HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

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

12 April 2013

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Implementation of Basel III

I am writing to inform you that the Banking (Disclosure) (Amendment) Rules 2013 and the Banking (Capital) (Amendment) Rules 2013 were published in the Gazette today.

Banking (Disclosure) (Amendment) Rules 2013

The amendments to the Banking (Disclosure) Rules (Cap. 155, sub. leg. M) are mainly to (i) implement the Basel III disclosure standards associated with the first phase of the new Basel III capital framework which came into operation on 1 January 2013; (ii) specify disclosure requirements relating to the internal models approach to the calculation of capital requirements for counterparty credit risks; and (iii) incorporate some consequential amendments arising from the Banking (Amendment) Ordinance 2012 and the Banking (Capital) (Amendment) Rules 2012.

Banking (Capital) (Amendment) Rules 2013

The amendments to the Banking (Capital) Rules (Cap. 155 sub. leg. L) are to align the Rules with the latest technical guidance documents on counterparty credit risk and exposures to central counterparties ("CCPs") issued by the Basel Committee on Banking Supervision in November and December 2012. The opportunity is also taken to introduce technical refinements to clarify the operation of certain provisions of the Rules in relation to (i) the treatment of credit risk mitigation in the calculation of the capital charge for credit valuation adjustment risk and exposures to CCPs; and (ii) the calculation of the market risk capital charge for credit derivative contracts booked in AIs' trading books, as well as a few related miscellaneous amendments.

The two pieces of subsidiary legislation will be tabled before the Legislative Council for negative vetting on 17 April 2013. Subject to the views of the Legislative Council, the subsidiary legislation should come into operation on 30 June 2013. We will inform you once the negative vetting process has been completed.

Yours faithfully,

Richard Chu
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)