



## Banking Stability

The banking sector in Hong Kong remained resilient in 2024, despite macroeconomic challenges and geopolitical uncertainties. The HKMA took prompt measures to support local small and medium-sized enterprises and safeguarded banking stability through risk-based supervision and contingency planning. We enhanced the banking sector's operational and cyber resilience by providing supervisory guidance and supporting the industry in combating emerging risks. To encourage fintech adoption, we launched a series of cross-sectoral initiatives, including a Generative Artificial Intelligence Sandbox.

To strengthen bank consumer protection, the HKMA launched the Anti-Scam Consumer Protection Charter 2.0. We also introduced Money Safe to empower depositors to protect their funds, and cooling-off period for banks' unsecured consumer credit products to reduce the risk of impulsive and excessive borrowing. Additionally, we provided guidance to banks on the use of generative artificial intelligence in customer-facing applications, and worked closely with the industry on an alternative Payment Arrangements for Property Transactions in the secondary market. The HKMA also enhanced customer experience while ensuring investor protection by providing guidance on digital asset-related activities, implementing enhancements to the Cross-boundary Wealth Management Connect Pilot Scheme, and streamlining processes for the sale of investment and insurance products. Full migration of consumer credit reference services to Credit Data Smart was completed during the year.

The HKMA plays a pivotal role in Hong Kong's anti-money laundering and counter-terrorist-financing regime. By enhancing the speed and volume of intelligence exchanged through the Fraud and Money Laundering Intelligence Taskforce, intelligence-led suspicious transaction reporting increased by 303% compared with 2023, resulting in a 34% increase in criminal proceeds restrained or confiscated. Consultation on legislative changes to support bank-to-bank information sharing in order to aid in detecting and preventing financial crime received general support. In April, we provided guidance based on findings from a thematic review of transaction monitoring systems, and in September, we launched a programme to promote the use of artificial intelligence in suspicious activity monitoring. We also enhanced the pre-transaction alert mechanism and publicity efforts in collaboration with the banking industry and the Hong Kong Police Force, and issued guidance to banks on measures to prevent, detect and disrupt authorized payment scams.

Good progress was made on implementing international supervisory standards locally, including those on capital adequacy and disclosure. The Hong Kong Deposit Protection Board strengthened depositor protection by enhancing various aspects of the Deposit Protection Scheme.

To ensure a credible resolution regime, the HKMA implemented resolution standards requiring banks to update their financial contracts with counterparties to mitigate the risk of disorderly early termination in resolution. Notable progress was made in devising preferred resolution strategies for banks, addressing resolvability barriers to ensure sufficient financial resources and operational continuity in resolution, as well as enhancing resolution execution capabilities.

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## Objectives

One of the HKMA's objectives is to promote the safety and stability of the banking system. Achieving this objective is contingent upon a highly resilient financial system, capable of providing the critical financial services that the Hong Kong economy needs.

Banks can affect the stability of the financial system through the way they carry out their businesses and, in extreme cases, if they fail in a disorderly manner. As a supervisory authority, the Monetary Authority plays a key role in safeguarding financial stability by ensuring that banks are resilient to shocks and 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).

Hong Kong's 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 serves as the resolution authority for AIs. To implement 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, we adopt 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, mitigate systemic risk and foster transparency. By enhancing the resilience of FMIs to financial crises, we can safeguard Hong Kong's monetary and financial systems against any destabilising effects arising from disruption to the FMIs.

## Review of 2024

### Licensing

At the end of 2024, Hong Kong had:



During the year, the HKMA granted banking licences to one bank incorporated in Hong Kong and one incorporated outside Hong Kong. The HKMA also granted money broker approval to one inter-dealer broker outside Hong Kong. The authorizations of three licensed banks, one restricted licence bank and one deposit-taking company were revoked 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 311 to 314 and 320 to 323 respectively.

### Review of the three-tier banking system

During 2024, the HKMA completed a public consultation exercise on simplifying the three-tier banking system into two tiers. Feedback from the respondents showed that they were broadly supportive of the proposed simplification. Having considered the responses received, we introduced new parameters to the proposal with a view to streamlining the transition and minimising the impact on existing customers of the deposit-taking companies.

### Renaming of "Virtual Bank"

The HKMA also carried out a public consultation on the renaming of "Virtual Bank" as "Digital Bank". With broad support received for the renaming proposal, it was put into effect in October by the issuance of a revised statutory Guideline on Authorization of Digital Banks.

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### Review of digital banks

Another initiative completed in 2024 was a comprehensive review of digital banks (DBs), with a report published in August. It revealed that the development of DBs in Hong Kong had so far achieved the three key policy objectives of introducing digital banking, namely promoting fintech and innovation, offering new customer experience, and promoting financial inclusion. Given the diversity of DBs and incumbent banks, the HKMA considers that the current number of digital banking licences is optimal and does not see any strong justification for introducing more new players to the market at this juncture. The revised Guideline on Authorization of Digital Banks issued in October has relaxed several restrictions for the sector, including allowing DBs to engage in banking business beyond retail banking, and to establish physical branches where justified from customer experience and business strategy's perspectives, provided that they continue to offer banking services primarily via digital channels.

### Review of bank licence fees

The HKMA completed a review of licence fees during the year and introduced a fee level increase in June.

### Company re-domiciliation regime in Hong Kong

The HKMA provided support to the Government for introducing a company re-domiciliation regime in Hong Kong, including the legislative process to amend the Banking Ordinance (BO) and its subsidiary legislation, along with other legislation pertaining to the HKMA.

### Overview of supervisory activities

During the year, HKMA staff conducted 174 off-site reviews covering a broad range of issues, including the CAMEL rating assessment<sup>1</sup>, corporate governance and risk management. As part of the HKMA's continued efforts to promote stronger risk governance, 36 meetings were held with boards of directors, independent non-executive directors or board-level committees of AIs. Another 38 tripartite meetings were held between the HKMA, AIs and their external auditors. In addition, we conducted on-site examinations on a wide range of AIs' activities including governance and practices in the areas of credit, market and liquidity risk management.

Operational and technology risk was another major supervisory focus given that the adoption of technology by AIs gathered further momentum. The HKMA further strengthened the supervision of AIs' climate risk management to enhance their resilience against climate change. In recognition of the HKMA's work, including the maintenance of financial stability amid global economic uncertainties and the promotion of robust economic growth, the HKMA was honoured with the Best Macroeconomic Regulator in Asia Pacific award by The Asian Banker.



*Ms Carmen Chu (centre), Executive Director (Banking Supervision), on behalf of the HKMA, receives the Best Macroeconomic Regulator in Asia Pacific award from The Asian Banker*

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

<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 2024.

<b>Table 1</b>	<b>Summary of supervisory activities</b>	
	<b>2024</b>	2023
<b>1 Off-site reviews and prudential interviews</b>	<b>174</b>	177
<b>2 Meetings with boards of directors, independent non-executive directors or board-level committees of AIs</b>	<b>36</b>	38
<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>119</b>	125
Operational risk and technology risk management <sup>a</sup>	27	37
Anti-money laundering and counter-financing of terrorism (AML/CFT) controls	14	15
Liquidity risk management	4	9
Implementation of Basel capital adequacy framework	14	6
Capital planning	6	6
Market risk, counterparty credit risk and treasury activities	12	11
Securities, investment products, trust, insurance and MPF-related businesses	22	20
Consumer protection	2	3
Deposit Protection Scheme-related representation	12	12
Examinations outside Hong Kong	6	6
<b>6 Thematic reviews</b>	<b>654</b>	694
Credit risk management and controls <sup>b</sup>	37	43
Operational risk and technology risk management <sup>a</sup>	64	76
AML/CFT controls	71	64
Model risk management	7	0
Securities, investment products, trust, insurance and MPF-related businesses	118	168
Consumer protection	237	216
Sharing and use of credit data	63	63
Liquidity risk	16	20
Market risk	18	20
Green and sustainable banking <sup>c</sup>	23	24
<b>Total</b>	<b>1,028</b>	1,079

- a. Additional supervisory activities focused on operational resilience included an HKMA survey and AIs' self-assessment exercises to take stock of implementation progress and identify enhancement areas, as well as extensive outreach at both the bilateral and industry levels on framework development and practices.
- b. In addition, supervisory activities focused on evaluations of AIs' strategies and practices related to the granting of credit and the ongoing risk management of selected portfolios such as commercial real estate and small and medium-sized enterprise lending.
- c. 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 2.8% in 2024, compared with a decline of 3.6% in 2023. Table 2 shows the breakdown of growth in loans and advances. Mainland-related lending decreased by 8.7% to HK\$3,859 billion in 2024 (Table 3).

The HKMA continued to closely monitor AIs' asset quality in 2024 and assess their credit risk management practices given the continued high interest rate environment, the ongoing debt problems of some Mainland property developers, and the subdued local commercial real estate market. The asset quality of the banking sector faced continued pressure during the year but the risk landscape remained manageable. The classified loan ratio of the banking sector increased from 1.57% at the end of 2023 to 1.96% at the end of 2024, while the classified loan ratio for Mainland-related lending decreased to 2.38% from 2.58% during the same period.

During the year, the HKMA conducted targeted and thematic examinations to evaluate the credit risk management of AIs, focusing on their exposures to vulnerable sectors, collateralised lending to private banking and wealth management customers, unsecured retail lending, oversight of credit risks at operations outside Hong Kong, and exposures to non-bank financial institutions.

**Table 2** Growth in loans and advances

% change	2024	2023
<b>Total loans and advances</b>	<b>-2.8</b>	-3.6
Of which:		
– for use in Hong Kong	<b>-2.1</b>	-0.4
– trade finance	<b>4.6</b>	-13.1
– for use outside Hong Kong	<b>-5.7</b>	-10.4

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

% change	2024	2023
<b>Total Mainland-related lending</b>	<b>-8.7</b>	-6.6
Of which:		
– Mainland-related lending (excluding trade finance)	<b>-8.6</b>	-6.5
– trade finance	<b>-9.7</b>	-7.8

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### Alleviating cash flow pressure faced by bank customers

#### Support for local small and medium-sized enterprises

Small and medium-sized enterprises (SMEs) are the bedrock of the Hong Kong economy and the HKMA has been paying close attention to their access to bank financing. Since the establishment of the Banking Sector SME Lending Coordination Mechanism by the HKMA and the banking sector in 2019, several rounds of SME support measures have been rolled out, including the Pre-approved Principal Payment Holiday Scheme to tide SMEs over the difficult times during COVID-19.

In 2024, the HKMA and the banking sector introduced further measures and initiatives to support SMEs that are still facing challenges in their business operations as the economic transformation continues, as well as to assist SMEs in their continued development, upgrading and transformation.

#### New SME support measures

Through the Coordination Mechanism, the HKMA introduced nine measures in March to help SMEs obtain financing from banks and support their ongoing development.



#### Nine SME support measures announced in March

- 1 Never demand early repayments from mortgage customers who repay on schedule
- 2 Give customers a transition period of at least six months for credit limit adjustments
- 3 Expedite the handling of applications for the 80% and 90% Guarantee Products under the SME Financing Guarantee Scheme
- 4 Apply the principles under the Pre-approved Principal Payment Holiday Scheme to support customers facing difficulties
- 5 Offer credit products that better serve SMEs' needs and other support services
- 6 Actively consider lowering interest charges and fees
- 7 Set up a one-stop platform for providing banking service information to SMEs
- 8 Provide convenience to customers who wish to switch lending banks
- 9 Hold regular business sector meetings to better understand the needs of SMEs

In the nine months following the announcement of these nine support measures, around 31,000 SMEs benefited from credit relief and newly approved loans, which involved an aggregate credit limit of over HK\$73 billion, as well as from fee waivers or other concessions offered by banks.

To further support SMEs in adapting to the changing market and business environment, and assist in their development, upgrading and transformation, the HKMA and the banking sector introduced five further measures in October.



#### Five SME support measures announced in October

- 1 Release bank capital to facilitate the financing needs of SMEs through a reduction in the countercyclical capital buffer ratio, and by allowing early adoption of preferential treatment for SME exposures under the Basel III capital framework
- 2 Set aside a total of over HK\$370 billion dedicated funds in their loan portfolios to support SMEs by the 16 banks that are active in SME lending
- 3 Launch more credit products and services to assist SMEs' transformation
- 4 Increase the partial principal repayment options
- 5 Devote sufficient manpower and resources to process applications for principal moratorium and other measures under the enhanced SME Financing Guarantee Scheme

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### New Taskforce on SME Lending

The HKMA and The Hong Kong Association of Banks (HKAB) jointly established the Taskforce on SME Lending in August to further strengthen the work of supporting SMEs at both the individual and industry levels. The Taskforce reviews individual cases of SMEs encountering difficulties when obtaining or maintaining bank financing, and proposes appropriate solutions to common issues identified among the cases for adoption across banks. Another mandate of the Taskforce is to enhance communication between the HKMA, the banking industry and the commercial sectors, so as to understand the financing needs of SMEs in a more timely manner and to provide better support for them.

All participating banks in the Taskforce affirmed that there was no change in their risk appetite towards SME financing and related credit approval standards, and committed to informing residential mortgage applicants of the outcome within 14 days after receipt of all the necessary documents. They also established arrangements for SME customers to request for reviews of their credit approval decisions.

The HKMA has established a dedicated hotline (phone: 2878 1199 and email: smelending@hkma.gov.hk) to answer enquiries and provide assistance to individual SMEs. From the establishment of the Taskforce on 23 August until the end of 2024, the Taskforce received and handled around 420 cases. Positive feedback has been received from SMEs and the majority of the cases have been resolved upon the HKMA's facilitation.

### Enhanced communication with the commercial sector

The HKMA, together with HKAB and the Chinese Banking Association of Hong Kong (HKCBA) strengthened communication with the banking and commercial sectors through engagement sessions with representatives of business associations and SMEs from the wholesale and retail, construction, transport and other sectors, to better understand their sector-specific needs.



