



# **Cross Border Issues IMF Conference on Operationalizing Systemic Risk Monitoring**

**Washington, D. C.**

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## **Hong Kong's Experience**

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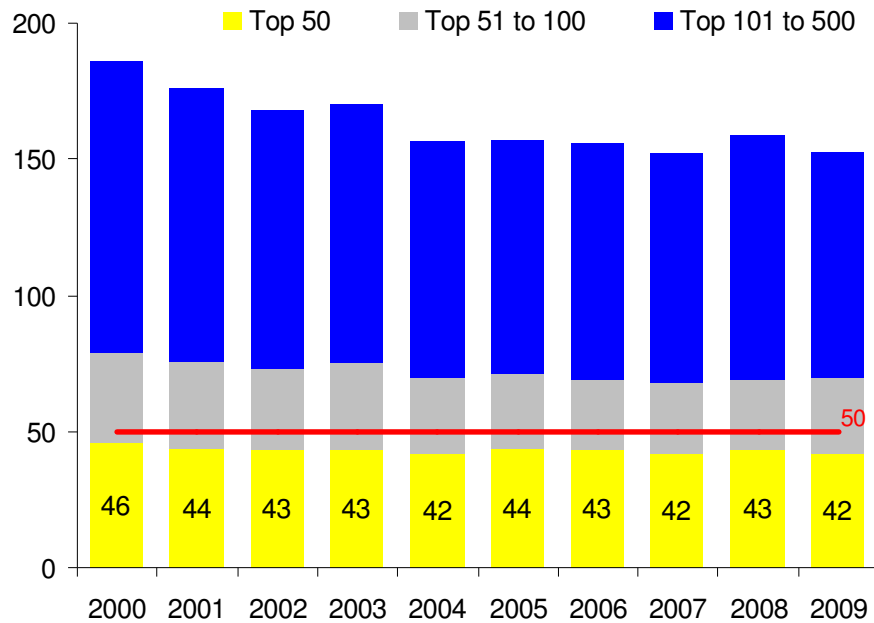
# Outline

- 1) Characteristics of cross-border banking in Hong Kong**
- 2) Challenges in assessing systemic risks in cross-border banking**

