SUMMARY OF COMMENTS FROM THE CONSULTATION EXERCISE ON THE BANKING SECTOR CONSULTANCY STUDY

Following the release of the Hong Kong Banking Sector Consultancy Study in December 1998, the Hong Kong Monetary Authority proceeded to consult the industry and the wider community to seek views and comments on the recommendations made in the Study. The three-month consultation period ended on 31 March. This article provides a summary of the comments and views received during the consultation period.

Introduction

1. This article sets out a summary of the comments received by the Hong Kong Monetary Authority (HKMA) during the three-month consultation exercise on the various recommendations arising from the Hong Kong Banking Sector Consultancy Study ("the Study").

Recommendations from the Study

2. The Study identified a number of global forces and trends in financial services which will shape the development of the Hong Kong banking sector. The end-result is likely to be increased competition leading to advances in efficiency, innovation and customer service. At the same time, the global trends will introduce a number of new challenges and increase the overall complexity and the level of risk to which banks and the sector will be exposed. In light of these findings, the Study concluded that the challenge for Hong Kong would lie in how it can best exploit future opportunities while containing the risks.

3. The Study proposed a number of recommendations which would assist the development of the Hong Kong banking sector in the light of the global forces and trends. The overall package aims to improve the competitiveness of the Hong Kong banking market as well as to enhance the safety and soundness of the banking system as a whole. The specific recommendations are:

- Phased deregulation of the remaining Interest Rate Rules (IRRs)
- Relaxation of the one branch policy for foreign banks
- Allowing access to the Real Time Gross Settlement (RTGS) system by non-bank authorised institutions
- Clarification of the HKMA's role as lender of last resort
- Simplifying the three-tier licensing system
- Raising the minimum paid-up capital requirement for locally incorporated authorised institutions
- Study to enhance explicit depositor protection
- Relaxing the time period and association with Hong Kong entry criteria
- Promoting financial disclosure by foreign banks
- Adopting a more risk-based supervisory approach

4. Details of the recommendations were released for a full public consultation exercise which was concluded at the end of March 1999.

Comments received by the HKMA

General

5. The HKMA received a number of responses from the banking industry (including consolidated responses from the Hong Kong Association of Banks and The Deposit Taking Companies Association) and six individual banks as well as other organisations including the Consumer Council, the Chinese Manufacturers' Association of Hong Kong, the

Chinese General Chamber of Commerce and the Hong Kong Democratic Foundation. The majority of the respondents agreed that the Study on the Hong Kong banking sector is timely and has highlighted the major issues that the industry faces and the market developments currently taking place. Overall, the respondents recognise that liberalisation of the financial markets is inevitable if Hong Kong is to maintain and consolidate its position as an international financial centre. However, a particular point noted by the Hong Kong Association of Banks (HKAB) was that in view of the present economic situation and the difficulties facing the banking market and financial sectors, a prudent approach should be adopted. HKAB preferred an evolutionary market restructuring and liberalisation approach, starting with the areas that have lesser impact on the banking sector.

6. Whilst there is consensus on the overall direction of the recommendations contained in the Study, a number of respondents have expressed concerns and different views on the recommendations of the consultants. A small local bank and the Chinese General Chamber of Commerce commented that the Hong Kong banking market is already dominated by foreign-controlled banks. As foreign banks' core business may not be located in Hong Kong, it is feasible that they would, when under pressure, preserve their business base in their home country at the expense of their Hong Kong operations irrespective of the impact on Hong Kong. They have also argued that Hong Kong has one of the most open and competitive banking markets in the world and there is therefore no urgent need to remove the existing barriers to entry by foreign banks. More specifically, they believe that the current market share of small and medium sized banks should be allowed to increase to mitigate the impact of external crises and events on the local banking system. On the other hand, the Hong Kong Democratic Foundation commented that, in some cases, the conclusions reached in the Study were too conservative and the Foundation favours a faster pace of liberalisation.

Specific

7. The comments received on each of the specific recommendations are summarised below:

Deregulation of the remaining Interest Rate Rules

8. HKAB's comments were that banks generally support the view that they should not be against liberalisation in principle provided that such liberalisation takes place in an evolutionary fashion and at the right time. However, they do not think the time is currently right for further deregulation of the IRRs. They note that in deciding on the timing and manner of deregulation, the HKMA should be aware of the impact of deregulation on AIs and the stability of the sector and the measures that banks will take to maintain profitability.

