



Hong Kong General Chamber of Commerce
香港總商會 1861

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19 September 2023

Mr Eddie Yue, JP
Chief Executive
Hong Kong Monetary Authority
55th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Dear Mr Yue,

Re: HKMA Consultation Paper on Review of the Three-Tier Banking System

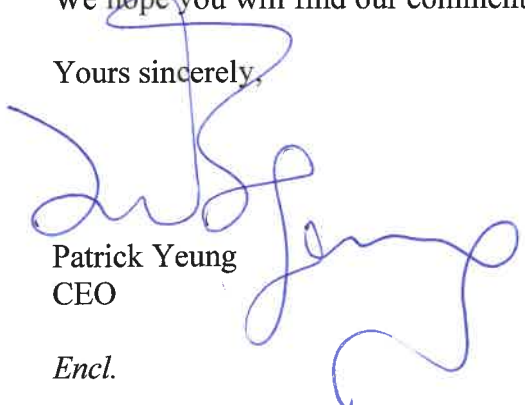
The Hong Kong General Chamber of Commerce welcomes the opportunity to respond to the captioned consultation.

We largely support the HKMA's proposals to simplify the three-tier banking system by merging Restricted License Banks with Deposit-taking Companies (DTCs) to form a new second-tier, given that the associated potential merits of such changes - which include enhanced regulatory efficiency, industry competitiveness, as well as customer protection - could further boost the banking industry's role in strengthening Hong Kong's standing as an international financial centre.

Notwithstanding the foregoing, we would recommend that consideration be given to conducting further stakeholder impact assessments to facilitate a fair and sustainable implementation of the new banking system, as well as to safeguard the interests of DTCs and their customers.

We hope you will find our comments useful.

Yours sincerely,


Patrick Yeung
CEO

Encl.

HKMA Consultation Paper on the “Review of the Three-Tier Banking System” (June 2023)

Response by the Hong Kong General Chamber of Commerce (HKGCC)

Introduction

HKGCC welcomes the opportunity to respond to this consultation (CP). We provide first our general comments on the CP’s proposals, then answers to the specific consultation questions.

General comments

1. We are generally supportive of the HKMA’s proposals to simplify the three-tier banking system¹, which entails the merging of Restricted Licence Banks (RLBs) and Deposit-taking Companies (DTCs) to form a new second-tier, so as to enhance the industry’s role in strengthening Hong Kong’s status as an international financial centre. At the same time, we recommend that consideration be given to further consulting key industry stakeholders on the impact of such changes on the banking system, so as to ensure a balanced and sustainable implementation of the initiative, and safeguard the interests of deposit-taking companies (DTCs) and their customers.
2. Our members recognize the potential benefits of simplifying the present banking system, which include:
 - 2.1. *Enhanced regulatory efficiency*: Streamlining the existing banking framework could reduce administrative burdens, thereby enhancing efficiency and strengthening regulatory supervision and enforcement.
 - 2.2. *Enhanced industry competitiveness and customer experience*: Merging DTCs with RLBs to form a new second tier could effectively ‘level the playing field’ among financial institutions. Removing restrictions such as the maturity limit imposed on deposits² as currently relates to RLBs and DTCs, would provide companies within the second tier with the flexibility to deliver a broader range of banking services, so as to keep pace with the fast-evolving business environment. Such changes also encourage industry competition, with the associated benefits of the latter being enhanced service quality, product innovation and lower consumer costs.
 - 2.3. *Enhanced customer protection*: The CP’s proposals for subjecting all deposit-taking institutions in the new second-tier to the same prudential requirements, with the alignment of risk management and capital adequacy

¹ (2023, August 1). *The Three Tier Banking System*. Hong Kong Monetary Authority. Retrieved August 8, 2023, from <https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/the-three-tier-banking-system/>

² CP para. 48.

standards (i.e., minimum capital requirement) ³, should help afford consumers the necessary protection to safely engage in the formers' services, and enhance public confidence in the new banking system. The CP's suggestion of expanding the membership of the Deposit Protection Scheme (DPS), overseen by the Hong Kong Deposit Protection Board, to include all deposit taking institutions under the new simplified structure⁴, would also provide extra security to depositors, although as the CP also pointed out, there may be cost implications as DPS members are required to make contributions to the DPS Fund.

3. Although the merging of DTCs with RLBs would entail the levelling of capabilities to manage potential risks associated with the new second tier, we nevertheless note that for DTCs which opt to join the new second tier, there could be issues of increased operational burdens. A detailed assessment of the potential impact of the aforementioned issues on key stakeholders may therefore be useful to facilitate a fair and sustainable implementation of the new banking system.
4. Whilst the CP proposes that a 5-year transition period be given to DTCs, during which they can opt to join the new second-tier (i.e. RLBs), upgrade to become LBs, or change their business model entirely and operate as other types of regulated financial entities⁵, it does not specifically mention the option for an existing DTC to continue its operation with the status quo, or the associated impact on its customers. We would thus welcome more clarity on the proposed transitional arrangements.

Answers to Consultation Questions:

Question 1

Do you agree that the three-tier banking system should be simplified into two tiers by merging DTCs into RLBs?

Yes. Please refer to our general comments set out above.

Question 2

Do you have any comments on the proposed transition period of 5 years for existing DTCs to upgrade to the second-tier (i.e. RLBs) or LBs, or transforming themselves into other types of regulated financial entities depending on their business models and revoking their registration as DTCs voluntarily?

Yes. Please refer to our general comments set out above. We also defer to industry specialists within the DTC sector for other views on the proposed transitional period.

³ CP para. 42.

⁴ CP para. 54.

⁵ CP para. 41.

Question 3

Do you have any comments on the proposed minimum capital requirement for the second-tier institutions?

Yes. Please refer to our general comments set out above.

Question 4

Do you have any comments on the proposed minimum deposit size requirement on the second-tier institutions?

We agree with the proposed minimum deposit size requirement on the second-tier institutions, which is necessary for drawing distinctions between retail and non-retail deposits.

Question 5

Do you have any comments on the proposed arrangement for access to the RTGS (Real Time Gross Settlement) systems of the new second-tier?

We agree with the proposal that all second-tier institutions be allowed to apply for access to the RTGS systems, which would provide DTCs with more flexibility to conduct their business, and enhance the efficiency of service delivery.

Question 6

Do you agree that the current nomenclature of RLBs should be kept for the new second-tier? If not, do you have any suggestions on the new name?

We agree with the proposal to maintain the current nomenclature of RLBs, which would facilitate promotion of the two-tiered banking system to the public.

Question 7

Do you recommend any other changes to the three-tier banking system?

We defer to industry specialists for comments on other changes to the three-tier banking system.

Question 8

Do you agree that the proposed simplification shall not have significant impact on banking stability as well as customers and depositors of the existing DTCs?

Please refer to our general comments set out above.

HKGCC Secretariat
September 2023