APPLICATION FOR A BANKING LICENCE WITH THE HONG KONG MONETARY AUTHORITY

The HKMA licensing regime for Authorized Institutions – August 2020



This publication provides an overview of the Hong Kong Monetary Authority's ("HKMA") authorization regime and the minimum criteria for authorization of the HKMA for any person who wishes to apply for a banking licence in Hong Kong.

I. THE HKMA AUTHORIZATION REGIME

Institutions which intend to carry on banking business or the business of taking deposits in Hong Kong are required to be authorized by the HKMA as an Authorized Institution ("AI") under the Banking Ordinance ("BO") in Hong Kong.

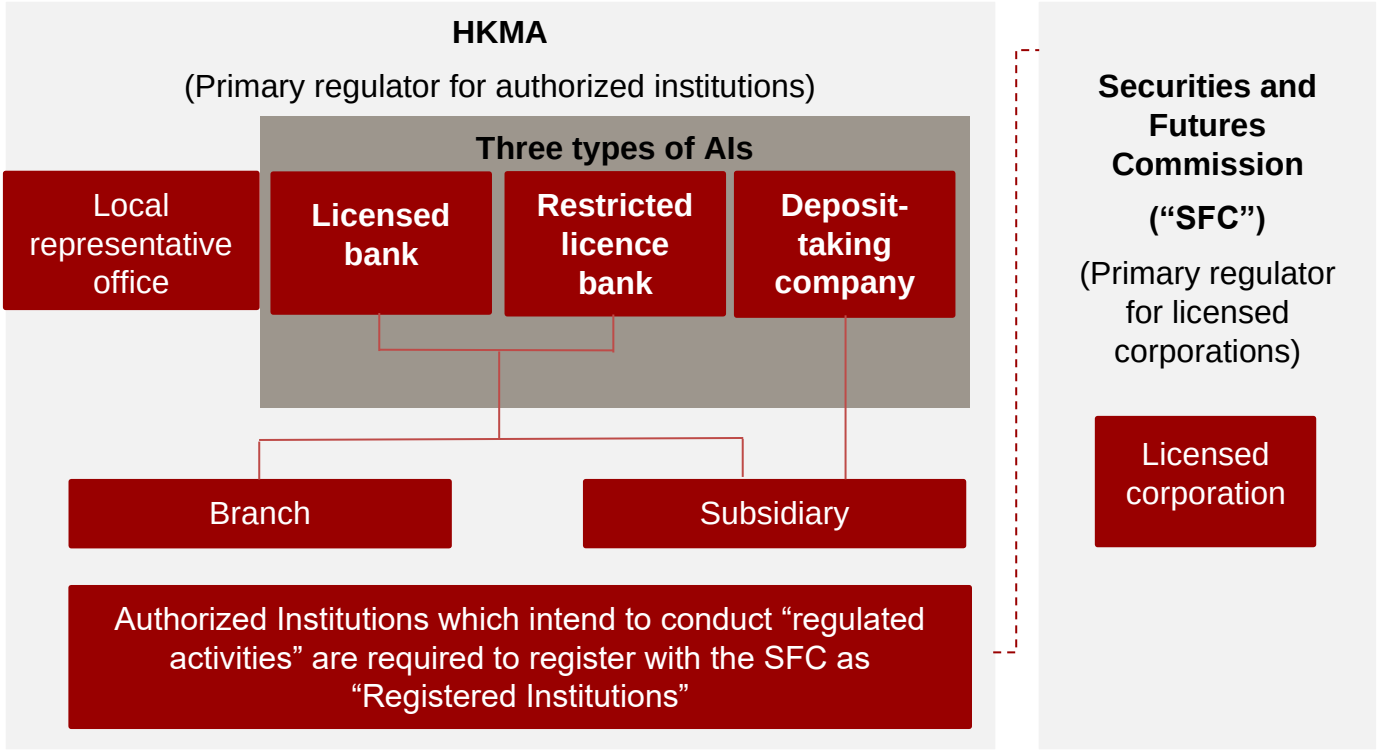
Under Hong Kong's three-tier banking system as structured in the BO, an AI is either classified as a licensed bank, a restricted licence bank ("RLB") or a deposit-taking company ("DTC") depending on its scope of banking business.

