



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C, B9/75C
B9/151C, B9/130C

16 November 2018

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Banking (Exposure Limits) Rules, Banking (Capital) (Amendment) Rules 2018 and Banking (Disclosure) (Amendment) (No. 2) Rules 2018

I am writing to inform you that the Banking (Exposure Limits) Rules (“BELR”), the Banking (Capital) (Amendment) Rules 2018 (“BCAR”) and the Banking (Disclosure) (Amendment) (No. 2) Rules 2018 (“BDAR”) were published in the Gazette today.

BELR

The purpose of the BELR is to replace the existing Banking (Exposure Limits) Rules (containing an equity exposure limit) and other exposure limits in Part XV of the Banking Ordinance. The BELR implement the 2014 Basel standards on *Supervisory framework for measuring and controlling large exposures*.

BCAR

The amendments contained in the BCAR are mainly to incorporate into the Banking (Capital) Rules (“BCR”):

- (i) the 2016 Basel standard on *TLAC holdings* (which sets out the regulatory capital treatment of banks’ holdings of total loss-absorbing capacity (“TLAC”) liabilities);
- (ii) a capital treatment to address concentration risk in sovereign exposures supplementary to the implementation of the BELR; and
- (iii) the “internal assessment approach” of the 2014 Basel III Document on *Revisions to the securitisation framework*, which is a methodology for calculating capital requirement specifically designed for certain

securitisation exposures in asset-backed commercial paper programmes.

We are also taking this opportunity to specify the HKMC Insurance Limited and the HKMC Annuity Limited as domestic public sector entities for preferential capital treatment under the BCR to cater for the business restructuring of the Hong Kong Mortgage Corporation Limited, as well as to introduce some miscellaneous amendments to enhance the consistency and clarity of certain provisions in the BCR.

BDAR

The BDAR contain a minor consequential adjustment to the definition of “capital requirements” in the Banking (Disclosure) Rules to align with item (ii) of the amendments in the BCAR above.

The three pieces of subsidiary legislation will be tabled before the Legislative Council for negative vetting on 21 November 2018. Subject to the views of the Legislative Council, the subsidiary legislation should come into operation respectively on:

- 11 January 2019 for amendments in the BCAR other than those in relation to TLAC holdings and concentration risk in sovereign exposures;
- 1 April 2019 for amendments in the BCAR in relation to TLAC holdings; and
- 1 July 2019 for the BELR, the BDAR, and amendments in the BCAR in relation to concentration risk in sovereign exposures.

We will inform you once the negative vetting process has been completed.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Eureka Cheung)