

Banking Policy and Supervisory Issues in 2006

RISK-BASED SUPERVISION

In 2006 the HKMA further developed its risk-based supervisory approach. More resources were allocated to thematic examinations of selected authorized institutions. Benchmarking the risk management and internal control of authorized institutions were the supervisory focus during the year. The HKMA also helped the banks to identify emerging risks, and issued guidance on sound industry practices in these areas.

Table 1. Operational Supervision

| | 2005 | 2006 |
|---|------|-----------------------|
| 1. On-site examinations | 228 | 247 |
| <i>Regular examinations</i> | | |
| – risk-based | 92 | 86 |
| – overseas | 11 | 10 |
| <i>Specialised examinations</i> | | |
| – treasury and derivatives activities | 8 | 9 |
| – securities (tier-2) | 5 | 7 |
| – e-banking activities and technology risk management | 17 | 5 |
| – AML/CFT controls (tier-2) | – | 4 |
| – business continuity plan | 17 | 15[#] |
| <i>Thematic examinations</i> | | |
| – renminbi banking business | 18 | 25 |
| – implementation of the standardized (credit risk) approach and the IRB approach under Basel II | – | 17 |
| – AML/CFT controls over correspondent banking and private banking | – | 22 |
| – controls for protecting customer data | – | 15 |
| – retail wealth management | 14 | 22 |
| – investment advisory activities | – | 10 |
| – trade financing | 22 | – |
| – residential mortgage | 24 | – |
| 2. Off-site reviews and prudential interviews | 187 | 185 |
| 3. Tripartite meetings | 71 | 51 |
| 4. Meetings with boards of directors or board-level committees of AIs | 18 | 21 |
| 5. Approval of applications to become controllers, directors, chief executives, alternate chief executives of AIs | 332 | 278 |
| 6. Reports commissioned under Section 59(2) of the Banking Ordinance | 4 | 1 |
| 7. Cases considered by the Banking Supervision Review Committee | 7 | 15 |

[#] In 2006, the examinations focused on assessing AIs' preparedness for a possible pandemic.

DEPOSIT PROTECTION SCHEME

The Scheme was launched on 25 September 2006. Eligible depositors are now entitled to compensation of up to \$100,000 in the event of a bank failure. The Deposit Protection Board, with the assistance of the HKMA, launched an extensive publicity programme about the Scheme.

BASEL II

Following extensive consultation, the Banking (Capital) Rules and Banking (Disclosure) Rules were passed by the Legislative Council in November 2006, enabling Basel II to be implemented in Hong Kong on 1 January 2007.

CONSUMER PROTECTION

One hundred and seventy-two authorized institutions providing personal banking services completed the annual self-assessment of compliance with the *Code of Banking Practice* covering the period from June 2005 to May 2006. More than 87% reported full compliance with the Code. Non-compliances were mainly related to the advance of loans and overdrafts, and the terms and conditions of banking services. The HKMA required authorized institutions to take prompt remedial actions to address any non-compliance.

In 2006 the HKMA received 292 complaints about banking services provided by authorized institutions, compared with 328 in 2005. The decline applies to all types of banking services, including complaints against the use of debt collection agencies by authorized institutions.

 > Banking Stability

 > Consumer Information