HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

13 Dec 2002

Supervisory Policy Manual (SPM) : IR-1 "Interest Rate Risk Management" Revised "Return of Interest Rate Risk Exposures" (IRR return)

Our Ref: B1/15C
B1/21C

13 December 2002

The Chief Executive
All authorized institutions

Dear Sir / Madam,

Supervisory Policy Manual (SPM) IR-1 "Interest Rate Risk Management" Revised "Return of Interest Rate Risk Exposures" (IRR return)

I am pleased to inform you that, following consultation with the two industry Associations, the Monetary Authority is issuing the above SPM module and revised IRR return today.

Interest Rate Risk Management

The module sets out principles and sound practices relating to interest rate risk management and the HKMA's supervisory approach to interest rate risk. In particular, the module provides guidance on effective systems for measuring, monitoring and controlling interest rate risk. It also aims to help AIs evaluate the adequacy and effectiveness of their interest rate risk management.

The HKMA's supervisory approach to interest rate risk is based on the principles and practices set out in the Basel Committee paper on "Principles for the Management of Interest Rate Risk" issued in September 1997. Given that some of the best practices recommended in the module are relevant only to AIs with significant and complex operations involving interest rate risk, it is being issued in the form of a guidance note.

Revised IRR return

As set out in the module, the HKMA will monitor and review AIs' level and trend of interest rate risk exposures based on both the earnings approach and the economic value approach. To facilitate this, the HKMA has revised the IRR return. The new features of the revised return include:

i. adding new time bands for the reporting of interest rate repricing positions;
ii. applying a standardised 200-basis-point parallel rate shock for measuring the impact on economic value. The results will also be used for reviewing the capital adequacy of locally incorporated AIs for interest rate risk; and
iii. using two hypothetical stress scenarios for assessing the impact of basis risk on AIs' earnings.

The dates of positions reported under the revised IRR return will be aligned with those for the "Return of Capital Adequacy Ratio", i.e. the end of March, June, September and December (instead of the present February, May, August and November). To help alleviate the reporting burden at each quarter-end, the deadline for submitting the return will be extended from 21 days to one month after the end of each reporting period. If an AI's internal management reports contain all the information required in the revised IRR return, the HKMA may consider whether those reports could be used for the purpose of monitoring the AI's interest rate risk exposures.

Implementation

AIs will be given a period of one year (i.e. until the end of 2003) to comply with the relevant requirements under the module. This recognises that some may need time to develop/enhance their internal systems for monitoring interest rate risk.

AIs are required to report on the revised IRR return starting from the end-December 2003 position. The end-August 2003 position will be the last reporting position based on the existing IRR return (no return for end-November will be required). We are working on incorporating the revised IRR return into the template of the STET (Submission Through Electronic Transmission) System, which will be available in early December 2003.

On-line access to the module and revised IRR return is available under the icon of "Supervisory Policy Manual" in the HKMA's public (http://www.info.gov.hk/hkma) and private (http://www.hkfin.net) web-sites.

Should you have any questions relating to the module and revised IRR return, please feel free to contact Mr Cho-hoi Hui on 2878-1485 or Mr Daniel Wong on 2878-1626.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

c.c. The Chairman, Hong Kong Association of Banks
The Chairman, The Deposit-taking Companies Association
SFTB (Attn: Mr Edmond Lau)

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