Our Ref: S5/1/1C
B1/15C

22 December 1997

The Chief Executive
All authorized institutions

Dear Sir/Madam,

Recognized credit rating agencies for regulatory purposes

The Hong Kong Monetary Authority ("HKMA") recognizes the ratings of various credit rating agencies for the purposes of the liquidity supervisory regime as well as the market risk capital adequacy framework.

Following the recognition by the HKMA of the ratings of Fitch IBCA Inc ("Fitch IBCA") and the revocation of the recognition of the ratings of IBCA Limited ("IBCA") for the purposes of assessing the eligibility of HK$ denominated debt issues as Repo securities for discounting under the Liquidity Adjustment Facility, it is hereby announced that with immediate effect the ratings of Fitch IBCA will also replace that of IBCA for the above regulatory purposes.

Under the existing liquidity regime, authorized institutions' holding of marketable debt securities may be regarded as liquefiable assets for liquidity ratio purposes if they have a qualifying credit rating recognized by the HKMA. The current recognised ratings are set out in Mr David Carse's letter to you of 17 May 1996 ("the Letter").

For the purposes of the market risk capital adequacy framework, debt instruments in the trading book which satisfy certain qualifying credit ratings may be included in a "qualifying" category which carries a lower capital requirement. The recognised agencies and the respective minimum acceptable ratings for the time being are specified in paragraph 23 of the completion instructions in respect of the Return of Market Risk Exposures (Form MA(BS)3A(Rev. 97)) ("the Completion Instructions").

Please note that the reference to IBCA in both the Letter and the Completion Instructions mentioned above should now read Fitch IBCA. There is no change to the minimum acceptable credit ratings for the time being.

Should you have any questions, please feel free to contact Mr Danny Leung of our Office at 28788202.

Yours faithfully,

Raymond Li
Executive Director
(Banking Policy)