



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B9/143C
B4/9C

25 October 2013

Mr Lee Huat Oon
Acting Chairman
The DTC Association
Unit 1704, 17/F, Bonham Trade Centre
50 Bonham Strand East
Sheung Wan
Hong Kong

By email and by hand

Dear Mr Lee,

Basel III implementation – Leverage Ratio

I am writing to consult the Association on the enclosed survey template and completion instructions for locally incorporated authorized institutions (AIs) to report their Leverage Ratio under Basel III.

As you will be aware, the transitional arrangements for Basel III implementation incorporate a “parallel run” period from 2013 to 2017 during which banks are to report relevant data to enable regulators to monitor banks’ Leverage Ratio positions. The enclosed template and accompanying completion instructions have been developed for this purpose. In this regard I should note:

- the template bears the key features of, and is structurally similar to, the template currently used by the Basel Committee in respect of the Leverage Ratio for Basel III implementation monitoring purposes. Regard has also been had to the templates currently adopted in other jurisdictions for parallel run purposes.
- the completion instructions accompanying the template (which explain how to determine the figures for inclusion in the template) have been prepared in accordance with the consultative document *Revised Basel III leverage ratio framework and disclosure requirements* released by the Basel Committee in June 2013.
- the template and accompanying completion instructions may need to be refined in future depending upon any further development of the Basel III Leverage Ratio framework by the Basel Committee, before the framework is finalized and the Leverage Ratio ultimately adopted as a minimum Pillar 1 requirement in 2018.

This is primarily the reason for adopting a survey format, as compared to a formal banking return, for parallel run purposes (at least initially). A survey format can be more quickly updated to incorporate on-going refinements as needed.

Before adopting the Leverage Ratio as a minimum Pillar 1 requirement in 2018, the Basel Committee has set a 3% “testing minimum” against which banks’ Leverage Ratios will be monitored. We will consider and consult the industry at a later stage on what should be the appropriate minimum Leverage Ratio requirement for AIs in Hong Kong having regard to the ratio ultimately adopted by the Basel Committee, the ratios adopted in other jurisdictions and specific local circumstances. We will also consult the industry, next year, on disclosure requirements in respect of the Leverage Ratio, which are scheduled to take effect from 2015 according to the Basel III timeline.

Our intention is for AIs to start submitting the survey on both solo and consolidated bases beginning with the position of December 2013 and thereafter on a quarterly basis. AIs will be required to submit the survey within 6 weeks from the end of a quarter.

I would appreciate it if the Association’s comments on the enclosed template and completion instructions could reach me by 25 November 2013. On-line access to this letter and the enclosures are available through the HKMA’s private web-site (<http://www.stet.iclnet.hk/index.htm>).

If you have any questions to the enclosed survey template, please feel free to contact Miss Theresa Kwan (2878 1093) or Mr Raymond Tsui (2878 1623).

I am writing in similar terms to The Hong Kong Association of Banks.

Yours sincerely,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. FSTB (Attn. Mr Jackie Liu)