A bank incorporated outside of Hong Kong may apply for a full banking licence (as a licensed bank) or an RLB licence in the form of a branch or a locally incorporated subsidiary; while application for a DTC licence can only be in the form of a locally incorporated subsidiary.

An overseas incorporated bank may also choose to apply to operate as a local representative office ("LRO") in Hong Kong with the HKMA. However, an LRO is not allowed to conduct any banking business or deposit taking business in Hong Kong.

I. THE HKMA AUTHORIZATION REGIME (CONT'D)

The types of establishment, the respective permissible activities and the form of incorporation for authorized institutions are set out below:



	Three Types of Authorized Institutions		
Establishment type	**Licensed bank**	**Restricted licence bank**	**Deposit-taking company**
Scope of activities	Operate current and saving accounts, accept deposits of any size and maturity from the public, and pay or collect cheques drawn by or paid in by customers	Take call, notice or time deposits from the public in amounts of HK$500,000 and above without restriction on maturity	Take deposits of HK$100,000 or above with an original term to maturity, or call or notice period, of at least three months
Form (for overseas incorporated institutions)	Branch/locally incorporated subsidiary	Branch/locally incorporated subsidiary	Locally incorporated subsidiary
Share capital requirements	HK$300 million or equivalent	HK$100 million or equivalent	HK$25 million or equivalent

Authorized Institutions which intend to conduct "regulated activities" as defined under the Securities and Futures Ordinance are required to register with the SFC as "Registered Institutions" through a separate process.

II. MINIMUM CRITERIA FOR AUTHORIZATION

The HKMA has discretionary power to grant or to refuse an application for authorization. Generally speaking, the HKMA requires the applicant to demonstrate that it can meet the following criteria on a continuous basis for the institution as a whole, unless any other relevant matter has been brought to the HKMA's attention which causes other concerns.

A. Adequacy of home country supervision

- Legal and administrative powers of the home supervisor
- Supervisory framework of the home supervisor
- The method of supervision adopted by, and the resources available to, the home supervisor
- Information and analysis published by international organisations
- Past experience in dealings with the home supervisor and home resolution authority

B. Identity of controllers

- Informed of the identity of each controller, including:
  - i. Indirect controller
  - ii. Minority shareholder controller
  - iii. Majority shareholder controller

C. Fit and proper directors, controllers and chief executives

- Reputation and character
- Knowledge, experience, competence, soundness of judgment and diligence
- Records of disciplinary actions and investigations
- Business record and other business interests

D. Adequate systems of control for appointment of managers

- Adequate systems of control to ensure managers appointed are fit and proper
- Responsibilities, skills, knowledge, and experience of managers
- Proper procedures for selection and appointment
- System for appraising performance
- Policies and procedures for investigating apparent breaches by managers

E. Adequate financial resources

- Capital adequacy measured by latest standards issued by the Basel Committee
- Nature and scale of the operation
- Ability and willingness of shareholders to provide financial support, in the form of capital and/or liquidity injection

F. Requirement for adequate liquidity

- Minimum liquidity ratio
- Adequacy of systems and controls over liquidity risk management
- Liquidity risk tolerance and liquidity management framework

II. MINIMUM CRITERIA FOR AUTHORIZATION (CONT'D)

G. Adequate control of large exposures

- Control systems to guard against concentration risk and ensure limits will not be exceeded
- Internal clustering limits
- Statutory exposure limits on both an unconsolidated and consolidated basis (where applicable)

H. Requirement to maintain adequate provisions

- Accurate valuation of assets and the establishment of adequate provisions
- System for periodic review of asset quality and adequacy of provisions
- Adequate country risk management system

I. Requirement to maintain adequate accounting systems and systems of control

- Sound internal control and risk management systems
- Internal audit function
- Controls to prevent money laundering and terrorist financing