Senior representatives from the HKMA meet the Chief Executive Officers of three Chairman Banks of HKAB to discuss various issues relating to SME lending



The HKMA and HKAB co-chair the inaugural meeting of the Taskforce on SME Lending in September



The HKMA and the Development Bureau hold a meeting with over 20 representatives from various industry associations in the construction and banking sectors



The HKMA, together with HKAB and the HKCBA, holds an engagement session with around 40 representatives of the banking, wholesale and retail sectors

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## Increasing awareness of the SME support measures

To promote awareness of the various measures for supporting SMEs, the HKMA held a series of outreach events. These included:

- Seminar on *Banking Sector's Support Measures for Small and Medium-sized Enterprises* co-organised with HKAB and the HKCBA in June, which attracted some 200 representatives from the banking sector, trade associations, and SMEs; and
- SME Digital Technology Solution Day* co-organised with Hong Kong Cyberport Management Company Limited (Cyberport), HKAB and the HKCBA in November to promote the banking sector's support for the digital transformation of SMEs through big data and technology.



Mr Arthur Yuen, Deputy Chief Executive (seventh from left, front row) and Ms Carmen Chu, Executive Director (Banking Supervision) (fifth from right, front row), together with other representatives at the seminar



The HKMA also launched a dedicated webpage, "*Supporting SMEs*", on its website to facilitate access to information on SME-related support measures. This includes SME lending products and services offered by major banks, banks' dedicated hotlines for SME lending and credit approval review arrangements, and measures of other organisations such as the Government and banking associations.

**Supporting SMEs**

The banking sector in Hong Kong has been supporting the development of SMEs of different industries. The Banking Sector SME Lending Coordination Mechanism (Mechanism) was established by the HKMA in October 2019. Participants include 11 banks that are most active in lending to small and medium-sized enterprises (SMEs). The Hong Kong Association of Banks (HKAB) and the HKMA Investment Limited are also represented in the Mechanism. Since its establishment, the Mechanism has rolled out several rounds of relief measures for SME customers, including the Pre-approved Principal Payment Holiday Scheme, loan tenure extensions, and the conversion of trade financing lines into temporary overdraft facilities, which helped many SMEs tide over the difficult times during the COVID pandemic.

In March 2024, the Mechanism launched new support measures, including banks not demanding early repayments from mortgage customers repaying on schedule, and not adjusting credit limit merely due to change in collateral value, and for certain cases warranting adjustment of credit limits, a transition period of at least six months should be given. These measures have assisted SMEs in obtaining bank financing and provided them with a better support for their continuous development and transformation.

Following the launch of the new support measures, many SMEs have benefited through, among others, principal moratorium and partial principal repayment, approved new credit applications and concessions on credit application fees, commitment fees and interest which help ease their financial burden.

The HKMA and the HKAB together established a Joint Taskforce on SME Lending in August 2024 to further strengthen the related work at both the individual case and the industry levels, including setting up a mechanism to handle individual cases of SMEs encountering difficulties when obtaining bank financing, working out appropriate solutions for adoption across banks and enhancing communication among the HKMA, the banking industry and the commercial sector so as to understand the financing needs of SMEs in a more timely manner.

You may find information on SME lending services provided by different banks and other support measures offered by government-related organisations for SMEs in the one-stop platform.

Should you have any enquiries or comments about SME lending services, please contact the HKMA.

Hotline: (852) 3878 1199  
Email: smelending@hkma.gov.hk



Bank credit approval review arrangements



Other support measures and resources

*Dedicated webpage on SME-related support measures*

## Banking Stability

### Property mortgage lending

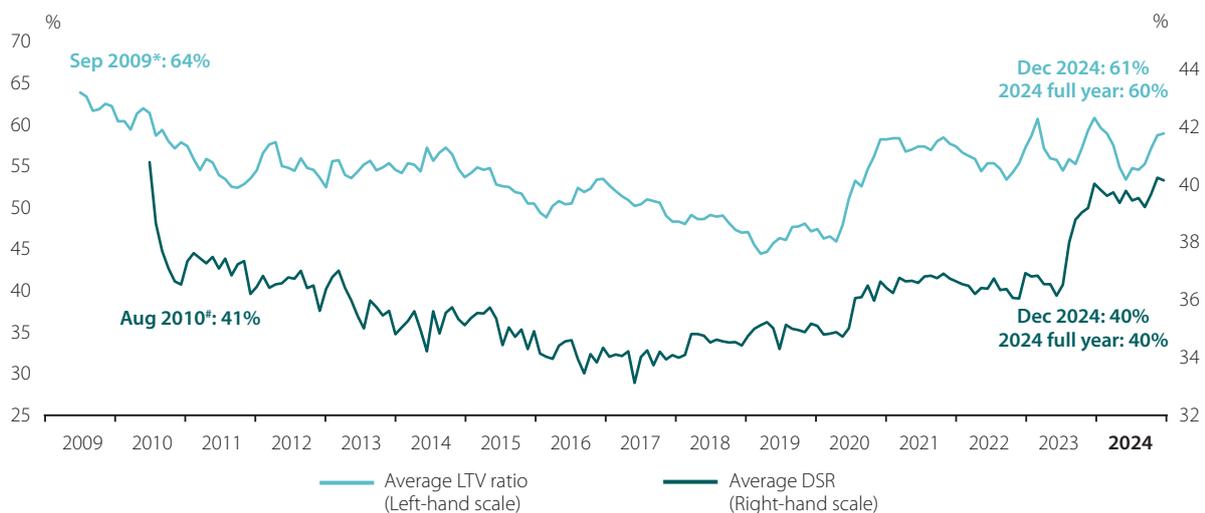
Successive rounds of countercyclical macroprudential measures introduced by the HKMA since 2009 have strengthened the risk management of banks' property mortgage lending business and the banking sector's capacity to cope with challenges arising from a sharp correction in property prices. The average loan-to-value (LTV) ratio of new residential mortgage loans approved in 2024 stood at 60%, compared with 64% in September 2009 before the countercyclical measures were introduced (Chart 1). The average debt servicing ratio (DSR) of new mortgages stayed low at 40% in 2024, compared with 41% in August 2010 when a cap on DSR was first applied.

Taking into account the market conditions, the HKMA implemented two rounds of countercyclical macroprudential measures for property mortgage loans, in February and October, to minimise as far as possible the impact on the public when buying and selling properties, while continuing to maintain banking stability and ensuring the proper risk management of property mortgage loans.

These adjustments reverted the maximum LTV ratio and DSR limit for residential properties to their respective pre-2009 levels of 70% and 50% before the countercyclical macroprudential measures were first introduced. Effective from February, the HKMA suspended the interest rate stress test requirement for property mortgage lending, which assumes a 200-basis-point rise in the mortgage rate. The HKMA also increased the financing caps for property development projects to their pre-2017 levels; and removed the requirement for banks to set aside additional capital for exposure to property developers who offer mortgage financing with high LTV ratios.

In December, the HKMA introduced a one-off special mortgage scheme to provide banks with more flexibility to assist homebuyers who bought uncompleted residential properties around the peak of the property market between 2021 and 2023, using stage payment plans to complete their property transactions. Under this special scheme, banks may provide mortgage loans with a maximum LTV ratio of 80% to eligible homebuyers, and the DSR limit is adjusted to 60%.

**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

During the year, banks made good progress in implementing the operational resilience framework by May 2026, in accordance with the timeline stipulated in the HKMA’s Supervisory Policy Manual (SPM) module on “Operational Resilience”. Taking into account the HKMA’s advice, major banks tightened their tolerance limits for withstanding severe disruptions. To further support the banks’ implementation efforts, the HKMA and HKAB jointly organised an industry sharing session on *Journey to Operational Resilience: Mapping and Testing* in December with a focus on mapping interdependencies and scenario testing. This was attended by almost 300 participants from over 100 banks.



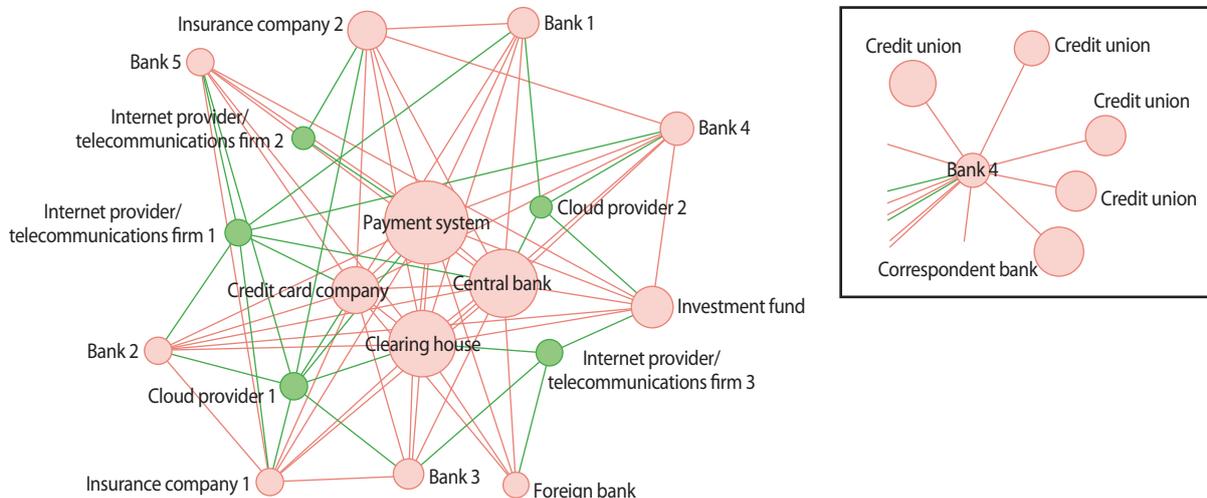
Almost 300 subject matter experts from banks join the industry sharing session on Operational Resilience

In light of the growing dependence on third-party service providers and the global CrowdStrike incident in July, the HKMA promptly shared information on good industry practices and provided guidance to help enhance banks’ resilience against third-party information technology (IT) solution failures.

In response to escalating cyber threats, the HKMA intensified its efforts in strengthening the banking sector’s cyber resilience. At the policy level, a new SPM module was issued in November to articulate holistically our supervisory approach and expectations for cyber risk management. At the institutional level, we supervised banks’ assessments under the Cyber Resilience Assessment Framework 2.0 and conducted thematic reviews on third-party cyber risk management to strengthen banks’ cyber defence maturity. We also enhanced banks’ data resilience against the risk of destructive ransomware attacks by monitoring their secure tertiary data back-up implementation.

At the sectoral level, we undertook a Cyber Mapping exercise together with other domestic financial authorities and completed a pilot run in 2024. This exercise was recommended by the International Monetary Fund (IMF) as a means of better assessing systemic cyber risks arising from the interconnections between financial institutions, financial market infrastructure, and technology service providers (Figure 1).

**Figure 1** A conceptual illustration of a Cyber Map



Source: IMF Departmental Paper “Cybersecurity Risk Supervision” September 2019

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To combat the rising threat of digital fraud, the HKMA continued to enhance the security of e-banking services and payment card transactions. In October, with the emergence of malware scams targeting payment card transactions, we provided guidance for banks to further strengthen the security of online payment card transactions as a pre-emptive measure. Bank customers were able to authenticate these transactions through mobile banking apps instead of SMS one-time passwords starting from the end of 2024. Additionally, we updated the SPM module TM-E-1 on “Risk Management of E-banking” in October with security measures targeting the latest digital fraud tactics.

In the fight against fraud, having a collaborative ecosystem involving different stakeholders is of utmost importance. In August, the HKMA collaborated with the Hong Kong Police Force (Police) and the banking industry to upgrade the Suspicious Account Alert<sup>2</sup> system, enabling it to cover internet banking and physical branch transactions. This alert mechanism, which was further expanded to include Automated Teller Machine (ATM) and cash machine transactions in December, covers the majority of the public’s day-to-day transfers. The HKMA also held an anti-digital fraud workshop in November, jointly with the Police, the Digital Policy Office (DPO) and HKAB, to raise industry awareness of the latest modus operandi of deepfake scammers and to share good practices for managing the associated risks. More than 140 participants from 70 banks joined the workshop.



The Anti-Digital Fraud Workshop jointly held by the HKMA, the Police, the DPO and HKAB in November

## Liquidity and market risks

The HKMA continued to enhance the supervision of Als’ liquidity and market risk management by implementing the follow-up actions identified in its internal review in response to the 2023 banking turmoil in the US and Europe. As the global financial markets and fund flows remained highly volatile, we closely monitored Als’ liquidity positions and assessed their resilience to severe deposit outflows through an enhanced stress testing framework. While the stress testing results indicated that the banking sector continues to maintain ample buffers to cope with extreme liquidity shocks, we conducted a range of reviews to scrutinise Als’ preparedness for dealing with scenarios of abrupt and sizeable fund outflows. On the market risk front, we stayed vigilant about market developments and assessed the potential implications on the banking sector as well as individual Als. Examinations were conducted to review Als’ systems and controls for managing market risk, focusing on those surrounding their debt securities investment and the use of behavioural models for measuring interest rate risk in the banking book.



Ms Carmen Chu (second from left), Executive Director (Banking Supervision), at the press conference announcing the expansion of Suspicious Account Alerts

<sup>2</sup> Launched in November 2023, the Suspicious Account Alert system alerts a money sender when they transfer funds to a suspicious account recorded in a police database. The alert system initially only covered fund transfers made via Faster Payment System (FPS) proxy identifiers, including mobile phone number, email address, and FPS Identifier.

## Banking Stability

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

Working with our partners in Hong Kong's anti-money laundering and counter financing of terrorism (AML/CFT) ecosystem, a number of measures have been taken to ensure that increasingly complex threats from fraud and financial crime are effectively mitigated, with a focus on upscaling the results achieved through public-private partnerships (PPPs) and the use of technology.

