Our Ref.: B1/21C
B1/15C
B9/156C
S4/3C

8 April 2016

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

<u>Supervisory Policy Manual (SPM): CA-G-5 Supervisory Review Process</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 a revised version of the SPM module “Supervisory Review Process” as a statutory guideline under section 7(3) of the Banking Ordinance.

The revised SPM module contains updated text relating to the implementation of the Basel III capital buffers. In particular, the explanation of the interaction between the Pillar 2 capital requirements derived from the Pillar 2 supervisory review process, and the Pillar 1 buffer level prescribed under the Banking (Capital) Rules, has been refined.

Furthermore, with reference to the sound practices identified in *“A Sound Capital Planning Process: Fundamental Elements”* issued by the Basel Committee on Banking Supervision in January 2014, some new provisions relating to AIs’ capital planning have been incorporated into the SPM module. These relate primarily to the responsibilities of the board and senior management, and the integration of capital planning with the overall capital adequacy assessment process.

The opportunity has also been taken to align some of the provisions in the module with those in other SPM modules and supervisory requirements. For example, it is made clear that an AI should agree its internal capital target with the MA (as noted in the SPM module CA-G-1 "Overview of Capital Adequacy Regime for Locally Incorporated Authorized Institutions") and should aim to attain a capital level that can withstand the stressed conditions in all the current relevant stress tests (i.e. supervisory-driven stress tests and other relevant stress tests conducted by the AI as well as supervisory top-down stress tests conducted by the MA).

On-line access to the SPM module is available 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 on 2878-1022.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

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