



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref.: S4/3C
S4/16C
B9/75C
B4/1C

18 June 2012

Ms Anita Fung
Chairman
The Hong Kong Association of Banks
Room 525, 5/F
Prince's Building
Central
Hong Kong

By email and by post

Dear Ms Fung,

Consultation on Basel III implementation

Further to the release of the first two consultation papers (C1 and L1) in January, I am writing to consult the Association further on certain proposals relating to the Basel III capital and liquidity standards.

For this purpose, I enclose two further consultation papers. The first paper (C2) aims to flesh-out the broad overview of the proposed changes to the risk-weighting framework for counterparty credit risk ("CCR") exposures contained in Section 2 of the paper **Implementation of Basel III Capital Standards in Hong Kong** (C1) released in January. It sets out:

- the proposed amendments to the Banking (Capital) rules ("BCR") required to incorporate the revised CCR standards and presents these in the form of draft rules (see Annex 1 to the paper); and
- a few areas where certain modifications are proposed to be made to the relevant Basel III standards to facilitate implementation in Hong Kong (see Annex 2 to the paper).

Please note that the draft rules in Annex 1 to the paper are provided for illustrative purposes only to assist the industry's understanding of how the CCR proposals would be incorporated into the BCR. The draft will be subject to change. A further revised draft will be released to the industry for statutory consultation under the Banking Ordinance during the third quarter.

The second paper (L2) describes in more detail the HKMA's proposals for determining which authorized institutions should be subject to the Basel III liquidity standards under the proposed "two-tiered approach" described in Section 1 of the paper **Implementation of Basel III Liquidity Standards in Hong Kong** (L1) released in January. It sets out:

- the proposed approach, criteria and process for determining those AIs that should be subject to the Basel III liquidity standards and those that should comply with a modified version of the existing liquidity ratio in the Banking Ordinance (the MLR);
- a proposal to replace the "floor" requirement for high-quality liquid assets set out in L1 by a parallel reporting requirement for selected AIs to address the concerns raised by the industry in its responses to L1; and
- the basis of calculation and scope of consolidation to be adopted by the HKMA in applying the liquidity standards to authorized institutions.

We are currently preparing proposals for the implementation of disclosure requirements relating to those Basel III capital standards that will take effect from 1 January 2013. We intend to issue our proposals on disclosure shortly for industry consultation.

I would be grateful if you could circulate this letter and the enclosed consultation papers to all members of the Association. We would be grateful to receive comments from the Association's Basel Implementation Group by 16 July. We appreciate that a wider set of views from other members of the Association may take longer to coordinate, but it would be helpful if any other comments, in addition to those of the Implementation Group, could reach us by the end of July.

If you have any questions on the enclosed consultation papers, please feel free to contact myself (2878-8276) or Miss Samantha Yau (2878-8284) for consultation paper (C2) and Ms Rita Yeung (2878-1388) or Mr Thomas Wong (2878-1219) for consultation paper (L2).

I am writing in similar terms to The DTC Association.

Yours sincerely,

Richard Chu
Acting Executive Director (Banking Policy)

Encl.

c.c. FSTB (Attn. Mr Jackie Liu)