

Press Release

Second-stage public consultation to establish an effective resolution regime for financial institutions in HK launched

Wednesday, January 21, 2015

The Government and the financial regulators, namely the Hong Kong Monetary Authority, the Securities and Futures Commission and the Insurance Authority, today (January 21) launched the second stage of public consultation on establishing an effective resolution regime for financial institutions (FIs), including financial market infrastructure, in Hong Kong. The consultation period will be three months.

"The first stage of public consultation took place from January to April last year. During that period, the Government and financial regulators met with a number of stakeholders, including Legislative Council Members, trade bodies and professional associations, and received over 30 submissions by the end of the consultation period. An overwhelming majority of respondents indicated that the proposed reform to establish a resolution regime in Hong Kong, so as to meet the international standards as set by the Financial Stability Board (FSB), was important in both the local and international contexts," a Government spokesman said.

"The second stage of consultation launched today seeks views on specific aspects of the regime including: further details on the resolution options and powers proposed in the first consultation paper; the governance arrangements and especially the approach to designating resolution authorities; and safeguards including a 'no creditor worse off than in liquidation' compensation mechanism," the spokesman noted.

"As work is continuing at the international level to provide guidance on the implementation of certain aspects of the new standards, including ensuring resolution regimes in each FSB member jurisdiction are effective in the context of cross-border resolution, there may be a need to carry out a third, shorter consultation later this year. Subject to the outcomes of these public consultations, we will seek to introduce legislative proposals into the Legislative Council by the end of 2015," he added.

Governments in various jurisdictions spent unprecedented amounts of

public money rescuing FIs during the recent global financial crisis. Subsequently, a series of international regulatory reform initiatives have been pursued to enhance the resilience and stability of the financial system, including the FSB's development of a policy framework to address the systemic and moral hazard risks associated with systemically important financial institutions.

An important aspect of this work had been the FSB drawing up new international standards as set out in the "Key Attributes of Effective Resolution Regimes for Financial Institutions" (Key Attributes) (www.financialstabilityboard.org/wp-content/uploads/r_141015.pdf). The Key Attributes set common standards which resolution regimes in all FSB member jurisdictions should meet to provide public authorities with the powers necessary to intervene to resolve failing FIs with a view to avoiding severe financial instability while protecting taxpayers.

The financial regulators in Hong Kong have some, but not all, of the powers identified in the Key Attributes as being a necessary part of an effective resolution regime. Enactment of a new Bill will be required to establish a resolution regime locally and to provide designated resolution authorities with the full set of resolution options and powers in accordance with the Key Attributes.

In drawing up the proposals for the implementation of these standards in Hong Kong, the Government and the financial regulators have taken into account local circumstances and made reference to the approach being adopted in overseas jurisdictions.

The consultation paper can be downloaded from www.fstb.gov.hk/fsb/ppr/consult/resolutionregime.htm as well as from the websites of the Hong Kong Monetary Authority (www.hkma.gov.hk), the Securities and Futures Commission (www.sfc.hk) and the Insurance Authority (www.oci.gov.hk).

Members of the public and the industry are welcome to send their written comments by mail to Resolution Regime Consultation, Financial Services Branch, Financial Services and the Treasury Bureau, 24/F, Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong, or by fax to 2856 0922, or by

email to resolution@fstb.gov.hk on or before April 20, 2015.

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