

Regulatory Framework for Opening, Operating and Closing a Business

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Financial Services: Electronic Payments

No.	Regulatory Framework	Link
Quality of Regulations for Electronic Payments		
<i>Good Regulatory Practices for Electronic Payments</i>		
1.	Mandating external review of regulatory compliance of bank payment service providers and non-bank payment service providers	<p>For bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance Guideline on Designated Clearing and Settlement Systems <p>For non-bank payment service providers:</p> <ul style="list-style-type: none"> ➤ P.3 and 17, Practice Note on Supervision of Stored Value Facility Licensees

No.	Regulatory Framework	Link
2.	<p>The external review of regulatory compliance of bank payment service providers can be performed by regulator, another government authority or external private entity with the following review scopes:</p> <ul style="list-style-type: none"> • Anti-Money Laundering and Combating of Financing of Terrorism audit • IT risk management review • Data protection and privacy review • Operational and security risk management review • Financial risk management review • Regulatory reporting review (evaluate whether regulatory reporting requirements are properly done and in a timely manner) <p>The review of the non-bank payment service providers can be performed by external private entity with the following review scopes:</p> <ul style="list-style-type: none"> • IT risk management review • operational soundness of its system to protect and manage the float (i.e. the stored value remaining on the facility) and Stored Value Facility deposit (i.e. a deposit placed with the licensee for enabling the facility to be used) 	<p>For bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance Guideline on Designated Clearing and Settlement Systems <ul style="list-style-type: none"> ➤ Management of Float and Stored Value Facility Deposit ➤ Practice Note on Supervision of Stored Value Facility Licensees

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3.	Requiring the implementation of internal control to safeguard the integrity, authenticity, and confidentiality of data and operating processes for bank payment service providers and non-bank payment service providers	<p>For bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Paragraph 10 of the Seventh Schedule, Cap. 155 Banking Ordinance ➤ Various Supervisory Policy Manual modules (e.g., TM-E-1 on Risk Management of E-banking, TM-G-1 on General Principles for Technology Risk Management, TM-G-2 on Business Continuity Planning) <p>For non-bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Section 5(1) of Part 2 of Schedule 3, Cap. 584 Payment Systems and Stored Value Facilities Ordinance
4.	Provisions that define requirements to ensure customers have guaranteed access to their funds (refers to funds placed with the payment service providers) on demand for withdrawal and payments, subject to reasonable restrictions for bank payment service providers and non-bank payment service providers	<p>For bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Paragraph 10 of the Seventh Schedule, Cap. 155 Banking Ordinance <p>For non-bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Practice Note on Supervision of Stored Value Facility Licensees

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5.	Provisions that define customer usage limits for users of electronic payment services of bank payment service providers and non-bank payment service providers	<p>For bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Paragraph 10 of the Seventh Schedule under Cap. 155 Banking Ordinance <p>For non-bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Practice Note on Supervision of Stored Value Facility Licensees
<i>Protection of Customer Funds</i>		
6.	The regulatory framework defines the obligations of the payment service user in relation to personalized security credentials when dealing with bank payment service providers and non-bank payment service providers	<p>For bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance Guideline on Designated Clearing and Settlement Systems <p>For non-bank payment service providers:</p> <ul style="list-style-type: none"> ➤ P.46, Practice Note on Supervision of Stored Value Facility Licensees

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7.	Requiring the bank payment service provider and non-bank payment service provider to verify the identity of a payment service user (authentication) prior to the execution of payment transactions	For bank payment service providers: <ul style="list-style-type: none"> ➤ Paragraph 10 of the Seventh Schedule, Cap. 155 Banking Ordinance ➤ Supervisory Policy Manual module TM-E-1 on Risk Management of E-banking For non-bank payment service providers: <ul style="list-style-type: none"> ➤ Guideline on Supervision of Stored Value Facility Licensees issued pursuant to the Cap. 584 Payment Systems and Stored Value Facilities Ordinance
8.	Requiring bank payment service providers to allow for cancellation or modification of payment transactions by the payer unilaterally up to the time it has been executed by the payer's payment service provider	<ul style="list-style-type: none"> ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance Guideline on Designated Clearing and Settlement Systems
9.	Specifying legal requirements to protect customer funds held with non-bank payment service providers: <ul style="list-style-type: none"> • Require separation of funds of the customer from the funds of payment service provider • Prohibit the use of customer funds for purposes other than redeeming e-money and executing fund transfers • Prudentially supervised Explicitly protected from the potential bankruptcy/insolvency of the payment service providers	<ul style="list-style-type: none"> ➤ Section 7 of Part 2 of Schedule 3, Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Guideline on Supervision of Stored Value Facility Licensees issued pursuant to the Cap. 584 Payment Systems and Stored Value Facilities Ordinance

