

## Annex 2

### HKMA's response to DTCA's comment on revision of SPM module LM-1 "Regulatory Framework for Supervision of Liquidity Risk"

DTCA comment	HKMA response
<p>Under section 3.5 :Internal targets and limits", section 3.5.4 states "Similarly, MA expects each category 2 institution to set an internal target for its LMR position, taking into account the institution's liquidity risk profile..."; section 3.5.6 states "... MA may request an AI to explain the rationale for its internal liquidity target..."</p> <p>Unlike the LCR that has the phased implementation schedule of step-up minimum requirements, it is not observed a similar implementation schedule for LMR. Would MA clarify the meaning of internal target for LMR that a category 2 institution should set up?</p>	<p>As stated in paragraph 3.5.4 of the draft revised module, the MA expects each category 2 institution to set an internal LMR target taking into account its liquidity risk profile. For this purpose, a category 2 institution may make reference to the guidance provided in paragraph 3.5.2, to the extent applicable.</p> <p>A category 2 institution should set its internal LMR target reasonably above the statutory minimum level of 25% to ensure that a hit of the internal LMR target would trigger proactive actions to avoid breach of the statutory minimum level. Notably, the requirement for category 1 institutions to increase their internal LCR targets annually in light of the phase-in of the statutory minimum LCR level does not apply to category 2 institutions for LMR purposes.</p>