J. Requirement to make adequate disclosure of information

- State of affairs, including profits and loss and financial resources and disclosures in audited financial statements
- Disclosures to be made in accordance with the Banking (Disclosure) Rules

K. Business to be conducted with integrity, prudence and competence

- General strategy, objectives and ability to plan ahead
- Quality of staff and management
- Quality of management information system

L. Other criteria (for overseas AI only)

- Acceptable degree of reciprocity in carrying banking business between Hong Kong and place where the AI is incorporated
- Place of incorporation is a member of the World Trade Organization

III. AUTHORIZATION OF VIRTUAL BANKS

A “virtual bank” is defined by the HKMA as a bank that primarily delivers retail banking services through the internet or other forms of electronic channels instead of physical branches. The HKMA expects a virtual bank will promote the development of financial technology and innovation, as well as financial inclusion for retail customers, including small and medium-sized enterprises.

While the principles and criteria for the authorization of virtual banks are the same as those for traditional banks, due to the nature and expectation of the virtual bank business, virtual bank applicants should note the following criteria in addition to those applicable for traditional banks.

A. No minimum account balance requirement or low-balance fee

- Not to impose any minimum account balance requirement or low-balance fee on customers

B. Locally incorporated

- To operate in the form of a locally-incorporated bank
- Owned by company incorporated in Hong Kong
- Parent company is committed and capable to support the bank

C. Maintain a physical presence in Hong Kong to interface with the HKMA and customers

- Maintain a physical presence in Hong Kong to be the principal place of business
- Provide an office in Hong Kong for interfacing with the HKMA and to deal with customer enquiries and/or complaints

D. Independent assessment of IT governance and systems

- The security and technology related controls in place should be “fit for purpose”
- Engage qualified and independent experts to perform independent assessment of the adequacy of planned and actual IT governance and systems

E. Business plan that does not constitute a threat to the stability of the banking sector

- A credible and viable business plan without undue strains on its systems and risk management capability

F. Exit plan

- Able to unwind business operations in an orderly manner without causing disruption to the customers and the financial system

IV. HOW CAN MAZARS HELP?

At Mazars, we have extensive experience working with the diversity of financial services players. We assist major financial institutions including investment and corporate banks, retail and private banks, virtual banks, brokerage houses, fund managers, central banks, and national regulators in dealing with business and regulatory issues with multiple impacts, domestic and international.

Mazars is here to assist you in every step of the authorization process and beyond. Depending on the scope, coverage and specifics of your needs, our services would typically involve one or more of the following:

Preliminary Consultation

- ✓ Provide preliminary advice to management on the regulatory approval process
- ✓ Assist in identifying and capturing regulatory issues / hurdles that may arise during the application process
- ✓ Advise on the key areas considered by the HKMA in granting the banking licence (e.g. governance and control arrangements, proposed business activities, financial projections, risk management controls, etc.)
- ✓ Assist in the initial discussion with the HKMA
- ✓ Advise on practical questions during the application process

Submission of Application

Review / provide compilation advice for submission to the HKMA (including the tailoring of documentation which is currently available with your institution to a standard acceptable by the HKMA):

- ✓ Review and provide compilation advice on business plan
- ✓ Review and provide compilation advice on financial projection: projected income statement, projected balance sheet, capital and liquidity ratios
- ✓ Review and provide advice on organisation chart and staff plan against regulatory expectations
- ✓ Review and provide advice on internal control systems against planned business operation and industry good practice e.g. risk management policy, anti-money laundering guideline, structure of management committees and their respective authorities, etc.
- ✓ Review and provide advice on the overall consistency of the application documents and drafting of cover letter

Further Information Request

- ✓ Provide assistance and advice in responding to further information requests from the HKMA
- ✓ Accompany management to meetings with the HKMA to address any issues and concerns arising during the approval process

Project Management
✓ Set-up of project governance framework, structure and reporting arrangements ✓ Design of project plan including milestones and working committee involvement ✓ Ensure timely delivery of pre-determined targets ✓ Tracking of application status with regulators

We are flexible in our approach and offerings. Please feel free to contact us with any enquiries.

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