9. HKAB envisaged that the resultant price competition for deposits following deregulation would have an adverse impact on the profitability of all banks in Hong Kong. The basis risk (prime vs. HIBOR) for banks will increase and this will make them more vulnerable. Initially, deposits could shift to smaller banks which would inevitably need to pay more than large banks to attract deposits. This could affect the liquidity of larger banks. Another consequence is that the smaller banks will have to invest in higher yielding, and probably higher-risk, assets. In general, risk management would become more complicated. HKAB also expects that banks will introduce more fees and services charges and institute minimum balance requirements to reduce the cross-subsidisation of customers. Use of tiered interest rates for different types of depositors could also result in smaller depositors receiving less interest. However, HKAB is of the view that with increasing competition, it is unlikely that banks will be able to preserve their profitability through interest tiering and fees alone. Therefore, there will be more focus on reducing costs, e.g. by way of streamlining their branch network. Attempts may also be made to

price out low volume, non-profitable customers. Lending rates, particularly for residential mortgages, might also have to rise.

10. Another issue raised by HKAB is that the less efficient institutions or those unable to afford investments in new products and systems may not be able to survive. This possibility of consolidation in the industry and the unemployment and negative social impacts which may ensue should not be ignored.

11. On the timing for deregulation, HKAB considers that an orderly and phased deregulation would appear to be the way to proceed. In view of the current recessionary climate and the uncertainty due to the Year 2000 issue, they consider it important to defer any move to deregulate to well beyond the year 2000. They have also noted that a few banks have suggested that consideration be given to dividing the deregulation process into two instead of three stages, one for time deposits and one for current and savings accounts. A response by one of the larger banks suggested that once started, the process should be accelerated so as to implement the final phase before the 2002 date suggested by the consultants.

12. The DTC Association (DTCA) also agreed that the long term deregulation of the IRRs is inevitable and desirable. However, given the significant impact on bank earnings, they have suggested that deregulation of savings accounts be postponed until all indicators as recommended in the Study are favourable and the Hong Kong economy recovers to positive GDP growth trend for three years. However the deregulation of time deposits up to six days could be implemented almost immediately which could be followed closely by deregulation of current accounts.

13. One small local bank supported the removal of the interest rate cap on all deposits because it considered that decisions relating to the level of local interest rates should not be determined by the HKAB whose decisions could be influenced by their own members' commercial decisions.

14. Non-bank respondents, such as the Consumer Council questioned whether there is in fact a justifiable concern that deregulation of current and savings accounts would have serious consequences for banking stability. In particular, the Council queried whether a massive migration of deposits between institutions would actually take place if interest rates were deregulated. They commented that it is not certain that depositors would readily switch between banks in search of higher interest rates for their savings accounts. The mobility of customers would most likely be dependent on other variables such as fees and functionality in operating the savings account. The Council notes that from the Study, few institutions view deregulation of the IRRs as an opportunity and only 17% of institutions consider that they would be able to attract new deposits in such an environment.

15. The Council also said that the implementation of the "seven technical measures" by the HKMA in September 1998 made speculation on the Hong Kong dollar more difficult and gave rise to a more stable interest rate environment. Accordingly, they commented that the concern over increased interest expense and decline in profitability (and therefore potential systemic risk) upon full deregulation of the IRRs might be overstated. The Council therefore supports full deregulation as soon as possible.

16. The Study recommends that deregulation should only be introduced after a specified period of stability characterised by relative containment of risk, and that given the difficult operating conditions expected during 1999, no deregulation is recommended in 1999. Further, the Study recommended that a number of financial and market indicators be taken into account in assessing that risk. The Council considers that while it may be acceptable to have some general indicators to cover for any eventuality, the triggers for deregulation should not be tied to individual banks' performance but should take an overall market perspective. In this regard, the Council also recommended that the indicators should be clearly defined and the assessment

results made known to the public to provide an element of transparency and certainty to the process.

17. The views from the other associations on this issue were more diverse. The Chinese General Chamber of Commerce was against further deregulation at this time which might pressurise small and medium sized banks to aggressively bid for higher interest deposits and hence higher-risk assets. On the other hand, the Chinese Manufacturers' Association of Hong Kong supported a phased deregulation in order to promote competition and innovation and introduce more market elements in the setting of local interest rates. The Hong Kong Democratic Foundation was of the view that the IRRs should be abolished immediately.

