HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

20 May 2008

The Financial Stability Forum's Report on Enhancing Market and Institutional Resilience

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The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

The Financial Stability Forum's Report on Enhancing Market and Institutional Resilience

I would like to draw your attention to the report issued by the Financial Stability Forum (FSF) (of which the Hong Kong Monetary Authority is a member) in April this year analysing the causes and weaknesses that have produced the recent market turmoil and setting out its recommendations for enhancing the resilience of markets and financial institutions (the Report).

The Report recommends actions in five areas:

- Strengthened prudential oversight of capital, liquidity and risk management;
- Enhancing transparency and valuation;
- Changes in the role and uses of credit ratings;
- Strengthening the authorities' responsiveness to risks; and
- Robust arrangements for dealing with stress in the financial system.

The HKMA strongly supports the FSF's recommendations which, if implemented, will help enhance the resilience of markets and financial institutions. While the recent market turmoil has not posed any systemic risk to the Hong Kong banking sector as the sector's exposures to sub-prime related credits are not material, the HKMA will endeavour to follow international best practices which contribute to the resilience of the financial system. Meanwhile, the HKMA is monitoring closely progress of initiatives set out in the Report (e.g. the initiatives of the Basel Committee on Banking Supervision to enhance capital requirements for securitization exposures, liquidity management, valuation and disclosure for structured products and off-balance sheet entities, etc.) and will decide and consult institutions in due course of its plan to implement the initiatives in Hong Kong.

Authorized institutions are recommended to review the Report (if they have not already done so) and keep abreast of developments in the recommended initiatives, some of which require implementation by financial institutions and market participants.

The full Report is available on the website of the FSF www.fsforum.org. A copy of Annex A to the Report, which lists all the recommendations in the Report, is attached for your reference.

Yours faithfully,

Y. K. Choi

Deputy Chief Executive

Encl. Annex A to FSF Report (PDF file, 805KB)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association

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