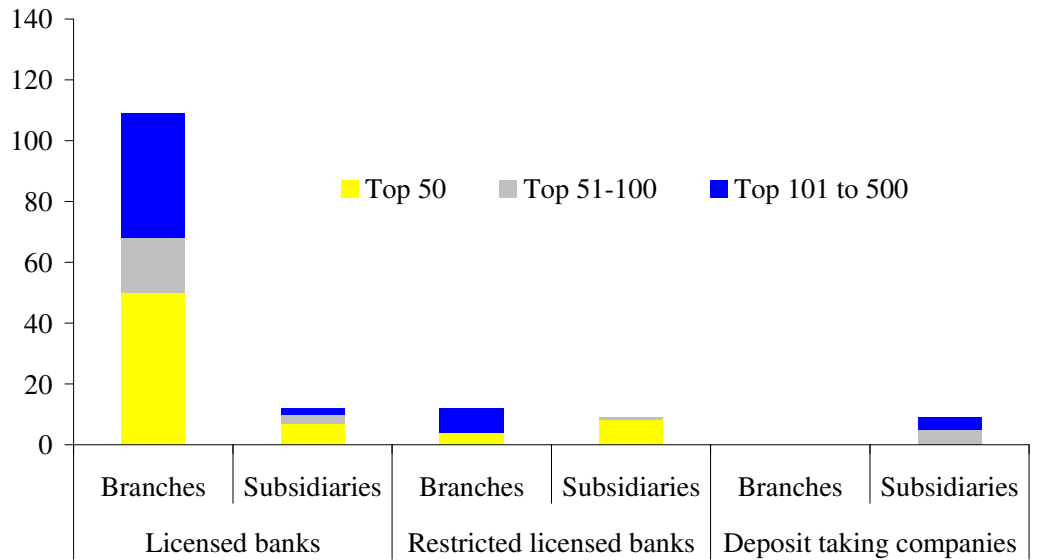


# Heavy presence of world's largest banks in Hong Kong

Number of overseas banks



Number of authorized institutions

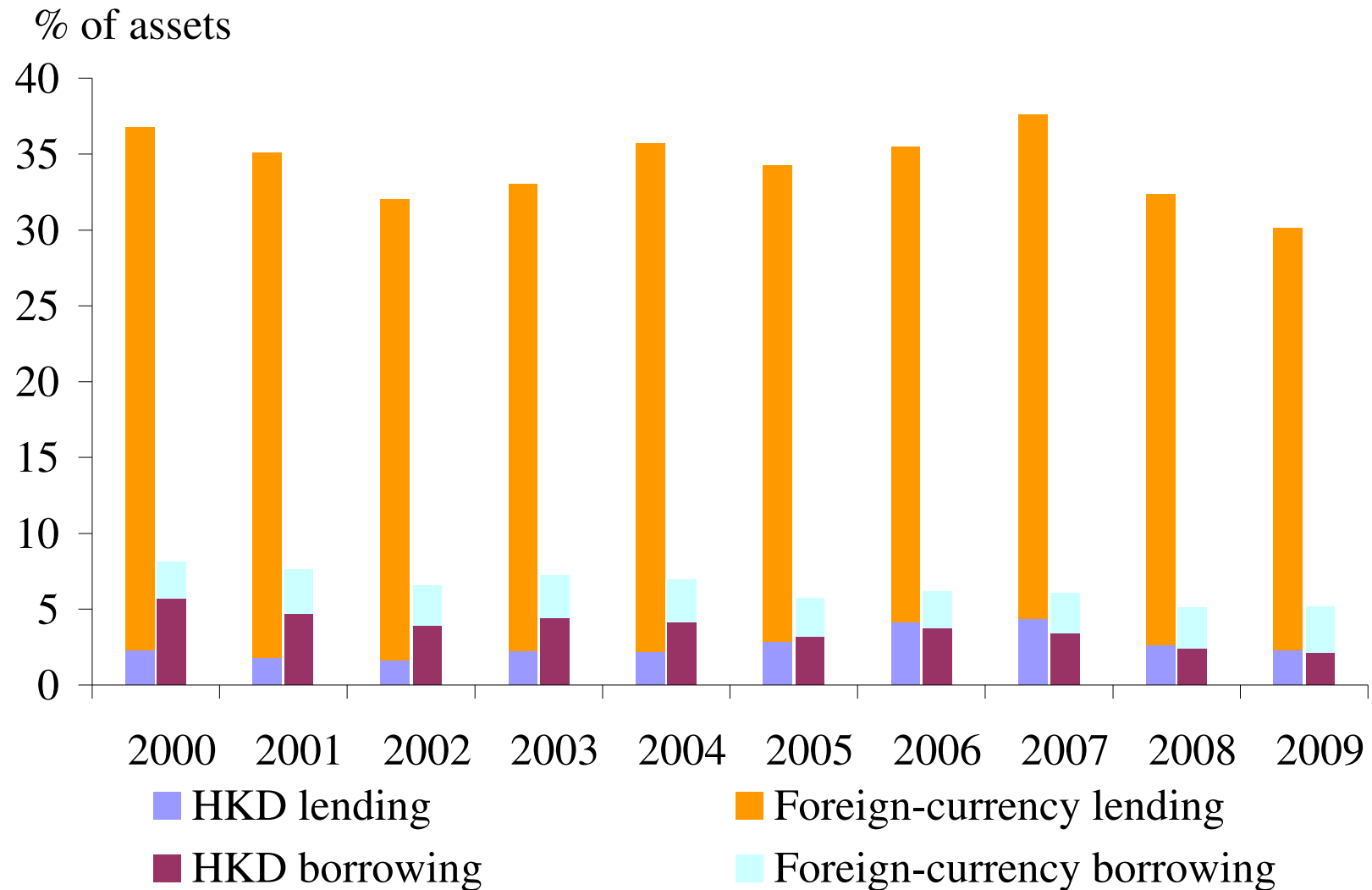


Note:  
 Figures at the end of 2009



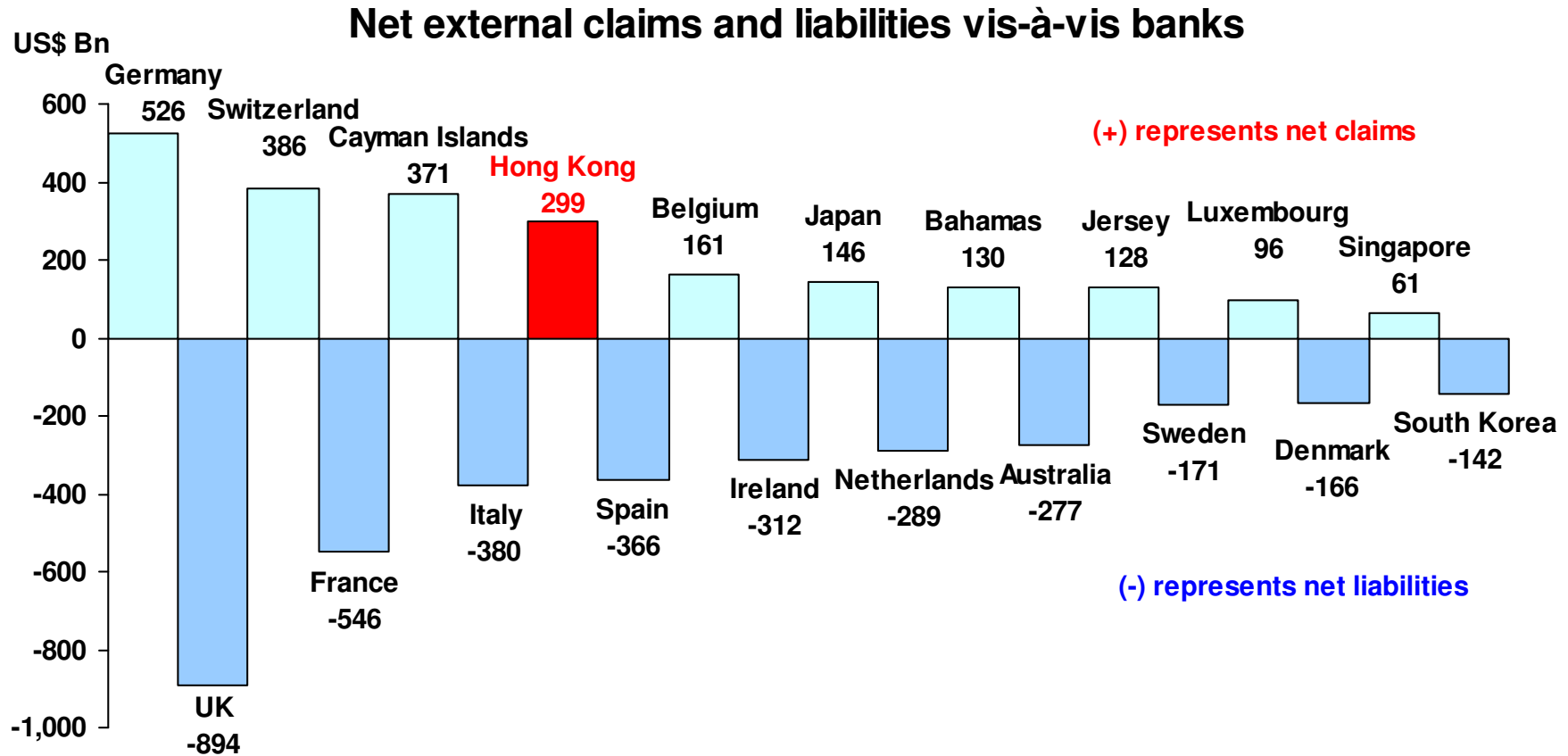
