Our Ref: B9/32C

9 April 1998

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Recognized Credit Rating Agencies for Regulatory Purposes

The Hong Kong Monetary Authority ("HKMA") recognizes the ratings of various credit rating agencies for the purposes of the liquidity regime as well as the market risk capital adequacy framework. Under the liquidity regime, authorized institutions' holding of marketable debt securities may be regarded as liquefiable assets for liquidity ratio purposes if they have a qualifying credit rating recognized by the HKMA. For the purposes of the market risk capital adequacy framework, debt instruments in the trading book which satisfy certain qualifying credit ratings may be included in a "qualifying" category which carries a lower capital requirement.

The ratings of Japan Rating and Investment Information, Inc, ("R&I"), other than those assigned by the agency on debt securities issued or guaranteed by its shareholders and their related companies, have recently been recognized for the purposes of assessing the eligibility of HK$ denominated debt issues as Repo securities for discounting under the Liquidity Adjustment Facility. It is hereby announced that with immediate effect the ratings of R&I will also be recognized for the abovementioned liquidity and market risk capital adequacy purposes on the same basis. The recognition of the ratings of JBRI is at the same time revoked for these regulatory purposes.

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The minimum acceptable ratings in respect of R&I's rating will for the time being be A+ for long-term rating and a-1+ for short-term rating. The HKMA reserves the right to make adjustments to the above minimum rating requirements from time to time. Accordingly, the recognized agencies and minimum acceptable ratings as set out in Mr David Carse's letter of 17 May 1996 for liquidity ratio purposes are restated as follows :

	Long-term rating	Short-term rating
Moody's	A3	Prime 1
Standard and Poor's	A-	A-1
Fitch IBCA	A-	A1
Thomson BankWatch	A+	TBW-1
R&I	A+	a-1+

For the Return of Market Risk Exposures, the minimum acceptable rating for R&I is BBB (paragraph 23 of the completion instructions of Form MA(BS)3A (Rev.97)).

As a number of R&I's shareholders are financial institutions which are rated by the agency and we need time to study how the internal control system of R&I operates to ensure the independence of the rating process, for the time being, the following ratings assigned by R&I will not be accepted for the abovementioned regulatory purposes :

a) ratings assigned on any shareholder of Japan Rating and Investment Information Inc.;
b) ratings assigned on the holding company, the subsidiary companies as well as the subsidiary companies of the holding company of any shareholder of Japan Rating and Investment Information, Inc.; and
c) ratings assigned on debt issues guaranteed by any of the entities listed in (a) and (b).

Should you have any questions, please feel free to contact Ms Maggie Leong of our Office at 28781381.

Yours faithfully,

Edmond Lau
Acting Executive Director
(Banking Policy)