



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: S4/7C
B4/1C
B4/9C

28 April 2016

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Basel Committee – Interest Rate Risk in the Banking Book

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued new standards for Interest Rate Risk in the Banking Book (IRRBB) on 21 April 2016 (www.bis.org/bcbs/publ/d368.pdf).

The new standards revise the *Principles for the management and supervision of interest rate risk* issued by the BCBS in 2004 (2004 Principles), which set out supervisory expectations for banks' identification, measurement, monitoring and control of IRRBB as well as its supervision. Reflecting changes in market and supervisory practices since the 2004 Principles were first published, the key enhancements include:

- More extensive guidance on the expectations for a bank's IRRBB management process in areas such as the development of shock and stress scenarios, as well as key behavioural and modelling assumptions to be considered by banks in their measurement of IRRBB;
- Enhanced disclosure requirements to promote greater consistency, transparency and comparability in the measurement and management of IRRBB. This includes quantitative disclosure requirements based on common interest rate shock scenarios;
- An updated standardised framework, which supervisors could mandate their banks to follow or banks could choose to adopt; and
- A stricter threshold for identifying outlier banks that has been reduced from

20% of a bank's total capital to 15% of a bank's Tier 1 capital. In addition, interest rate risk exposure is measured by the *maximum* change in the economic value of equity under the prescribed interest rate shock scenarios.

The new standards are expected to be implemented by 2018. The HKMA intends to implement the new standards 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 standards and to carefully consider the implications for their risk management and business activities.

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

Yours faithfully,

Stephen Wan
Acting Executive Director (Banking Policy)

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