Banking Policy Department

Our Ref: B4/9C
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By email & by hand

29 October 2020

Mrs Lourdes A Salazar
Chairperson
The DTC Association
Unit 1704, 17/F, Strand 50
50 Bonham Strand
Sheung Wan
Hong Kong

Dear Mrs Salazar,

Revised SPM Module CA-B-2 on Systemically Important Banks

I am writing to seek the Association's comments on some proposed amendments to the above module in the Supervisory Policy Manual (SPM). The proposed amendments mainly aim at (i) improving the assessment of Authorized Institutions' (AIs) complexity in our domestic systemically important bank (D-SIB) identification process, and (ii) updating various sections of the SPM module to reflect recent developments.

Notional amounts of over-the-counter (OTC) derivatives have been used in assessing the complexity of banks in the global systemically important bank (G-SIB) framework[1] and many D-SIB frameworks in other jurisdictions. As all AIs have been required to report all their OTC derivatives transactions to the trade repository of the HKMA (HKTR) since July 2017[2], the outstanding notional amounts of OTC derivatives of individual AIs are now available to the HKMA. We therefore propose to replace the current qualitative assessment of the complexity factor in the D-SIB framework in Hong Kong with this measure using a 10% weight in the framework's quantitative assessment, and to reduce the weight of the size factor from 50% to 40% correspondingly. An internal study based on the HKTR's data of the past two years

[1] https://www.bis.org/bcbs/publ/d445.pdf

[2] https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2016/20160715/20160715e3a1.pdf

suggests that no AI would end up in a higher D-SIB bucket because of the proposed new quantitative assessment, and no additional reporting is expected from any AI as the OTC derivatives data required can be obtained directly from the HKTR.

We would also like to take this opportunity to update various sections of SPM module CA-B-2 to reflect the following:

- the completion of the phase-in of higher loss absorbency (HLA) requirements under the D-SIB framework in Hong Kong in early 2019;
- the reference to the general guidance for the application of the "Principles for effective risk data aggregation and risk reporting" incorporated into SPM module IC-1 on Risk Management Framework in 2017, and the expectation of the HKMA on D-SIBs' compliance with these principles;
- the statutory recovery planning requirements as prescribed in the Banking Ordinance that came into operation in February 2018, and the subsequent revision to SPM module RE-1 on Recovery Planning in June 2020;
- the Code of Practice chapter RA-2 under the Financial Institutions (Resolution) Ordinance on the HKMA's approach to resolution planning, which provides guidance on the HKMA's approach to resolution planning for AIs including assessment of resolvability, issued in July 2017;
- the intention to take AIs' recovery plans and resolvability into consideration qualitatively in D-SIB assessment; and
- the revision of the G-SIB framework in 2018 announced by the Basel Committee on Banking Supervision.

We plan to finalise the amendments to SPM module CA-B-2 by December 2020, so we would appreciate it if the Association's comments on the revised module, if any, could reach us by 10 December 2020. If you have any questions, please feel free to contact Mr Jule Chong at 2878 1611 or jckchong@hkma.gov.hk.

Yours sincerely,

Daryl Ho
Executive Director (Banking Policy)

Encl

cc: FSTB (Attn: Ms Eureka Cheung)