Our Ref: B1/15C
B9/202C

24 July 2025

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Mandatory Reference Checking Scheme Phase 2

I am writing to draw your attention to the Guidelines on Phase 2 of the Mandatory Reference Checking ("MRC") Scheme issued by the Hong Kong Association of Banks ("HKAB") and the DTC Association today. The Hong Kong Monetary Authority ("HKMA") endorses the Scheme, including the implementation of Phase 2.

Background

The MRC Scheme seeks to address the "rolling bad apples" phenomenon in the banking sector, i.e. situations where individuals who engage in misconduct during their employment in one institution are able to obtain subsequent employment in another institution without disclosing their misconduct to the new employer. Such individuals who are not held accountable at one institution and surface at another can potentially have a higher likelihood of repeating their misconduct. This may give rise to operational, reputational, financial and other risks at the new employer institution. More broadly, "rolling bad apples" may also inflict harm on bank customers and undermine public confidence in the banking sector.

The operational details of the MRC Scheme were fleshed out by an industry working group ("IWG") led by the HKAB, in consultation with the HKMA, in 2021. The Guidelines on the MRC Scheme were issued by the industry associations on 5 May 2022, with the endorsement by the HKMA.

The MRC Scheme

Under the MRC Scheme, all Authorized Institutions ("AIs") recruiting for certain specified positions that fall within the scope of the MRC Scheme are required to approach the former and current AI employer(s) of a prospective employee ("reference-providing AIs") to request conduct-related information covering the seven years prior to the application for such position. Reference-providing AIs should endeavour to respond as soon as practicable and in any case within one month of the MRC request using the MRC information template. Please refer to the Guidelines of the MRC Scheme issued by the industry associations on the conduct-related information to be reported under the MRC Scheme and other operational details.

Phase 1 implementation

Following the launch of Phase 1 in May 2023 covering senior positions in AIs, the HKMA has been monitoring the implementation of the Scheme and has undertaken a post-implementation review with the industry associations, which concluded that Phase 1 of the Scheme has been running smoothly and there is strong industry support to move forward to the next Phase.

Phase 2 implementation

Building on the feedback by the industry on the implementation of Phase 1, the IWG has finalised the refinements to the Scheme for Phase 2, to be implemented on **30 September 2025**. Phase 2 will cover a substantially wider scope of staff members, including those who are licensed or registered to carry on securities, insurance or Mandatory Provident Fund regulated activities. Please refer to the **Annex** for details on the positions to be covered.

The major refinements introduced in Phase 2 of the MRC Scheme provide clarity to AIs on a number of areas with practical examples to assist AIs in discharging their reporting obligations. In view of the expanded scope of Phase 2, AIs are encouraged to plan ahead and develop a good communication/education plan with relevant staff members.

Next Steps

The MRC Scheme is an important component of the HKMA's ongoing effort in promoting sound bank culture in Hong Kong. While the Scheme is not introduced as a supervisory requirement, the HKMA attaches great importance to the effective implementation of the Scheme. In particular, the HKMA considers that repeated failures of an AI to adhere to the requirements of the Scheme may indicate potential weaknesses with its governance arrangements or internal controls and procedures. As with Phase 1, the HKMA will continue to monitor AIs' observance of the Scheme in Phase 2 during its ongoing supervisory efforts and may initiate follow-up actions with the AIs concerned as appropriate.

With a view to addressing the common problem of "rolling bad apples" phenomenon in the wider financial services industries, the HKMA will continue to explore with other fellow regulators on possible expansion and integration with similar initiatives in other financial sectors.

This circular supersedes the HKMA circular issued on 5 May 2022 on the MRC Scheme. If there are any questions about this circular, please contact Ms Christine Wong or Ms Herbie Cheung at mrcscheme@hkma.iclnet.hk. If there are any questions about the Guidelines of the MRC Scheme, please contact your industry association.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.

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

Annex

Coverage of personnel of the MRC Scheme
(effective from 30 September 2025)

Already covered in Phase 1

- Directors approved under §71 of the Banking Ordinance ("BO")
- Chief executives and alternate chief executives approved under §71 of the BO
- Managers notified to the HKMA under §72B of the BO
- Executive officers approved under §71C of the BO
- Responsible officers ("ROs") approved by the Insurance Authority ("IA") under §64ZE of the Insurance Ordinance ("IO")
- ROs approved by the Mandatory Provident Fund Schemes Authority ("MPFA") under §34W of the Mandatory Provident Fund Schemes Ordinance ("MPFSO")

Newly covered in Phase 2

- Staff licensed to carry out securities related regulated activities under the Securities and Futures Ordinance ("SFO") (i.e. Relevant Individuals, or "ReIs")
- Staff licensed to carry out insurance related regulated activities under the IO (i.e. Technical Representatives licensed by the IA under §64Y or §64ZC of the IO, or "TRs")
- Staff registered to carry out regulated activities under the MPFSO (i.e. subsidiary intermediaries registered with the MPFA under §34U(4) of the MPFSO)