HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

16 Feb 2001

Guidelines on Capital Adequacy and Provisioning Requirements for Investment Guarantees under Mandatory Provident Fund ("MPF") Schemes ("Guidelines")

Our Ref: S4/3C
B1/21C

16 February 2001

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Guidelines on Capital Adequacy and Provisioning Requirements for Investment Guarantees under Mandatory Provident Fund ("MPF") Schemes ("Guidelines")

Following consultation with the two industry Associations and the Mandatory Provident Fund Schemes Authority, the Monetary Authority issued by notice in the Gazette today the Guidelines mentioned above under section 16(10) of the Banking Ordinance. The Guidelines, along with a technical note entitled "Use of Internal Models to Measure Market Risks for Investment Guarantees under MPF Schemes", will take immediate effect and be included in the Supervisory Policy Manual.

Authorized institutions ("AIs") may act as guarantors in respect of MPF guaranteed funds. Such guarantees expose them to potential risks from fluctuations in the value of the relevant fund. Should the rate of investment return earned by the fund fall short of the guaranteed rate of return over a specified period of time, those AIs will be obliged to compensate the fund for the shortfall. In line with the minimum authorization criterion as set out in paragraph 9 of the Seventh Schedule to the Banking Ordinance, all AIs should maintain adequate provision for liabilities which will be, or may fall to be, discharged by them and for losses which will or may occur. Furthermore, in line with the capital adequacy framework of the HKMA, all locally incorporated AIs should maintain adequate capital to cover such potential risks. The Guidelines set out how the amount of provisioning and the quantum of capital charges for such MPF guaranteed funds are to be determined.

The HKMA expects all AIs which act as guarantors to MPF guaranteed funds to review their current practices and adopt the minimum standards stipulated in the Guidelines. They are required to seek the HKMA's approval for the use of internal models for calculating provisioning or capital charges.

The Guidelines are available for on-line access in the HKMA's public (http://www.info.gov.hk/hkma) and private (http://www.hkfin.net) web-sites. Should you have any questions relating to the Guidelines, please feel free to contact Mr Cho-hoi Hui at 2878-1485 or Mr Daniel Wong at 2878-1626.

Yours faithfully,

D T R Carse
Deputy Chief Executive

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The Deposit-taking Companies Association
The Managing Director, The Mandatory Provident Fund Schemes Authority

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