HONG KONG MONETARY AUTHORITY
香港金融管理局

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

20 November 2015

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

<u>Supervisory Policy Manual (SPM): CR-G-9 Exposures to Connected Parties</u>

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

This SPM module is a revised version of the SPM module "Connected Lending". The revisions mainly include an expansion of the definition of connected parties for AIs' internal risk management purposes and further elaboration on the risk governance arrangements in respect of exposures to connected parties. For instance, any write-off of an AI's exposures to connected parties exceeding a specified amount, or otherwise posing special risks to the AI, should be approved by the Board (or the Credit Committee or any other relevant committee with authority delegated from the Board).

I would like to draw your attention to the fact that, despite the expansion in the scope of connected parties in this module for risk management purposes, the quantitative "external" limits under section 83(1) and 83(2) of the Ordinance will remain applicable only to the connected parties specified under section 83(4) of the Ordinance for the time being. Amendments to section 83(4) and other relevant sections are being considered, in conjunction with the HKMA's plans to introduce the Basel Committee on Banking Supervision's new large exposures framework (published in April 2014) into the local regulatory regime, and we intend to consult the industry on any proposed changes in due course.

For ease of implementation, the revised SPM module provides for a grace period of nine months for AIs to put in place the appropriate internal limits and risk management policies in respect of the additional connected parties. Exposures arising from facilities lawfully provided to individuals or entities falling within the additional connected parties, that are effective on the date of the issuance of the revised SPM module, can be excluded by an AI from its relevant internal limits with respect to connected exposures.

On-line access to the SPM module is available to AIs under the icon for “Supervisory Policy Manual” on the MA’s public (http://www.hkma.gov.hk) and private (http://www.stet.iclnet.hk) websites.

Should you have any questions relating to the SPM module, please contact Mr Andy Cheung at 2878-1022.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. The Chairman, Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Mr Jackie Liu)