



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

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17 March 2023

By email and by hand

Mr Sun Yu
Chairperson
The Hong Kong Association of Banks
Room 525, 5/F, Prince's Building
Central
Hong Kong

Dear Mr Sun,

Consultation on proposed amendments to (1) the Banking (Exposure Limits) Rules ("BELR") and (2) the Banking (Capital) Rules ("BCR")

I am writing to seek the Association's comments on the enclosed proposals for amending the BELR (Annex 1) and Part 10 of the BCR (Calculation of Sovereign Concentration Risk) (Annex 2), which arise mainly as a consequence of the concurrent proposed amendments to the BCR for the implementation of the Basel III final reform package.

Proposed amendments to the BELR

In line with the design of the Basel Committee's large exposures framework (which has been consolidated as the LEX standard under the Basel Framework), Hong Kong's large exposures framework as implemented by way of Part 7 of the BELR extensively draws on, or makes cross-references to, the credit risk and market risk capital frameworks under the BCR. To a lesser extent, some other Parts of the BELR are similarly impacted due to their interlinkages with the BCR or Part 7 of the BELR. The concurrent proposed amendments to these parts of the BCR¹ thus necessitate consequential amendments to the BELR. We also take the opportunity to propose a handful of other refinements to the BELR that are considered as significant for maintaining the stability of the Hong Kong banking sector or ensuring the effective operation of the BELR. The key proposed amendments to the BELR are highlighted as follows:

¹ For details of the HKMA's proposed amendments to the BCR to implement the Basel III final reform package, please refer to the HKMA's letters "Implementation of Basel III final reform package – credit risk and output floor" issued on 30 June 2022 and "Soft consultation on market and CVA risk" issued on 11 October 2022.

1. Part 1 (Preliminary) – to update defined terms and amend rule 6 to clarify the basis or bases on which the BELR apply to individual authorized institutions (“AIs”);
2. Part 2 (Equity) – to incorporate the new definition of “equity exposure” and treatment of certain securities financing transactions proposed under the revised standardized approach for credit risk under the BCR for greater consistency and coherence between the BELR and the BCR;
3. Part 7 (Single Counterparty and Group of Linked Counterparties) –
 - (a) to add, modify and repeal certain local exemptions from the large exposure limits, having regard to prudential considerations on ensuring consistency with the LEX standard and safeguarding the stability of the Hong Kong banking sector;
 - (b) to implement the updates to the LEX standard that took effect on 1 January 2023; and
 - (c) to amend certain treatments of credit risk mitigation and valuation of exposures consequential to related proposed amendments to the BCR;
4. Part 8 (Connected Party) – to incorporate the proposed revised definition of “bank” under the BCR into the exemption available to certain financial institutions for greater consistency and coherence between the BELR and the BCR; and
5. Part 9 (Repeal and Transitional and Savings Provisions) – to provide deeming and transitional arrangements in relation to a proposed amendment to Part 8.

Proposed amendments to Part 10 of the BCR (Calculation of Sovereign Concentration Risk)

The current Part 10 of the BCR requires AIs to measure specified sovereign exposures by “importing” a somewhat short-hand version of the methodologies for determining aggregate single counterparty exposure (“ASC exposure”) specified in Part 7 of the BELR. It is thus necessary to amend Part 10 of the BCR in parallel whenever any of the related provisions in Part 7 of the BELR are amended.

To eliminate this need for future consequential updates and to foster greater consistency between the BELR and the BCR, it is proposed to repeal Divisions 3 and 4 of Part 10 of the BCR (which together prescribe the process of determining the amount of exposure with reference to the methodologies under Part 7 of the BELR), and instead adopt a simple approach by making a cross-reference directly to the end-product of such calculations, i.e. the definition of ASC exposure in Part 7 of the BELR (with necessary modifications to ensure there is no policy or conceptual change to the existing BCR treatment). These proposed amendments will also help simplify significantly the structure and language of Part 10 of the BCR.

The proposed amendments to the BELR and the BCR will be subject to further revision and refinement having regard to industry comments, and how the related amendments to the BELR and the BCR are eventually drafted. The target implementation date for both sets of amendment proposals are to be aligned with the target implementation date

of the credit risk parts of the concurrent proposed amendments to the BCR, i.e. a date no earlier than 1 January 2024².

I would be grateful if the Association's comments on the enclosed proposals could reach us by 21 April 2023.

I am writing in similar terms to The DTC Association.

Yours sincerely,

Daryl Ho
Executive Director (Banking Policy)

Encl

cc: FSTB (Attn: Mr Justin To)

² Some proposed amendments to the BELR that cross-refer to the proposed revised market risk capital framework under the BCR will take effect when the latter comes into operation.