

## **Press Release**

### **Government welcomes IMF assessment commending Hong Kong's well-regulated and resilient financial system**

Friday, May 23, 2014

The Government welcomes a comprehensive assessment by the International Monetary Fund (IMF) which commends Hong Kong's financial system as very well regulated and resilient, according to the Financial System Stability Assessment report released by the IMF today (May 23).

The report acknowledges that Hong Kong's financial sector is one of the largest and most developed in the world, ranking first in the World Economic Forum Financial Development Index.

The banking system, with assets of US\$2 trillion and equivalent to 705 per cent of our GDP, is highly capitalised, profitable, and liquid. The securities markets are deep, liquid, and efficient, with total stock market capitalisation of 1,000 per cent of our GDP. The insurance sector has high penetration, ranking second in Asia, and is well capitalised.

In addition, the IMF's report notes that the quality of microprudential and macroprudential oversight in Hong Kong - including the intensity of supervision, comprehensiveness of risk assessment, active use of macroprudential policies - has helped ensure the system's resilience to the 2008 global financial crisis.

The IMF has conducted rigorous stress tests as part of the Financial Sector Assessment Programme (FSAP), and concluded that:

- \* banks in Hong Kong are well positioned to absorb a significant realisation of risks;
- \* banks' aggregate capitalisation remains well above the Basel III's minimum capital requirement; and
- \* the banking sector (including foreign branches) has sufficient liquidity to withstand large deposit and wholesale funding withdrawals.

The IMF also recognises that Hong Kong has developed a set of multi-currency financial market infrastructure, which is highly-sophisticated and

supported by effective oversight and supervision.

"The Government welcomes the IMF's comprehensive, fair and balanced assessment on Hong Kong's financial system, including our robust regulatory framework and market infrastructure," said the Financial Secretary, Mr John C Tsang.

"The IMF's positive appraisal of our financial markets is a clear recognition of the resilience and sound financial policies of Hong Kong as a major financial centre," Mr Tsang noted.

The FSAP includes detailed assessments of Hong Kong's compliance with relevant international standards in financial market regulation, including the Basel Core Principles for Effective Banking Supervision, International Association of Insurance Supervisors' Insurance Core Principles, and International Organization of Securities Commissions' Objectives and Principles of Securities Regulation.

The IMF commends that the regulation and supervision framework of Hong Kong's financial sector is of a high calibre, and displays a high level of compliance with international standards. The report recommends Hong Kong to continue to strengthen its regulatory regime further to uphold market quality and efficiency.

"The IMF's recommendations and observations are very useful for us to review existing arrangements as new international standards and practices emerge. We will work with financial regulators and relevant agencies to take steps to further strengthen our regulatory framework and its enforcement, having regard to the IMF's recommendations," said the Secretary for Financial Services and the Treasury, Professor K C Chan.

"We are pleased to note the endorsement by the IMF of our proposal for the establishment of an independent Insurance Authority, and we are working closely with the Legislative Council to ensure the smooth passage of the Insurance Companies (Amendment) Bill 2014," Professor Chan added.

The IMF remarked that auditors' oversight should be further strengthened as the current framework does not ensure the independence of the Hong Kong Institute of Certified Public Accountants from the accounting profession. The IMF also encourages Hong Kong to continue efforts to develop a comprehensive resolution regime for financial institutions in line with international practices.

"We plan to launch a consultation on proposals to enhance the independence of the regulatory regime for listed entity auditors from the audit profession. We will also continue with our preparatory work for establishing an effective resolution regime for financial institutions in Hong Kong, and aim to conduct the second stage of public consultation later this year on the specific details and operation of the regime," Professor Chan said.

The report notes that the near-term economic prospects in Hong Kong are positive. Medium-term economic prospects are also favourable given the prospects and anticipated recovery of Hong Kong's main trading partners, including the Mainland and the United States. The IMF maintains its view that the Linked Exchange Rate System is a transparent, credible, and effective exchange rate regime and works well for Hong Kong.

The anticipated exit from unconventional monetary policy in the United States can increase capital market volatility and reduce system wide liquidity. A correction of property prices also poses risks. The IMF also notes that the increasing economic and financial integration between Hong Kong and the Mainland offers considerable expansion opportunities, but any financial disruption or economic slowdown may generate spillover risks.

"I share the IMF's view that the further opening-up of the Mainland will provide significant opportunities for Hong Kong as a global banking hub and the premier offshore Renminbi centre. Given Hong Kong's long-established track record and expertise in understanding the Mainland and in risk management, our banks are well placed to serve and promote the rapidly expanding trade, investment and financial links between the Mainland and the rest of the world," said the Chief Executive of Hong Kong Monetary Authority, Mr Norman Chan.

The FSAP is an in-depth external assessment conducted by the IMF to help enhance a jurisdiction's ability to reduce the likelihood or severity of financial sector crisis and cross-border contagion. Following the global financial crisis, starting from 2010, the IMF has made it mandatory for 29 jurisdictions with systemically important financial sectors, including Hong Kong, to undergo an FSAP update every five years. The IMF visited Hong Kong in September and November 2013 to undertake detailed assessments under the FSAP.

The Financial System Stability Assessment report under the FSAP also

forms part of the latest IMF's Article IV Consultation with Hong Kong, the Preliminary Conclusions of which were released on April 9.

Relevant reports, including the Financial System Stability Assessment Report, the Reports on the Observance of Standards and Codes, and the Staff Report for Article IV Consultation Discussions, as endorsed by the IMF's Executive Board, can be obtained from the website of the Financial Services and the Treasury Bureau ([www.fstb.gov.hk](http://www.fstb.gov.hk)), or the IMF's website ([www.imf.org](http://www.imf.org)).

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