HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

20 Aug 2004

Supervisory Policy Manual ("SPM"): LM-1 Liquidity Risk Management

Our Ref: S5/1C
B1/21C
B1/15C

20 August 2004

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Supervisory Policy Manual ("SPM"): LM-1 Liquidity Risk Management

I am pleased to inform you that, following consultation with the industry, the Monetary Authority is issuing the above SPM module, the revised "Return on Liquidity Position" and the new "Return on Selected Data for Liquidity Stress-testing" today. The revised module supersedes the paper issued in 1994.

Purpose of the liquidity risk management module

Reflecting the various developments in international standards and best practices relating to the liquidity risk management of banks since 1994 when our old liquidity regime was introduced, the revised module provides updated guidance on the key elements of a sound liquidity risk management process and explains the enhanced approach that the HKMA will adopt towards AIs' liquidity risk management. Specifically, in addition to restating the need for AIs' compliance with the statutory liquidity ratio requirements, the revised guideline provides more guidance on the development of an effective liquidity risk management framework; cash flow management and reporting for liquidity risk management under normal and stressed situations; and contingency planning for dealing with a liquidity crisis.

In developing this module, the HKMA has made reference to the Basel Committee paper on "Sound Practices for Managing Liquidity in Banking Organisations" issued in 2000 and the liquidity management practices currently adopted by major international banks.

Regulatory reporting

As set out in the module, the HKMA will monitor the level and trends of AIs' liquidity positions and their ability to withstand stress scenarios through the submission of the following returns and management reports:

i. the revised monthly "Return on Liquidity Position" - MA(BS)1E;
ii. the quarterly "Return on Selected Data for Liquidity Stress-testing" - MA(BS)18 (applicable to locally incorporated banks only); and
iii. an AI's internal management reports on cash-flow and scenario analysis, which are to be submitted on a quarterly basis.

AIs are expected to submit the returns and management information starting from their position of 30 June 2005. AIs which may need more time to build up their systems and data to compile the internal management reports for submission should individually agree with the HKMA on an alternative reporting arrangement.

While some flexibility on implementation can be given if the work required by an institution to upgrade systems is extensive, most AIs are expected to be able to complete the enhancement within 12 months.

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

Should you have any questions relating to the module, please feel free to contact Ms Rose Luk on 2878 1638 or Ms Aloysia Wong on 2878 8743.

Yours faithfully,

Rita Yeung
Acting Executive Director (Banking Policy)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Mr Danny Leung)