



Circulars

31 Aug 2001

**Supervisory Policy Manual ("SPM"): CR-G-8: "Large Exposures and Risk Concentrations" (superseded by CR-G-8 v.2 on 01/04/2004) CR-L-1: "Consolidated Supervision of Concentration Risks: §79A" (superseded by CR-L-1 v.2 on 09/08/2019) CR-L-2: "Exemption of Financial Exposures: §81(6)(b)(i)" (superseded by CR-G-8 v3 on 27/12/2019) CR-L-3: "Letters of Comfort: §81(6)(b)(ii)" (superseded by CR-G-8 v3 on 27/12/2019) CR-L-4: "Underwriting of Securities: §§81 and 87" (superseded by CR-G-8 v3 on 27/12/2019) CR-L-5: "Major Acquisitions and Investments: §87A" (superseded by CR-L-5 v.2 on 2019-08-09)**

Our Ref : B1/15C  
B1/21C

31 August 2001

The Chief Executive  
All locally incorporated authorized institutions

Dear Sir/Madam,

## **Supervisory Policy Manual ("SPM"):**

**CR-G-8: "Large Exposures and Risk Concentrations"**  
**CR-L-1: "Consolidated Supervision of Concentration Risks: §79A"**  
**CR-L-2: "Exemption of Financial Exposures: §81(6)(b)(i)"**  
**CR-L-3: "Letters of Comfort: §81(6)(b)(ii)"**  
**CR-L-4: "Underwriting of Securities: §§81 and 87"**  
**CR-L-5: "Major Acquisitions and Investments: §87A"**

I am pleased to inform you that, following consultation with the industry, the Monetary Authority is issuing six credit modules of the SPM today.

All of the modules are being issued as statutory guidelines: CR-G-8 "Large Exposures and Risk Concentrations" under section 16(10) of the Banking Ordinance; and the other five modules of the CR-L series under section 7(3) of the Ordinance.

The modules will take immediate effect. The HKMA expects authorized institutions ("AIs") to review their current practices and make every effort to comply with the minimum standards applicable to them as stipulated in the modules. The HKMA will monitor AIs' compliance with the modules through regular off-site reviews and on-site examinations.

In relation to the modules of CR-G-8 and CR-L-3, there are a few issues to which AIs' attention is particularly drawn:

#### CR-G-8 "Large Exposures and Risk Concentration"

It is required under paragraph 5.2.4 of this module that every locally incorporated AI should agree its policy on large exposures and risk concentrations, including the clustering limit in relation to the aggregate of its non-exempt large exposures, with the HKMA.

To put this into effect, each AI should prepare a draft policy statement, including a proposed clustering limit, and submit this to its usual contact at the Banking Supervision Department (who should also be contacted for any advice needed on the content of the statement) for review by the year-end.

#### CR-L-3 "Letters of Comfort: §81(6)(b)(ii)"

Under paragraph 2.5.1 of this module, the HKMA will henceforth agree an aggregate limit on the total exposures supported by a letter of comfort with each individual AI which is currently relying on the letter for section 81 purposes. The aggregate limit will cap an AI's exposures in excess of 25% of its capital base under the exemption of section 81(6)(b)(ii).

In determining a clustering limit, AIs should take into account paragraph 2.4.3 of the module, i.e. large exposures covered by a letter of comfort should not be subject to the clustering limit. In other words, any large exposure which exceeds 25% of an AI's capital base due to the exemption under section 81(6)(b)(ii) should be subject to the above-mentioned aggregate limit, while any large exposure which is within 25% should be subject to the clustering limit. AIs should therefore take these two limits together when assessing their risk concentration.

On-line access to the above modules is available under the icon of "Supervisory Policy Manual" in the HKMA's public (<http://www.info.gov.hk/hkma/eng/bank/spma/index.htm>) and private (<http://www.hkfin.net>) web-sites.

Should you have any questions relating to the Manual or the individual modules, please feel free to contact either me or Ms Rita Yeung on 2878-1388.

Yours faithfully,

Simon Topping  
Executive Director (Banking Policy)

c.c.           The Chairman, Hong Kong Association of Banks  
                  The Chairman, The Deposit-taking Companies Association

Last revision date : 07 September 2011