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HKMA TO SIMPLIFY HONG KONG'S THREE-TIER BANKING SYSTEM

BACKGROUND

On 5 June 2026, the Hong Kong Government published the Banking Legislation (Miscellaneous Amendments) Bill 2026 in the Gazette. The Bill covers a number of amendments to the Banking Ordinance (Cap. 155), including the regulation and supervision of bank holding companies, engagement of skilled persons, modernisation of enforcement provisions, and (the focus of this briefing note) the simplification of the current three-tier banking system into a two-tier system.

We have set out below the key changes and potential impact of the proposed simplification of Hong Kong's banking structure, under which the existing three-tier system comprising licensed banks ("LBs"), restricted licence banks ("RLBs") and deposit-taking companies ("DTCs") will be replaced by a two-tier system by maintaining LBs as first-tier institutions and merging DTCs into the second-tier RLB category.

RATIONALE FOR REFORM

The current three-tier structure has been in place for around four decades and was originally designed to strike a balance between flexibility of market entry and protection of small depositors.

However, the market share of DTCs has dropped significantly over the past three decades and, as of 31 December 2023, the existing DTCs only had

2,500 deposit customers in total, with DTCs' assets accounting for only 0.07% of the banking sector.

As stated by the Chief Executive of the Hong Kong Monetary Authority (the "HKMA") when the consultation was launched:

"The review aims to simplify the structure of Hong Kong's banking system, enhancing its vital role in strengthening Hong Kong's status as an international financial centre, and to revitalise institutions in the category of deposit-taking companies and enhance their flexibility and efficiency in conducting business and meeting customers' needs."

Against this backdrop, the HKMA proposed to replace the current three-tier system with a two-tier structure. The key elements of the proposal included:

- + **Maintaining LBs as first-tier institutions, and merging DTCs into the second-tier RLB category;**
- + **Keeping the second-tier requirements unchanged, including the minimum capital requirement of HK\$100 million and minimum deposit size requirement of HK\$500,000; and**



- + **Providing a five-year transition period for existing DTCs to upgrade to RLBs or LBs.**

CONSULTATION CONCLUSIONS

On 5 August 2024, the HKMA published its consultation conclusions on the review of the three-tier banking system, setting out the key feedback received, the HKMA's responses and its proposal for implementing the new two-tier system.

The HKMA noted that the industry was broadly supportive of the proposal. Having considered the feedback, the HKMA introduced additional parameters aimed at streamlining the transition and minimising impact on existing DTC customers.

The key refinements are as follows:

- + **Conversion without fresh licensing applications:** an existing DTC can be converted into an RLB without needing to submit a fresh RLB licence application, provided it has met the RLB minimum capital requirement before the end of the five-year transition period.
- + **Transitional period for existing DTCs/converted RLBs:** converted RLBs may continue to hold, renew or roll over outstanding deposits taken before the conversion until the end of the five-year transition period, subject to the current DTC deposit size requirement (less than HK\$500,000 but at least HK\$100,000) and minimum maturity requirement of three months.
- + **HKMA assistance:** the HKMA will assist DTCs to ensure that the interests of their customers will not be jeopardised as a result of their transitions. The HKMA will publish a press release upon the approval of a licence upgrade and issue advertisements in newspapers upon revocation of a DTC.

IMPACT ON EXISTING DTCs

For existing DTCs, the proposed amendments are significant; they will need to assess whether they

can meet the RLB requirements within the five-year transition period.

In particular, DTCs should consider:

- + **Capital planning:** whether they can satisfy the HK\$100 million minimum capital requirement applicable to RLBs within the transition period.
- + **Business model impact:** whether their existing and future deposit-taking, funding and overall business arrangements are consistent with the RLB regime.
- + **Customer communications:** how to explain the transition to existing customers, particularly where outstanding DTC deposits are held, renewed or rolled over during the transition period.
- + **Regulatory engagement:** the timing of engagement with the HKMA to demonstrate readiness for conversion, or, alternatively, the voluntary revocation of one's DTC licence.

The ability for existing DTCs to convert to RLBs without fresh licence applications and to maintain certain legacy DTC deposits during the transition period should minimise operational and customer impact.

IMPACT ON EXISTING RLBs

The proposed reform is expected to have limited to no substantive impact on existing RLBs. The HKMA has indicated that the second-tier institution requirements will remain unchanged, including the HK\$100 million minimum capital requirement and HK\$500,000 minimum deposit size requirement. There will continue to be no restrictions on deposit maturity.



CONCLUSION

The proposed change from a three-tier to a two-tier banking system marks an important structural reform for Hong Kong's banking sector. For the market as a whole, the reform should simplify the licensing framework and improve regulatory clarity. However, for existing DTCs, the practical impact will depend on their ability to meet the RLB requirements and manage the transition of existing customer arrangements.

The Bill is scheduled for first reading in the Legislative Council on 17 June 2026. We will continue to monitor the legislative process and any further HKMA guidance on the transition arrangements for existing DTCs.

If you have questions about the potential impact these proposals may have on your business, please feel free to reach out to us.

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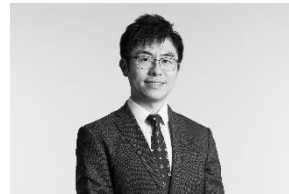
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