



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: CB/POL/4/5
B4/1C
B4/9C
B1/7C

23 December 2015

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

BCBS guidance on credit risk and accounting for expected credit losses

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued guidance on *credit risk and accounting for expected credit losses* on 18 December 2015 (see <http://www.bis.org/bcbs/publ/d350.htm>). This followed a public consultation in response to which the industry in Hong Kong provided comments. The new guidance replaces the earlier document on *Sound credit risk assessment and valuation for loans* issued by the BCBS in 2006.

Comprising 11 principles, the new guidance sets out supervisory expectations for banks relating to sound credit risk practices associated with implementing and applying an expected credit loss (ECL) accounting framework. The document is intended to set out guidelines on accounting for expected credit losses regardless of the applicable accounting standards.

The move to ECL accounting frameworks by accounting standard setters is an important step forward in addressing the weakness identified during the financial crisis that credit loss recognition was insufficient. The development of ECL accounting frameworks is also consistent with the April 2009 call by the G20 Leaders for accounting standard setters to “strengthen accounting recognition of loan loss provisions by incorporating a broader range of credit information”.

As a member of the BCBS, the HKMA intends to adopt the BCBS's guidance going forward. In the meantime, all authorized institutions are encouraged to review their credit risk management process in light of the relevant principles set out in the BCBS guidance.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl

cc: The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
The Head of Financial Reporting, The Hong Kong Institute of Certified
Public Accountants
FSTB (Attn: Mr Jackie Liu)