28 November 2014

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Stable Funding Requirement

The Hong Kong Monetary Authority (HKMA) introduced Stable Funding Requirement (SFR) in October 2013 requiring authorized institutions (AIs) with significant loan growth to ensure adequate stable funding to support their lending business from 2014 onwards. To streamline SFR’s operation and alleviate AIs’ reporting burden, the HKMA has conducted a review and has sought industry associations’ input on the refinements. Taking into consideration the views of members of industry associations who generally appreciate the refinements and do not envisage major operational difficulties, the HKMA will implement several refinements to the SFR with effect from January 2015. These refinements include, among other things, the following:

- AIs\(^1\) with total loans of HK$10 billion or more and annualised average loan growth in the latest 8 quarters exceeding 15% will be required to observe the SFR;
- Frequency of review and report submission will be changed to quarterly;
- The SFR ratio applicable to an AI, subject to a cap of 100%, for calculating the stable funding to be obtained will be based on AI’s quarterly loan growth rate; and
- Subject to certain caps and conditions, additional flexibility will be allowed for exempting loans and accepting Head Office’s irrevocable committed liquidity facility as stable funding.

A comparison between the existing and refined SFR regime is summarised at Annex 1. Illustrations of SFR calculation based on the refined regime are at Annex 2.

Implementation

Similar to the existing arrangement, AIs that fall within the thresholds set out above will be given two months after each quarter end to achieve compliance if they are required to obtain additional stable funding. Thereafter, the applicability of SFR to AIs, including those AIs not yet falling within the thresholds, would be reviewed on a quarterly basis.

While the SFR is and will continue to be only applicable to AIs meeting certain loan portfolio and credit growth thresholds, the HKMA may, on a case by case basis, require an

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\(^1\) AIs engaging solely in private banking business are not subject to the SFR.
AI to maintain a higher level of SFR ratio or require an AI outside of the scope of the SFR to observe the SFR if the HKMA is not satisfied with the quality of its liquidity risk management or is concerned with its arrangements which, in the HKMA’s view, are for the purpose of limiting the HKMA’s supervisory reach by circumventing the SFR.

For the avoidance of doubt, alternative arrangements previously agreed with individual AIs under the existing SFR regime will lapse upon the implementation of the refinements on 1 January 2015. AIs should approach the HKMA if it encounters difficulty in setting aside sufficient stable funding to comply with the SFR before a deadline. AIs are also reminded to directly communicate with the HKMA to resolve their difficulties and discuss any alternative arrangements. The HKMA will give due consideration to the justification.

Further review of SFR

The HKMA will review the parameters for SFR calculation from time to time, taking into account relevant factors such as credit, liquidity and capital conditions of the banking sector as well as the macroeconomic environment. The SFR is expected to remain in force until the full implementation of relevant international Basel standards (e.g. Net Stable Funding Ratio) designed to enhance banks’ resilience against liquidity risk.

Reporting requirement

Starting from end-December 2014 position, every AI meeting the revised thresholds should submit quarterly report in the format set out at Annex 3 to the HKMA’s private website within 14 calendar days after each quarter end. The first reporting deadline will be 14 January 2015. AIs will be informed of the arrangements and may download an electronic file of the reporting template from the HKMA’s private website in due course.

In case you have further questions relating to the SFR refinements, please write to sfr_team@hkma.iclnet.hk or contact Mr Dennis Lau at 2878 8288 / Mr Samuel Kan at 2878 1163.

Yours sincerely,

Henry Cheng
Executive Director (Banking Supervision)

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