Our Ref: B9/29C

26 September 2000

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

<u>Guidance Note on Independent Assessment of Security Aspects of Transactional E-banking Services</u>

As mentioned in our circular entitled Electronic Banking of 7 July 1997 and the Guidance Note on Management of Security Risks in Electronic Banking Services of 6 July 2000, the senior management of authorized institutions are expected to commission periodic independent assessments of the security aspects of their <u>transactional</u> e-banking services delivered through the internet and/or wireless communication networks. To demonstrate that security risks in transactional e-banking services have been properly managed, institutions are expected to submit the independent assessment reports to the HKMA for reference. In this connection, I enclose for your reference the ***Guidance Note on Independent Assessment of Security Aspects of Transactional E-banking Services***, which sets out the expected scope of assessment and provides general guidance on selecting the assessors and on the types of information to be included in the independent assessment reports.

In developing the enclosed Guidance Note, the HKMA has considered the comments of the Members of the Study Group on Electronic Banking as well as industry practitioners with experience in conducting independent assessments. While the Guidance Note contains specific recommendations in certain aspects, these recommendations should not be viewed as mandatory requirements or rigid standards. They are generic in nature and are intended to provide a more consistent basis for independent assessments for various e-banking services (e.g., consumer banking, stock brokerage, payment gateway service, corporate banking services) delivered through different electronic channels (e.g., internet, wireless communication network).

I should stress that, as it is the responsibility of the senior management of each institution to manage the risks of the institution's e-banking services, the independent assessments should be commissioned by the institution although a copy of the independent assessment report should be submitted to the HKMA for reference. The senior management should make an assessment of the particular risks attached to the e-banking service in question in determining the extent of reviews and level of assurance expected from each independent assessment.

The Guidance Note is written in the style and format which the HKMA has adopted for its new Supervisory Policy Manual. The intention is to issue new guidelines and guidance notes in this style and to reissue the existing guidelines etc. in the new style over time. All these documents will be collated in the Supervisory Policy Manual which will be published on the HKMA's website.

Should you have any questions relating to the enclosed Guidance Note, please contact Mr. Brian Lee at 2878 1651 or Mr. Raymond Suen at 2878 1817.

Yours faithfully,

(D T R Carse)
Deputy Chief Executive

Encl.

c.c: The Chairman, The Hong Kong Association of Banks
The Chairman, The Deposit-taking Companies Association
The Chairman, The Securities and Futures Commission of Hong Kong