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4 November 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,

Consultation on local implementation of Net Stable Funding Ratio

I am writing to seek the Association's comments on the enclosed consultation paper which outlines our proposed approach to implementing locally the Net Stable Funding Ratio (NSFR). As you will be aware, the NSFR is one of the two liquidity standards (alongside the Liquidity Coverage Ratio) introduced by the Basel Committee on Banking Supervision in 2010.

The NSFR seeks to reduce banks' funding risk over a longer time horizon by requiring banks to fund their activities with stable sources of funding. It is defined as the ratio of the amount of "available stable funding" (ASF) (being the sum of liability and capital items weighted by the applicable prescribed "ASF factors") to the amount of "required stable funding" (RSF) (being the sum of asset and certain off-balance sheet items weighted by the applicable prescribed "RSF factors").

The HKMA proposes that the NSFR will be applicable to authorized institutions (AIs) which have been designated by the HKMA as category 1 institutions in accordance with the Banking (Liquidity) Rules, while a modified version of the NSFR (modified NSFR) will be applicable to category 2 institutions (unless otherwise exempted). Following the Basel timeline for the implementation of NSFR, it is proposed that the NSFR and the modified NSFR requirements will be applicable to category 1 and category 2 institutions respectively from 1 January 2018.

To inform the final calibration of the proposed requirements (particularly in respect of the structure of the modified NSFR), the HKMA plans to conduct further quantitative

impact studies (QIS) and we will contact the relevant AIs to be engaged in the QIS in the coming weeks.

I would be grateful if the Association could circulate this letter and the enclosure to its members, and provide us with any comments by 23 December 2016. For any enquiries, please feel free to contact Mr Thomas Wong (2878-1219) or Mr Eric Ng (2878-8603).

I am writing in similar terms to The DTC Association.

Yours sincerely,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. Financial Services and the Treasury Bureau (Attn: Eureka Cheung)