

Financial Institutions (Resolution)(Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules gazetted

The Government published in the Gazette today (June 25) the Financial Institutions (Resolution)(Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules.

The Monetary Authority (MA) has made the Rules pursuant to section 92 of the Financial Institutions (Resolution) Ordinance (Cap. 628) to require that relevant financial contracts contain a provision to the effect that the parties to the contract will be bound by any suspension of termination rights in relation to those contracts that the MA could impose. The Rules are closely aligned with international standards as set out in the Financial Stability Board's Principles for Cross-border Effectiveness of Resolution Actions.

"In a resolution, it is important that the contractual counterparties to a bank cannot terminate and close out their positions solely as a result of the bank's entry into resolution. The Rules are designed to facilitate the operationalisation of the resolution regime in Hong Kong by reducing the risk of disorderly termination of contracts in resolution on a mass scale, thereby strengthening the resilience and stability of our financial system," a Government spokesman said.

The Hong Kong Monetary Authority conducted a public consultation from January to March last year on the policy proposals for the Rules, and an industry consultation from December last year to January this year on the draft text of the Rules. Respondents were broadly supportive of the proposals and their views have been suitably reflected in the Rules.

The Rules will be tabled before the Legislative Council at its sitting on July 7 this year. The Rules will come into operation on August 27 this year, upon negative vetting by the Legislative Council.