The Fraud and Money Laundering Intelligence Taskforce<sup>3</sup> was expanded to include all major retail banks and six stored value facility (SVF) licensees, leading to the restraint or confiscation of approximately HK\$534 million in criminal proceeds in 2024. The Anti-Deception Coordination Centre (ADCC) has facilitated closer collaboration between the Police and the 28 participating retail banks, resulting in the interception of HK\$1.48 billion in fraudulent payments through the stop payments mechanism in 2024. With the addition of 16 participating banks in 2024, the upstream scam intervention mechanism operated by the ADCC now includes a total of 28 banks in Hong Kong, resulting in the successful intervention of 2,397 ongoing deception cases in 2024. In the same period, the membership of FINEST<sup>4</sup> increased from five to 10 banks, with 432 intelligence reports submitted for further investigation by the Police. The Suspicious Account Alert system was also upgraded.

In December, we issued guidance on the measures banks should take to prevent, detect and disrupt authorized payment scams, including establishing appropriate policies and procedures, as well as alerting customers to higher risk transactions.

To provide up-to-date counter-fraud education, the HKMA collaborates closely with the Police and the banking industry. We have bolstered our outreach activities for different segments of the community to enhance public awareness and expedite the provision of alerts on the latest scam tactics through various channels.



Mr Raymond Chan (centre), Executive Director (Enforcement and AML), the Police and major retail banks share insights on measures to disrupt financial crime at the Financial Institutions AML Forum 2024



Mr Raymond Chan, Executive Director (Enforcement and AML), delivers opening remarks to launch a series of seminars to raise anti-fraud and financial literacy in the community



The HKMA maintains close collaboration with the banking industry and the Police to enhance anti-fraud awareness among university students

<sup>3</sup> FMLIT was established in 2017, led by the Police with participation from the HKMA, retail banks and SVF licensees. Similar to arrangements in other international financial centres, FMLIT targets current and emerging financial crime threats by adopting a public private partnership approach to information sharing, at both the strategic and tactical levels.

<sup>4</sup> FINEST, or the Financial Intelligence Evaluation Sharing Tool, is a bank-to-bank information sharing platform that helps increase banks' ability to share information for detecting and disrupting fraud and financial crime. It was launched by HKAB, with the support of the HKMA and the Police in June 2023.

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Mr Arthur Yuen (left), Deputy Chief Executive; and Mr Raymond Chan (right), Executive Director (Enforcement and AML), deliver educational messages, including “Don’t lend or sell your account” and “Don’t click links indiscriminately” in the Anti-Scam Carnival



The HKMA disseminates a poster on social media platforms with the message “Don’t lend or sell your account. Don’t risk your future for quick money” to enhance public awareness of the dangers of selling or lending one’s accounts to others

The HKMA’s approach to regulation and guidance is to ensure that banks and SVF licensees dedicate adequate resources to managing money laundering and terrorist financing risks. In 2024, our regulatory efforts included sharing key observations and good practices identified in a thematic review of AIs’ transaction monitoring systems, and highlighting potential applications of artificial intelligence to optimise these systems. At the same time, to promote efforts to execute risk-based approaches effectively and apply proportionate controls, we shared key principles and feedback from supervision and complaint cases. To increase the resilience of banks to risks arising from dual use goods, we collaborated with the banking industry in delivering best practice guidance.

The HKMA continues to modernise its approach to AML/CFT work in line with international standards and practices. In 2024, we concluded consultations on proposals to facilitate the sharing of information among banks for the purposes of preventing and detecting crime. The proposed legislative amendments have been widely supported and will be taken forward as part of an overall review of the BO.

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The HKMA's aim is also to make sure that new technologies and the wider availability of data can lead to better AML/CFT outcomes. In February, we updated the industry on progress made in the digitisation of AML/CFT supervision, including new capabilities developed, as well as areas for further work. From September onwards, we rolled out a number of initiatives to further support and accelerate the responsible use of artificial intelligence in suspicious activity monitoring, including co-hosting a forum with Cyberport in November for banks and technology firms to share their insights and experiences.



*Mr Raymond Chan, Executive Director (Enforcement and AML), speaks at an Experience Sharing Forum in November on the use of artificial intelligence for monitoring suspicious activities*



*Technology companies, including Cyberport start-ups, demonstrate artificial intelligence tools and solutions to participating banks at the Experience Sharing Forum in November*

To ensure that the AML/CFT systems implemented by AIs follow our rules and guidance and are proportionate in their approach to targeting higher risks, the HKMA undertook 14 on-site examinations during the year. These examinations covered controls over fraud and high-end money laundering, screening systems for combating proliferation financing and terrorist financing, and IT system capability to implement regulatory requirements on wire transfers. In addition, 71 desk-based reviews and assessments were undertaken covering topics such as the effectiveness of AIs' controls and incident-triggered reviews. We continued to place a focus on AML/CFT training and knowledge sharing, arranging 25 engagements with local and international partners. These included financial crime seminars in Hong Kong and Singapore, as well as experience-sharing and training for the next round of Financial Action Task Force (FATF) evaluations in the Mainland.

### Wealth management and MPF-related businesses

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

During 2024, the HKMA conducted 22 on-site examinations, 118 thematic reviews and 29 analyses of surveys and returns of AIs, concerning the sale of securities and investment products, trust and insurance and MPF-related businesses, to ensure their compliance with regulatory requirements. These initiatives focused on the sale and distribution of complex and high risk investment products, the distribution of non-investment-linked long term insurance products, premium financing activities, the distribution of Digital Asset (DA)-related products, the distribution of investment products through online platforms including robo-advisory services, and the Cross-boundary Wealth Management Connect (Cross-boundary WMC) business.

## Banking Stability

The HKMA and the Securities and Futures Commission (SFC) completed a concurrent thematic review of intermediaries' distribution of non-exchange traded investment products and issued a joint circular to share key observations with the industry. The HKMA and the SFC also announced the findings of their fourth annual joint survey on the sale of non-exchange traded investment products, which provided useful information on the industry landscape and market trends. In addition, the HKMA and the Insurance Authority (IA) completed a joint inspection exercise on premium financing activities and issued a joint circular to share key observations, highlight good practices, and identify potential areas for enhancement.

In view of Als' growing interest in DA custodial services and the sale and distribution of tokenised products, the HKMA issued new guidance in these areas in February, having considered local and international market and regulatory developments. As part of our anti-fraud efforts, we stepped up our surveillance work by issuing public warnings about suspected breaches of the BO by some firms claiming to be banks or offering banking products and services. We also strengthened public education on social media, including raising awareness about misrepresentation by such firms and explaining common tactics used by fraudsters in DA scams.

Following a joint announcement made by financial regulators in the Mainland, Hong Kong and Macao in September 2023, the HKMA issued updated guidance on the Cross-boundary WMC scheme in January, outlining enhancement measures in five major areas: product scope, individual investor quotas, investor eligibility, sale processes, and the participation of securities firms. During the year, we introduced further refinements to the Cross-boundary WMC scheme. These refinements included clarifying the scope of eligible wealth management products to include standardised currency-linked or interest-rate-linked structured deposits; enabling remote account opening arrangements for the Southbound Scheme; allowing non-locally incorporated Als to provide Southbound Scheme services to non-private banking customers; and allowing banks to proactively introduce products to customers and provide research reports after obtaining their one-off written consent.

On top of these updates, the HKMA continued to supervise the Cross-boundary WMC businesses of participating banks, while handling applications from banks for new participation, additional partnerships, and the expansion of their service offerings. In view of growing cross-boundary business activities, we also established new arrangements to allow registered institutions (RIs) to engage itinerant professionals – individuals who repeatedly visit Hong Kong on business for short periods of time – to perform regulated activities.



Mr Alan Au (left), Executive Director (Banking Conduct), shares views with the industry at a Hong Kong Securities and Investment Institute event



Mr Alan Au, Executive Director (Banking Conduct), gives a keynote speech at the 2024 Cross-Strait and Hong Kong-Macao Banking Wealth Management Forum, co-organised by the China Banking Association, the Hong Kong Institute of Bankers and the Financial News

## Banking Stability

The HKMA continued to engage with the industry on the selling process of securities and investment products. While emphasising investor protection, we also attach great importance to enhancing customer experience. In February, we issued updated guidance with a set of Frequently Asked Questions (FAQs) on portfolio-based approach to suitability assessment, in order to help banks make their selling processes more efficient. In August, the HKMA co-ordinated among regulators and the industry on the issuance of a set of industry-led FAQs concerning the streamlined approach to suitability assessment and product disclosure for sophisticated professional investors, to facilitate the industry's adoption and to strengthen Hong Kong's position as a premier private wealth management centre.

To enhance customer experience in the face of technological advancements while ensuring customer protection, the HKMA issued a circular to AIs in December. The circular outlines streamlined requirements for audio-recording of investment transactions conducted through video-conferencing, while also providing guidance to AIs on the deployment of alternative protection measures for the sale of investment and insurance products.

In July, the HKMA completed a review on the industry's self-assessment of compliance with the SPM module TB-1 on *"Regulation and Supervision of Trust Business"*, as part of its ongoing supervision of the trust business of AIs. Following the implementation of the regulatory regime for depositary services for SFC-authorized collective investment schemes in October, we commenced supervision of RIs' depositary services.

To improve banks' access to the HKMA's regulatory requirements concerning RIs' securities business, we enhanced the SPM module SB-1 on *"Supervision of Regulated Activities of SFC – Registered Authorized Institutions"*. This enhancement allows the SPM module to function as a single document that offers a comprehensive overview of the regulatory framework, supervisory approach and key requirements related to RIs' securities business. We also consolidated pieces of existing guidance on the banking return of securities-related activities to facilitate the industry's compliance. We also started consolidating some existing guidance through consultation with the industry, including a set of guidance that concerns the sale of accumulators and decumulators.

During the year, the HKMA processed two applications to register as an RI, three applications to license as a licensed insurance intermediary under the Insurance Ordinance, and four applications to add regulated activities under the Securities and Futures Ordinance (SFO). We also granted consent to 167 executive officers responsible for supervising the securities activities of RIs, and conducted background checks on 6,543 individuals whose information was submitted by RIs for inclusion in the Register of Securities Staff of AIs maintained by the HKMA.



Mr Alan Au (second from right), Executive Director (Banking Conduct), shares views with the industry at an Alternative Investment Management Association event

## Banking Stability

### Other supervisory activities

The Banking Supervision Review Committee considered six submissions in 2024. Four of them concerned the authorization of AIs and the approval of a money broker and local representative offices. The remaining two were related to the review of the three-tier banking system and the guidelines for DBs (see Table 4).

During the year, the HKMA commissioned four reports under section 59(2) of the BO, requiring AIs 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 AML/CFT controls.

In 2024, AIs did not report any incident involving a breach of the capital adequacy or liquidity ratio requirements set out in the BO. As for breaches of other provisions in the Ordinance, there were 46 instances that were primarily related to AIs' reporting obligations under the law. These breaches did not affect the interests of depositors and were promptly rectified by the relevant AIs.

The CAMEL Approval Committee<sup>5</sup> completed a review of the CAMEL ratings of all the 174 AIs. No AIs appealed against the Committee's decisions.

**Table 4** Summary of other supervisory activities

	2024	2023
1 Submissions considered by the Banking Supervision Review Committee	6	7
2 Reports commissioned under section 59(2) of the BO	4	5
3 Approval of applications to become controllers, directors, chief executives or alternate chief executives of AIs	188	192

### Promoting fintech adoption

As part of its "All banks go Fintech" initiative under the "Fintech 2025" strategy, the HKMA launched a new FiNETech series of events to foster collaboration and innovation within the fintech ecosystem. Four editions of the FiNETech series, four training sessions and two seminars were organised in 2024, bringing together over 2,300 professionals from the banking, securities, insurance and technology sectors to explore next-level collaboration in identified areas of Wealthtech, Insurtech, Greentech, artificial intelligence and distributed ledger technology (DLT). In addition, we launched Fintech Connect, a cross-border and cross-sectoral matching platform that enables more precise connections between financial institutions and fintech solution providers. Together with other financial regulators in Hong Kong, we also introduced a range of fintech-related initiatives, including holding seminars and training sessions, publishing research papers and use case videos, as well as transforming the Regtech Knowledge Hub into a new Fintech Knowledge Hub. All these efforts were aimed at further driving advancements of fintech solutions among banks.



Representatives from financial regulators, banks and other financial institutions, industry associations and fintech solutions providers at the inaugural FiNETech in April

<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

Specifically, to expedite the responsible adoption of generative artificial intelligence (GenAI) and DLT by banks in Hong Kong, we have rolled out a series of supportive initiatives, for example, a GenAI Sandbox in collaboration with Cyberport to provide banks with a risk-controlled environment for piloting and refining their novel GenAI use cases (Figure 2).

The HKMA and The Hong Kong University of Science and Technology (HKUST) also co-hosted an industry seminar to explore the potential of HKUST’s InvestLM GenAI model in December.

Figure 2

### Overview of selected use cases and participants from the first cohort of the GenAI Sandbox



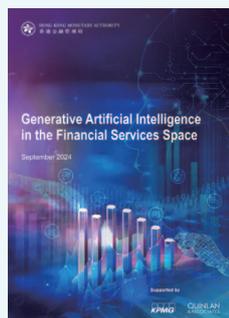
Ms Carmen Chu (centre), Executive Director (Banking Supervision), with Professor Kar-Yan Tam (right), Vice-President for Administration & Business of HKUST; and Dr Samuel Kwan (left), Director for Information Technology Services Center of HKUST, at the GenAI and InvestLM Seminar



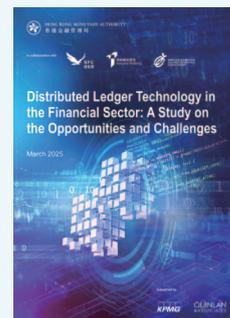
Ms Carmen Chu (first right of middle aisle, first row), Executive Director (Banking Supervision); Mr Simon Chan (first left of middle aisle, first row), Chairman of Cyberport; and Dr Rocky Cheng (second left of middle aisle, first row), Chief Executive Officer of Cyberport, join participants in FINETech2 in August. During the event, the HKMA announces the launch of the new GenAI Sandbox

The HKMA published two research papers on GenAI and DLT in the financial sector, providing practical insights and guidance for AIs to advance their fintech adoption in the respective areas.

