HONG KONG MONETARY AUTHORITY
香 港 金 融 管 理 局

Banking Policy Department

Our Ref.: B1/15C
B1/21C
S4/16C

29 July 2016

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

<u>Supervisory Policy Manual (SPM): LM-1 "Regulatory Framework for Supervision of Liquidity Risk"</u>

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

This module is a revised version of an existing module on "Liquidity Risk Management". The revised module seeks to provide an overview of the statutory liquidity requirements and the MA's approach to assessing compliance with the Banking (Liquidity) Rules by authorized institutions (AIs).

The revised module provides:

- an outline of the MA's approach to supervising AIs' liquidity risk;
- an overview of the statutory requirements in respect of the Liquidity Coverage Ratio (LCR) and the Liquidity Maintenance Ratio (LMR), possible supervisory responses to liquidity events, and the setting by AIs of internal targets above the statutory minimum required level of LCR or LMR;
- explanation of the approach and criteria adopted by the MA for the designation of category 1 institutions which are subject to the LCR requirements, whilst

55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Website: www.hkma.gov.hk

香港中環金融街8號國際金融中心2期55樓
網址： www.hkma.gov.hk

other AIs (category 2 institutions) are subject to the LMR requirements;

- guidance on the LCR and LMR requirements, including the methodologies to determine the amounts of "high quality liquidity assets" and "total net cash outflows" under the LCR (for category 1 institutions) or "liquefiable assets" and "qualifying liabilities (after deductions)" under the LMR (for category 2 institutions); and

- guidance on the disclosure of liquidity information by AIs, as required under the Banking (Disclosure) Rules.

The provisions in the module are predominantly a collation of the requirements, standards and expectations set out in HKMA's previous circulars and FAQs on the subject and AIs should already be meeting them. If an AI requires more time to align its internal processes more closely with the provisions in the module, it is expected to do so within two months of the issuance of the module.

On-line access to the 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. For enquiry, please feel free to contact Thomas Wong (2878 1219), Eric Ng (2878 8603) or Eve Law (2878 1197).

Yours faithfully,

Martin Sprenger
Acting Executive Director (Banking Policy)

Encl.

c.c. FSTB (Attn. Mr Jackie Liu)