HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
S4/16C

6 February 2015

The Chief Executive
All authorized institutions

Dear Sir / Madam,

The HKMA's Approach to Applying Some Key Requirements in the Banking (Liquidity) Rules ("BLR")

I am writing to provide the industry with interim guidance regarding the approach that the HKMA will adopt in applying some key requirements set out in the BLR and related Code of Practice. The guidance takes into account issues identified, and common enquiries received, in the course of implementing the liquidity coverage ratio ("LCR") and liquidity maintenance ratio ("LMR") in Hong Kong. Most of these issues and enquiries have already been discussed with the industry Associations and relevant authorized institutions ("AIs") during the policy development and consultation processes[1].

As the new liquidity regulations have now been formally implemented, and in light of the requests from some AIs for further guidance, we thought it would be helpful to bring together the gist of some of the consultation proposals (which serve to provide elaboration on the liquidity regulations) and the results of our previous discussions with the industry, in the form of the interim guidance set out in the Annex. The opportunity has also been taken to clarify several issues in the local LCR framework, as identified in a recent assessment of the consistency and completeness of Hong Kong's domestic regulations as against the Basel III LCR framework, which was conducted under the Basel Committee's Regulatory Consistency Assessment Programme ("RCAP").

The key aspects covered in the interim guidance relate to –

- Designation of authorized institutions as category 1 institutions and the related process;
- Supervisory monitoring of AIs' compliance with the minimum LCR requirement during the phase-in period (i.e. from 2015 to 2018);
- Notification of liquidity events to the HKMA and, where applicable, utilisation of HQLA in a

[1] These issues were discussed mainly in the 3 consultation papers entitled *Implementation of Basel III Liquidity Standards in Hong Kong* ("L1", "L2" and "L3") published by the HKMA on 20 January 2012, 18 June 2012 and 12 July 2013 respectively, and the HKMA's correspondence with the two industry Associations in response to their members' comments on these consultation papers and on the draft BLR and related Code of Practice upon which the industry was consulted during the course of 2014. Other industry briefings and meetings with individual institutions were also held last year to discuss implementation issues.

period of financial stress;

- Recognition of HQLA (or liquefiable assets) under the LCR (or LMR) (including the approach to applying or interpreting certain eligibility criteria);
- Adoption of an "Alternative Liquidity Approach" in Hong Kong;
- Treatment of retail deposits (including the issue of assessing the significance of early withdrawal penalties for term deposits); and
- Treatment of operational deposits (including the approach to assessing whether the qualifying conditions are met).

The interim guidance will form the basis for the HKMA's forthcoming revision of the existing module "Liquidity Risk Management" (LM-1) under the Supervisory Policy Manual in the course of 2015, which may also include further guidance to take account of ongoing implementation experience. The revised LM-1 will be renamed "Regulatory Framework for Supervision of Liquidity Risk" to provide a comprehensive overview of the local regulatory liquidity framework (including guidance on the application of major requirements relating to the LCR and LMR).

If you have any questions about this circular, please contact Mr Eric Ng (2878 8603), Ms Amy Siu (2878 1321) or Mr Thomas Wong (2878 1219).

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

cc. Financial Services and the Treasury Bureau (attn. Mr Jackie Liu)
The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association