

Speech

LegCo: Speech by SFST on Basel III-related subsidiary legislation

Wednesday, December 12, 2012

Following is the English translation of the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, on Mr Ronny Tong's motion on Banking (Capital) (Amendment) Rules 2012, Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2012 and Banking (Amendment) Ordinance 2012 (Commencement) Notice 2012 in the Legislative Council today (December 12):

Acting President,

In February this year, this Council passed the Banking (Amendment) Ordinance 2012 to establish a legal framework for the implementation in Hong Kong of the new regulatory capital and liquidity standards promulgated by the Basel Committee on Banking Supervision, which are internationally known as "Basel III".

As an international financial centre and a member of the Basel Committee, Hong Kong is obliged to follow the implementation timetable, which was agreed internationally, in order to ensure that the capital framework for banks in Hong Kong is on a par with international standards. The aim of the three pieces of subsidiary legislation as set out in this motion is to enable Hong Kong to implement the first phase of the new Basel III regulatory capital standards from January 1, 2013, in accordance with the transitional timeline specified by the Basel Committee.

Here, I would like to express my gratitude to the Chairman, Honourable Ng Leung-sing, as well as the five other members who participated in the scrutiny of these three important pieces of subsidiary legislation, noting that they are highly technical in content. The Administration welcomes the Subcommittee's support for the subsidiary legislation.

Over the past year, the Hong Kong Monetary Authority (HKMA) has undertaken extensive consultations with the local banking industry on the detailed proposals contained in the subsidiary legislation. In particular, prior to

finalising the Banking (Capital) (Amendment) Rules 2012, the Monetary Authority has released the amendment rules in a draft form to consult the Financial Secretary, the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, the Hong Kong Association of Banks and the DTC Association, in accordance with section 97C of the Banking Ordinance. On this occasion I would like to give thanks to the banking industry for its active involvement in the process to ensure that the subsidiary legislation will be effectively implemented in Hong Kong.

Acting President, given their strong capital positions, banks in Hong Kong are already well placed to adopt the Basel III standards from January 1, 2013. As at the end of September this year, the average capital adequacy ratio of local authorised institutions was 16.1 per cent, and their average Tier 1 capital ratio 13.3 per cent, with common equity accounting for approximately 90 per cent of their Tier 1 capital. Based on the HKMA's latest assessment, the strong capital position of local authorised institutions should enable them to meet the strengthened capital requirements without much difficulty. I have also noted from the submission provided by the Hong Kong Association of Banks to the Subcommittee that Hong Kong's banking industry is already well prepared to comply with the Basel III capital requirements set out in the subsidiary legislation.

It has recently been reported that though the US and EU are already in the final stage of implementing Basel III, they appear unable to implement the relevant capital standards in time from January 1 next year. I recognise that the Subcommittee has discussed whether the competitiveness of Hong Kong's banking industry might be affected, if Hong Kong would implement the Basel III capital standards timely as planned. I would like to briefly speak of this.

First, I wish to point out that Basel III is designed to enhance the resilience of banks and the banking system. Implementing Basel III in Hong Kong will raise the level, quality and transparency of banks' capital base, broaden the risk capture of the capital framework, and strengthen banks' risk management practices. This will result in Hong Kong's banking system becoming more stable, with a greater ability to weather any possible future shocks to the global markets. This view is broadly shared by the Hong Kong's banking industry. As such, our meeting the Basel III international standards should not only enhance the ability of the Hong Kong banking system to

absorb shocks, but should also reinforce the confidence of investors and depositors in our banks.

Meanwhile, we notice that, as in Hong Kong, jurisdictions like the Mainland of China, Switzerland, Australia, India and Singapore, have made known their intention to implement the Basel III standards from January 1 next year. Japan has decided that its implementation will take effect from the end of March next year in order to coincide with the fiscal year cycle for banks in Japan. We also understand that regulators in the US and EU have in fact already made significant efforts to recapitalise their banks in the aftermath of the crisis, using comprehensive stress-testing programmes to set the levels of capital which must be maintained, so that their larger banks can weather the financial turbulence built into the stress-testing scenarios. We are hoping that the US and EU can complete the relevant rule-making process expeditiously, in order to implement the Basel III requirements as early as possible.

Acting President, the Financial Stability Board, together with the G20 Finance Ministers and Central Bank Governors, has recently reaffirmed the calls for a full, timely and effective implementation of the Basel standards. We understand that the Basel Committee is itself working to ensure the timely and consistent implementation of Basel III through a vigorous peer review process, which examines in detail the consistency of the rules in member jurisdictions against the Basel III text. Upon commencement of the subsidiary legislation set out in this motion from January 1 next year, the HKMA will continue to work closely with the local banking industry to monitor the capital positions of our banks, and to keep in view further developments in the implementation of Basel III in other major jurisdictions, in order to assess the impact of Basel III.

Acting President, I am grateful to the Subcommittee for its support for the Basel III-related subsidiary legislation set out in this motion, with a view to enhancing the safety and soundness of the banking system. This will in turn help reinforce the status of Hong Kong as an international financial centre. Thank you, Acting President.

Ends