### Research Paper on GenAI



### Research Paper on DLT



## Banking Stability

Regarding DLT, the HKMA established a Supervisory Incubator programme to help banks put DLT-based banking products and services into production in a safe and prudent manner, particularly focusing on tokenised deposits at the outset. The aim of the Incubator is to enhance risk management capabilities at both the individual bank and industry levels through a one-stop supervisory platform and targeted sector-wide initiatives.



Representatives from the HKMA, the SFC, the Mandatory Provident Fund Schemes Authority and the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen are among participants in FINETech4 on DLT in January 2025, where the new Supervisory Incubator for DLT is announced

By adopting an interactive and iterative approach to promoting artificial intelligence and DLT adoption by banks, the HKMA is able to assess the potential challenges while driving innovation. These initiatives demonstrate our commitment to promoting fintech adoption and responsible innovation in the Hong Kong banking sector.

### Adoption of supervisory technology

During the year, the HKMA adopted a more digitalised supervisory approach by implementing a smart knowledge management system and an end-to-end digital supervisory platform. These efforts have provided all HKMA's supervisors with more timely access to critical supervisory information and digitalised the management of hundreds of supervisory activities year-round. Operational efficiency has been further enhanced through the automation and streamlining of multiple manual supervisory operations, freeing up resources for supervisors to focus on high-priority tasks (Figure 3).

The streamlining of the supervisory process has been further enhanced by the launch of a new online survey tool that allows for the self-creation and management of surveys, as well as the seamless collection and analysis of data. This is supported by a suite of robotic process automation tools and a speech-to-text engine. In addition to implementing various advanced analytics solutions to improve forward-looking supervisory capabilities, the HKMA has successfully piloted the use of GenAI to automate the extraction of supervisory insights, such as instant analysis of survey results and automated risk prioritisation based on unstructured data.

A digitalisation project along with process re-engineering was initiated during 2024 to streamline the workflow for receiving and processing applications by bank directors and senior management.

Figure 3 Latest overview of key metrics on supervisory technology adoption in the HKMA



# Banking Stability

## International co-operation

### Co-operation with non-Hong Kong authorities

During the year, the HKMA hosted and participated in 33 college-of-supervisors meetings involving 29 banking groups with significant operations in Hong Kong. A broad range of issues was discussed, covering areas such as financial soundness, risk management controls and operational resilience.



*The HKMA hosts a college-of-supervisors meeting for a domestic systemically important bank (D-SIB)<sup>6</sup> in Hong Kong*

The HKMA also participated in cross-border resolution planning meetings of 14 global systemically important banks (G-SIBs) through Crisis Management Groups (CMGs) and Crisis Management Colleges (CMCs), in order to enhance the resolvability of these banks and the crisis preparedness of the relevant home and host authorities. In addition, we led regional resolution planning efforts, hosting the Asia CMG meeting for a G-SIB's Asia resolution group in May with participation from 16 supervisory and resolution authorities as well as deposit insurers.

During the year, the HKMA also held bilateral meetings with non-Hong Kong banking supervisors and resolution authorities. We also had regular exchanges with non-Hong Kong authorities on institution-specific issues and developments in financial markets.

## Participation in international and regional forums

The HKMA participates as a member in a range 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 serves as a co-chair of the Policy and Standards Group. It also has representatives 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<sup>7</sup>; and
- Stress Testing.

<sup>6</sup> A D-SIB is an AI considered by the HKMA to be of systemic importance in Hong Kong's banking and financial system, and is subject to a higher loss absorbency requirement. The HKMA reviews the list of D-SIBs annually. The list for 2025 includes the following five banks: The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, Standard Chartered Bank (Hong Kong) Limited, Hang Seng Bank Limited, and Industrial and Commercial Bank of China (Asia) Limited.

<sup>7</sup> As an integral part of the Basel capital framework, Pillar 2 is a supervisory review process to ensure that AIs not only have adequate capital to support all the risks in their business (including those covered under the minimum capital requirement (i.e. Pillar 1 of the framework)), but also develop and use better risk management techniques for monitoring and managing these risks.

## Banking Stability

The HKMA is a member of the Central Banks and Supervisors Network for Greening the Financial System (NGFS) and was appointed a member of its Steering Committee in December. As part of its work in the NGFS, the HKMA serves as a co-chair of the Workstream on Supervision. This workstream aims to foster progress among NGFS members in incorporating climate-related and environmental risks into their supervisory frameworks and practices. Additionally, the HKMA and the SFC jointly represent Hong Kong in the International Platform on Sustainable Finance<sup>8</sup>.

At the regional level, the HKMA is a member of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)<sup>9</sup>; the South East Asia, New Zealand and Australia Forum of Banking Supervisors; and the South East Asian Central Banks 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 promotes 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>10</sup> Task Force on Financial Consumer Protection, which supports 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 in the Expert Working Groups under this Task Force, focusing on work streams related to the transparency of cross-border payments and addressing financial scams and frauds.

During the year, the HKMA also participated actively in the International Financial Consumer Protection Organisation (FinCoNet) as a member institution. FinCoNet promotes sound market conduct and strong consumer protection through efficient and effective financial market conduct supervision, focusing on consumer issues of banking and credit. In November, the HKMA became a member of the

FinCoNet Governing Council, which shapes the organisation's strategies and programme of work. The HKMA is also a member of the Supervisors Roundtable on Governance Effectiveness, which aims to advance innovation to influence culture reform in the financial sector.



*Ms Juliana Mozachi Sandri (right), Chair of FinCoNet, welcomes Mr Alan Au (left), Executive Director (Banking Conduct), to the FinCoNet Governing Council at the Annual General Meeting 2024 in Lima, Peru*



*Mr Alan Au (second from left), Executive Director (Banking Conduct), participates in a panel discussion at the FinCoNet International Seminar on Quality Financial Products in Lima, Peru*

As part of the Asia Pacific Regional Consultative Group (RCG) of the International Committee on Credit Reporting (ICCR), the HKMA attended the third meeting of the Asia Pacific RCG to share experiences and exchange views on credit referencing with other stakeholders.

<sup>8</sup> The International Platform on Sustainable Finance was launched in 2019 as a forum for dialogue between policymakers from different jurisdictions, with the aim of increasing the amount of private capital being channelled towards environmentally sustainable investments.

<sup>9</sup> The EMEAP is a co-operative organisation of central banks and monetary authorities in the East Asia and Pacific region.

<sup>10</sup> OECD refers to the Organisation for Economic Co-operation and Development.

## Banking Stability



The HKMA attends the third meeting of the ICCR's Asia Pacific RCG in Bangkok, Thailand

The HKMA works closely with regulatory partners in other jurisdictions and international standard-setters. A number of bilateral or multilateral meetings were held in 2024 to facilitate discussions on topical AML/CFT issues, including a tripartite meeting with the Mainland and Macao authorities in Chengdu in November. The HKMA continues to play a proactive role in the work of the FATF, and co-chairs the Evaluations and Compliance Working Group, which will oversee the first FATF fifth-round mutual evaluations in 2025. It also continues to participate in a working group on Cross-border Payments Data and Identifiers established under the Financial Stability Board (FSB).



A tripartite meeting with the Mainland and Macao AML/CFT authorities in Chengdu in November

In the area of resolution reforms, the HKMA is a member of the FSB Resolution Steering Group (ReSG), the forum that develops global standards and guidance for resolution regimes and monitors their implementation, as well as resolution planning and execution for systemically important financial institutions. Under the structure of the ReSG, the HKMA is represented in the Expanded Group on alternative financial resources for the resolution of central counterparties (CCP Expanded Group) and the Cross-Border CMG for banks (bankCBCM), along with its various workstreams. At the regional level, the HKMA chairs the EMEAP's Study Group on Resolution (SGR), which supports co-operation and knowledge-sharing among authorities on resolution-related matters. See *International and cross-border co-operation* on page 118 for more details.

## Implementation of Basel Standards in Hong Kong

### Capital standards

The Banking (Capital) (Amendment) Rules 2023 (BCAR) for implementing the new capital standards set out in the Basel III Final Reform Package came into effect on 1 January 2025. All locally incorporated AIs are now required to calculate and report their capital requirements in accordance with the BCAR.

In preparation for the implementation of the Final Reform Package in Hong Kong, the HKMA worked closely with the industry to issue a suite of supervisory guidance and tools to complement the implementation of the BCAR during 2024/in early 2025. These include:

1. a revised SPM module CA-G-1 on "Overview of Capital Adequacy Regime for Locally Incorporated Authorized Institutions";
2. two new SPM modules, MR-1 on "Market Risk Capital Charge" and MR-2 on "CVA Risk Capital Charge";
3. a revised set of banking returns and completion instructions on capital adequacy ratio and leverage ratio;
4. a new banking return to facilitate monthly reporting of the new capital requirements associated with market and credit valuation adjustment (CVA) risks;

## Banking Stability

5. a new Banking (Capital) (Operational Risk) Code;
6. two sets of supplementary supervisory guidance on the Revised Credit Risk Framework; and
7. a revised SPM module CA-G-5 on “*Supervisory Review Process*”.

In addition, the BCAR incorporates updates related to countercyclical capital buffers. To support the implementation of the Final Reform Package, the HKMA published the revised SPM module CA-B-1 on “*Countercyclical Capital Buffer – Approach to its Implementation*” in March. Following an industry consultation, the revised SPM module CA-B-3 on “*Countercyclical Capital Buffer – Geographic Allocation of Private Sector Credit Exposures*” was finalised and published in December.

In February, the HKMA consulted the industry on proposed approaches to implementing the new cryptoasset standard, as set out in the “Prudential treatment of cryptoasset exposures” issued by the Basel Committee.

Other related supervisory guidance under consultation with the industry includes a revised SPM module CA-G-4 on “*Validating Risk Rating Systems under the IRB Approach*” issued in November.

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 2025 and their corresponding higher loss-absorbency capital requirements.

### Exposure limits

Amendments to the Banking (Exposure Limits) Rules (BELR) consequential to the implementation of the Final Reform Package in Hong Kong also came into effect on 1 January 2025. The related updates to the Banking (Exposure Limits) Code and SPM modules (namely CR-G-8 on “*Large Exposures and Risk Concentrations*”; CR-G-9 on “*Exposures to Connected Parties*”; CR-L-1 on “*Consolidated Supervision of Concentration Risks: BELR Rule 6*”; and CR-L-4 on “*Underwriting of Securities: BELR*”) were also finalised and came into effect on 1 January 2025, along with updated prudential reporting requirements of AIs on risk concentrations and exposure limits.

### Disclosure standards

Implementation of the Final Reform Package also requires corresponding updates to the disclosure framework. To this end, the HKMA issued the Banking (Disclosure) (Amendment) Rules 2023 to implement the disclosure requirements associated with the Final Reform Package, which came into effect on 1 January 2025 concurrently with the BCAR. To facilitate AIs’ compliance with the latest disclosure requirements, the HKMA revised the standard disclosure templates and tables under the Banking (Disclosure) Rules and separately revised SPM module CA-D-1 on “*Guideline on the Application of the Banking (Disclosure) Rules*”, both of which took effect on 1 January 2025.

### Liquidity standards

To reflect the consequential changes arising from certain provisions of the BCAR, which took effect on 1 January 2025, the updates to the Banking (Liquidity) Rules, as well as the related “Banking (Liquidity Coverage Ratio – Calculation of Total Net Cash Outflows) Code” and the SPM module LM-1 on “*Regulatory Framework for Supervision of Liquidity Risk*” were gazetted during the year.

## Banking Stability

### Supervisory regime for approved money brokers

In November, the HKMA issued a new SPM module MB-1 on "*Risk-based Supervision of Approved Money Brokers*". The new SPM module codifies existing requirements and expected standards of approved money brokers (AMBs), and sets out the HKMA's risk-based approach to their supervision.

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

The HKMA oversees the compliance of AIs and AMBs with the mandatory reporting, clearing and related record-keeping requirements for over-the-counter (OTC) derivatives transactions under the SFO. We maintain close dialogue with AIs, AMBs and other industry participants to address various reporting issues that arise from OTC derivatives market developments and evolving international standards, ensuring that AIs and AMBs adhere to the relevant requirements.

Following 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 during 2024 to assess the implications of market developments for the exchange of margin and participated in the review of margining practices conducted by international standard-setting bodies.

### Other supervisory policies and risk management guidelines

The HKMA also made progress with its work on various policies and guidelines. We issued a revised SPM module CA-S-10 on "*Fair Value Practices*" in December 2024 and a revised SPM module CR-G-7 on "*Collateral and Guarantees*" in April 2025.

### Review of the Banking Ordinance

The HKMA completed a review of the BO with the aim of reflecting global and domestic developments in banking industry practices as well as regulatory and supervisory approaches. The review was also aimed at addressing specific issues identified from Hong Kong's supervisory experience and facilitating the continued alignment of our regulatory system with that of other major financial centres. The review focused on six priority areas where amendments and enhancements to the BO were considered timely and necessary.