Relaxing the one branch policy

18. This policy is currently applied to foreign banks licensed after 1978 and restricts such banks to maintain offices in one building for the purposes of conducting banking business. The intention has been to prevent over-banking in Hong Kong rather than to discriminate against foreign banks. As a matter of fact, 37 foreign banks in Hong Kong which were licensed before 1978 have multi-branch status (i.e. they are not subject to the one-building condition).

19. Most of the responses received supported the removal of the one branch policy.

20. HKAB's response was that whilst the proposal to liberalise the one branch restriction was generally considered desirable to enhance Hong Kong's reputation for openness, this may add to the increase in competition arising from interest rate liberalisation. Therefore, the Study's proposed phased relaxation to allow foreign banks to operate up to three branches for a set period, with further relaxation after a careful review, is appropriate to minimise the risk of systemic instability. Further relaxation should be carefully considered in consultation with the banking sector.

21. The DTCA commented that this policy has outlived its usefulness and could be removed without creating undue competition from foreign bank branches. Further, the advent of electronic banking will gradually reduce the relevance of this policy. However, they also considered that, with the loosening of the market entry criteria, the absence of foreign branch capital or asset maintenance requirements and less demanding disclosure requirements for foreign bank branches, the relaxation of the one branch policy will further exacerbate the competitive position of local institutions. Accordingly, they suggested that the relaxation should only be considered at a later stage and only when foreign institutions (particularly those engaged in local commercial and retail business) are required to meet disclosure requirements that are applied to locally incorporated institutions.

22. The Consumer Council commented that, given the fact that according to the Study only 12 institutions indicated that they would increase their branch network if the prohibition was lifted, it would appear that the majority of foreign banks have achieved a desirable level of competition without having to invest in more than one branch. It therefore appears that there is little threat to instability if this policy is removed to increase competition in the market. Accordingly, the Council is of the view that there is no reason for the branch restriction to remain, or for there to be a cap on the number of branches.

23. However, the Council also noted that other jurisdictions have a range of restrictions on the scope of operations for foreign banks and it may be necessary for trade policy reasons to consider the need to maintain some restrictions in parity with other countries. In these circumstance a phased approach on the relaxation of the branch restriction may be appropriate.

24. One small bank expressed particular concern that the relaxation of the one branch policy could cause undue hardship to the small and medium sized local banks and instability to the banking sector. This is especially the case

as the regulatory environment in Hong Kong already allows the easiest access in the world for foreign banks to participate in domestic banking. This view was shared by the Chinese General Chamber of Commerce but the Chinese Manufacturers' Association supported the phased relaxation of this policy to promote a more competitive market. The Hong Kong Democratic Foundation commented that they would urge full liberalisation immediately rather than the proposal to merely raise the limit on the number of branches to three.

Wider access to the RTGS system

25. The DTCA strongly supports this recommendation and urges that this be implemented quickly. They have suggested that the recommendation to allow access to the RTGS system by RLBs that wish to join should be advanced to an earlier phase than that proposed in the Study. This was considered an urgent issue for some RLBs involved in debt securities underwriting or foreign exchange trading.

26. HKAB's position is more neutral on this issue. It noted that whilst some banks have kept an open mind, there were opponents who found that grounds for allowing access by RLBs/DTCs to the system to be weak. They argued that in other centres, access to the clearing system is confined to fully-fledged banking institutions. The RLB/DTC sector would gain an unfair competitive edge over licensed banks for payment business, given their lower cost of entry. RLBs and DTCs are not banks in the traditional sense as they cannot offer current or savings accounts. Therefore, they should not be accorded privileges of banks. The Association also noted that if the system is to be opened up, RLBs and DTCs should be prepared to pay for the service. This is because the system's development has been funded by licensed banks and the HKMA and, so far, the recovery of this cost has been levied on banks.

27. The responses received from other individual banks were not so supportive of the Study's proposal to allow access to the system by RLBs/DTCs on the basis that the current arrangement is working well and it would be counter-productive to introduce new complexities into this arrangement.

28. The Consumer Council supported, in principle, the Study's recommendation that the access issue be reviewed in conjunction with a change towards a two-tier licensing structure and that a more appropriate means of defining access criteria should be considered. The Council also suggested that the HKMA monitor the potential impact of extending RTGS access to institutions other than banks as this would provide them with added liquidity which could have both positive and negative effects for the market.

