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By email & by hand

15 August 2014

Mr He Guangbei
Chairman
The Hong Kong Association of Banks
Room 525, 5/F
Prince's Building
Central
Hong Kong

Dear Mr He,

Consultation on draft Banking (Liquidity) Rules and related Code of Practice

I am writing to consult the Association on a draft set of Banking (Liquidity) Rules ("BLR") to be made under section 97H of the Banking Ordinance,[1] and on a draft Code of Practice to be issued under section 97M of the Ordinance for the purpose of providing guidance on the calculation of "total net cash outflows", the denominator of the Basel III Liquidity Coverage Ratio ("LCR").

The purpose of the BLR is to implement both the LCR and the Liquidity Maintenance Ratio ("LMR"), a modified version of the existing statutory Liquidity Ratio,[2] from 1 January 2015 (in line with the timetable set by the Basel Committee in respect of the LCR).

This consultation is being conducted pursuant to sections 97H and 97M of the Ordinance, which require the Monetary Authority to formally consult a number of persons specified in those sections (including the Association) before the BLR and Code of Practice are finalised respectively.

In preparing the draft BLR, we have taken into consideration relevant comments

[1] Section 97H and related provisions (as inserted by the Banking (Amendment) Ordinance 2012) will be brought into force through a Commencement Notice which, together with the BLR, is intended to take effect (after negative vetting by the Legislative Council) on 1 January 2015.

[2] The replacement of the Liquidity Ratio by the LMR will result in the repeal of Part XVIII of, and the Fourth Schedule to, the Ordinance on 1 January 2015.

received from the Association in response to the three rounds of consultation on the proposed liquidity standards conducted during 2012 and 2013.[3] Owing to some technical complexity in the determination of total net cash outflows for the purposes of the LCR, we have elected at this stage to utilise a Code of Practice to elaborate on the technical aspects of the calculation. We will also be issuing for consultation in the coming few weeks a set of LCR calculation methodology templates and completion instructions to assist category 1 institutions in making the calculation.

The BLR will take effect as subsidiary legislation and hence will be subject to negative vetting by the Legislative Council ("LegCo"). It is our intention, once we have had an opportunity to consider and address any responses received in respect of this consultation, to publish the BLR in the Gazette and table them in LegCo in October 2014, in line with our plan to implement the LCR and LMR from 1 January 2015.

I would be grateful if the Association's comments on the draft BLR and the draft Code of Practice could reach us by 15 September 2014. On-line access to this letter, together with its annexure, is available through the HKMA's private web-site (http://www.stet.iclnet.hk/index.htm).

I am writing in similar terms to The DTC Association, members of the Banking Advisory Committee and the Deposit-taking Companies Advisory Committee and the Financial Secretary.

Yours sincerely,

Karen Kemp
Executive Director (Banking Policy)

Encl.

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

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[3] The three consultation papers on *Implementation of Basel III Liquidity Standards in Hong Kong* (L1, L2 and L3) are available at:

L1:http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_basel-3_implementation_b/consultation_paper_liquidity.pdf

L2:http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/basel3-20120618/consultation_paper_liquidity.pdf

L3:http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_local_implementation_of_basel-3_liquidity_standards/Consultation_paper.pdf