



Application of Hong Kong's
banking license



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Under Hong Kong's Banking Ordinance (Cap. 155), the Hong Kong Monetary Authority (HKMA) is empowered to be the banking regulator responsible for licensing and supervising the banking and other deposit taking business in Hong Kong.

Hong Kong established a three-tier banking system comprising Licensed Banks, Restricted License Banks and Deposit-Taking Companies with different permissible business activities scope, and collectively known as "Authorized Institutions".

Chart 1:

Type of deposit-taking institutions	Licensed banks	Restricted licence banks	Deposit-taking companies
Business scope	<ul style="list-style-type: none"> Operate current and savings accounts; Accept deposits of any size and maturity from the public; and Pay or collect cheques drawn by or paid in by customers 	<ul style="list-style-type: none"> Principally engaged in merchant banking and capital market activities; and May take deposits of any maturity of HK\$500,000 and above 	<ul style="list-style-type: none"> Mostly owned by, or otherwise associated with, banks; Engage in a range of specialised activities, including consumer finance, commercial lending and securities business; and May take deposits of HK\$100,000 or above with an original term of maturity of at least three months
Minimum capital requirement	• HK\$300 million	• HK\$100 million	• HK\$25 million

Application of authorization

The HKMA has set out the minimum authorization criteria in the Seventh Schedule to the Banking Ordinance:





6 Adequate liquidity

HKMA must be satisfied that an authorized institution continues to maintain adequate liquidity and comply with the rules made under section 97H (1) of the Banking (Liquidity) Rules.

7 Control of large exposures

The authorized institution must have adequate control in limiting large exposures and risk concentration or exposure to connected parties and others.

8 Requirement to maintain adequate loan provisions

The authorized institution must continue to maintain adequate provision for depreciation or diminution in the value of its assets such as bad and doubtful debts provision.

9 Requirement to maintain adequate accounting systems and adequate systems of control

HKMA expects an adequate accounting systems, management information systems, internal control system and other systems of control.

10 Requirement to make adequate disclosure of information

The Banking (Disclosure) Rules set out the minimum standards for public disclosures which authorized institutions must make in respect of their state of affairs, including their profit and loss and financial resources (including capital resources and liquidity resources).

11 Integrity, prudence and competence

An authorized institution must maintain the high ethical standard and promote a prudent risk management culture within the organization.



Overseas banks has option in setting up a subsidiary or branch

Overseas banks can either operate in Hong Kong as locally incorporated subsidiaries or as branches of overseas incorporated banks.

A subsidiary is a separate legal entity from its parent, and as such requires its own governance and risk management, as well as having to meet

capital and liquidity requirements in Hong Kong while a branch forms part of the same legal entity as its head office and therefore will not have its own capital base or board of directors, as these are covered by the head office.

HKMA takes the view that an overseas banks applicant which intends to undertake retail banking business in Hong Kong should operate in the form

of a locally incorporated subsidiary in order to offer appropriate protection to the retail depositors in Hong Kong. However, for an overseas bank applicant which intends to undertake only corporate or private banking in Hong Kong, they might consider if it should operate in Hong Kong in form of subsidiary or a branch and which one is a more efficient model of operation.



How Deloitte can help?

We can assist our client with the following matters:

- Analyze the business operation model and advise which model (i.e. subsidiary, branch) is more efficient
- Provide advice to the management on the HKMA's authorization requirements
- Assist the management in handling regulatory hurdles before license application
- Prepare license application and documentation for submission to HKMA
- Work with the management in responding to enquires raised by HKMA during their review of application documents
- Accompany with the management to attend meetings with HKMA in order to resolve issues and concerns raised by HKMA during the application process

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