HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

11 Aug 2003

Commercial Credit Reference Agency

Our Ref: B9/60C

11 August 2003

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Commercial Credit Reference Agency

The Hong Kong Monetary Authority (HKMA), the Hong Kong Association of Banks and the DTC Association have recently announced the plan for the establishment of a Commercial Credit Reference Agency (CCRA) in Hong Kong. This letter provides authorized institutions (AIs) with the HKMA's regulatory guidance on the sharing and use of commercial credit data through a CCRA. It is expected that the guidance contained in this letter will be incorporated into a Supervisory Policy Manual (SPM) module to be issued in due course when the CCRA is to come into operation.

Structure of the proposed CCRA

The proposed CCRA in Hong Kong will collect credit data of small and medium-sized enterprises (SMEs) and make this information available to AIs to facilitate their credit assessment. In general, business enterprises will be regarded as SMEs if they are unlisted companies with an annual turnover not exceeding HK$50 million.* Information collected by the CCRA will cover data relating to the credit facilities an SME has obtained from lenders, such as the limits of these facilities and information about defaults on loans. If everything goes smoothly, the CCRA is expected to be up and running in the third quarter of 2004. Your Association will soon provide you with more details about the proposed scheme together with the implementation timetable. A briefing session for AIs is also being organised.

Participation

The effectiveness of any credit information sharing arrangement depends on the full participation of all AIs. The HKMA therefore expects all AIs that are involved in the provision of SME lending to participate as fully as possible in the sharing and use of commercial credit data through a CCRA. We are of the view that the use of information provided by a CCRA will form an important part of an AI's credit management system. As part of its regular supervision, the HKMA will monitor AIs' participation in the sharing and use of commercial credit data.

Customer consent

Unless the existing terms and conditions of AIs already contain an appropriate consent clause, AIs should seek SME customers' consent to disclose their credit data to the CCRA for the purpose of conducting credit checks or assisting other AIs to conduct credit checks. A standard consent clause has been developed by the Industry Working Group on CCRA and will soon be provided to you by your Association.

It is recognised that the usefulness of a CCRA lies in the comprehensiveness of its database which, in turn, hinges on SME customers' willingness to allow their credit data to be reported to the CCRA. AIs' efforts in seeking customer consent are therefore very important. The HKMA will monitor, through its normal examination process, that AIs are not selective in seeking the consent of customers. This will help to ensure a level playing field and comprehensiveness of the database. To achieve these objectives, the HKMA expects all AIs to observe the following ground rules in seeking customer consent:

(i) AIs should seek the relevant consent of an SME customer as defined above upon application for new credit facilities (including application for an increase in the credit limit of existing facilities). Such consent should be incorporated as part of the terms and conditions of the facility, which is in line with the practice in relation to consumer lending.

(ii) AIs should also seek the relevant consent of an SME customer as defined above upon renewal of the existing credit facilities of the customer. They should endeavour to incorporate such consent as part of the terms and conditions of the facility. Where an SME customer refuses to give consent, AIs should inform it that this may provide grounds for lending institutions to decline to renew its facilities. However, in recognition of the fact that these are existing facilities which were previously granted with no such requirement in place, the HKMA accepts that it would be difficult for AIs to insist on incorporating such a consent clause if the customer refused to do so. Although some flexibility is provided for such customers, the HKMA still expects AIs to make their best efforts to persuade their customers to give consent and not to opt out of the reporting arrangement.

(iii) In addition to (i) and (ii) above, AIs should also stand ready to revise their existing loan documentation at any time upon request by any SME customers who voluntarily approach them to seek to be included in the CCRA database before their current facilities come up for renewal.

In preparation for the launch of the CCRA in the third quarter of 2004, AIs should start seeking customer consent from 2 October 2003. This will enable AIs to start reporting data to the CCRA once the system is set up, thereby shortening the lead time required for building up the database. I attach herewith a copy of an educational pamphlet explaining the potential benefits of the scheme which should help AIs to seek their customers' consent. Additional copies are available from your respective industry Association.

The HKMA will monitor SME customers' response rate of each institution so that we can check whether some institutions might have been more selective than others in seeking

consent from their customers. To facilitate this, AIs are required to provide information on their SME customers' participation rate through the submission of a quarterly return, which will be issued to all AIs shortly.

Data protection

For any credit information sharing arrangement to be effective and credible, the data must be properly safeguarded with regard to the confidentiality, accuracy, relevance and proper utilisation of the information. The SPM module being developed by the HKMA will set out the minimum standards for adequate systems of control to properly protect customers' data when AIs share such data through a CCRA. In addition, the SPM will require AIs to only use the service of a CCRA which meets the relevant data protection requirements specified in the SPM. The HKMA will play an active role in ensuring that customer complaints against AIs or the CCRA in respect of the data sharing arrangements are properly handled and that the data protection rules are complied with by all AIs.

The establishment of a CCRA will be an important addition to Hong Kong's banking infrastructure. It will bring about significant benefits to the banking industry's credit risk management, thereby enhancing the safety and soundness of our banking system. The HKMA and the two industry Associations fully support this initiative. We hope that all AIs will make their best efforts in preparing for the commencement of the scheme.

Should you have any questions relating to this letter, please do not hesitate to contact Mr Jim Wong on 2878 1659 or Miss Ivy Wong on 2878 1599.

Yours faithfully,

D T R Carse
Deputy Chief Executive

* If the company is part of a larger group, the HK$50 million limit applies to the group as a whole.

encl.: Educational pamphlet (English version, 256KB)
Educational pamphlet (Chinese version, 1.5M)

c.c. Chairman, Hong Kong Association of Banks
Chairman, The DTC Association
Chairman, Industry Working Group on CCRA
SFST (Attn: Mr Edmond Lau)
Director-General of Trade and Industry (Attn: Mr Eugene Fung)

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