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Proposal to enhance the Deposit Protection Scheme to be implemented by early 2025

Simon Deane and Natalie Chan

On 13 July 2023, the Hong Kong Deposit Protection Board issued a consultation paper (“**Consultation Paper**”) on some proposed enhancements to the Deposit Protection Scheme (“**DPS**”). The Consultation Paper contains a number of policy recommendations on enhancing protection of depositors in Hong Kong, following a comprehensive review initiated in 2021. The DPS protects the deposits of both personal and corporate depositors held with licensed banks in Hong Kong (but not with the other types of Authorized Institutions (“**AIs**”) - deposit taking companies and restricted license banks). It does not protect the deposits of AIs, foreign banks or persons/companies related to a DPS scheme member.

One of the key enhancements is to increase the protection limit from the current HK\$500,000 to HK\$800,000 per depositor. Another key enhancement relates to the merger of licensed banks which are both scheme members of the DPS. In cases where the depositors have deposits with more than one scheme member which are in the process of merging, each affected depositor will be entitled to compensation in respect of his/her protected deposits up to HK\$800,000 with each relevant scheme member during a grace period of six months following the bank merger, as if the merger had not occurred.

According to the current legislative timetable of the Financial Services and the Treasury Bureau, it is expected that the amendment bill will be submitted to the Legislative Council for scrutiny in the first quarter of 2024, with the aim of implementing the final proposals regarding the DPS enhancements by early 2025.

The Consultation Paper is available [here](#).

HKMA publishes the “e-HKD Pilot Programme Phase 1 Report”

Simon Deane and Michelle Ng

On 18 May 2023, the Hong Kong Monetary Authority (“**HKMA**”) kickstarted the e-HKD Pilot Programme. This Programme aims to explore the commercial viability of potential uses for a retail central bank digital currency, i.e., e-HKD. On 30 October 2023, the HKMA released the “e-HKD Pilot Programme Phase 1 Report” (“**Report**”). The Report discusses the findings and assessments of 14 pilots conducted by 16 participating firms across six categories, namely full-pledged

payments, programmable payments, offline payments, tokenised deposits, settlement of Web3 transactions, and settlement of tokenised assets. The Report also highlights the potential benefits of an e-HKD in terms of programmability, tokenisation, and atomic settlement.

However, further evaluation is needed for real-life applications. The HKMA has not yet made a policy decision on whether or when to introduce an e-HKD, and further study is needed on implementation issues and market development. The HKMA will explore new use cases and analyse selected pilots from Phase 1 in the next phase.

The HKMA press release on the Report is available [here](#). To view the Report, please click [here](#).

Deepening Fintech Innovation Supervisory Cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area

Simon Deane and Crystal Choi

On 9 November 2023, the HKMA, the People's Bank of China (“**PBoC**”), and the Monetary Authority of Macao (“**AMCM**”) jointly issued a press release, announcing the signing of the “Memorandum of Understanding on Deepening Fintech Innovation Supervisory Cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area (“**GBA**”)”. According to the Memorandum of Understanding (“**MoU**”), the three authorities have agreed to establish a network that connects the PBoC’s Fintech Innovation Regulatory Facility, the HKMA’s Fintech Supervisory Sandbox, and the AMCM’s Regulatory Requirements for Innovative Fintech Trials.

This collaboration aims to enhance cooperation and facilitate fintech innovation within the GBA region. The signing of the MoU and the implementation of the network link-up mark a significant milestone in the deepening of fintech innovation cooperation in the GBA.

The press release is available [here](#).

HKMA’s Supervisory Policy Manual (SPM): CR-S-4 “New Share Subscription and Share Margin Financing”

Simon Deane and Sally Lau

On 17 November 2023, the HKMA issued a circular (“**Circular**”) in relation to the revised version of the Supervisory Policy Manual (“**SPM**”) module CR-S-4 “New Share Subscription and Share Margin Financing” (“**Revised Module**”). The Revised Module became effective on 22 November 2023.

The Revised Module is a statutory guideline under section 7(3) of the Banking Ordinance (Cap. 155). It incorporates changes necessitated by the initial public offering settlement reform by The Hong Kong Exchanges and Clearing Limited through the launch of the Fast Interface for New Issuance. By taking into account the latest incidents in the market, it also provides further guidance in respect of the risk management of share margin financing.

For more information on the Circular, please see [here](#). To access a full copy of the Revised Module, please see [here](#).

HKMA finalizes Basel III final reform package implementation date

Simon Deane and Michelle Ng

On 10 November 2023, the HKMA wrote a letter to the Hong Kong Association of Banks (“**Letter**”), providing an update on the implementation timetable of the Basel III final reform package. The Letter informed the HKAB that:-

- (a) all standards in the package (on credit risk, operational risk, market risk, CVA risk and the output floor) would take effect on 1 January 2025; and
- (b) the reporting-only requirement for the new standards on market risk and CVA risk would commence on 1 July 2024.

The HKMA will consider if further refinements are needed before submission to the Legislative Council for negative vetting.

To view the Letter, please click [here](#).

Want to know more?

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