

# The Banking System



Hong Kong is one of the world's leading international banking centers and one of those that provides foreign banks with the easiest access to domestic banking. As of end-June 2007, there were 140 licensed banks (LBs) owned by interests from 27 countries. These included 110 foreign banks with 51 branches, 24 local banks with 1,133 branches and 6 mainland banks with 44 branches. In addition, there were 83 representative offices of foreign banks.

In November 2001, the Hong Kong Monetary Authority (HKMA) lifted all restrictions on the number of branches that foreign banks could maintain.

Hong Kong also allows foreign banks to establish Restricted License Banks (RLBs) and Deposit Taking Companies (DTCs), two categories which provide an opportunity for overseas banks that are not qualified for a full banking license to set up establishments to conduct wholesale and investment banking business. All three categories of authorized institutions (ie LBs, RLBs and DTCs) are subject to the same regime of prudential supervision.

Previously, it was the general policy of the HKMA that an overseas bank had to maintain a local representative office for a minimum of one to two years to acquire sufficient local banking experience before it could be considered for a banking license. This requirement was dropped in April 2002.

In May 2002, the HKMA reduced the obligatory period of operation as an RLB or DTC from ten to three years, and dispensed with the "association with Hong Kong" requirement for locally incorporated RLBs and DTCs wishing to upgrade to LBs.

At the same time, the previous US\$16 billion asset size criterion for overseas incorporated bank applicants was replaced by the much lower balance sheet size criteria applicable to locally incorporated bank applicants, which are currently HK\$3 billion for customer deposits and HK\$4 billion for total assets.

HKMA assumes most of the central banking functions in Hong Kong, with the exception of the issue of bank notes.

Bank notes are issued by Hongkong and Shanghai Banking Corporation Ltd, the Standard Chartered Bank (Hong Kong) Ltd and the Bank of China (Hong Kong) Ltd. Banks in Hong

Kong are very much geared to serving business with foreign currency accounts, savings and checking (here called 'current') accounts, letters of credit, overdrafts and loans easy to open and manage.

In July 2001 the Interest Rate Rules (IRR) of the Committee of the Hong Kong Association of Banks (HKAB) were abolished, marking the final stage in the deregulation of bank interest rates. Banks are now free to set interest rates on deposits by themselves.

Money can be quickly and easily transferred both within the territory and overseas.

HKMA established the Real Time Gross Settlement (RTGS) system in December 1996, which provides smooth and efficient settlement for interbank payments. The Hong Kong Dollar RTGS system has a single-tier settlement structure with all banks maintaining settlement accounts with HKMA. All RTGS payment transactions are settled in real time across the books of HKMA.



HKMA introduced the US dollar RTGS system and euro RTGS system in August 2000 and April 2003 respectively. These allow participants to settle US dollar and euro transactions real time in the Asian time zone. By making use of the payment versus payment (PvP) linkages between the three RTGS systems, foreign exchange settlement risk caused by the time gap between the settlement of Hong Kong dollar, US dollars and the euro can be eliminated. Since their implementation, the US Dollar and euro Clearing Systems have operated smoothly. The Renminbi Settlement System, launched in March 2006, was upgraded to Renminbi RTGS system in June 2007 to cater for the expanded renminbi business in Hong Kong. In November 2006, HKMA and Bank Negara Malaysia launched a cross-border PvP linkage such that both legs of the foreign exchange transactions between the US dollars and Malaysian Ringgit can be settled simultaneously in the Asian time zone.

Hong Kong follows the British system where checks ('cheques') may be used by the bearer unless the words 'or bearer' are crossed out and may be cashed, unless two parallel lines are drawn on the face of the check - which means they can only be deposited into the named account.

Hong Kong dollar, US dollar or Renminbi checks issued by local banks generally clear overnight. Foreign checks issued by overseas financial institutions clearing times depend on your relationship with your banker: Sometimes banks will buy a foreign check immediately, while at other times overseas checks take three weeks to clear. Many banks now charge a small fee if you deposit a foreign check into a foreign currency account.

Larger banks, both local and foreign, have mainland China and Hong Kong research departments set up to help businesses and some publish useful economic analyses of Hong Kong, mainland China and elsewhere in the region. Additionally, the banks are a good source of credit information on potential business partners.

*Pls go to [http://www.amcham.org.hk/hongkong/establishing\\_office.html](http://www.amcham.org.hk/hongkong/establishing_office.html) to view web edition supplements.*