HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B1/21C
S4/16C

25 November 2016

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Supervisory Policy Manual (SPM): LM-2 "Sound Systems and Controls for Liquidity Risk Management"

I am writing to inform you that, following consultation with the two industry Associations, the Monetary Authority is issuing by notice in the Gazette today a revised version of the SPM module LM-2 "Sound Systems and Controls for Liquidity Risk Management" as a statutory guideline under section 7(3) of the Banking Ordinance.

The revisions to this module are consequential to the implementation of the Liquidity Coverage Ratio (LCR) and Liquidity Maintenance Ratio (LMR) from 2015 and the recent revision of the related SPM module LM-1 "Regulatory Framework for Supervision of Liquidity Risk" in July 2016. The opportunity has also been taken to streamline and clarify some of the existing provisions. More specifically,

- a greater degree of flexibility has been provided for authorized institutions (AIs) to determine their liquidity risk governance and management systems and select appropriate risk monitoring tools and forewarning indicators that are commensurate with their individual circumstances;

- provisions regarding the requirement of maintaining a "liquidity cushion" have been modified in order to reflect the guidance provided in the SPM module LM-1 for an AI to set internal targets for LCR or LMR. The modifications also seek to clarify the concept of the "liquidity cushion" required in the SPM module LM-2, as compared to "high quality liquid assets" (HQLA) defined for LCR purposes and "liquefiable assets" defined for LMR purposes;

- certain provisions (such as the guidance on disclosure of liquidity information) have been removed from the revised module as they are now provided in the SPM module LM-1; and

- some similar or related provisions within the module have been combined and made more concise.

To the extent that an AI needs to align its internal processes more closely with any of the revised provisions in the module, it should do so as soon as practicable and in any event within two months of the issuance of the module.

On-line access to the module is available under the icon for "Supervisory Policy Manual" on our public (http://www.hkma.gov.hk) and private (http://www.stet.iclnet.hk) websites. For any enquiries, please feel free to contact Thomas Wong (2878 1219), Eric Ng (2878 8603) or Eve Law (2878 1197).

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Eureka Cheung)