HONG KONG MONETARY AUTHORITY
香港金融管理局

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16 March 2016

By email and by hand

Ms May Tan
Chairperson
The Hong Kong Association of Banks
Room 525, 5/F Prince's Building
Central
Hong Kong

Dear Ms Tan,

Supervisory Policy Manual (SPM): Consultation on revised module LM-1 on "Regulatory Framework for Supervision of Liquidity Risk"

I am writing to seek the Association's comments on a revised draft of the SPM module LM-1, which is to be retitled *"Regulatory Framework for Supervision of Liquidity Risk"*.

The revised module (i) provides an overview of the regulatory framework adopted by the Monetary Authority (MA) for supervising AIs' liquidity risk, and (ii) sets out the approach the MA will take in assessing AIs' compliance with the Banking (Liquidity) Rules (BLR) and the related disclosure requirements under the Banking (Disclosure) Rules (BDR).

The module is structured in the following way:

(i) section 2 outlines the MA's approach to supervising AIs' liquidity risk;

(ii) section 3 provides an overview of the statutory liquidity requirements in respect of the Liquidity Coverage Ratio (LCR) and the Liquidity Maintenance Ratio (LMR) (including the minimum required levels of these two ratios, which are applied to "category 1 institutions" and "category 2 institutions" respectively); possible supervisory responses to liquidity events, and the setting of AIs' internal LCR or LMR targets;

(iii) section 4 explains the approach and criteria adopted by the MA for the designation of category 1 institutions (with AIs not designated as category 1 being regarded as category 2 institutions);

(iv) section 5 provides specific guidance on the LCR requirements, including the methodologies for category 1 institutions to determine the amount of their "high quality liquid assets" and cash flow items when calculating the LCR;

(v) section 6 provides specific guidance on the LMR requirements, including the methodologies for category 2 institutions to determine the amount of their "liquefiable assets" and "qualifying liabilities (after deductions)" when calculating the LMR; and

(vi) section 7 sets out guidance on the disclosure of liquidity information by AIs, as required under the BDR and as supplemented by the SPM module CA-D-1 *"Guideline on the application of the Banking (Disclosure) Rules"*.[1]

We would be grateful if the Association's comments on the draft revised module, if any, could reach us by 15 April 2016.

I am writing in similar terms to The DTC Association.

Yours sincerely,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. FSTB (Attn: Jackie Liu)

[1] This section will supersede the existing section 13 of the SPM module LM-2 *"Sound Systems and Controls for Liquidity Risk Management"*, which is under revision. The Association will be consulted on the revisions to SPM module LM-2 in due course.