HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B1/21C
G10/1/7C

10 December 2013

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Supervisory Policy Manual (SPM)
CA-S-10 "Financial Instrument Fair Value Practices"

I am writing to inform you that, following consultation with the two industry Associations, the Monetary Authority is issuing a revised version of the above SPM module as a guidance note today.

The revised module incorporates amendments relating to the full recognition, for regulatory purposes, of fair value gains arising from fair-valued financial instruments as a component of "Common Equity Tier 1 capital" under Basel III (as opposed to the position under Basel II where such gains were generally required to be excluded from Core Capital and included as Supplementary Capital with a 55% haircut).

AIs are expected to ensure that all of their fair value estimates are reliable and determined in accordance with the applicable accounting standards and supervisory guidance set out in the module. Based on the supervisory approach described in the module, the HKMA will evaluate the extent to which an AI's valuation process and practices are consistent with the standards in the course of its ongoing risk-based supervision and will take the result of its evaluation into account in its capital assessment of locally-incorporated AIs.

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

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Should you have any questions regarding this module, please feel free to contact Miss Theresa Kwan on 2878-1093 or Miss Annie Hung on 2878-1304.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn. Mr Jackie Liu)