# Large cross-border banking flows

Lending to and borrowing from banks abroad





# A major fund supplier

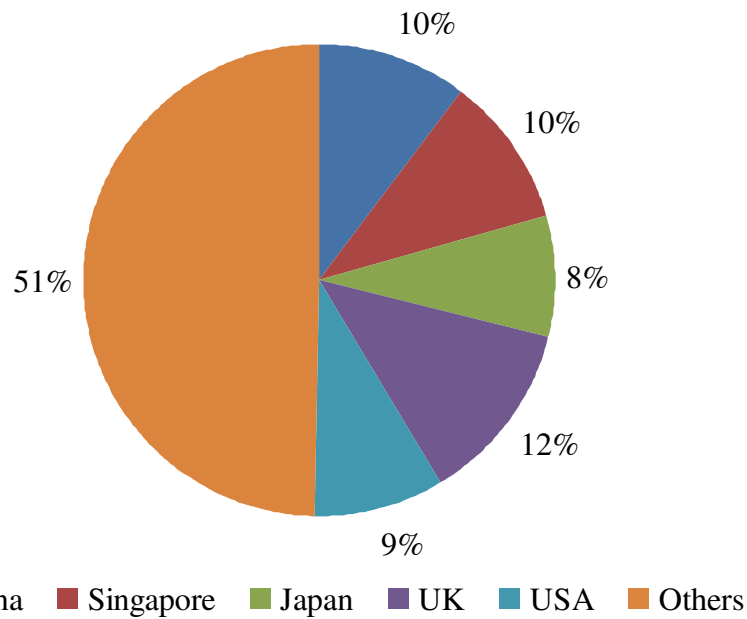


Note: Net external positions of banks in individual reporting economies.  
Source: BIS locational banking statistics, Sep-2009 positions.

