site examinations and meetings with FMIs' management. In doing so, the HKMA adopts international standards in its oversight framework. In particular, the requirements under the Principles for Financial Market Infrastructures (PFMI)<sup>25</sup> are incorporated in the HKMA's guidelines for designated CSSs and the HKTR.

The HKMA has completed the PFMI assessments on the FMIs under its oversight. All the FMIs have published Disclosure Frameworks, which is a key requirement under the PFMI to improve transparency by disclosing system arrangements principle by principle. The PFMI assessment results and Disclosure Frameworks are available on the HKMA website.

The HKMA has been closely monitoring the operations of the FMIs and the sufficiency and appropriateness of their contingency arrangements. The FMIs have also continued to strengthen their endpoint security and cyber resilience under the close monitoring of the HKMA.

### Technological innovation

In view of the growing innovation efforts in FMI, the HKMA has been monitoring the implementation of new FMI-related initiatives, including, for example, the tokenised government green bond, mBridge<sup>26</sup> and e-HKD<sup>27</sup> initiatives, with a view to assessing the implications of these initiatives from an oversight perspective under the statutory regime as these initiatives develop.

<sup>25</sup> In April 2012, the Committee on Payments and Market Infrastructures and IOSCO published the PFMI, which constitute the international standards for the oversight of FMIs, including systemically important payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories.

<sup>26</sup> mBridge refers to Multiple Central Bank Digital Currency Bridge.

<sup>27</sup> e-HKD refers to a retail Central Bank Digital Currency in Hong Kong.

## Banking Stability

### International participation and co-operative oversight

The HKMA is a member of the Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI) and participates in meetings, working groups and forums on FMI oversight matters. Throughout the year, the HKMA participated in CPMI meetings that, among other things, discusses issues related to digital innovations in payments, cross-border payments as well as FMI risk management. The HKMA also joined various newly formed working groups and task forces under the CPMI and FSB, and contributed to their work in enhancing cross-border payments from an oversight perspective. It also participates in the CPMI-IOSCO Implementation Monitoring Standing Group, which is responsible for monitoring and assessing the implementation of the PFMI by different jurisdictions.

The HKMA is a member of the Oversight Forum of the financial messaging services provider Swift; the forum discusses relevant oversight matters and shares Swift-related information. Hong Kong's AIs and FMIs, which commonly use Swift's services, may be exposed to risks in the event of any disruption to Swift's operations. During the year, the HKMA attended meetings and teleconferences to discuss matters of interest, in particular Swift's customer security framework and cybersecurity issues.

In addition, the HKMA has established co-operative oversight arrangements with other relevant authorities to foster efficient and effective communication and consultation. This enables the HKMA and these other authorities to support one another in fulfilling their respective mandates with respect to FMIs. The HKMA participates in the international co-operative oversight of the CLS System<sup>28</sup> through the CLS Oversight Committee. During the year, the HKMA attended various meetings of the CLS Oversight Committee to discuss, among others, oversight matters of CLS.

### Independent tribunal and committee

An independent Process Review Committee, whose members are appointed by the Chief Executive of the HKSAR, reviews processes and procedures adopted by the HKMA in applying standards under the PSSVFO to systems in which the HKMA has a legal or beneficial interest. The Committee assesses whether the HKMA has applied the same procedures to all designated CSSs. The Committee held two meetings and reviewed four regular reports and 36 accompanying oversight activities management reports in 2023. The Committee concluded that it was not aware of any case where the HKMA had not duly followed internal operational procedures, or where the HKMA had not been procedurally fair in carrying out its oversight activities. Under its terms of reference, the Committee submitted its annual report to the Financial Secretary, and the report is available on the HKMA website.

An independent Payment Systems and Stored Value Facilities Appeals Tribunal hears appeals against decisions of the Monetary Authority on licensing and designation matters under the PSSVFO. There have been no appeals since the establishment of the Tribunal.

<sup>28</sup>

The CLS System is a global clearing and settlement system operated by the CLS Bank to handle cross-border foreign exchange transactions. It enables foreign exchange transactions involving CLS-eligible currencies, including the Hong Kong dollar, to be settled on a payment-versus-payment basis.