Clarifying the HKMA's role as lender of last resort

29. Most respondents supported a clarification from the HKMA on its role as lender of last resort in Hong Kong to support troubled institutions. However, there were also views from HKAB that the HKMA would still need to retain flexibility to deal with abrupt changes and take timely action, for example, on deciding whether an insolvent institution would necessarily be rescued. Therefore, the Government's previously stated position of deciding each case on its merits in the light of the implications for the stability of the banking system as a whole remains prudent. Furthermore, the HKMA's role as lender of last resort could, in certain circumstances, conflict with its position as a defender of the currency peg[1]. To address this latter concern, this issue has in fact been recently discussed by the Currency Board Sub-Committee of the Exchange Fund Advisory Committee which concluded that there are ways in which the exercise of the function of lender of last resort by the HKMA can be accommodated under the principles of a currency board system.

1 Under the currency board arrangement, Hong Kong dollar liquidity cannot be created without being backed by an equivalent amount of foreign currency.

30. The DTCA has noted that this issue has been a topic of argument as the HKMA functions as a quasi central bank and hence, clarification of its role and policy are needed. Non-bank respondents such as the Consumer Council and the Chinese General Chamber of Commerce agreed that the HKMA should clarify its role as lender of last resort. The Council also suggested that particular attention be drawn to the discretionary power available to the HKMA in providing assistance, arguing that the HKMA must improve transparency in its exercise of discretionary power. A discretionary approach, as opposed to a rules-based one, could blur the distinction between providing advances for liquidity assistance and advances for solvency or capital support. The Council also suggested that public awareness should be enhanced about the fact that there is no assurance that an insolvent bank will necessarily be rescued.

Simplifying the three-tier system

31. There is general support for simplifying the existing three-tier authorisation system to a two-tier system.

32. HKAB found the Study's recommendation to simplify the licensing structure by converting to a two-tier system to be generally desirable. They have also noted that if the DTCs are to be abolished, some form of special purpose financial institution will be needed to fulfil the role currently envisaged for a special purpose DTC for issuers of multi-purpose stored value cards.

33. The DTCA noted that whilst many of their members favour a unitary bank licensing system, they also recognise that there is a need to accommodate smaller financial institutions (e.g. those which cannot meet the minimum asset requirements but are of acceptable credit standing) with a tiered approach. However, they are opposed to the Study's recommendation to retain the existing definition of what constitutes banking business in terms of the ability to offer checking accounts. Their view is that the distinction between the two tiers should be made on the basis of deposit size and/or target market and not on a particular banking product such as checking accounts. They advocate that RLBs should be able to offer checking accounts to corporate and high net worth clients.

34. Apart from the issue of checking accounts, the DTCA would support most of the proposed changes as long as a phased approach to increase capital requirements for the purpose of upgrading is adopted. In addition, raising the minimum deposit to the RLB level of HK$500,000 would create difficulty for some smaller DTCs. The DTCA noted that the current pattern of deposits from the general public placed with DTCs consist of a major portion that falls in the range between HK$100,000 to HK$500,000. A far smaller but still significant proportion is between HK$500,000 to HK$1,000,000. Therefore, the DTCA has suggested that the minimum deposit amount of HK$100,000 should not be raised further. In addition, the three-month deposit-maturity should be shortened to seven days. The DTCA is of the view that harsher restrictions on DTCs would result in more institutions switching to operate on a money lenders' license which would fall outside the supervision of the HKMA. For stability of the sector, they would suggest that more institutions should be encouraged to take up authorisation under the HKMA's supervision.

35. One small local bank disagreed with the recommendation to simplify the existing system as the present three-tier licensing system is functioning properly.

36. The Consumer Council agreed with the need for consolidation of the tiered system. Moreover, the Council considers it appropriate to retain a distinction between banks and RLBs for the purpose of allowing new participants who may not be fully qualified as a bank to enter the market at a restricted level. However, any diminution of safeguards that arise from the distinction, should be made apparent to consumers. The Council

was also concerned about the possibility that some DTCs may not opt to upgrade their licences and simply revoke their DTC licences which will result in them becoming unregulated finance companies.