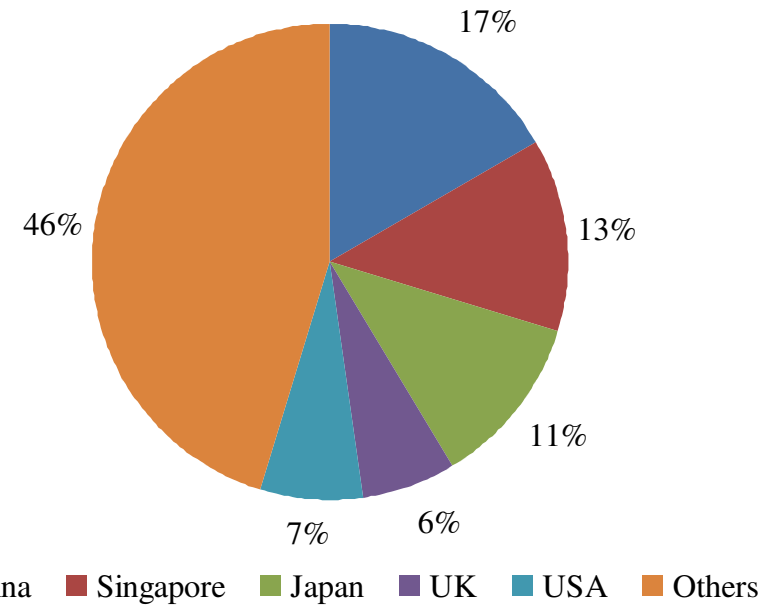


# External claims/ liabilities vis-à-vis major economies

External claims



External liabilities

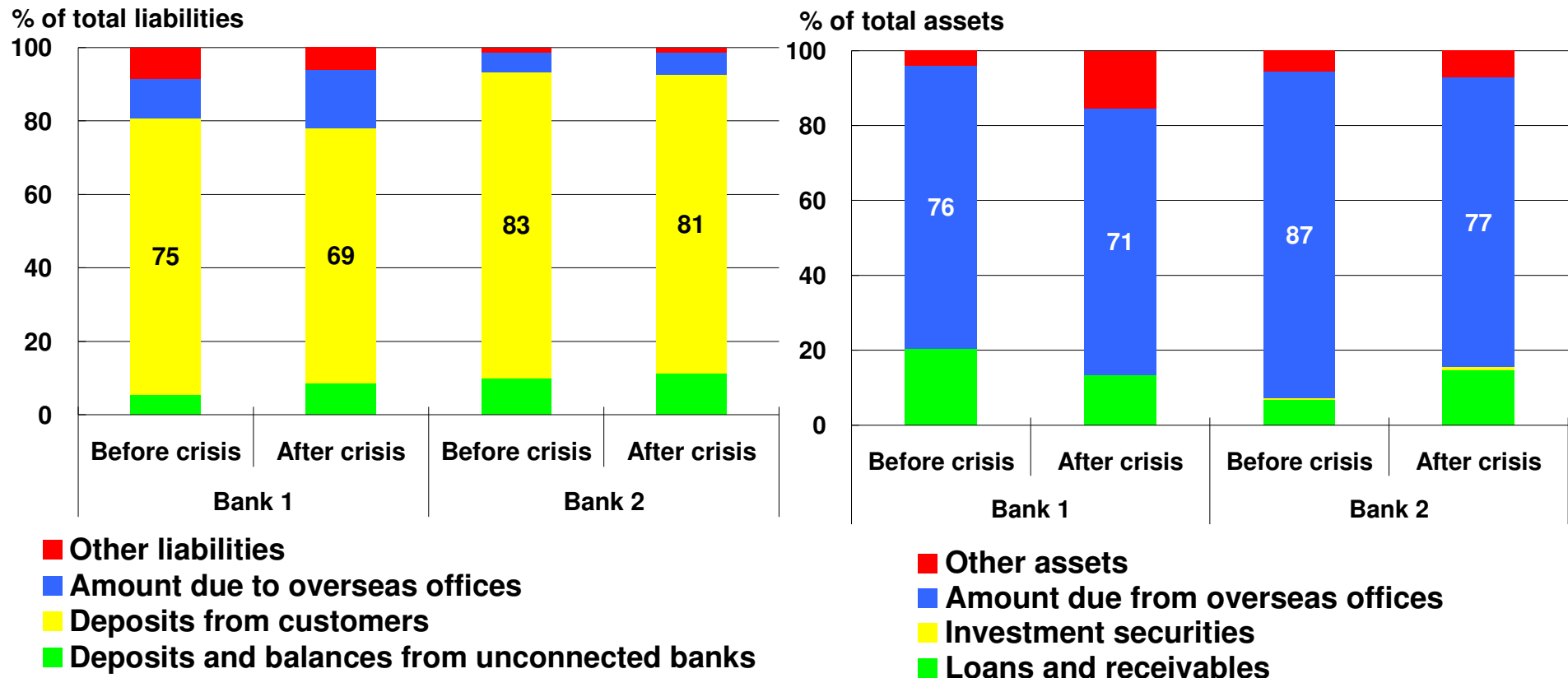


Note: Figures are at the end February 2010.



