



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B1/21C
B9/130C
B9/188C

27 December 2019

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Supervisory Policy Manual (SPM): CR-G-8 “Large Exposures and Risk Concentrations”, CR-G-9 “Exposures to Connected Parties”, CR-L-1 “Consolidated Supervision of Concentration Risks: BELR Rule 6”, CR-L-3 “Letters of Comfort: BELR Rule 57(1)(d)” and CR-L-4 “Underwriting of Securities: BELR”

I am writing to inform you that, following consultation with the two industry Associations, the Monetary Authority (MA) is issuing by notice in the Gazette today five SPM modules, i.e. CR-G-8 “Large Exposures and Risk Concentrations”, CR-G-9 “Exposures to Connected Parties”, CR-L-1 “Consolidated Supervision of Concentration Risks: BELR Rule 6”, CR-L-3 “Letters of Comfort: BELR Rule 57(1)(d)” and CR-L-4 “Underwriting of Securities: BELR” as statutory guidelines under section 16(10) (in respect of the module CR-G-8) or section 7(3) (in respect of all other modules) of the Banking Ordinance (“BO”).

The revisions to CR-L-1 are made in response to recommendations from an assessment team formed by the Basel Committee on Banking Supervision (“BCBS”) in the context of its Regulatory Consistency Assessment Programme (“RCAP”) which has recently reviewed our local implementation of the BCBS standards on large exposures. They are editorial changes to make the HKMA’s current policy to require compliance with the statutory limits on a consolidated

basis explicit in the text so that it is more apparent that our regulations conform to the relevant standards.

The revisions of the other four modules are incidental to the implementation of the Banking (Exposure Limits) Rules (“BELR”), which have replaced the provisions relating to exposure limits formerly set out in Part XV of the BO. The majority of the revisions in these SPM modules relate to replacing cross references to obsolete BO provisions with those of the BELR. Other major changes are highlighted as follows:

- For CR-G-8 and CR-G-9, clarification and implementation guidance on Parts 7 (i.e. large exposures) and 8 (i.e. exposures to connected parties) of the BELR respectively have been incorporated. CR-G-8 also introduces a new requirement on locally incorporated AIs to set an internal limit on aggregate intragroup exposures which is expressed as a percentage of the AI’s Tier 1 capital.
- For CR-L-3, the primary change is to cease acceptance of existing letters of comfort issued by holding companies of AIs after 30 June 2020 (i.e. after a total grace period of one year). This addresses the legacy issue of treating letters of comfort as an acceptable credit risk mitigation tool, which is not consistent with the latest BCBS large exposures standards. In response to a recommendation from the recent RCAP review, the revised module specifies that the HKMA would only accept letters of comfort issued by the Government for the Hong Kong Mortgage Corporation Limited and its subsidiaries in the future.
- For CR-L-4, an AI that engages or plans to engage in the underwriting business still needs to establish and implement necessary internal control policies and limits but agreement of such policies and limits with the HKMA in advance is no longer required. The HKMA may review the relevant documentation and internal control processes during the course of its risk-based supervisory processes. In addition, the HKMA will unlikely approve an extension of the seven-day exemption period under Part 2 and Part 7 of the BELR unless in special situations, e.g. the sales of the securities acquired arising from underwriting commitments have been disrupted by unanticipated incidents such as a typhoon, system failure, etc. The policy change has taken into account the fact that applications for further extension of the exemption period have been rare by experience. The above changes seek to reduce the compliance burden of AIs and streamline the supervisory processes of the HKMA.

On-line access to the SPM modules is available to AIs under the icon for “Supervisory Policy Manual” on the MA’s public (<https://www.hkma.gov.hk/eng/>) and private (<https://www.stet.iclnet.hk>) websites.

Should you have any questions relating to the SPM modules, please contact Mr Frank Leung on 2878-1457 or Mr Andy Cheung on 2878-1022.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

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