The HKMA concluded public consultations on two enhancement proposals in 2024. The proposals related to the simplification of the three-tier banking system into a two-tier system, and information sharing among AIs on customers, accounts and transactions for preventing and detecting financial crime. During the year, we also began consultations on establishing a statutory regime for regulating and supervising designated locally incorporated holding companies of locally incorporated AIs, providing the Monetary Authority with the flexibility to engage skilled persons for assisting him in the performance of his functions under the BO, and introducing a number of technical amendments. In addition, we started consultations on extending the Monetary Authority's investigation and enforcement powers. See *Proposed extension of investigation and enforcement powers under the Banking Ordinance* on page 133 for more details.

### Balanced and responsive supervision

In 2024, the HKMA held a number of round-table meetings with different groups of banks and had fruitful exchanges on a range of topics, including new anti-fraud initiatives, use of advanced artificial intelligence and machine learning tools, climate risk management and transition planning, and AML/CFT controls for virtual asset service providers. These discussions enabled the banks to better understand our supervisory expectations and provided an additional platform for us to fully tap the industry's views when formulating, refining or implementing the relevant requirements.

### Accounting standards

Regular discussions took place between the HKMA and the Banking Regulatory Advisory Panel of the Hong Kong Institute of Certified Public Accountants, focusing on areas of mutual concern. Key topics included updates on banking regulations and the latest developments in accounting, auditing, and financial reporting standards, as well as their potential impact on the banking sector. We also collaborated with other regulatory bodies on issues related to proposed changes to international accounting and auditing standards.

## Banking Stability

### Green and sustainable banking

The HKMA continued to strengthen the banking sector's resilience to climate risks and enhance the green finance ecosystem. For example, we issued the Hong Kong Taxonomy for Sustainable Finance and subsequently conducted a series of market outreach activities to build capacity and gather feedback from the market. We have now embarked on the next phase of development to continue enhancing the taxonomy. In addition, we supported the development of the Roadmap on Sustainability Disclosure in Hong Kong. Furthermore, to assist the banking sector in managing climate risks, we issued supervisory requirements on transition planning for consultation and launched the Physical Risk Assessment Platform.

By mid-2024, the HKMA had completed its two-year plan for integrating climate risk into the banking supervisory processes. We issued a circular to share with the industry good practices on climate-related risk governance, with a view to enhancing banks' climate risk management capabilities (Figure 4). A new round of thematic examinations was launched to review and assess the robustness and adequacy of AI's climate risk management frameworks and practices. A second series of consultative sessions was also conducted during the year to assess banks' progress implementing the HKMA's supervisory expectations on climate risk management.

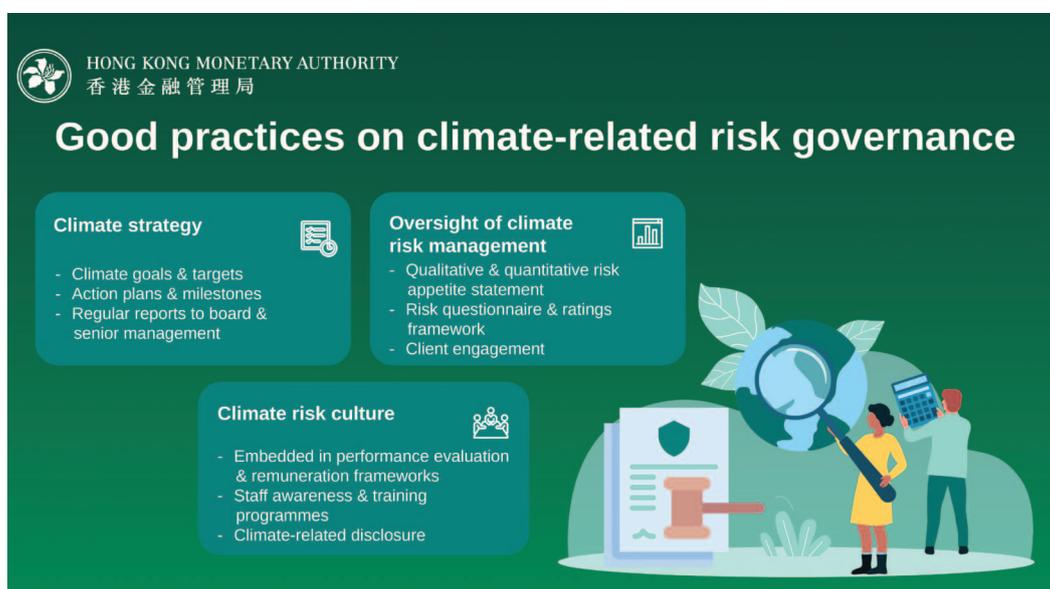
The HKMA is cognisant of the significance of data and technology in enhancing climate-related risk governance. To promote further adoption of Greentech, we have collaborated with various stakeholders and facilitated the exploration of innovative solutions for addressing climate risk.

More details of the HKMA's policy and supervisory work on green and sustainable banking are contained in the *Building a Climate-resilient Financial System* chapter of our *Sustainability Report 2024*.



Representatives from the HKMA, Cyberport and the FinTech Association of Hong Kong, as well as subject matter experts in banks and Greentech solution providers, meet at FiNetech3 in November

**Figure 4** Key principles for effective climate-related risk governance



# Banking Stability

## Resolution

During 2024, the HKMA advanced its work to ensure that the Hong Kong resolution regime stays credible and operational, effectively translating the lessons learnt from the 2023 overseas banking turmoil into concrete actions. Progress was made in updating the legislative framework and resolution standards, undertaking resolution planning and developing resolution execution capability. In addition, we actively participated in cross-border co-operation on resolution through institution-specific engagements such as the CMGs for G-SIBs, as well as international and regional forums, including the FSB ReSG and the EMEAP SGR.

## Legislative framework and resolution standards

To enhance the flexibility of resolution authorities in handling various crisis scenarios and to align Hong Kong's resolution regime with international best practices, the HKMA launched a public consultation<sup>11</sup> on a proposal to amend the conditions for initiating resolution under the Financial Institutions (Resolution) Ordinance (FIRO). The proposed amendments include an express reference to "public interest" in the conditions for initiating resolution. Separately, further to the publication of the *Report on Loss-Absorbing Capacity Requirements Implementation in Hong Kong*<sup>12</sup>, the Code of Practice chapter on *Resolution Planning – LAC Requirements* was updated, reflecting the review outcome of the indicative threshold for implementing loss-absorbing capacity (LAC) requirements.

## Resolution planning

To maintain financial stability, it is essential to ensure that banks that could be critical or systemic upon failure are prepared for resolution. To this end, the HKMA continued to advance resolution planning for D-SIBs and other locally incorporated AIs with total consolidated assets above HK\$300 billion. This included devising preferred resolution strategies for additional AIs to enhance their resolvability, such as building their financial resources and developing new systems and capabilities.

At the end of 2024, the LAC resources of all D-SIBs stood at 26.9% of risk-weighted amounts. LAC resources, which include both capital and non-capital LAC debt instruments, are designed to absorb losses and recapitalise a failing AI in a resolution scenario. The HKMA reviewed the self-assessments of LAC debt instruments by AIs on an ongoing basis to ensure the usability of these resources, and evaluated AIs' LAC issuance plans as part of our efforts to implement LAC requirements beyond D-SIBs. In addition, we engaged with relevant AIs regarding how to manage and deploy unallocated LAC resources at the group level to ensure that these resources would be sufficient and readily available to support the AIs if needed.

A significant milestone was also reached in mitigating the risk of disorderly early termination of financial contracts in resolution, as relevant AIs updated their agreements with counterparties. The deadline for meeting requirements set out under the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules ("Stay Rules") lapsed in 2024. The HKMA worked closely with the relevant AIs to ensure robust compliance and proper mitigation of early termination risk (see *Resolution stay implementation summary* on page 116 for details).

<sup>11</sup> This consultation was part of the consultation paper for proposed enhancements to the BO (<https://brdr.hkma.gov.hk/eng/doc-ldg/docId/getPdf/20250116-1-EN/20250116-1-EN.pdf>).

<sup>12</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

### Resolution stay implementation summary

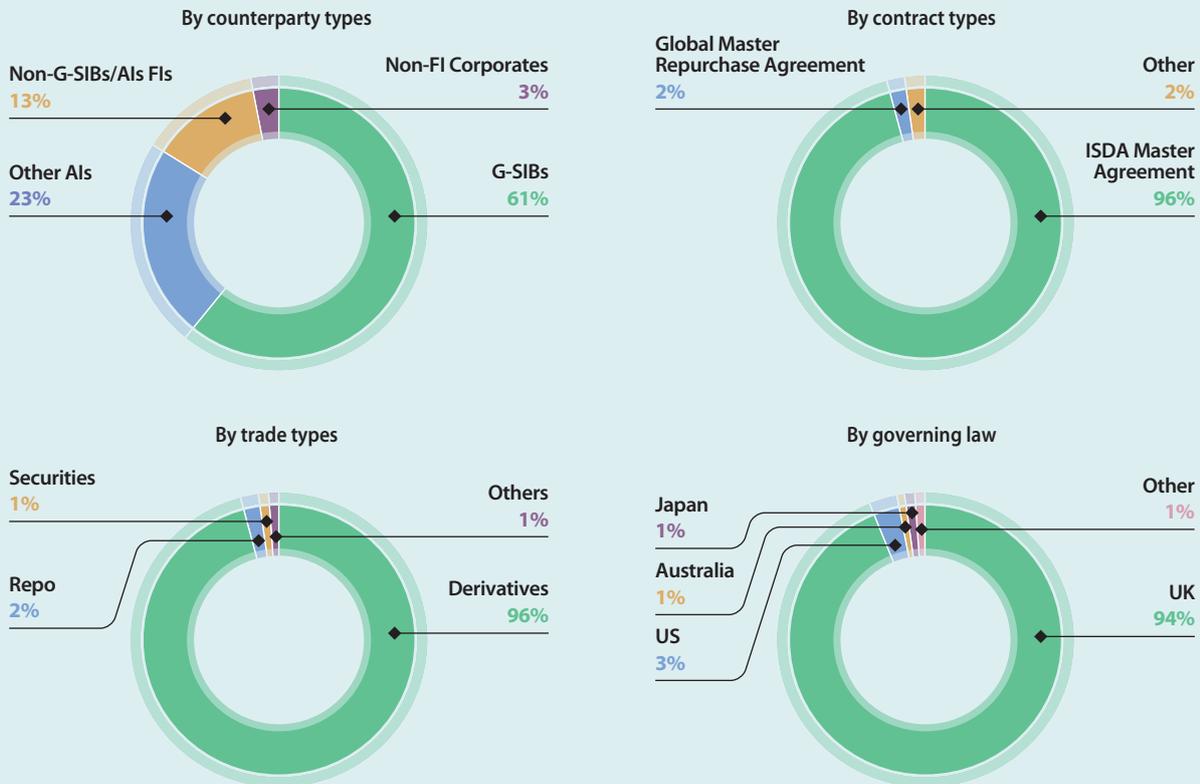
The Stay Rules are designed to mitigate the risk of disorderly early termination of financial contracts by the counterparties of a failing AI in resolution. Under these rules, relevant AIs are required to comply with the contractual recognition requirements for in-scope covered contracts, such that their counterparties agree to be bound by a temporary stay power that may be imposed by a resolution authority under the FIRO.

The HKMA has been engaging closely with the relevant AIs on their approaches to comply with the Stay Rules through bilateral resolution planning programmes, from cross-border client outreach to development of systems of control, as well as updates to the relevant securities,

commodities and derivatives contracts. This extensive effort encompassed over HK\$60 trillion in notional value of financial contracts involving more than 5,700 counterparties (Chart A).

Some AIs have proactively adopted good implementation practices, such as establishing robust record-keeping capabilities and systems of control to ensure ongoing compliance, as well as conducting internal assessments of residual early termination risks in resolution, and putting in place internal specific manuals/playbooks for resolution execution. These practices can serve as useful references for other AIs when considering further enhancements.

**Chart A** Breakdown of covered contracts by notional value



Note: These pie charts comprise data of covered contracts as at the end of December 2024 under the Stay Rules that have been entered into by the relevant AIs with which active bilateral resolution planning programmes have been conducted.

## Banking Stability

During 2024, the HKMA advanced the implementation of policy standards with the aim of facilitating business continuity in resolution. As part of our work on operational continuity in resolution (OCIR), we reviewed the AIs' progress in developing arrangements and capabilities for securing the continuity of services considered essential to the performance of critical financial functions and the effective execution of preferred resolution strategy (see *Examples of OCIR arrangements and capabilities* below for details). The HKMA also commenced implementation of a policy standard that facilitates continuity of access to FMI services in resolution, working closely with the relevant AIs to complete their first self-assessments.

Global policy-makers have learnt important lessons from the 2023 banking turmoil, including in the area of liquidity and funding in resolution (LFIR). The HKMA has continued to advance the implementation of related policy standards in order to strengthen AIs' capabilities to project liquidity needs and positions, as well as to identify and mobilise collateral for meeting liquidity needs in resolution. A specific testing exercise was rolled out to assess the status of relevant AIs' existing LFIR capabilities, and to guide any future enhancements needed.

### Examples of OCIR arrangements and capabilities



#### Service Delivery Models

Set up dedicated "bankruptcy remote" service company owned by clean holding company for hosting intra-group shared services



#### Financial Resilience Assessment

Assessed the financial resources needed for essential services in resolution and set aside liquidity buffer



#### Service Mapping and Service Catalogue

Captured dependencies on essential services and developed centralised catalogue of information on relevant people, assets and contracts



#### Operational Resilience in Resolution

Formulated retention strategies for critical staff; developed OCIR playbooks



#### Contracts Remediation

Incorporated effective and enforceable "resolution-proof" terms that facilitate continuity in resolution into contracts and service level agreements



#### Governance and Management Oversight

Appointed accountable senior executives for oversight, supported by established governance frameworks

## Banking Stability

On cross-border 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, which was attended by representatives from 16 supervisory and resolution authorities as well as deposit insurers. During this meeting, progress on enhancing resolvability was reviewed and forward priorities were set. In addition, banks continued to build and test their resolution capabilities as part of their group-wide programmes. This involved a wide spectrum of actions such as enhancing processes for valuations in resolution, demonstrating LFIR and restructuring planning capabilities, and conducting walkthrough and simulation exercises with board and senior management. The HKMA also held discussions with authorities on enhancing home-host co-ordination arrangements, including the development of authorities' playbooks for resolution execution.