Raising the minimum paid-up capital requirement

37. There were no particular views from the respondents on this issue. However, whilst lending support to an upward adjustment of the minimum paid-up capital requirements for locally incorporated institutions (subject to the caveat in paragraph 34), the DTCA have also raised the issue of whether foreign bank branches should be required to maintain capital in Hong Kong in order to level the playing field between foreign and local institutions in this respect. The issue of branch capital was addressed in the Study where it was related principally to the need to strengthen depositor protection. The conclusion drawn was that in the context of current liquidation laws, imposing a branch capital requirement would not improve the current depositor protection scheme. On the other hand, instituting a capital requirement was likely to reduce the attractiveness of Hong Kong as an international financial centre. The absence of capital requirement would not be unique to Hong Kong as there are a considerable number of countries in the same situation. Accordingly, the consultants saw no need for the current situation to be changed.

Study to enhance depositor protection

38. More divergent views were received on this issue.

39. HKAB noted that nearly all the responses from members were against the introduction of a deposit insurance scheme. They make the point that the issue has been considered in previous years and rejected. HKAB considered it inevitable that smaller banks and larger banks will see this issue from different perspectives. Larger banks generally oppose compulsory deposit insurance on the grounds that it:

- does not prevent bank runs and could contribute to an increased level of bank failures;
- leads to systemic under-pricing of risk and capital misallocation;
- could encourage banks with a smaller deposit base to engage in more risky activities and more aggressive deposit pricing, particularly coupled with full interest rate deregulation;
- could encourage irresponsible behaviour by bank management and depositors;
- represents an institutionalised market imperfection and a suppression of competition, neither of which are in the long-term interests of consumers;
- invites the customers of well-managed, properly capitalised institutions to subsidise the customers of weaker banks;
- has to be paid for in terms of lower interest rates or fees/charges and ultimately, by the tax payer;
- adversely impacts the overall profitability of the sector which would itself be a negative influence on the stability of the banking system;
- cannot provide complete protection to all depositors, given the sheer size of the total deposit base;
- will inevitability increase the cost of business in general and not just for banks. This will not help Hong Kong in regaining its cost competitiveness.

40. HKAB was of the view that depositors are best protected by a healthy and stable banking industry and greater transparency of banks through improved disclosure requirements. Deposit insurance, being fire fighting and not preventive, is not considered to be an answer.

41. HKAB supports the consultants' recommendation that the HKMA should carry out a detailed study of other alternative forms of depositor protection schemes (apart from depositor insurance). HKAB has requested the HKMA to make the study available to the banking industry for consultation prior to formulating any policy in this respect.

42. HKAB appreciates that the HKMA may recognise the need for an enhanced form of

depositor protection, particularly in view of the proposed deregulation of interest rates and the fact that the G22 Working Party on Strengthening Financial Systems has recommended each country to put in place explicit depositor protection arrangements. However, their view is that any scheme that is considered must be voluntary on the part of depositors and banks and should be targeted where the depositor protection is most needed (i.e. at the less robust and less well-managed banks). The largest banks, measured by size or credit ratings, should be exempt from any scheme.

43. Two small local banks supported the introduction of some form of explicit depositor protection scheme and suggested that any such scheme should be widely and continuously publicised. Another view from two foreign banks was that protection should be targeted at the appropriate market segment. Accordingly, the cost associated with the introduction of further protection should be borne by banks operating in the retail banking market, rather than say, the private banking market where depositors would generally have more financial sophistication.

44. The DTCA considered the existing depositor protection scheme, whereby depositors receive priority in claim on the assets of a bank in a winding up situation, to be of limited use. It commented that a more explicit, government-sponsored deposit insurance scheme would be much more effective in raising consumer confidence. In light of the current economic uncertainties and with all financial institutions reporting significantly lower profits, the DTCA considered that the establishment of a deposit insurance scheme should be given priority. They believe that it should be possible to construct a scheme which avoids moral hazard and adverse selection (e.g., by applying risk-based premia and insuring only a portion of deposits).

45. The Consumer Council welcomed the proposed study on a depositor protection scheme. It encouraged the HKMA to closely review the potential problems of moral hazard and cross subsidisation in a deposit insurance scheme, and the fact that the cost of any scheme will ultimately be borne by consumers. The Council also considered that the Study's proposal to enhance the existing priority payment scheme, by introducing a mechanism whereby depositors would be able to get immediate pay-out, deserves merit and may alleviate the propensity of depositors to cause a run on their banks in case of rumours. The Council also supported to proposal to require foreign bank branches to maintain sufficient assets in Hong Kong to meet priority claim obligations.

