Our Ref.: B1/15C
B1/21C

15 July 2016

The Chief Executive
All authorized institutions

Dear Sir/Madam,

**Exposure to HKMC: 80% Loan Guarantee Product under SME Financing Guarantee Scheme**

Recently some authorized institutions participating in the SME Financing Guarantee Scheme, and more particularly in the 80% Loan Guarantee Product introduced in 2012 by The Hong Kong Mortgage Corporation Limited (HKMC), have sought clarification regarding the treatment of the HKMC guarantee for the purposes of paragraph 3.2.4 of the SPM module CR-G-7 "Collateral and Guarantees".

The HKMA notes that, (i) with the approval of the Finance Committee of the Legislative Council in 2012, the Government has committed HK$100 billion to cover HKMC's guarantee obligations under the 80% Guarantee Scheme and (ii) the Government has issued a letter of comfort to the Monetary Authority confirming its commitment under the Scheme. In these circumstances, applying the underlying principle of paragraph 3.2.4 of CR-G-7, the HKMA would not consider it unreasonable for authorized institutions to also regard the cover of the Government's commitment under the Scheme as enabling them to treat the portion of any loan to an SME which is covered by the HKMC guarantee under the Scheme as "secured" (in the sense of there being a separate obligation to pay by the HKMC as guarantor) for risk management purposes.

If your institution has any questions about the contents of this letter, please approach your usual contacts at the HKMA.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

c.c. The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn. Mr Jackie Liu)