

Press release

LCQ5: Rejection of coins by shops

Wednesday, November 3, 2010

Following is a question by the Hon Cheung Hok-ming and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 3):

Question:

It has been learnt that in recent years, quite a number of retail shops and traders in markets refuse to accept small-denomination coins (such as 10-cent, 20-cent and 50-cent coins) as payment because banks will charge a handling fee for deposit of such coins. It has also been reported that recently a trader and his customer were involved in a scuffle because the trader refused to accept coins. In this connection, will the Government inform this Council:

(a) given that in their reply to a question from a Member of this Council on July 4, 2007, the authorities stated that the Hong Kong Monetary Authority (HKMA) considered that the demand for and circulation of coins had not been affected by rejection of small-denomination coins, whether they have assessed if the situation is different now; and of the number of relevant complaints received by HKMA in the past three years, as well as the value of the various types of small-denomination coins in circulation and the respective changes in percentage in each year during the period;

(b) given that I have learnt that rejection of small-denomination coins is very common, whether the authorities will review the existing relevant legislation and take administrative measures to improve the aforesaid situation; and

(c) whether it knows the situation of provision of free services for coin deposit and exchange by banks to the public at present; and whether the authorities will take any effective measure to encourage banks to waive the fee for those customers who deposit or exchange a small quantity of small-denomination coins?

Reply:

President,

The Administration's reply to the questions is as follows:

(a) We have been monitoring the circulation of small-denomination coins. In the past three years, the HKMA has received 28 complaints from the public about retailers refusing to accept small-denomination coins for payment. In the first nine months of 2010, two complaints were received. These incidents have no impact on the circulation of currency in Hong Kong. The demand for coins, which tends to vary with the economic cycles, has continued to increase slightly in recent years. The numbers of small-denomination coins issued and the increase over the recent years are listed in Annex 1.

(b) Section 2(1) of the Coinage Ordinance (Cap 454) provides that coins issued by the Chief Executive in Council shall, provided they have not been dealt with in any manner prohibited by law, be legal tender for payment as follows:

(i) for coins of denominations of not less than \$1, for the payment of an amount not exceeding \$100;

(ii) for coins of denominations of less than \$1, for the payment of an amount not exceeding \$2.

Coins are by law regarded as valid and legal means of payment and, subject to the above conditions being met, they will be taken as legal tender to adequately and effectively fulfil payment obligations. In other words, coins can be used to make outstanding payments. However, as in all commercial transactions, both parties can determine the terms of transaction on their own, including the means of payment. Whether to accept coins of any denomination as payment is purely a commercial decision for shops. The Coinage Ordinance does not confer any authority upon the Government to request shops to accept coins.

We have also studied the laws relating to "legal tender" in other countries and how they are enforced. We understand that most countries, including the

United Kingdom, Canada, Australia, the United States and Singapore, have laws on "legal tender" to establish the legal status of their currencies. However, they do not have legislation to compel the public or shops there to accept local currencies as means of payment. In these countries, buyers and sellers can determine the means of payment on their own, which is similar to the situation in Hong Kong.

We believe that the current arrangement of allowing both parties to a transaction to determine the payment method is conducive to the development of other means of payment (such as electronic money), which is beneficial to Hong Kong's economic development. This open stance also keeps Hong Kong on a par with other countries. On the contrary, using administrative measures to prohibit shops from refusing to accept legal tender currency would discourage the use of other electronic means of payment. It would also cause inconvenience to business operators. Based on the above considerations, we do not consider it necessary to amend the existing legislation.

(c) Most banks, including the three note-issuing banks, provide coin-deposit services free-of-charge for a maximum of 300 to 1,000 coins a day. Banks may charge a fee to cover the operational expenses if they are asked to handle large quantities of coins. But in doing so, they must follow the HKMA's guidelines and disclose the details of the fees clearly in order to facilitate customers' comparison.