HONG KONG MONETARY AUTHORITY
香 港 金 融 管 理 局

Circulars

14 Jan 2009

Supervisory Policy Manual (SPM) TA-2 "Foreign Exchange Risk Management"

Our Ref: B1/15C B4/1C
B1/21C B4/9C
S4/8C

14 January 2009

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Supervisory Policy Manual (SPM) TA-2 "Foreign Exchange Risk Management"

I am writing to inform you that, following consultation with the two industry Associations, the HKMA is issuing today a revised version of the SPM module TA-2 "Foreign Exchange Risk Management".

The revised SPM module has incorporated the recommendations set out in the report *Progress in Reducing Foreign Exchange Settlement Risk* published in May 2008 by the Committee on Payment and Settlement Systems of the Bank for International Settlements (BIS), where the recommendations were not already covered or sufficiently detailed in the previous version of the module. In particular, the changes relate to -

- the use of currently available settlement services such as CLS or other payment versus payment arrangements (including the RTGS payment systems in Hong Kong) for controlling foreign exchange settlement risk;
- the need for taking steps to avoid any under-estimation of the risk AIs incur both intraday and overnight given the full size and duration of their remaining foreign exchange settlement exposures;
- the maintenance of clear senior level responsibility and authority for managing foreign exchange settlement exposures with individual counterparties and appropriate daily management procedures for these exposures; and
- the establishment of institution-wide business policies that provide for the choice of settlement methods through appropriate risk measurement and cost-benefit analyses, with adequate incentives and controls for individual business units to follow the policies.

The revisions of the SPM module are in line with the recommendations of the BIS report, with no major changes that alter the main substance of the module. We have also taken the opportunity to update the references to capital adequacy requirements applicable to locally incorporated AIs given the implementation of the Basel II framework in Hong Kong since 1 January 2007, and to incorporate some of the recommendations set out in our circular letter of 22 August 2007 concerning the professional knowledge of AIs' employees engaged in treasury market activities.

On-line access to the revised SPM module is available under the icon of "Supervisory Policy Manual" in the HKMA's public (http://www.info.gov.hk/hkma) and private (http://www.stet.finnet.hk) websites.

Should you have any questions relating to the module, please feel free to contact me at 2878-1388 or Ms Echo Chan at 2878-1558.

Yours faithfully,

Rita Yeung
Acting Executive Director (Banking Policy)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Natalie Li)

Encl. SPM TA-2 Foreign Exchange Risk Management (PDF file, 191KB)

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