

Banking Policy Department

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28 May 2018

By email and by hand

Mr Lee Huat Oon
Acting Chairman
The DTC Association
Unit 1704, 17/F Bonham Trade Centre
50 Bonham Strand East
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Hong Kong

Dear Mr Lee,

Consultation on amendments to the Banking (Exposure Limits) Rules (“BELR”)

The BELR which replace the equity exposure limit under section 87 of the Banking Ordinance (BO) have recently been submitted to the Legislative Council (LegCo) for negative vetting. Meanwhile, we have started working on updates to the BELR to include other exposure limits currently comprised under Part XV BO.

In order to expedite the rulemaking process, we would like to solicit the Association's early feedback on the enclosed detailed proposals to amend the BELR as set out in **Appendix 1** for the law drafting. These proposals largely reflect our consultation paper on “Exposure Limits” (CP 16.01) issued in March 2016.¹ We would however like to draw your attention specifically to the following key policy developments that have emerged after the issuance of CP 16.01:

- (i) Sovereign exposure will be exempted from the single counterparty exposure limit under the BELR. However, high concentrations in sovereign exposures (other than to Hong Kong or China) will be subject to a new risk-weighted amount (which in turn results in a higher capital requirement) under the Banking (Capital) Rules (BCR). The calculation of the risk-weighted amount for concentration risk of sovereign exposure closely follows a marginal risk weight add-on approach as proposed in a recent discussion paper of the Basel Committee on Banking Supervision.² Detailed proposals of the amendments to the BCR are set out in **Appendix 2**.
- (ii) In order to take into account a few particular characteristics of our local financial market, some specific types of exposures will be exempted from the

¹http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/other-basel-committee-standards/CP16.01_Exposure_Limits_22March2016.pdf.

²See <https://www.bis.org/bcbs/publ/d425.htm>.

calculation of the single counterparty exposure limit. For example, a specific exemption will be provided to cater for the need of a receiving bank in an initial public offering (IPO) to recycle the IPO monies received in order to ensure the availability of sufficient liquidity for the banking system as a whole.

- (iii) Details on the grouping of linked counterparties will be provided, in particular proposed operational guidance for the economic dependence criterion.

In addition, in response to a request from the industry, we have reviewed the definition of “relative” in relation to the connected party exposure limit under section 83 BO. We proposed to significantly streamline the definition of relative in order to align it with international practices. The level of the connected party exposure limits will also be revised upwards generally taking into account the results of the quantitative impact study.

Following the repeal of section 90 BO incidental to the repeal of section 87 BO, a new limit will be introduced under the BELR (under the part corresponding to section 88 BO) to regulate an AI’s exposures arising from the holding of interests in land, including banking premises.

We are working towards completion of negative vetting of the amendments to the BELR by the LegCo by the end of this year with the intention to implement them on 1 January 2019.

It should be noted that we are considering the transitional arrangements to be provided for the consents, approvals and requirements given by the MA under the current Part XV BO. We shall consult the Association on such proposals soon.

As we are working under a tight schedule to implement the new rules, I would be most grateful if the Association’s comments on the proposed rules could reach us by 28 June 2018.

Should you have any questions, please contact Mr Andy Cheung on 2878-1022 or Mr Marcel Bluhm on 2878-1511.

I am writing in similar terms to The Hong Kong Association of Banks.

Yours sincerely,

Daryl Ho
Executive Director (Banking Policy)

Encl

cc: FSTB (Attn: Ms Eureka Cheung)