

In conducting the day-to-day supervision of authorised institutions, the Monetary Authority often receives questions on regulatory issues. This column publishes the supervisory response to questions which cover matters of general interest.

Q. The HKMA issued recently a policy guideline on the supervisory approach towards asset securitisation and mortgage-backed securities ("MBS"), which sets out among other things the criteria for MBS to qualify for a 50% risk weight under the capital adequacy regime. Is there any particular treatment for MBS in the HKMA's liquidity regime?

A. MBS are treated in the same way as other marketable debt securities for the purpose of the liquidity ratio. They are usually issued by special purpose vehicles which are normally not authorised institutions. The particular security, if held, will need to comply with the Fourth Schedule to the Banking Ordinance for inclusion as a liquefiable asset in calculating the liquidity ratio of an authorised institution.

In general, the following types of MBS qualify as liquefiable assets with different conversion factors attached depending on the remaining terms to maturity:

- those guaranteed by authorised institutions in Hong Kong;
- those issued or guaranteed by a public sector entity in Hong Kong, e.g. the Hong Kong Mortgage Corporation Limited;
- those with a qualifying credit rating, issued or guaranteed by central banks or central governments, regional governments, relevant banks as defined under the Fourth Schedule or other institutions;
- unrated issues which are issued or guaranteed by any of the following:
 - the central bank or central government of a country which has a qualifying credit rating;
 - the regional or local government of a country which has a qualifying credit rating; or
 - a relevant bank as defined under the Fourth Schedule with a qualifying credit rating;
- unrated issues issued by any institution which are rediscountable with the central bank of a country with a qualifying credit rating; and
- those with a remaining term to maturity of not more than one month.

Q. What are some of the recent issues that have arisen in relation to the Year 2000 (Y2K) problem that authorised institutions should be aware of?

A. The HKMA is concerned that there may be a lack of awareness of the Y2K problem within the general business community, in particular among small/medium size companies. Certainly, the information based on surveys conducted in this respect indicates that this is a potential problem. Accordingly, banks which lend to businesses whose operations could be adversely affected by the Y2K problem may face an increase in credit risk. The HKMA would advise institutions to include an assessment of the level of Y2K readiness of their customers as part of their periodic credit assessments. In this respect they may wish to obtain some assurance directly from their customers that their operations would not be adversely affected. In addition, where institutions have identified potential problems with their customers in this respect, they should take appropriate actions to mitigate potential losses.