HKMA-SFC-OECD Asian Seminar on Evolution of Financial Consumer Protection and Education in Asia

SESSION I: CHALLENGES AND OPPORTUNITIES: EMERGING FRAMEWORK

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Date: December 13, 2012  
Time: 10:30am  
Location: Hong Kong Monetary Authority
Outline

1. Introduction
2. Hong Kong as an International Financial Center
3. OECD Principles: HK Style
4. Outcome of HK Approach
1. Introduction

Consumer Financial Protection Bureau

- Established by Obama after Financial Tsunami to strengthen financial protection for consumers.
- Give consumers the information to understand their agreements with financial companies.
- An independent unit funded by the Federal Reserve.

Two Important Elements of Financial Consumer Protection

Regulate + Educate
To understand how Hong Kong builds a framework for financial consumer protection and education, we first need to know Hong Kong’s role as an International Financial Center.
A study by Reed (1981) based on five banking sector variables identifies Hong Kong as leading center in Asia, ahead of Tokyo from 1900–1925.

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<th>Hong Kong</th>
<th>Tokyo</th>
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Competitive Landscape

A major role of an international financial centre is to enable investors to manage their risks and efficiently allocate their resources. Sophisticated investors today need high quality information, and look for prudential regulation with high degree of integrity and transparency in the financial markets.

OECD G20 High-level Principles on Financial Consumer Protection

Source: By Andrew Sheng, the Chairman of Securities and Futures Commission, 1998
Competitive Landscape

• Important Regulatory Factors
  – Improving transparency standards
  – Legal Framework
  – Enhancing competition
  – Solid financial supervisory framework
  – Financial Infrastructure
    ➢ global financial products can be traded, cleared and settled at the lowest transaction costs and the lowest trading and settlement risks
  – Investing in Human Capital
    ➢ FinMan Committee (Advisory Committee on Human Resources Development in the Financial Services Sector)

Outcome of OECD 10-Principles on Financial Consumer Protection
Hong Kong in some ways resembles more other international financial centers with a large domestic economy, such as New York, than those without one, such as Singapore or London. As a small open city-economy, Hong Kong derives its presence in international finance primarily from its ability to offer services to nonresident 3rd parties.
2010: International Financial Center

- Hong Kong’s sovereign credit ratings
  - In 2011, Hong Kong continued to possess triple-A (AAA/Aaa) rating and outperform the triple-A median economy in key rating variables (China has a AA- in 2011)

- Financial co-operation with the Mainland
- Promotion of asset management business
- OTC derivatives market regulation

Source: By HKMA
3. OECD Principles: HK Style conceptual framework

- Tight coordination: Level playing field across financial services
- Relevant Framework: Localization yet meeting international standard
- Regulator-led effort in investor education and consumer production ➔ HOW?
- Hong Kong Approach
  - Principle 1: Legal regulation and supervisor + stakeholder
  - Principle 2: Various oversight authorities
- OECD Principles
3. OECD Principles: HK Style in action

1. Law approved by the Legislative Council
2. Rule changes only after public consultation
3. The Financial Services and Treasury Bureau handles policies

Regulators implement policy and supervisory matters

HKMA: Banking Ordinance
SFC: Securities & Futures Ordinance
Insurance Authority: Insurance Ordinance
MPFA: Mandatory Provident Fund Ordinance
OECD Principles ➔ HK Approach

Desirable Outcomes from OECD Principles 3-10

- Equitable and Fair Treatment of Consumers
- Disclosure and Transparency
- Financial Education and Awareness
- Responsible Professional Conduct
- Asset Protection against Fraud
- Protection of Data Privacy
- Complaints Handling and Redress
- Competition
HK Approach

Consumer Council

• SFC and HKMA require financial product issuers to provide Key Facts Statements
• HKEx sets out disclosure requirements of listed companies in The Listing Rules

• SFC and MPFA's investor education work
• Investor Education Centre

Code of Conducts required by:
• Hong Kong Association of Banks → Bankers
• Institute of Financial Planners of Hong Kong → Financial Planner
• Hong Kong Securities and Investment Institute → intermediaries
• Hong Kong Institute of Bankers → intermediaries
• Almost all financial institutions have compliance officer positions

OECD Principles

Principle 3 - Equitable and Fair Treatment

Principle 4 - Disclosure and Transparency

Principle 5 - Financial Education & Awareness

Principle 6 - Responsible Professional Conduct
**HK Approach**

- SFC and HKMA set out rules to segregate clients' monies and assets
- Stock investors can open Investor Accounts in CCASS (Central Clearing, a subsidiary of HKEx) to hold their securities
- Safety net: Deposit Protection Board for bank deposits up to HK$500,000.
- Investor Compensation Company (SFC's subsidiary) provides a coverage of HK$150,000 if brokers default

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**OECD Principles**

1. **Principle 7: Asset Protection against Fraud**
2. **Principle 8: Protection of Data Privacy**
3. **Principle 9: Complaints Handling and Redress**
4. **Principle 10: Competition**

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**Office of the Privacy Commissioner for Personal Data** administers the Personal Data (Privacy) Ordinance

**Financial Dispute Resolution Centre**

- Consumer Council
- The newly enacted Competition Ordinance
4. Outcome of HK Approach

1. The "financial integrity" of our financial institutions (successfully survived Financial Tsunami)

2. Improving information transparency

3. Acceptable level of investment knowledge
IN THE BEGINNING...

Industry  Consumer  Regulator

Protection
Successful Consumer Financial Protection
Thank You