46. The Hong Kong Democratic Foundation believes that provision of deposit insurance can actually be more destabilising since it raises the risk of moral hazard and therefore there is no need to re-open the debate on this issue which had been concluded in 1992.

Relaxing the time period and association with Hong Kong entry criteria

47. HKAB considered that the Study's recommendation would broadly appear to strike the right balance between maintaining the stability of the banking sector and the attractiveness of Hong Kong as an international financial centre. At the same time, it would remove burdensome and unnecessarily restrictive criteria. However, it noted diverse views between foreign and locally incorporated banks on some of these criteria. Therefore, the HKMA would need to assess carefully the impact of any changes before implementation takes place. HKAB and the Chinese Manufacturers' Association also commented that the proposed reduction of the period of association with Hong Kong from 10 years to 3 years would appear to be too short for the HKMA to assess comprehensively the institutions' operating and management ability at different stages of their business and economic cycles.

48. The DTCA commented that requirements for foreign institutions should not be overly stringent as to discourage investment in the SAR. Accordingly, the time period and

association with Hong Kong criteria could be relaxed for qualified foreign financial institutions.

49. On the other hand, one small local bank and the Chinese General Chamber of Commerce disagreed with the proposal to relax these entry criteria. They commented that the playing field in Hong Kong is actually biased against the small and medium sized banks. They argued that, in most of the emerging economies, domestic banks are given the opportunity to grow and develop their market shares and capabilities before restrictions on access by foreign banks are relaxed. As Hong Kong already has one of the most open and competitive banking markets, there is no urgent need to remove these barriers to entry.

Financial disclosure by foreign banks

50. The respondents generally support the existing efforts of the HKMA to achieve a higher level of transparency and disclosure. However, some foreign banks have expressed concerns on whether disclosure of the financial position of the local branch is appropriate. Therefore, they consider it important to ensure that any local branch information is disclosed within the overall context of the financial institution as a whole to ensure that the information is presented in the right perspective. It should be noted that this recommendation from the Study was in fact partly implemented by the HKMA at the end of 1998 and already includes the disclosure of information about the institution as a whole.

Adopting a more risk based-supervisory approach

51. All of the respondents support the idea that improvements to the risk-based supervisory regime should take place in parallel with the regulatory changes. Some banks have noted that a more risk-based approach could improve the efficiency and effectiveness of current supervisory activities. However, the banks have also noted that the HKMA should ensure that there would be no undue increase in the reporting burden of banks as a result of moves towards a more formal risk based supervisory approach.

Other related comments

52. In addition to comments received in respect of the recommendations from the Study, the HKMA has also received comments on additional matters which either fall outside the scope of the Study or are not within the purview of the HKMA. These comments include concerns expressed by HKAB over the increasing level of pollution in the Territory which may affect its attractiveness as a financial centre.

53. The Consumer Council has also raised the general issue of regulatory measures on competition. The Council considers that consolidation of the industry might be one consequence of increased competition and that the HKMA guidelines on mergers should take more account of anti-competitive risks in considering acquisitions and mergers. The Council also recommends that in absence of general legislative provisions (which are its first preference), there should be some form of self-regulatory mechanisms to enhance competitiveness and consumer safeguards in the banking sector. The Council has produced a Benchmark Code that outlines general principles on competition that could be used as a basis for formulating an industry code of practice. The Council noted that some of the principles with respect to consumer protection are already reflected in the Code of Banking Practice (the “Code”) issued by HKAB and DTCA. However, the Council urged the HKMA to monitor closely bank practices and consider whether additional consumer safeguards should be introduced into the Code.

54. The Chinese Manufacturers’ Association also raised the proposal of a commercial development bank to cater for the financial needs of small and medium enterprises and the information technology industry.

55. The DTCA has expressed concern about the lack of regulation of certain financial institutions such as finance companies.

The Way Forward

56. From the responses received, it appears that there is a large measure of support from both the banking industry and other sectors of the community for both the general direction and most of the specific recommendations identified in the Banking Sector Consultancy Study. As explained in the foregoing paragraphs, there may be different views on the timing and manner of implementation of certain proposals (e.g., the phased deregulation of IRR and study to enhance depositor protection).

57. The HKMA will proceed with detailed consideration of the various operational and legal issues that will need to be addressed in relation to the recommendations. It is expected that a coherent package of policy responses including a plan for implementation of the appropriate recommendations will be submitted to the Government for consideration within the next three months.

- Prepared by the Banking Development Division