



HONG KONG MONETARY AUTHORITY 香港金融管理局

Our Ref: B1/15C

2 September 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Extension of Pre-approved Principal Payment Holiday Scheme

I am writing to inform you that the HKMA, after discussions with the Banking Sector SME Lending Coordination Mechanism, has decided to extend the Pre-approved Principal Payment Holiday Scheme by six months.

Following my letter on 5 August 2020, the HKMA has continued to engage the Mechanism on the follow-up arrangements for the Scheme when it expires in October, and has also met with various representatives from the business sectors. Given the persistence of the COVID-19 pandemic and the severity of the ensuing economic downturn, the HKMA considers that a six-month extension of the Scheme is appropriate. This extension has received the full support of the 11 major lenders of the Mechanism.

With such an extension, the principal payments of all loans of eligible corporate borrowers (i.e. borrowers with an annual turnover less than HK\$800 million and with no loan payment overdue for more than 30 days as at 1 November 2020) falling due between 1 November 2020 and 30 April 2021 should be deferred by six months except for repayments of trade loans, which should be deferred by 90 days. The deferment applies whether or not a loan has been on a principal payment holiday.

In-line with the existing terms of the Scheme:

- AIs may require a borrower to settle trade facilities which are self-liquidating in nature if the borrower receives the underlying payment during the extended deferment period.
- For revolving facilities that are due for credit review between 1 November 2020 and 30 April 2021, AIs should not adjust downward the existing facility limits within six months from the review dates.

When the Scheme was launched in May, AIs were requested to notify each eligible customer of the coverage under the Scheme. As customers are already familiar with the Scheme by now and with AIs adopting work-from-home arrangements in response to the pandemic, AIs need not issue individual notifications to eligible customers regarding the six-month extension of the Scheme. Corporate customers in need of relief should be advised to contact their lending institutions. AIs should handle each eligible customer's

case on a pre-approved basis. Given the time elapsed since the original launch of the Scheme in May, AIs may seek updated financial or business information from customers, particularly those who have already been granted multiple extensions of payment holidays. All other terms of the Scheme set out in the Annex to the HKMA's circular on 17 April 2020 should continue to apply.

Like the extension for trade loans announced earlier this month, this extension will not by itself result in a loan being downgraded, nor will it cause the loan to be categorised as "rescheduled" as long as the terms of the deferment are "commercial". The HKMA further notes that guidance issued by the Hong Kong Institute of Certified Public Accountants¹ stipulates that the provision of payment holidays to borrowers should not automatically result in loans being considered to have suffered a significant increase in credit risk for the purposes of determining expected credit loss, which is in line with guidance published by the Basel Committee on Banking Supervision. The above two principles apply regardless of whether or not a loan is already on a payment holiday. I would also like to reiterate that AIs should continue to recognise and classify loans of borrowers who are unable to meet the restructured payment schedule in a timely manner, referencing the HKMA's Guideline on Loan Classification System, and to make adequate provisions as and when needed.

In its discussion of the extension, the Mechanism underscored the importance of the entire banking sector working in unison so that borrowers could receive help from all of their lending institutions. In this regard, the HKMA expects AIs' frontline staff to stand ready to assist enquiring customers. The HKMA has also encouraged customers to use the Scheme's hotline to report difficulties encountered in receiving payment holidays, and will collect statistics from AIs on the number of eligible customers who did not receive extensions to their payment holidays despite having approached their lending institution.

For corporate customers not eligible for the Scheme, the HKMA expects AIs to adopt a sympathetic stance and understand whether these customers require similar deferments and assess, on a case-by-case basis, whether it is in line with established risk management principles to provide such arrangements.

I would like to take this opportunity to commend the industry for supporting this Scheme as well as for taking other actions to tide customers over this difficult time. If you have any questions about the extension, please approach your usual contact at the Banking Supervision Department.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

¹ https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/08_Resource-centre/edug_19.pdf