HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

17 Jul 2008

Review of the HKMA's Work on Banking Stability

Our Ref.: G12/190C

17 July 2008

The Chief Executive
All authorized institutions

Dear Sir/Madam,

Review of the HKMA's Work on Banking Stability

In December last year, the Hong Kong Monetary Authority (HKMA) appointed Mr. David Carse as consultant to conduct a review of its work on banking stability. The Review was not prompted by concerns about weaknesses in the regulatory arrangements, nor in reaction to the sub-prime crisis. Rather, the aim is to make recommendations on how the HKMA can best discharge its functions in promoting the general stability and effective working of the banking system, taking into account recent and likely future developments in Hong Kong's banking system and the changing nature of the risks facing it.

The Review is now completed. I am pleased to enclose a copy of the Review for your information (Annex). The Review has identified a number of main trends and issues likely to affect Hong Kong's banking sector in the coming years, including business integration with the Mainland, impact of the sub-prime crisis, further development of Hong Kong as an international financial centre, increasing banking competition, and erosion of financial boundaries. The consultant has considered the implications of these and set out his recommendations on how the HKMA should respond to them. The Review has also considered, and made recommendations, in respect of the various aspects of the HKMA's regulatory and supervisory functions. Overall, the consultant is of the view that there are no fundamental deficiencies in the regulatory and supervisory framework or processes of the HKMA. But a number of enhancements can be made which will provide an even sounder foundation to cope with the challenges ahead.

The recommendations arising from the Review will need to be carefully considered by the HKMA and relevant stakeholders in its work. The HKMA will conduct a public consultation on the Review until the end of October this year. Your institution is welcome to send to the HKMA, or through its industry association, views on the consultant's recommendations. On the basis of comments received, the HKMA will formulate a policy response to the Review.

Should you have any questions regarding the Review, please speak to your usual supervisory contact at the HKMA or to Mr. Vincent Lee, Head, Banking Development, at 2878 8170.

Yours faithfully,

Y. K. Choi
Deputy Chief Executive

Encl.

c.c. The Chairman, Hong Kong Association of Banks
The Chairman, The DTC Association

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