

News
Long form

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Banking on integrity

In two articles [1 Aug.] you commented on the decisions taken by the Hongkong Government in respect to the Bank of Credit and Commerce Hongkong Ltd. You will be aware that a report to the governor by the Commissioner of Banking was published on 31 July together with a press-release indicating that the government considered that the commissioner took the right decisions with the objective of protecting the interests of depositors and maintaining the integrity of the banking system.

While I believe that the report addresses many of the criticisms raised in your articles, there are important points on which I feel further comment is required.

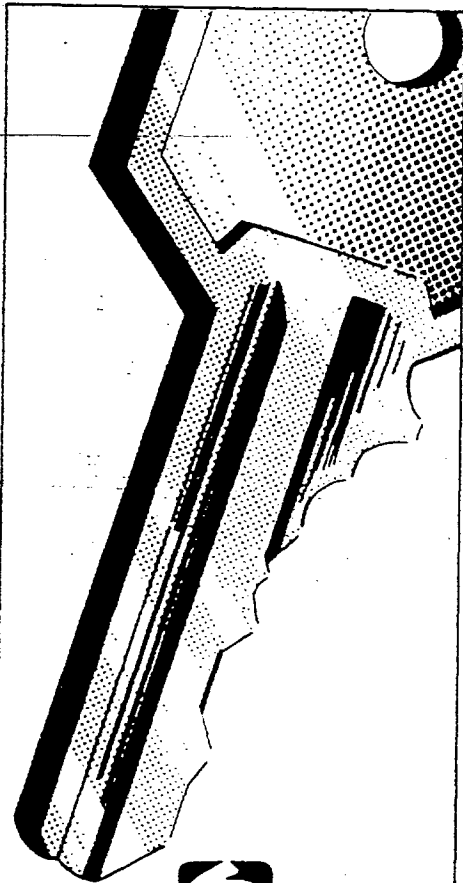
First, you accuse the government of having lied when it said that the Exchange Fund could not be used to rescue the bank, citing earlier instances where banks had in effect been rescued by the Fund.

The use to which the resources of the Exchange Fund may be put is defined in Section 3 (1) of the Exchange Fund Ordinance. It may be "used for such purposes as the Financial Secretary thinks fit affecting, either directly or indirectly the exchange value of the currency of Hongkong and for other purposes incidental thereto."

The consistent legal advice we have received over the years is to the effect that "use" in this context means the exposure of resources of the Exchange Fund to risk of losses above and beyond the normal commercial risks involved in the management of an investment portfolio and that, before the Financial Secretary can so "use" the Exchange Fund, he must personally be satisfied in each specific case that the purpose for which it is to be used is one which directly or indirectly affects the exchange value of the Hongkong dollar. It would, therefore, be possible to use the Fund to rescue a bank if it could be identified to the satisfaction of the Financial Secretary that the troubles of that particular bank would otherwise adversely affect the exchange value of the dollar.

On the earlier occasions to which you refer the Financial Secretary was satisfied that use of the Exchange Fund met the required criterion — it should be recalled that those rescues all took place against a background of considerable nervousness across the whole banking sector in Hongkong, whereas in the present case, as he has made clear in public, he was not so satisfied. In these circumstances, the Financial Secretary has no discretion to use the Exchange Fund, however sympathetic he may be to the hardship suffered by depositors of the bank. It is clear, therefore, that the accusation is totally without foundation.

Secondly, I wish to refute most emphatically the implication that the govern-



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LETTERS

ment's stance in the matter has had racial overtones. Who owns or manages a particular bank plays no part whatsoever in the process leading up to a decision as to whether or not a bank should be rescued. In any event, I would point out that the government has never been in the business of rescuing either the shareholders or the management of failed banks as any impartial examination of the circumstances of each rescue would readily identify.

D. A. C. NENDICK
 Hongkong Secretary for Monetary Affairs

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