HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/75C
B9/155C
S4/3C
S4/16C

24 October 2014

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Implementation of Basel III

I am writing to inform you that the Banking (Amendment) Ordinance 2012 (Commencement) Notice 2014, the Banking (Capital) (Amendment) Rules 2014, and the Banking (Liquidity) Rules were published in the Gazette today.

Banking (Amendment) Ordinance 2012 (Commencement) Notice 2014

The Commencement Notice will bring into effect from 1 January 2015 the provisions of the Banking (Amendment) Ordinance 2012 relating to the powers of the Monetary Authority ("MA") to make rules prescribing the liquidity requirements for authorized institutions ("AIs"). The other provisions, which were necessary for the implementation of the first phase of Basel III capital standards in Hong Kong, have been in effect since 1 January 2013.

Banking (Capital) (Amendment) Rules 2014

The Amendment Rules introduce amendments to the Banking (Capital) Rules (Cap. 155 sub. Leg. L) in order to implement the second phase of the Basel III capital standards covering the series of capital buffers, viz., the "Capital Conservation Buffer", the "Countercyclical Capital Buffer" and, for banks identified as systemically important, the "Higher Loss Absorbency Requirement". These capital buffers seek to bolster the resilience of banks by incentivising them to build and hold capital in "good times" that they can draw upon in "bad times", if and when necessary, to absorb shocks arising from any financial and economic stress.

Banking (Liquidity) Rules

The Liquidity Rules are a new set of rules made by the MA under section 97H of the Ordinance for the purpose of implementing the Basel III Liquidity Coverage Ratio ("LCR"), which seeks to promote banks' resilience to short-term liquidity risks by ensuring that they have sufficient high quality liquid assets to meet their obligations for at least 30 calendar days under an acute stress scenario. The LCR will only apply to AIs designated by the MA as "category 1 institutions" under the Liquidity Rules, mainly covering internationally active AIs or those larger or more sophisticated AIs that are significant to the general stability of the local banking system. Other AIs not designated as category 1 institutions ("category 2 institutions") will be subject to the Liquidity Maintenance Ratio ("LMR"), a modified version of the existing Liquidity Ratio. The requirements relating to the LMR are also set out in the Liquidity Rules.

The three pieces of subsidiary legislation will be tabled before the Legislative Council for negative vetting on 29 October 2014. Subject to the views of the Legislative Council, the subsidiary legislation should come into operation on 1 January 2015. We will inform you once the negative vetting process has been completed.

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)