



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B9/130C

24 April 2014

The Chief Executive
All Locally Incorporated Authorized Institutions

Dear Sir/Madam,

Basel Committee – New Large Exposures Framework

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued a new *Supervisory framework for measuring and controlling large exposures* (see <http://www.bis.org/publ/bcbs283.htm>) on 15 April 2014.

The framework is scheduled to take effect from 1 January 2019 and it will supersede the BCBS large exposures guidance from 1991 which forms the basis of the current large exposures rules in many jurisdictions, including Hong Kong.

The purpose of large exposure limits is to constrain the maximum loss a bank could face in the event of a sudden failure of a counterparty (or a group of connected counterparties) and to help ensure the bank remains a going concern. Especially where the bank's counterparty is another bank, large exposure limits can directly contribute towards the reduction of systemwide contagion risk.

The new large exposure standard includes a general limit applied to all of a bank's exposures to a single counterparty, which is set at 25% of a bank's Tier 1 capital. This limit also applies to a bank's exposure to identified groups of connected counterparties (i.e. counterparties that are interdependent and likely to fail simultaneously). A tighter limit, set at 15% of Tier 1 capital, will apply to exposures between banks that have been designated as global systemically important banks (G-SIBs).

The HKMA intends to implement the new standard in accordance with the BCBS timetable and will consult the industry on its implementation proposals for Hong Kong in due course. In the meantime, authorized institutions are strongly recommended to familiarise themselves with the new framework and to carefully consider the implications on their business activities.

If you should have any questions on the new large exposures framework, please feel free to contact Mr Martin Sprenger at 2878 8278 or msprenger@hkma.gov.hk.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

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