*The HKMA hosts the Asia CMG meeting for a G-SIB's Asia resolution group with 16 supervisory/resolution authorities and deposit insurers participating*

### Resolution execution capability

Resolution transfer strategy can provide valuable options to stabilise a failing AI and safeguard financial stability. During 2024, the HKMA strengthened its preparedness to transfer a failing AI to a bridge institution in a resolution transaction. As part of these initiatives, the HKMA consulted an external legal advisor under the HKMA Resolution Advisory Framework concerning practical issues and considerations related to the establishment, operation, and winding up of bridge institutions.

Efficient and effective cross-functional and cross-sectoral co-ordination are essential for managing a crisis and ensuring an orderly resolution. During the year, the HKMA reviewed and updated its crisis management frameworks to align with evolving international practices and recent developments. In light of the update of FSB's G-SIB list, the HKMA was designated as the lead resolution authority for a newly designated G-SIB's cross-sectoral group in Hong Kong. To facilitate a swift response to a group-wide resolution involving a cross-sectoral G-SIB, a resolution playbook setting out the co-ordination mechanism with the SFC was developed. In addition, cross-sectoral simulation exercises were conducted to enhance overall crisis preparedness.

### International and cross-border co-operation

The HKMA continued to contribute actively to various international resolution initiatives through its membership in the FSB ReSG, the primary global resolution forum, as well as the CCP Expanded Group, bankCBCM, and its workstreams on bail-in execution, public sector backstop funding mechanisms, digital innovation and resolution, and resolution transfer tools. See *International resolution initiatives* on page 119 for details.

At the regional level, the HKMA chaired and served as the secretariat for the EMEAP SGR, facilitating discussions and studies on resolution among central banks, supervisory and resolution authorities as well as deposit insurers in the region. Under the SGR, meetings were held in Singapore and Bali, and a workshop on cross-border resolution was jointly organised with the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS) in Hong Kong, covering topics such as reflection from the 2023 banking turmoil, co-ordination arrangements and crisis communication, resolution transfer tools, liquidity in resolution, and overall resolution readiness.

## Banking Stability



The HKMA, as Chair of the EMEAP SGR, co-organises a workshop on cross-border resolution with the BIS FSI in Hong Kong in October

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 CMCs. As part of this work, the HKMA reviewed the efforts of relevant banks in enhancing resolvability and worked with relevant authorities to strengthen cross-border crisis co-ordination.

In addition, the HKMA continued to engage with relevant stakeholders and speak at resolution related events, including those organised by the BIS FSI, the FSB, the IMF and the International Association of Deposit Insurers.

### International resolution initiatives

Effective resolution requires internationally harmonised policy-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 G-SIBs<sup>13</sup> as well as a regional home for the resolution entities of some of these internationally active banking groups. The HKMA actively participates in the FSB's efforts to formulate and support the effective implementation of international resolution standards, as well as to enhance the execution capabilities of resolution authorities. We contributed as a member of the following initiatives<sup>14</sup> in particular in 2024:



**Bail-in Execution**, which is aimed at ensuring effective execution of the bail-in tool across borders. This initiative has strengthened mutual understanding among authorities of the means to recognise resolution measures, as well as compliance with jurisdictions' securities laws and their interplay with different bail-in mechanisms.



**Public Sector Backstop Funding Mechanisms**, which examined the key features of existing public sector backstop funding mechanisms across jurisdictions and facilitated knowledge sharing on operational preparedness and processes, so as to ensure these mechanisms prove effective in the context of orderly resolution.



**Digital Innovation and Resolution**, which investigated the role of technology and social media on depositor behaviour in times of stress, and analysed its impact on resolution planning and execution. This initiative also studied how the increasing reliance of financial institutions on third-party service providers for IT infrastructures may pose risks to OCIR.



**Resolution Transfer Tools**, which are aimed at identifying good practices for implementing transfer tools, thereby supporting orderly resolution and providing increased optionality for resolution authorities. This initiative looked into the experiences and challenges of planning and executing transfer tools.

<sup>13</sup> See 2024 List of G-SIBs, FSB (2024) (<https://www.fsb.org/uploads/P261124.pdf>).

<sup>14</sup> For more details of the FSB's latest progress on these workstreams, see Sections 3.1, 3.2, 3.3 and 3.5 of the 2024 Resolution Report: "From Lessons to Action: Enhancing Resolution Preparedness", FSB (2024) (<https://www.fsb.org/uploads/P051224.pdf>).

## Banking Stability

### Bank consumer protection

#### Code of Banking Practice

The industry's overall compliance with the Code of Banking Practice remains satisfactory. According to the self-assessment results, almost all AIs and their subsidiaries and affiliated companies reported full or nearly full compliance during the assessment period in 2023<sup>15</sup>, while a few had taken prompt remedial actions to rectify areas of non-compliance.

### Money Safe

To further empower bank customers to protect themselves from frauds and scams, the HKMA issued guidance to banks in December on introducing Money Safe (MS), which provides an extra layer of security to customers' bank deposits, following consultation with the industry. MS enables customers to segregate a portion of their deposits maintained at banks and protect them from fund outflows through online and other channels. Customers may release the funds under MS protection after banks have undertaken a verification process with the customers. Banks are required to implement MS for retail banking individual customers by the end of 2025.

## Extra protection for customer funds against frauds and scams

### Protection and Use by Customers

- Customers decide on the use of MS and the amount to be protected through convenient channels (e.g. branches, internet banking and mobile banking)
- No MS protected funds can flow out of the customers' accounts
- MS protected funds continue to enjoy the same interest and other benefits



### Release of Protection

Banks to undertake stringent anti-fraud and anti-scam verification processes with their customers before releasing or reducing the level of MS protected funds. In most cases, this would require physical presence of the customers at bank branches



### Customer Awareness

To raise customers' awareness and understanding of MS protection and to promote its usage, including through banks' proactive measures and industry's collaborative promotion programme



### Coverage

- Retail banking individual customers
- Deposits, including at a minimum current, savings and time deposits in Hong Kong dollar and major non-local currencies



### Customer Communication

- Banks to fully and clearly explain:
  - the features of MS and the need to maintain sufficient funds for daily and ad hoc needs when customers use MS
  - the implications when customers request release of MS
- Banks to handle customer instructions (use, release and changes of MS) within three working days
- Banks to provide notifications for customers to have adequate knowledge of the status of MS protection



<sup>15</sup> With five or fewer instances of non-compliance.

## Banking Stability

### Payment Arrangements for Property Transactions

The additional Payment Arrangements for Property Transactions (PAPT) for mortgage refinancing transactions was introduced in November 2022. Since then, the banking industry has been actively promoting the use of this payment means to its customers, resulting in the majority of refinancing transactions now adopting PAPT (Chart 2).

Chart 2

#### Average adoption rate for PAPT in mortgage refinancing transactions



Meanwhile, supported by the HKMA, the banking industry has been consulting key stakeholders extensively to advocate expanding PAPT to cover sale and purchase transactions in the secondary market, given the observable benefits of enhancing payment efficiency and minimising the risks associated with fund transfers for both banks and their customers.

### Cooling-off period for unsecured consumer credit products

With a view to promoting responsible borrowing and reducing the impact of impulsive and excessive borrowing, the HKMA introduced requirements for retail banks (including DBs) to put in place arrangements for the provision of a cooling-off period to individual customers of unsecured consumer credit products, so as to allow them a reasonable time period to carefully reconsider their financial obligations and assess their repayment capacity after entering into a credit agreement. We also took the opportunity to strongly encourage banks to arrange for their subsidiaries in Hong Kong that conduct retail banking business and offer unsecured consumer credit products to follow the requirements.

### Key features of cooling-off period retail banks should provide to individual customers of unsecured consumer credit products



#### Duration

A cooling-off period should be no shorter than seven calendar days immediately following the day of drawdown of loans



#### Fees and Charges

Customers should not be charged any handling fee, prepayment or early settlement fee, or other fees of similar nature resulting from loan repayment/redemption during the cooling-off period



#### Channels

Customers should be provided with channel(s) that are accessible, timely and efficient to facilitate loan repayment/redemption during the cooling-off period



#### Disclosure and Transparency

The provision of a cooling-off period and its key features should be clearly communicated to customers at the time of loan application and notification of loan approval

## Banking Stability

### Anti-Scam Consumer Protection Charter 2.0

Following the launch of the Anti-Scam Consumer Protection Charter in 2023 by the HKMA and HKAB to enhance public awareness of safeguarding payment card information and taking precautions against payment card frauds, an updated version Charter 2.0 was launched in April 2024 to expand its coverage. Under Charter 2.0, participating institutions have committed not to send customers instant electronic messages (e.g. SMS, WhatsApp, WeChat) that use embedded hyperlinks for acquiring bank, credit card, investment, insurance and MPF account or other key personal information online. Participating institutions also undertook to provide appropriate channels for customers to verify the authenticity of messages, and enhance staff training to fulfil the commitment of Charter 2.0 and handle customer enquiries effectively.

Charter 2.0 has received full support from the Airport Authority Hong Kong, the Consumer Council, the Police, the SFC, the IA, the Mandatory Provident Fund Schemes Authority (MPFA) and the Travel Industry Authority, and has successfully drawn the attention of the media and the public. Over 230 financial institutions and merchant institutions are participating in Charter 2.0, covering different aspects of daily lives including banking, insurance, MPF, the securities and futures industries, and the food, beverage, logistics, transport, travel and retail sectors.



Representatives from various sectors in Hong Kong at the launch of Anti-Scam Consumer Protection Charter 2.0



Mr Eddie Yue, Chief Executive, opens the Anti-Scam Consumer Protection Charter 2.0 launch event



A publicity campaign for the Anti-Scam Consumer Protection Charter 2.0 is designed to raise public awareness of safeguarding payment cards and other key personal information

## Banking Stability

### Enhanced consumer protection against fraud

Further measures were introduced in 2024 to protect bank customers from 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 2024.

To strengthen efforts to combat bogus telephone calls, which have continued to cause financial losses and harm to consumers, the HKMA issued guidance in June requiring banks to further step up their measures to help customers verify the authenticity of calls purported to be from banks, as well as to streamline the reporting process of bogus calls to the Police.



Educational message on social media – beware of bogus telephone calls

To minimise the inconvenience that may be caused to the public by marketing calls, the banking industry has endorsed and implemented the Industry Regulatory Scheme for Marketing Calls launched by the Commerce and Economic Development Bureau and the Office of the Communications Authority, and revised the industry code to limit the number of cold calls made to the same telephone number to three per week.



Mr Alan Au (second from right), Executive Director (Banking Conduct), joins a commendation ceremony welcoming the industry's efforts in better managing marketing calls

In November, the HKMA also issued a circular to encourage the further use of mobile Point-of-Sale (POS) terminals, which allow customers to complete payment card transactions more securely and conveniently. The circular shared relevant sound practices gathered from banks for the industry's reference, and encouraged banks to be proactive in understanding and addressing merchants' concerns regarding the deployment of mobile POS terminals. Banks were also urged to continue exploring new solutions that provide merchants with a wider range of payment options.



Educational message on social media encouraging consumers to use mobile POS terminals and safeguard their payment cards

## Banking Stability

From time to time, scam cases occur when customers are manipulated or deceived into setting up internet and mobile banking services, which are subsequently misused by fraudsters, leading to customer losses. In view of this, the HKMA has required banks to offer customers the option to disable the setup of internet banking and mobile services.



Educational message on social media - option of disabling the setting up of internet banking platforms

### Consumer protection in the digital age

Keeping pace with the fast-moving digital age, the HKMA continually reviews and strengthens consumer protection policies for digital financial services. Notably, given recent developments in GenAI, the HKMA issued a circular in August on consumer protection related to the use of GenAI in customer-facing applications. This circular sets out guiding principles in four major areas, namely governance and accountability; fairness; transparency and disclosure; and data privacy and protection. We have also been encouraging banks to explore the use of artificial intelligence to enhance consumer protection, such as identifying customers who are most likely to be vulnerable, and providing more targeted alerts to help prevent frauds.

### HKMA circular on consumer protection in respect of the use of GenAI

#### Governance and accountability



- Assess the impact of GenAI applications through an appropriate committee
- Clearly define the scope of GenAI applications
- Develop clear policies and procedures on responsible use of GenAI
- During the early stage of GenAI deployment, adopt a "human-in-the-loop" approach, i.e. have a human retain control in the decision-making process

#### Fairness



- Ensure model-generated outputs will not lead to unfair bias against any customers or groups of customers
- During the early stage of GenAI deployment, provide customers with the option to opt out and request human intervention on GenAI-generated decisions at their discretion

#### Transparency and disclosure



- Communicate with customers on the use and purpose of adopting GenAI as well as the limitations of such models

#### Data privacy and protection



- Comply with relevant recommendations and good practices issued by the Office of the Privacy Commissioner for Personal Data

## Banking Stability

### Handling of customers' loss in relation to scams

To better support customers and AIs in resolving claims against losses suffered by customers as a result of scams, the HKMA has commenced discussions with AIs to explore a more aligned and consistent approach for handling such claims.

