Guideline No. 4.1.2

Our Ref. : CB/POL/3/4 20 October 1989

To : The Chief Executive
All Authorized Institutions incorporated in Hong Kong

Dear Sir/Madam,

Revised Capital Adequacy Ratio

In September 1988 we circulated a consultative paper setting out our proposals for a new capital adequacy ratio based on the framework of the Basle Committee, and indicating our intention to introduce it early if possible. Later that year, we initiated a trial exercise using the new ratio and a revised statistical return. As a result of this exercise, it was decided to introduce the new ratio with effect from the end of 1989. Extensive consultations were conducted throughout with the two Advisory Committees and the bank and deposit-taking companies' Association, who have kept their members informed.

We are now in the process of preparing amendments to the Banking Ordinance, as a consequence of the new ratio. These amendments will include:

(i) The 5% minimum ratio in section 98 will be altered to 8%.

(ii) The 8% maximum ratio in section 101 (1) applying to licensed banks will be altered to 12%; and the 10% maximum applying to deposit-taking companies (or restricted licence banks) will be altered to 16%.

(iii) The Third Schedule to the Ordinance setting out the structure of the ratio will be replaced.

Enclosed with this letter is an advance copy of the statistical return applicable to your institution (Form BC3). This is a preliminary copy sent to you now so as to acquaint you with the detail of the new ratio. The new return describes the calculation of the new ratio and sets out the categories of risk exposure. The returns which will actually be used for completion are currently being printed, and we expect to send them to you by mid-November.

Unless otherwise advised all authorized institutions will be required to submit the new return (s) (combined and consolidated as

appropriate) on a quarterly basis, commencing 31 December 1989. Locally incorporated institutions will be required to complete Form BC3 in conjunction with the existing statistical return, BC1 (Part VI of Form BC1 - which concerns the capital adequacy ratio - will thus be superseded and so no longer required).

Pursuant to section 63 (3) of the Banking Ordinance the Commissioner will continue to require that, in addition to Form BC1, Form BC3 for an institution's solo ratio, which is completed at the last month of its financial year, should be submitted together with a certificate provided by its auditors. In addition, and where the capital ratio also applies on a consolidated (group) basis, the relevant Form BC3 will also have to be certified. I would remind you that these certificate (s) and the relevant return (s), should reach this office within six months after the end of your institution's financial year.

As a result of the introduction of the new ratio, it will be necessary to change the statutory minimum capital ratio applying to your institution. We will shortly be writing individually to institutions about the revised arrangements.

Should you have any queries on the implementation of the new ratio and the completion of the new return (s), please contact Ms. Rose Luk of this office at 5-8672674.

Yours faithfully,

(A.W. Nicolle)
Commissioner of Banking

Encl.