# Different Business models (I)

## Customer deposits to fund overseas bank offices



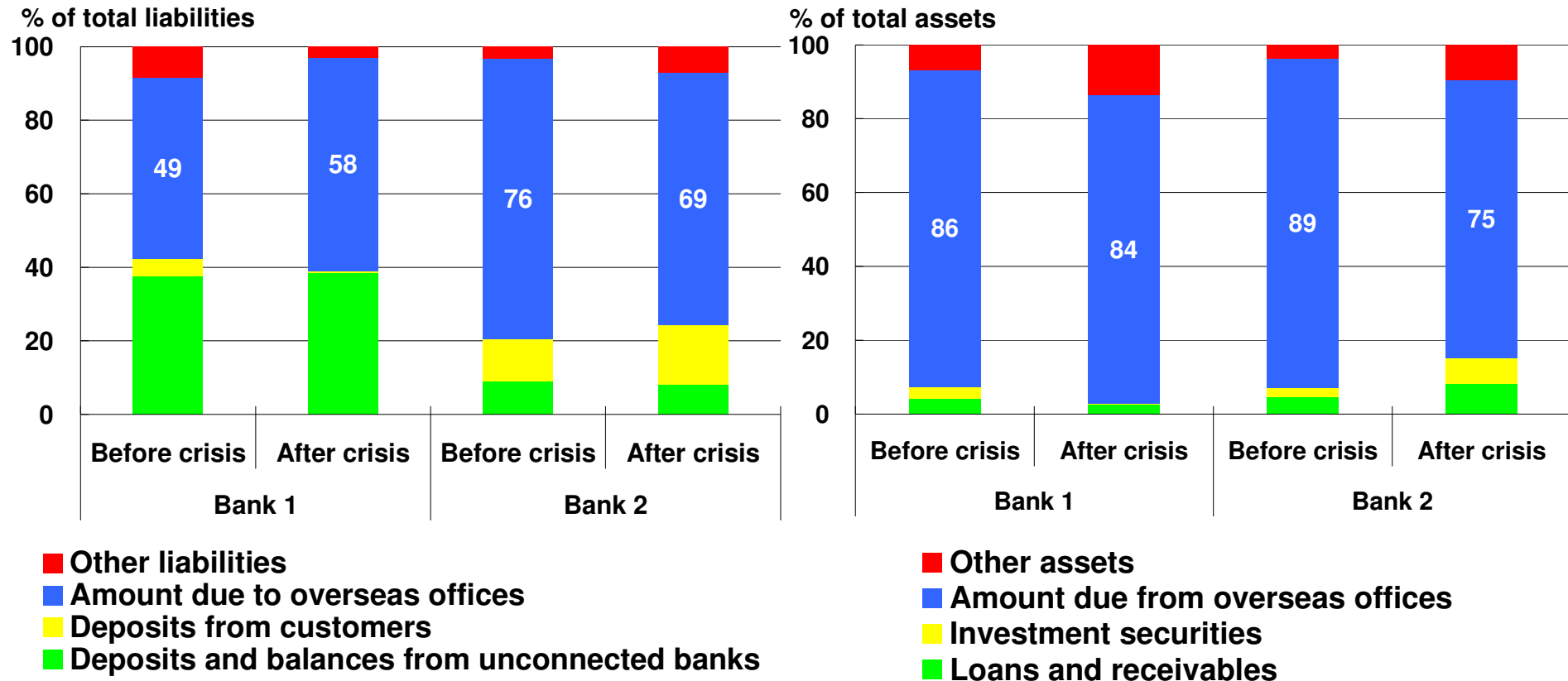
Notes: Before crisis: Dec-2007

After crisis: Jun-2009



# Different Business models (II)

## Liquidity management centre for banking group



Notes: Before crisis: Dec-2007

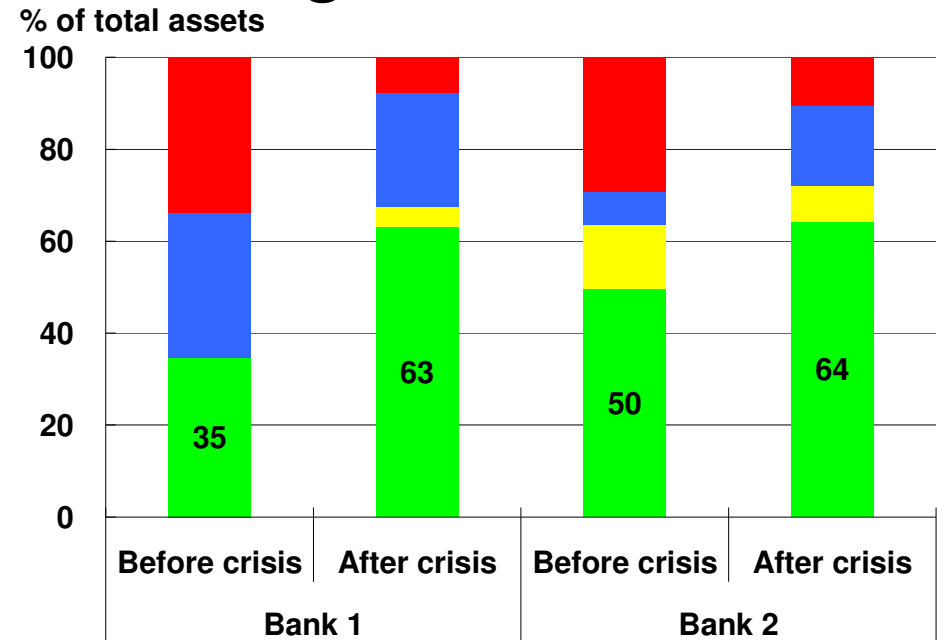
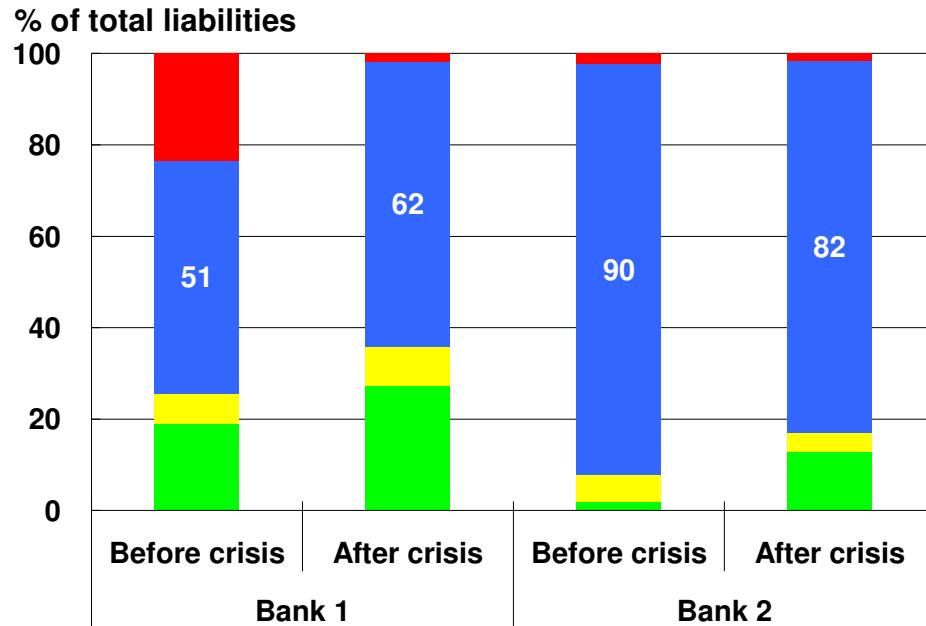
After crisis: Jun-2009