### Cross-boundary credit referencing

The HKMA and the People's Bank of China signed a Memorandum of Understanding (MoU) in 2024 to set out co-operative arrangements for facilitating and conducting pilots to take forward the development of cross-boundary credit referencing. These co-operative arrangements cover pilot operations of two-way transfers of credit information through data connections between credit reference agencies (CRAs) in Hong Kong and the Mainland. A number of pilots were successfully conducted under the MoU to help industry participants explore use cases for cross-boundary credit referencing and to test the technical and operational co-operation between CRAs in a controlled environment.

To promote the participation of AIs in these pilots, and safeguard the data involved during the cross-boundary flow of credit and personal information within the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), the HKMA issued two circulars in June to set out the relevant regulatory requirements.

### Culture dialogues

The HKMA has been holding discussions with senior AI management since 2019 to discuss the effectiveness of their enhancement efforts on culture-related matters and provide supervisory feedback. During 2024, the HKMA conducted seven such culture dialogue meetings with AIs.

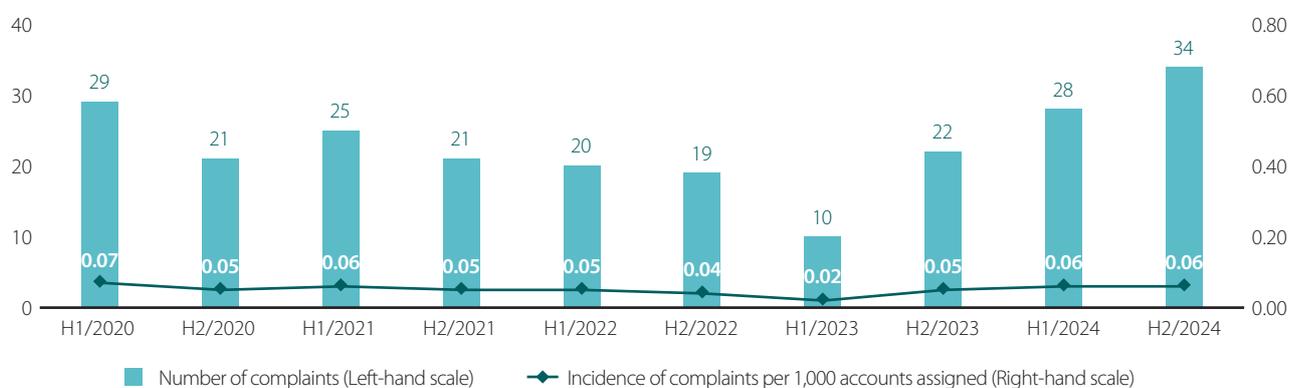
### Addressing the risks of hiring individuals with misconduct

The Mandatory Reference Checking (MRC) Scheme, an industry-led initiative endorsed by the HKMA and an important component for enhancing bank culture in Hong Kong, is aimed at tackling the "rolling bad apples"<sup>16</sup> phenomenon in the local banking sector. Following its successful launch in 2023, the HKMA has been monitoring AIs' implementation of this scheme. During 2024, we commenced a consultation to gather industry feedback and experience gained in the MRC Scheme's implementation, with a view to facilitating a review of the Scheme to be led by the industry associations.

### Customer complaints relating to debt collection agents employed by AIs

The number of complaints received by AIs about their debt collection agents (DCAs) increased to 62 from 32 in 2023, along with an increase in the number of accounts assigned to DCAs (Chart 3). The HKMA will continue to monitor AIs' involvement with DCAs.

**Chart 3** Complaints received by AIs about their debt collection agents



<sup>16</sup> "Rolling bad apples" refers to the situation where individuals who have engaged in misconduct behaviour in one institution can obtain employment elsewhere without disclosing their earlier misconduct to the new employer.

## Banking Stability

### Credit Data Smart

The HKMA has continued to work closely with 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 CRA in Hong Kong through the Credit Data Smart project, 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.

A Credit Data Smart pilot programme was successfully completed in April, under which individual participants obtained their consumer credit reports from the selected CRAs to review the data accuracy and assess their overall service performance. Following its completion, the Credit Data Smart service was made available to the public in April. After a few more months of preparation, the migration of consumer credit reference services to Credit Data Smart was completed in November. This marked an important milestone in the reform of the consumer credit reference services market in Hong Kong.



香港金融管理局 Hong Kong Monetary Authority

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提醒你！關注信貸評分！

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Social media posts on Credit Data Smart

# Banking Stability

## Financial inclusion

### Supporting vulnerable customers

As part of its efforts to foster financial inclusion, the HKMA has undertaken a consumer education initiative in collaboration with the Consumer Council, aimed at educating vulnerable customers about the proper use of banking services and strengthening their ability to guard against scams. Under this initiative, we have been developing virtual reality (VR) games with a view to enhancing the financial awareness of consumers in an interactive and simulated environment. One of these games was launched in December to educate the public on how to use credit cards responsibly.

Additionally, in support of the HKMA's call to promote financial inclusion, a retail bank sent staff to visit nine transitional housing sites during the year to provide banking services to residents and organise activities aimed at enhancing their financial literacy and understanding of anti-fraud measures.

### One-stop datasets of physical banking facilities

In December, the HKMA launched an additional spatial dataset for public use, providing information on five types of self-service banking machines provided by 20 retail banks in

Hong Kong. The new dataset encompasses information on cash deposit machines, cheque deposit machines, integrated cash and cheque deposit machines, passbook update machines, and video teller machines. Together with two earlier datasets on physical branches and ATMs launched in 2023, the HKMA's website now provides three one-stop datasets of physical banking facilities via Open Application Programming Interface (Open API) to enable app developers, technology service providers and the public at large to make use of the open information for any potential applications development.

In addition, the two earlier datasets have been enriched with more information to make the database more comprehensive. Enhancements include the addition of information on barrier-free measures at branches and ATMs, ATM functions, ATM networks, and currencies available for deposit and withdrawal through ATMs. To complement the adoption of these three datasets, the HKMA has continued to work with the DPO to display relevant information about physical branches, ATMs and the five types of self-service machines on a digital map on DPO's Open Data Portal.

More details of the HKMA's financial inclusion initiatives can be found in the *Sustainable HKMA* chapter of our *Sustainability Report 2024*.

The HKMA's Open API portal:



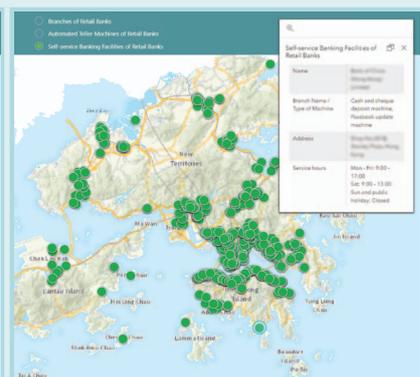
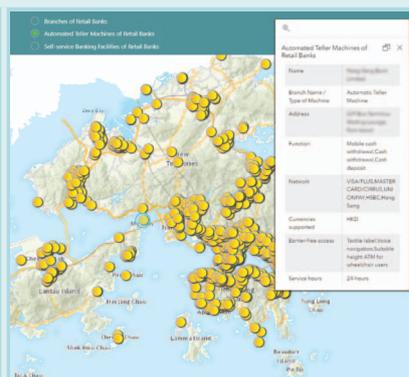
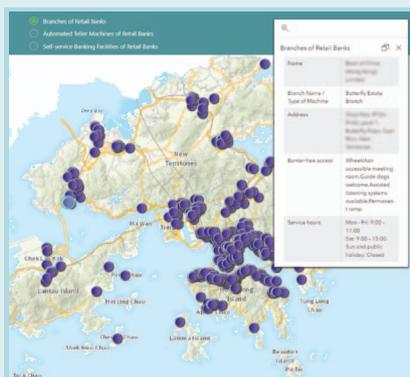
Branches



ATMs



Self-service banking machines



Information on physical branches, ATMs and self-service machines is showcased on a digital map on the DPO's Open Data Portal

## Banking Stability

### Opening and maintaining bank accounts

The HKMA continues to demonstrate its commitment to promoting access to banking services and improving customer experience by working closely with the business community on matters related to bank account opening and maintenance. The HKMA's dedicated Account Opening and Maintenance Team handles and follows up enquiries received from both the public and the business community through a dedicated email account and hotline. Feedback collected is communicated to the banking industry to strengthen their understanding of issues of common interest. To ensure that public enquiries are handled efficiently, a new performance pledge was introduced in 2024, setting out the aim of answering an enquiry or issuing an interim reply within seven working days after its day of receipt. During 2024, the team successfully met this performance pledge, achieving a 100% rate of meeting the target timeframe.

In collaboration with the SFC in May, we organised a briefing session for banks to promote interactive exchanges and enhance their understanding of the relevant requirements under the new licensing regime for Virtual Asset Trading Platforms (VATPs), including bank account services. About 50 representatives from banks attended this session.



*Briefing session for banks on new licensing regime for VATPs*

The average unsuccessful rate for account opening applications is currently about 4%, representing a significant improvement from around 10% in early 2016. In 2024, about 10,000 Simple Bank Accounts were opened by banks to meet the needs of SMEs and start-ups that require only basic banking services, with the cumulative total number of such accounts increasing to over 32,000 since the service was introduced.

## Banking Stability

### Deposit protection

Following the release of the consultation conclusions on enhancements to the Deposit Protection Scheme (DPS) in February, the Deposit Protection Scheme (Amendment) Bill 2024 was passed by the Legislative Council and subsequently gazetted in July. The enhancement measures have since been implemented in two phases. The first phase, covering the enhanced deposit protection limit of HK\$800,000, the refined levy system and the streamlined negative disclosure requirement on non-protected deposit transactions for private banking customers, took effect on 1 October 2024. The second phase, including enhanced coverage to affected depositors in the event of a bank merger or acquisition and the requirement for scheme members to display the DPS Membership Sign on their electronic banking platforms, came into effect on 1 January 2025.

The Hong Kong Deposit Protection Board (HKDPB) aims to provide depositors with swift payout in the unlikely event that a payout is triggered. During the year, a drill was conducted in collaboration with participant banks of the Faster Payment System (FPS), the payout agent bank, and Hong Kong Interbank Clearing Limited to test the electronic channel for processing compensation payments. The drill was successfully completed without any major issues identified. The HKDPB is now continuing its programme to monitor and ensure scheme members' readiness in submitting information in compliance with the Information System Guideline.

Promoting public awareness and understanding of the DPS is key to maintaining its effectiveness. With this in mind, the HKDPB has intensified its efforts to reinforce the image of the DPS as the "Guardian of Deposits" with a new TV commercial themed "Superhero Ah Po's DPS Accessories" and a publicity campaign using "The DPS Promotional Wagon". The HKDPB has also expanded the impact of these multi-media advertising and publicity campaigns by launching a DPS WeChat Page to reach users across various social media platforms. In addition, the HKDPB has launched a "Save Smart with the DPS" social media campaign, collaborating with four key opinion leaders to share their personal savings stories with DPS messages incorporated. During 2024, the HKDPB also conducted its seventh "Hongkongers' Sense of Security on Savings" survey to monitor the public's saving behaviour.



Mr Donald Chen (right), Executive Director (Banking Policy), and Ms Connie Lau (left), Chairman of HKDPB, at a press conference to announce its consultation conclusions on enhancements to the DPS



HKDPB information leaflet and poster to raise public awareness of the DPS enhancement measures



TV commercial and the DPS Promotional Wagon to promote the DPS enhancement measures

## Banking Stability

### Banking complaints

During 2024, 3,464 customer complaints about banking services were received by the HKMA, an increase of 12% over 2023. The handling of 3,405 cases was completed during the year, all within the response timelines stated in the HKMA's performance pledges (Tables 5 and 6).

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

	2024			2023
	Conduct-related issues	General banking services	Total	Total
Received during the year	253	3,211	3,464	3,102
Handling completed during the year	295	3,110	3,405	3,287

**Table 6** Response time in handling banking complaints

Items	Performance Pledges	Achievement Rate in 2024
Preliminary responses to complaints	10 working days	100%
Replies to complaint-related enquiries	15 working days	100%

In total, 30% of the complaints received during the year were related to the operation of banking accounts. These mainly concerned banks' requests for additional information for enhanced due diligence purposes, or restrictions placed on accounts triggered by enhanced monitoring in response to the increasingly serious fraud landscape. The HKMA has followed up with the banks and requested them to improve customer communication, so as to promote understanding of the importance of these actions in combating fraud.

Credit card issues constituted the second major category of complaints. These primarily involved disputes related to credit card transactions, unauthorised transactions, and the operation of credit card reward schemes.

The third most common type of complaint involved remittance services or fund transfer disputes. A typical issue was complainants' dissatisfaction with the banks' failure to return the funds transferred by the complainants to suspicious or fraudulent accounts (Chart 4).

It is worth noting that the number of fraud-and scam-related banking complaints dropped by 31% to 828 cases in 2024, following the HKMA's roll-out of various measures in 2023 to strengthen the security of credit card and electronic banking services. That said, the number of such complaints remains high and the momentum on anti-fraud and anti-scam efforts will be maintained.

**Chart 4** Analysis of banking complaints received in 2024



## Banking Stability

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

To share useful insights with the industry on the latest complaint trends, the HKMA issued two Complaints Watch newsletters in 2024, covering topical issues such as e-communication with customers; reporting of conduct incidents; the handling of enquiries about deceased persons' accounts; and providing mortgage related information in property transactions. These newsletters also shared good practices that Als could adopt to improve their services.

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

Two HKMA staff members, Ms Katherine Choi, Manager of the Complaint Processing Centre, and Ms Jackie Lam, Senior Officer of the Corporate Services Department, received Ombudsman's Awards for Officers of Public Organisations 2024 in recognition of their efforts in promoting a culture of service excellence and upholding the highest standards of professionalism in the handling of complaints and public enquiries.



