HONG KONG MONETARY AUTHORITY
香 港 金 融 管 理 局

Circulars

18 Jan 2008

Supervisory Policy Manual (SPM) CA-G-1 "Overview of Capital Adequacy Regime for Locally Incorporated Authorized Institutions"

Banking Policy Department

Our Ref. : S4/3C
B1/15C
B1/21C

18 January 2008

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

Supervisory Policy Manual (SPM) CA-G-1 "Overview of Capital Adequacy Regime for Locally Incorporated Authorized Institutions"

I am writing to inform you that, following consultation with the two industry Associations, the Monetary Authority ("MA") is issuing the above SPM module as a statutory guideline by notice in the Gazette today under section 7(3) of the Banking Ordinance.

The purpose of this module is to promote general understanding and facilitate application of the revised capital adequacy regime for locally incorporated authorized institutions ("AIs") under Basel II following its implementation in Hong Kong at the beginning of last year. As a one-stop reference of the revised regime, the module summarises the key supervisory requirements on AIs' capital adequacy, including:

i. the framework for the calculation of the capital adequacy ratio ("CAR") of an AI for the purposes of section 98 of the Banking Ordinance in respect of its credit risk, market risk and operational risk as embodied in the Banking (Capital) Rules made by the MA under section 98A of the Ordinance;
ii. the requirements and procedures for assessing the capital adequacy of an AI in relation to its overall risk profile, including the supervisory standards on an AI's internal process for assessing their overall capital adequacy (i.e. CAAP) and the risk-based framework for setting individual AIs' minimum capital adequacy requirements (i.e. the supervisory review process or SRP) under section 98(1) of the Ordinance;
iii. the supervisory approach to monitoring AIs' compliance with their minimum CARs and consequences of contraventions; and

iv. the disclosure standards as set out in the Banking (Disclosure) Rules made by the MA under section 60A of the Ordinance to complement the minimum CAR requirements and the SRP.

There are no new requirements in the module, as it has been prepared based on the current requirements contained in the Banking Ordinance, the Banking (Capital) Rules and the Banking (Disclosure) Rules giving legal effect to the revised regime, as well as relevant policy papers and supplementary guidelines issued in the past. With the implementation of the revised regime, previous guidelines and circulars issued on the framework for risk-weighting exposures under Basel I will no longer apply.

On-line access to the SPM module is available to AIs under the icon "Supervisory Policy Manual" in the HKMA's public (http://www.info.gov.hk/hkma) or private (http://www.stet.finnet.hk/index.htm) websites.

Should you have any questions relating to the module, please contact Richard Chu at 2878 8276 or Samantha Yau at 2878 8284.

Yours faithfully,

Rose Luk
Head (Banking Policy Division)

Encl. CA-G-1 English (PDF file, 179KB)
CA-G-1 Chinese (PDF file, 518KB)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Angelina Kwan)

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