# Different Business models (III)

## Overseas bank offices' funding to support local non-bank lending



- Other liabilities
- Amount due to overseas offices
- Deposits from customers
- Deposits and balances from unconnected banks

- Other assets
- Amount due from overseas offices
- Investment securities
- Loans and receivables

Notes: Before crisis : Dec-2007 for Bank 1

Jun-2008 for Bank 2

After crisis : Jun-2009

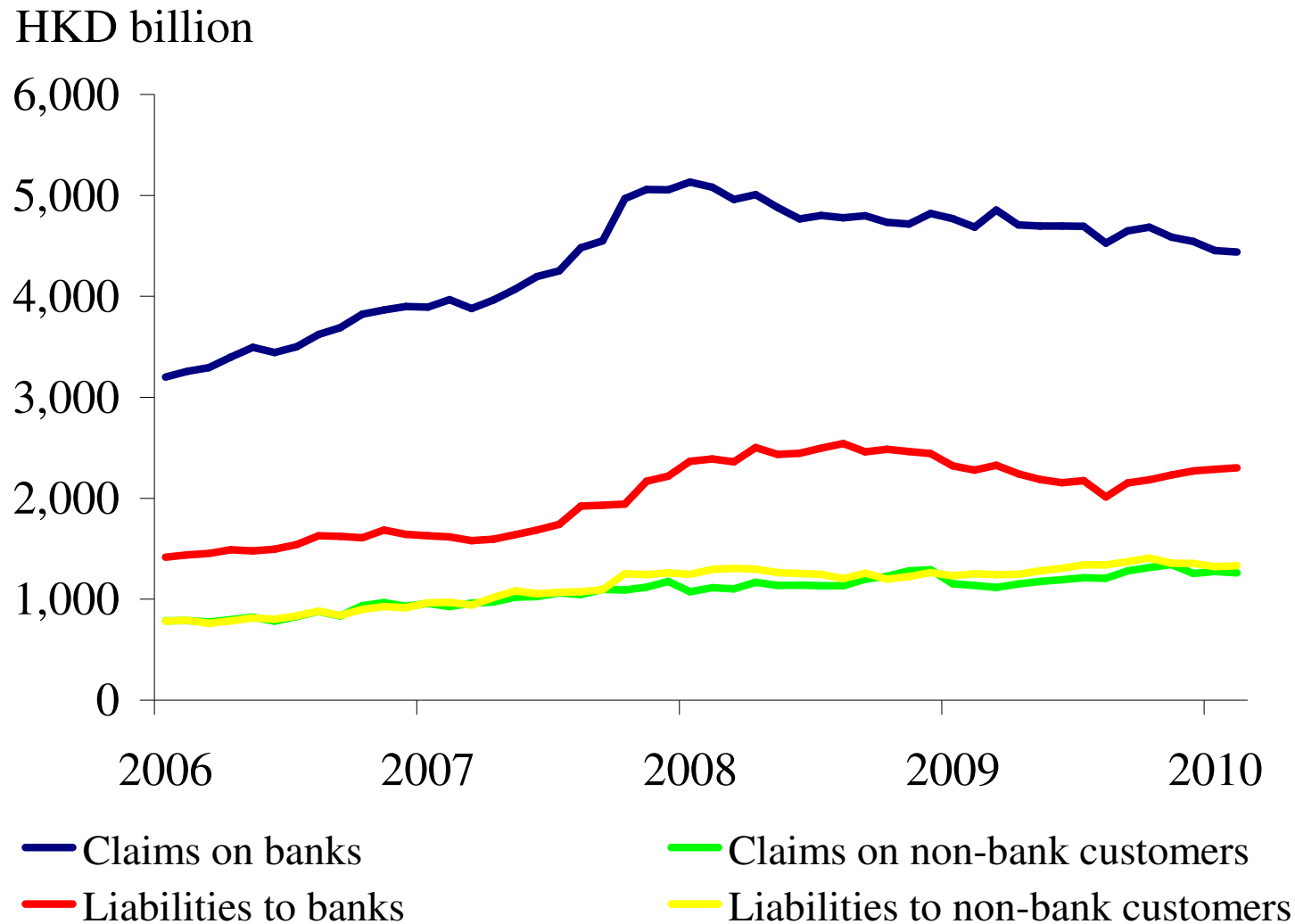