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10.	Requiring notification about suspicious activity and rectification of unauthorized or incorrectly executed e-payment transactions for bank payment service providers and non-bank payment service providers	<p>For bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Supervisory Policy Manual module TM-E-1 on Risk Management of E-banking <p>For non-bank payment service providers:</p> <ul style="list-style-type: none"> ➤ P.40, 41, 44 and 57, Practice Note on Supervision of Stored Value Facility Licensees
11.	For bank payment service, liability for fraud is regulated, bank payment service providers' liability for unauthorized payment transactions is defined and payer's liability for unauthorized payment transactions to a defined amount when using bank payment service is limited	<ul style="list-style-type: none"> ➤ Code of Banking Practice

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<i>Transparency of Fees, Terms, and Conditions</i>		
12.	<p>Provisions requiring the following for bank payment service providers and non-bank payment service providers:</p> <ul style="list-style-type: none"> • The disclosure of all fees for the use of e-payment • Notifying user about changes in fees • Disclosure of liability • Disclosure of the use of customer data • To have written policies for complaints handling procedure and system • General terms of services (e.g., speed of processing, resolution time for any errors, etc.)[for non-bank payment service providers only] 	<p>For bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Code of Banking Practice <p>For non-bank payment service providers:</p> <ul style="list-style-type: none"> ➤ Paragraph 8.3.4, Guideline on Supervision of Stored Value Facility Licensees ➤ Paragraph 8.3.6, Guideline on Supervision of Stored Value Facility Licensees ➤ P.57, Practice Note on Supervision of Stored Value Facility Licensees ➤ Paragraph 8.4.2, Guideline on Supervision of Stored Value Facility Licensees
13.	Requiring bank payment service providers to make available a dispute resolution mechanism	➤ Supervisory Policy Manual module IC-4 on "Complaint Handling and Redress"
14.	<p>The different methods available to dispute a charge of transaction done using bank payment service providers</p> <ul style="list-style-type: none"> • Online dispute resolution • Disputed charge reported via phone call • Disputed charge reported in writing 	➤ Supervisory Policy Manual module IC-4 on "Complaint Handling and Redress"

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<i>Availability of Solid Recourse and Dispute Resolution Mechanisms</i>		
15.	Requiring bank payment service providers to acknowledge receipt of dispute notice and have an independent unit in charge of dispute resolution	➤ Supervisory Policy Manual module IC-4 on "Complaint Handling and Redress"
16.	Establishing an independent governmental authority that parties can resort to in case the dispute was not resolved internally for bank payment service providers	➤ Financial Dispute Resolution Centre
17.	A payer using bank payment service can make a payment to payees in all payment service providers, including bank payment service providers and non-bank payment service providers through all payment instruments while a payer using non-bank payment service can make payment to payees in most payment service providers	➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance ➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance Guideline on Designated Clearing and Settlement Systems
18.	Rules/procedures for registration and licensing applied to all new payment service providers, instruments, products, business models and channels, in a fair and proportionate manner and ensure a level playing field	➤ Cap. 584 Payment Systems and Stored Value Facilities Ordinance

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19.	Setting functional requirements for payment service providers and the functional requirements applied proportionately to all payment service providers	For non-bank payment service providers: <ul style="list-style-type: none"> <li data-bbox="1216 331 2119 443">➤ Guideline on Supervision of Stored Value Facility Licensees issued pursuant to the Cap. 584 Payment Systems and Stored Value Facilities Ordinance <li data-bbox="1216 475 2119 587">➤ P 32 to 48, Practice Note on Supervision of Stored Value Facility Licensees, including “Section 7.3 – Payment security management”
20.	Not imposing any restrictions or barriers on cross-border electronic payments, as long as anti-money laundering requirements are met	➤ Article 112, Basic Law
<i>Cross-Border E-Payments</i>		
21.	Incoming and outgoing cross-border electronic payments not subject to taxes, fees (i.e. direct or indirect taxes, regulatory border fees, or foreign exchange fees imposed by the Central Bank or the monetary authority) and limits to the value of the transactions	➤ Article 112, Basic Law