HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

14 Feb 2006

Supervisory Policy Manual ("SPM"): CA-G-4 Validating Risk Rating Systems under the IRB Approaches

Our Ref: B1/15C
B1/21C

14 February 2006

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

Supervisory Policy Manual ("SPM"): CA-G-4 Validating Risk Rating Systems under the IRB Approaches

I am pleased to inform you that, following consultation with the industry, the Monetary Authority is issuing the above SPM module today. This module is a new guideline and is issued as a technical note.

The purpose of the module is to set out the HKMA approach to the validation of the internal rating systems of locally incorporated authorized institutions ("AIs"), and the requirements that the HKMA expects AIs to follow in order to qualify for using the Internal Ratings-based ("IRB") Approaches to measure credit risk for capital adequacy purposes.

In developing the module, the HKMA has taken into account the latest guidance from the Basel Committee, approaches adopted by other overseas bank supervisory authorities, and views from the industry, consulting firms and experts in this field. Whilst the guidance contained in the module reflects the current sound practice of the banking industry, the techniques, especially quantitative techniques for the validation of internal rating systems, are still evolving. The contents of the module may therefore be subject to future changes if considered appropriate by the HKMA.

On-line access to the module is available under the icon of "Supervisory Policy Manual" in the HKMA's public (http://www.info.gov.hk/hkma/) and private (http://www.stet.finnet.hk) web-sites.

Should you have any questions relating to this module, please feel free to contact Mr Michael Taylor on 2878-8045 or Mr Steve Lau on 2878-1595.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Mrs Millie Ng)

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