HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref.: S4/3C
B9/75C
B1/15C

19 October 2012

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Implementation of Basel III

I am writing to inform you that the Banking (Capital) (Amendment) Rules 2012, the Banking (Amendment) Ordinance 2012 (Commencement) Notice 2012 and the Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2012 were published in the Gazette today.

Banking (Amendment) Ordinance 2012 (Commencement) Notice 2012

The Commencement Notice brings specified provisions of the Banking (Amendment) Ordinance 2012 into operation with effect from 1 January 2013. In essence, these provisions amend the powers of the Monetary Authority ("MA") to make rules prescribing capital and disclosure requirements for authorized institutions ("AIs") incorporated in Hong Kong and confer new powers on the MA to approve and issue codes of practice to provide guidance in respect of those rules. The provisions also prescribe the procedures for requiring remedial action to be taken upon contravention of the requirements and for varying the requirements for individual AIs, as well as providing for the Banking Review Tribunal to review certain decisions made by the MA in this connection.

Banking (Capital) (Amendment) Rules 2012

The Amendment Rules introduce amendments to the Banking (Capital) Rules (Cap. 155 sub. leg. L) ("B(C)R") in order to implement the first phase of Basel III requirements scheduled to take effect in January 2013. The amendments mainly relate to (i) revisions to both the minimum capital ratio requirement (in terms of expanding the existing capital adequacy ratio into three ratios, namely, a Common

Equity Tier 1 capital ratio, a Tier 1 capital ratio, and a Total capital ratio) and the definition of regulatory capital, together with the applicable transitional arrangements; (ii) enhancements to the counterparty credit risk ("CCR") framework (including a revised capital framework for exposures to central counterparties); and (iii) other technical clarifications and amendments such as the capital treatment for certain trade financing activities and securities financing transactions.

Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2012

The Amendment Notice amends the Banking (Specification of Multilateral Development Bank) Notice (Cap. 155 sub. leg. N) to implement a decision of the Basel Committee on Banking Supervision in May 2010 to include the Multilateral Investment Guarantee Agency ("MIGA"), which is a member of the World Bank Group, in the list of "multilateral development banks", so that banks' exposures to MIGA will be eligible for preferential risk-weighting treatment under the Basel capital framework.

The three pieces of subsidiary legislation will be tabled before the Legislative Council for negative vetting on 24 October 2012. Subject to the views of the Legislative Council, the subsidiary legislation should come into operation on 1 January 2013. We will inform you once the negative vetting process has been completed.

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 Jackie Liu)