## **Where do systemic risks arise?**

- High degree of interconnectivity may imply large spillovers**
  
- When a crisis erupts elsewhere**
  - Banks relying on funding support from overseas may face a sudden dry up of liquidity**
  
  - Banks supplying funding to overseas may suffer credit losses and possibly liquidity squeeze**
  
  - Dislocation of money and foreign exchange markets**



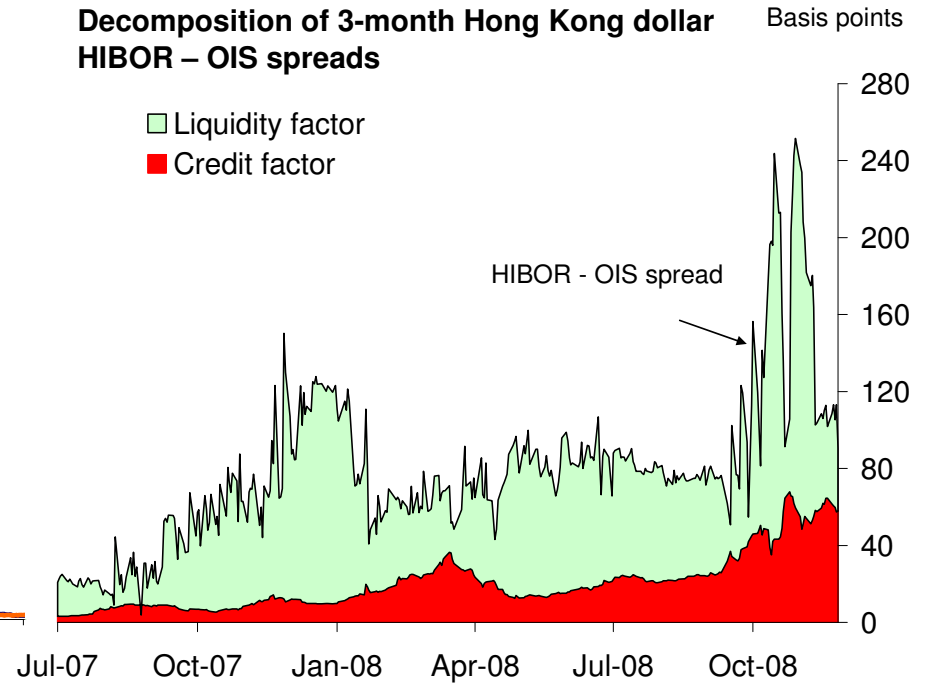
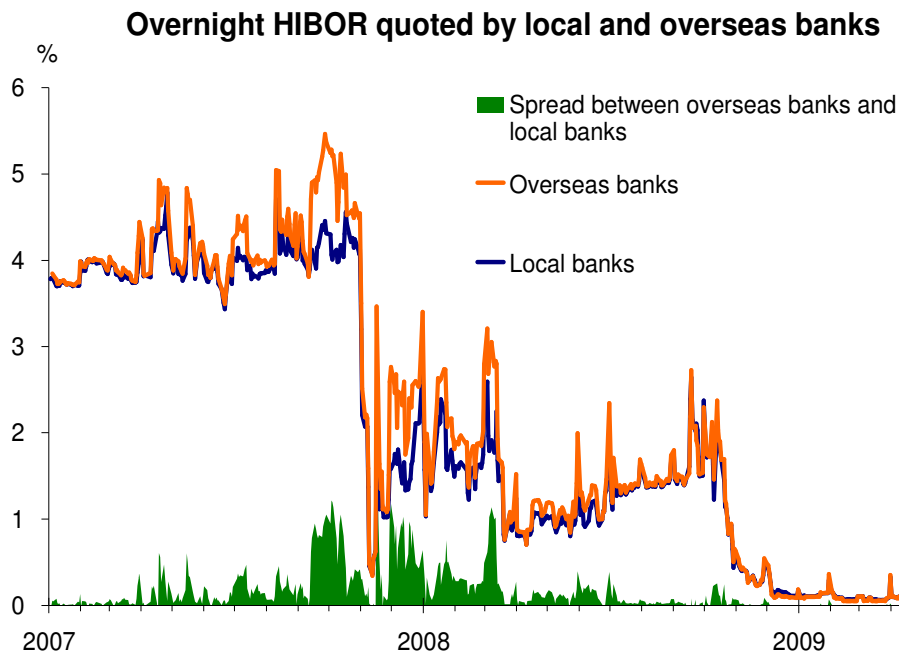
## Evidence during the 2007-09 crisis (I)