*Ms Katherine Choi (third from left), Manager (Complaint Processing Centre); and Ms Jackie Lam (second from left), Senior Officer (Corporate Services Department), at the awards ceremony with Mr Jack Chan (third from right), The Ombudsman*

## Banking Stability

### Enforcement

The HKMA is responsible for investigating potential breaches of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and the Payment Systems and Stored Value Facilities Ordinance (PSSVFO). As the frontline supervisor of AIs, the HKMA also conducts investigations into potential breaches concerning AIs' securities, insurance and MPF intermediary activities, and provides the findings to the SFC, the IA and the MPFA, respectively, to support their consideration of enforcement decisions. Insofar as the front-line staff of AIs engaged in the securities business are concerned, the HKMA has the power under the BO to restrict, or temporarily restrict, them from undertaking such activities.

In 2024, we completed 295 investigations and assessments. Disciplinary actions were taken against four AIs and one SVF licensee for deficiencies in their AML/CFT controls. A common issue found was deficiency in the transaction monitoring system. More details of these cases are set out in Table 7.

Separately, the HKMA suspended the registration of a staff member of one AI for nine months because of his fabrication of a client's signature on a time deposit application form.

**Table 7** **Disciplinary action taken with respect to deficiencies in AML controls**

- One AI failed to resolve the system setting issues of its transaction monitoring system for a number of years. As a result, the AI accumulated a significant backlog of transaction alerts that required review, resulting in delays in filing suspicious transactions reports.
- Owing to a lack of adequate guidance for staff in examining transaction alerts and documenting relevant findings, one AI failed to identify some suspicious transactions or set out the findings in writing when reviewing the transaction alerts.
- One AI did not have effective procedures for managing system changes and performing user acceptance tests. Deficiencies were found in its controls for the transmission of transaction data from the core banking system to the transaction monitoring system.
- Owing to inadequate input control and user acceptance tests, one AI failed to implement certain rules in its transaction monitoring system in accordance with the defined parameters, thresholds and scoring logics. This resulted in fewer alerts being generated for review.
- Owing to a policy deficiency, an SVF licensee did not conduct due diligence on some customers involved in information requests from law enforcement agencies concerning potential scams. Ineffective controls for high-risk situations also caused delays in filing suspicious transactions.

## Banking Stability

Apart from the above cases in which the HKMA exercised its own disciplinary powers, we undertook investigations and shared our findings with respect to 51 conduct-related cases to the SFC, the IA and the MPFA for consideration of enforcement actions. Wrongdoers were disciplined as a consequence of the HKMA's collaboration with the fellow financial regulators. For example, the MPFA reprimanded and fined an AI HK\$24 million for breaches of the prohibition of offering incentives and allowing unregistered persons to perform regulated activities. The former executive of the AI accountable for the breaches was reprimanded and disqualified by the MPFA from being approved as a responsible officer of an MPF principal intermediary for 18 months. In another case, subsequent to the HKMA's investigation and referral, the IA suspended the licence of a technical representative of an AI for two months in light of his misappropriation of gift vouchers.

The HKMA also issued 46 compliance advice letters to AIs and their staff to address areas of regulatory concerns and promote regulatory compliance.

### Proposed extension of investigation and enforcement powers under the Banking Ordinance

During the year, the HKMA reviewed the adequacy of its investigation and enforcement powers under the BO to ensure that the Monetary Authority retains the necessary powers to effectively perform its functions under the Ordinance, despite the rapid developments in the financial markets. The review identified room for enhancing the Monetary Authority's regulatory toolkit to proportionately address and deter misconduct or improper business practices by the institutions under its supervision. Based on the review findings and with reference to similar powers available to the SFC, the IA and the MPFA, the HKMA formulated a set of proposals to strengthen its investigation and enforcement powers over AIs and AMBs.

With support from these other financial regulators, the HKMA consulted the industry and the Consumer Council in 2024 regarding its proposals. To facilitate understanding of the proposals and their rationale, we conducted two briefing sessions, attended by 380 participants from 94 banks.

### Banking Industry Integrity Charter

In October, the HKMA and HKAB co-hosted a launch ceremony for the Banking Industry Integrity Charter introduced by the Independent Commission Against Corruption (ICAC). The Integrity Charter is part of the ICAC's efforts to empower banks to combat and prevent corruption through PPPs and promote a high-integrity culture within the private sector. The ceremony was attended by senior management representatives from 30 banks, as well as from the HKCBA and the Private Wealth Management Association (PWMA). Over 40 banks have so far adopted the Integrity Charter.



Mr Eddie Yue (fifth from right, first row), Chief Executive; and Mr Danny Woo (fifth from left, first row), Commissioner of the ICAC, join the launching ceremony of the Banking Industry Integrity Charter with senior executives of banks

### Capacity building in the banking sector

In collaboration with the Government, the Hong Kong Institute of Bankers (HKIB) and other industry stakeholders, the HKMA embarked upon a series of initiatives to build the banking sector's capacity.

Under the talent development strategy of "Connecting Talent to the Future", the HKMA's efforts have focused on two fronts:

1. Connecting the younger generation to the banking industry – attracting talented young people to the banking industry and nurturing them to build a sustainable pipeline of future talent, and
2. Connecting the banking workforce to the future of banking – upskilling and reskilling existing practitioners to ensure they can meet the future needs of the industry.

## Banking Stability

### Attracting and nurturing future talent

#### Future Banking Bridging Programme

With this initiative having attracted an overwhelming response from university students, the HKMA conducted the fourth round of the programme in November. More than 300 students aspiring to pursue a career in banking took part, receiving professional training from industry experts, working with their peers from other universities on group projects, and enjoying job shadowing opportunities. A highlight of the programme is a one-to-one dialogue with around 60 bankers, who share first-hand advice on developing a banking career. Over 1,000 university students have now undertaken the programme since its inception in 2021.



*University students join the Future Banking Bridging Programme*

#### Apprenticeship Programme for Private Wealth Management

Building on the success of previous years, the HKMA and PWMA co-organised a new round of the programme to equip university students with practical skills and work experience for a career in the private wealth management industry. A Recruitment Day for a new batch of apprentices in 2025 was conducted in November and attracted around 600 students. In addition to visiting recruitment booths of individual firms, the students received tailored advice and assistance on job searching, resumé writing and job interviews from the Career Clinic initiative during the event. Since its inception in 2017, this programme has offered university students more than 440 apprenticeship opportunities.



*University students attend a Recruitment Day for the Apprenticeship Programme for Private Wealth Management*

## Banking Stability

### Banking Career Talk Series

Together with the banking industry and the HKIB, the HKMA organises a Banking Career Talk Series at Hong Kong universities, providing students with insights into the latest developments and trending job roles in the banking industry. During 2024, these talks attracted more than 750 students from different universities and disciplines. Bankers were invited to share their valuable knowledge and experience to help students better prepare themselves for jobs 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, the HKMA organises a range of activities with secondary school students and teachers. During the summer of 2024, another round of the "Future Banker – Planning for Future Career Programme" was held in collaboration with the Education Bureau for more than 80 senior secondary students. The programme included an experimental workshop and competition on digital banking knowledge, utilising GenAI. In addition, a talk on pursuing careers in banking was organised in December for more than 800 secondary school students and teachers.

The HKMA also partnered with the Education Bureau and the HKCBA to organise a Young Bankers' Summer Programme for about 25 students and teachers, with the HKMA providing an introduction to the evolution of Hong Kong's banking and financial system and its work on banking supervision.



Senior secondary students attend the "Future Banker – Planning for Future Career Programme"



Students gain knowledge of digital banking through GenAI



Students and their teachers attend the Young Bankers' Summer Programme

## Banking Stability

### Upskilling and reskilling the banking workforce

#### Skills Transformation and Empowerment Programme

With the aim of enhancing banks' manpower planning and increasing the momentum of upskilling and reskilling in the banking sector, the HKMA updated the SPM module on "Competence and Ethical Behaviour" in 2024, providing banks with additional guidance on talent management. A new Survey on Talent Development was also conducted to help the banks better keep track of their talent development efforts.

#### Enhanced Competency Framework

The Enhanced Competency Framework (ECF) for Banking Practitioners was developed in collaboration with the banking industry and relevant professional bodies, with the aim of facilitating talent development and enhancing the level of professional competence of banking practitioners. In November 2024, a Professional Level programme of the ECF module on Green and Sustainable Finance was launched for middle-level and senior-level banking practitioners, following the launch of the Core Level in July 2023. By the end of 2024, more than 21,000 banking practitioners had obtained certifications in various professional areas under the ECF.

#### Regulator's Dialogue

The Regulator's Dialogue series revamped in 2024. Since its launch in 2011, this initiative has been well recognised by the banking sector as an effective platform for exchanging views among bankers and the HKMA. It was originally organised for banking practitioners to keep them updated on topical banking issues and the latest regulatory developments. Given the important role of board members and the objective of promoting interactive dialogue among bankers at all levels, we expanded the Regulator's Dialogue to cover bank directors starting from 2024.

During 2024, two dialogue sessions were conducted, with the March session covering the HKMA's approach to conduct and culture supervision and the May session focusing on latest developments in the HKMA's supervisory role of AML/CFT efforts. About 1,000 bank directors, senior bankers and other banking practitioners attended the two sessions.



Banking industry representatives attend the Regulator's Dialogue on "HKMA's Approach to Conduct and Culture Supervision" in March

## Banking Stability



Banking industry representatives attend the Regulator's Dialogue on "Recent developments in the Supervision of Anti-Money Laundering and Counter-Financing of Terrorism" in May

### Cross-boundary flows of banking talent

In view of the importance of the GBA to further development of Hong Kong's banking business, the HKMA and the HKIB co-organised a cross-boundary study tour to Nansha, Guangzhou in August. This enabled 35 senior bankers to deepen their understanding of technological innovations and the latest developments in macro-economic and financial markets in the Mainland.



Senior executives of the banking industry take part in the cross-boundary study tour to Nansha, Guangzhou

### Talent engagement

In March, the HKMA supported HKAB in hosting a panel discussion on diversity and inclusion for the purposes of talent engagement. The discussion demonstrated to about 200 young bankers and university students that the banking industry welcomes individuals with diverse knowledge and skills from various backgrounds, and fosters an inclusive environment where talented people are empowered to contribute their best to the industry's development.



Mr Eddie Yue (third from left, first row), Chief Executive; Ms Bonnie Chan (third from right, first row), Chief Executive Officer of Hong Kong Exchanges and Clearing Limited; Ms Julia Leung (second from left, first row), Chief Executive Officer of the SFC; Ms Luanne Lim (centre, first row), the then Chairperson of HKAB; and Mrs Betty Yuen (second from right, first row), the then Chairman of The Hong Kong General Chamber of Commerce, share their insights on diversity and inclusion in the workplace with young bankers and university students

## 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 also oversees the Hong Kong Trade Repository (HKTR), the OTC derivatives trade repository in Hong Kong. While the HKTR is not a CSS and is thus not designated as such under the PSSVFO, the Monetary Authority will ensure that the HKTR is operated in a safe and efficient manner. This is in line with one of the functions of the Monetary Authority to maintain the stability and integrity of Hong Kong's monetary and financial systems.

### Monitoring and assessment

The HKMA oversees local FMIs under its purview through off-site reviews, continuous monitoring, on-site examinations, and meetings with FMI 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>17</sup> are incorporated into the HKMA's guidelines for designated CSSs and the HKTR.

The HKMA has completed PFMI assessments on all FMIs under its oversight, each of which has published a Disclosure Framework, a key requirement under the PFMI to improve transparency. 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. As a result of the HKMA's guidance, FMIs have taken steps to enhance their end-point security and cyber resilience. In addition, the HKMA has been closely monitoring adoption of the ISO 20022 standard<sup>18</sup> for CHATS in Hong Kong to ensure a seamless transition with no adverse impact on the safety and efficiency of the system.

### Technological innovation

The HKMA continues to monitor implementation of the growing innovation efforts by FMIs, such as tokenisation and Central Bank Digital Currencies, with a view to assessing the implications of these initiatives from oversight perspectives under the law.

<sup>17</sup> In April 2012, the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions 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>18</sup> ISO 20022 is a global standard for financial messages developed by the International Organization for Standardization (ISO) which provides consistent, rich and structured data to support domestic and cross-border payments. The adoption of ISO 20022 standard for CHATS in Hong Kong in April facilitates Hong Kong's integration with the regional and global banking communities.

## Banking Stability

### International participation and co-operative oversight

The HKMA actively participates in international forums to promote effective oversight of FMIs. As a member of the BIS Committee on Payments and Market Infrastructures (CPMI), the HKMA engages in meetings, working groups and forums to discuss FMI oversight matters. We also attend CPMI meetings, which cover topics such as digital innovations in payments, cross-border payments and FMI risk management. In addition, we contribute to the work of newly-formed working groups and taskforces under the CPMI and the FSB, focusing on enhancing cross-border payments from an oversight perspective; and participate in the CPMI-IOSCO<sup>19</sup> Implementation Monitoring Standing Group, which is responsible for monitoring and assessing the implementation of the PFMI across different jurisdictions.

As a member of the Oversight Forum of Swift<sup>20</sup>, the HKMA discusses oversight matters with other central banks, focusing on Swift's customer security controls framework and cybersecurity issues.

To facilitate efficient communications and consultations, the HKMA has established co-operative oversight arrangements with other relevant authorities. We participate in the international co-operative oversight of the CLS System<sup>21</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 Hong Kong Special Administrative Region, 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 consistent procedures to all designated CSSs.

In 2024, the Committee held two meetings and reviewed four regular reports, as well as 36 accompanying oversight activities management reports. The Committee concluded that the HKMA had duly followed internal operational procedures and had been procedurally fair in carrying out its oversight activities. The Committee's annual report submitted to the Financial Secretary 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>19</sup> CPMI-IOSCO refers to Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions.

<sup>20</sup> Swift is a global messaging network which assists financial institutions to transmit information and instructions in a standardised manner.

<sup>21</sup> The CLS System is a global CSS 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.