

Consultation begins on review of three-tier banking system

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) has issued today (June 26) a public consultation paper on review of the three-tier banking system.

The current three-tier structure of the banking system (i.e. licensed banks (LBs), restricted licence banks (RLBs), deposit-taking companies (DTCs)) had a history of four decades and aimed to strike a balance between flexibility of market entry and protection of small depositors. The HKMA has recently conducted a review of the three-tier banking system in Hong Kong to ensure it remains fit for purpose.

Based on the results of the review, the HKMA proposes to simplify the three-tier banking system into two tiers. The main proposals in the consultation paper are as follows:

- to maintain LBs as the "first-tier institutions" and merge DTCs into the second-tier institutions, which will continue to be called RLBs;
- to keep the requirements on the "second-tier institutions" unchanged, including the minimum capital requirement (HK\$100 million); the minimum deposit size requirement (HK\$500,000); and no restriction on deposit maturity; and
- to provide a transition period of 5 years for existing DTCs to upgrade to the "second-tier institutions" (i.e. RLBs) or LBs.

Chief Executive of the HKMA, Mr Eddie Yue, said, "The review aims to simplify the structure of Hong Kong's banking system, enhancing its vital role in strengthening Hong Kong's status as an international financial centre, and to revitalise institutions in the category of deposit-taking companies and enhance their flexibility and efficiency in conducting business and meeting customers' needs."

The public consultation has commenced today and will last until September 25. The consultation paper is available on the HKMA website (www.hkma.gov.hk/media/eng/regulatory-resources/consultations/20230626e1.pdf). Interested parties are invited to submit their comments to the HKMA on or before the deadline.