# Evidence during the 2007-09 crisis (II)

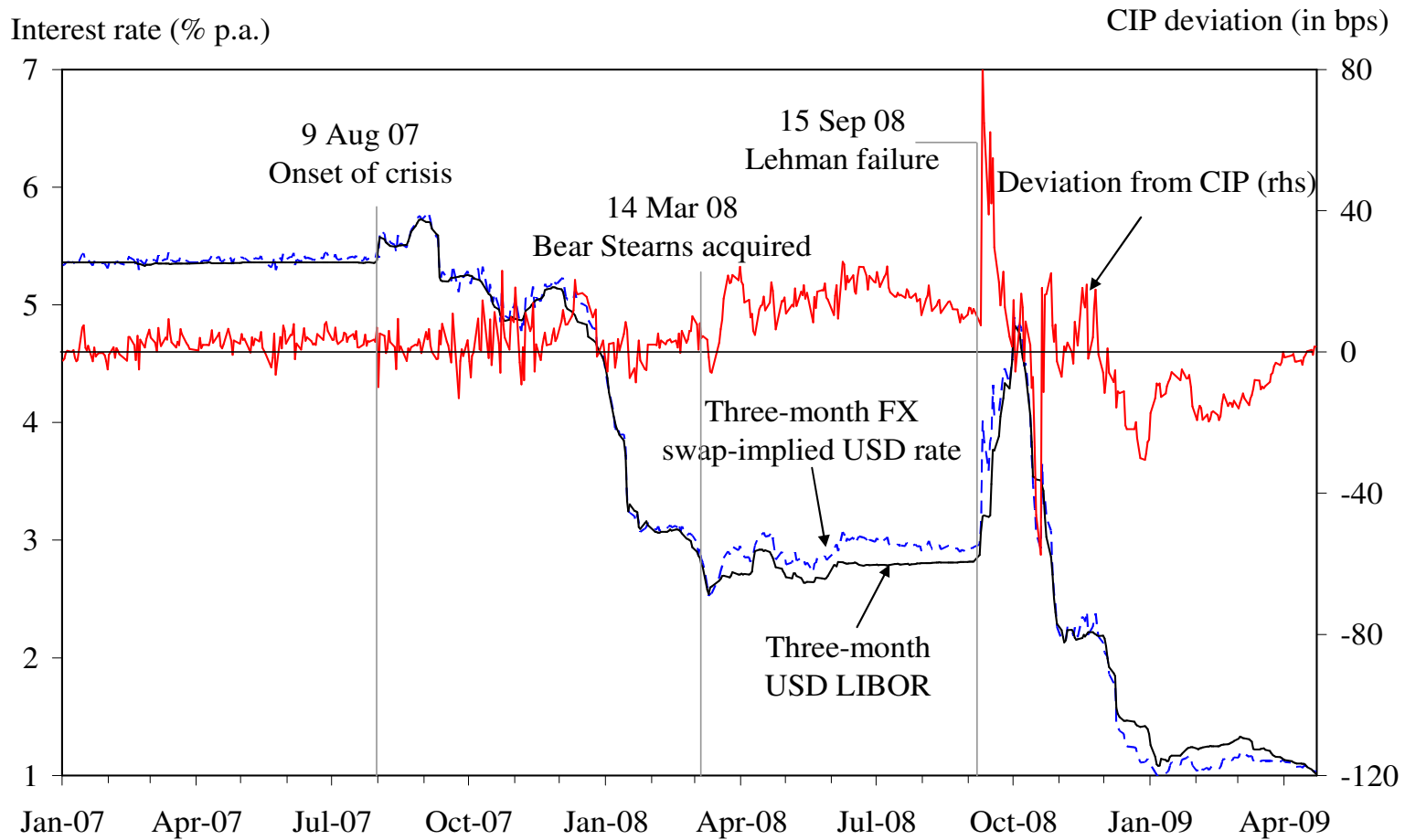
## The interbank market





# Evidence during the 2007-09 crisis (III)

## The forex swap market





# Challenges in assessing systemic risks in cross-border banking

- 1. A better understanding of different business models of global banking**
  - Tradeoffs between efficiency and stability
  - The use of funding hubs and the role of international financial centres
  
- 2. A better understanding of interconnectivity of cross-border funding markets**
  - Shock transmission channels
  
- 3. More information on maturity/currencies mismatches, and off-balance sheet positions**
  - Mechanisms for more effective information sharing



**- End of presentation -**

**Many thanks for your attention**