HONG KONG MONETARY AUTHORITY
香港金融管理局

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

30 June 2016

The Chief Executive
All authorized institutions

Dear Sir / Madam,

Supervisory Policy Manual (SPM): CR-G-12 Credit Risk Transfer Activities

I am writing to inform you that, following consultation with the two industry Associations, the Monetary Authority is issuing the above SPM module as a guidance note today.

This new module incorporates the latest international standards and practices in the risk management of credit risk transfer (CRT) activities. It updates and replaces the existing SPM module CR-G-12 "Credit Derivatives" and Guideline No. 4.6 "Supervisory treatment on asset securitisation and mortgage backed securities", some of the contents of which have become obsolete. For example, the standards contained in the two documents on capital requirements for credit derivatives and securitisation have been superseded by the on-going capital reform initiatives of the Basel Committee on Banking Supervision. On the other hand, existing guidelines which remain valid have been retained in the new module.

The key sections of the new module—

- set out the key elements of effective management of CRT activities and provide guidance on specific risk management topics including reputation risk associated with implicit support, the responsibilities of authorized institutions (AIs) as originators / service providers, and the use of special purpose entities for CRT purposes;

- outline the HKMA's supervisory approach to CRT activities, based on the "proportionality principle" where an AI's compliance with the standards and sound practices set out in the module will be assessed having regard to the size, nature and complexity of the AI's CRT activities; and

- specify that, irrespective of any principle of proportionality, all AIs should, unless otherwise agreed with the HKMA, refrain from investing in, or incurring an exposure to, a securitisation transaction (other than that originated or guaranteed by a domestic public sector entity listed in the Banking (Capital) Rules) the originator of which has not disclosed its compliance with applicable risk retention requirements imposed by relevant authorities.

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

Should you have any questions regarding this new module, please feel free to contact Miss Samantha Yau at samantha_my_yau@hkma.gov.hk.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

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