Banking Policy Department

Our Ref: B4/9C
B9/75C

5 October 2022

<u>*By email and by hand*</u>

Mrs Lourdes A Salazar
Chairperson
The DTC Association
Unit 1704, 17/F, Strand 50
50 Bonham Strand
Sheung Wan
Hong Kong

Dear Mrs Salazar,

<u>Implementation of Basel III final reform package</u>

Having regard to views from the industry about competing priorities and resource constraints amid challenges associated with the Covid-19 pandemic, and the need to harmonise with the implementation schedules and approaches of major jurisdictions, we are minded to consider making the following adjustments to our local implementation of the revised capital standards (and their associated disclosure requirements) under the Basel III final reform package ("the package").

To allow more time for the industry to prepare for the necessary system changes for the adoption and the regulatory data reporting required of the standards, the following amendments to the timeline are proposed:

(a) the implementation date of those standards associated with credit risk, operational risk, the output floor and the leverage ratio will be adjusted from 1 July 2023 to a date no earlier than 1 January 2024; and

(b) the new standards for market risk and CVA risk will, as previously communicated, take full effect on a date no earlier than 1 January 2024.[1] However, the reporting-only period for these two standards will be shifted from 1 July 2023 to 1 January 2024.

---

[1] This date may not necessarily be identical to the one mentioned under paragraph (a) above.

We would also like to take this opportunity to propose the following adjustments to our policy proposals to align more closely with the Basel requirements, viz.,

(i) for the output floor phase-in arrangement to follow more closely that of the package, having regard to the arrangements adopted by other major jurisdictions; and

(ii) for the minimum LTV-based risk-weight of residential real estate exposures under the revised standardized approach to follow that of the package (i.e. 20% instead of 25%). Relatedly, having regard to this latest calibration, and the target output floor level of 72.5% under the package (representing a discount of 27.5% of risk-weighted assets calculated under the revised standardized approach), we consider that for authorized institutions approved to use the internal ratings-based ("IRB") approach, a risk-weight floor of 15% (approximately 72.5% of the minimum 20% risk-weight under the revised standardized approach) for this type of exposures would more appropriately reflect such calibration. Subject to industry's comments, we intend to notify institutions using the IRB approach that the 15% risk-weight floor will apply to the relevant exposures[2].

I would be grateful if the Association's comments on the above proposals could reach us by 4 November 2022.

I am writing in similar terms to the Hong Kong Association of Banks and members of the Banking Advisory Committee and the Deposit-taking Companies Advisory Committee.

Yours sincerely,

Daryl Ho
Executive Director (Banking Policy)

cc: FSTB (Attn: Mr Justin To)

[2] These will cover all outstanding and future residential mortgage loans secured on Hong Kong properties that fall within the IRB exposure subclasses of "Residential mortgages to individuals" and "Residential mortgages to property-holding shell companies" under section 142 of the Banking (Capital) Rules.