



HONG KONG MONETARY AUTHORITY
香港金融管理局

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1 June 2016

By email and by hand

Ms May Tan
Chairperson
The Hong Kong Association of Banks
Room 525, 5/F
Prince's Building
Central
Hong Kong

Dear Ms Tan,

**Supervisory Policy Manual (SPM): Consultation on revised module LM-2
on "Sound Systems and Controls for Liquidity Risk Management"**

I am writing to seek the Association's comments on the enclosed draft revision of the SPM module LM-2.

The structure of the module remains largely the same as at the present and most of the proposed changes are consequential to the proposed revision of the SPM module LM-1 "*Regulatory Framework for Supervision of Liquidity Risk*" upon which we have recently consulted the Association. The opportunity has however also been taken to streamline or clarify some of the existing provisions. For instance:-

- certain modifications have been made in sections 2 and 3 in order to enable AIs to have a greater degree of flexibility to determine their liquidity risk governance and management systems and select appropriate risk monitoring tools and forewarning indicators that are commensurate with their individual circumstances;
- in light of experience, some similar or related provisions have been combined and made more concise, particularly those in sections 4 to 7;

- provisions in section 8 regarding the requirement to maintain a liquidity cushion have been modified, in order to reflect the requirement in LM-1 for an AI to set internal target for Liquidity Coverage Ratio (LCR) or Liquidity Maintenance Ratio, and to avoid possible confusion regarding the concepts of liquid assets to be maintained as liquidity cushion and “HQLA” as defined for LCR purposes; and
- section 13 on public disclosure has been removed as corresponding requirements are to be covered by LM-1.

We would be grateful if the Association’s comments on the draft revised module, if any, could reach us by 30 June 2016.

I am writing in similar terms to The DTC Association.

Yours sincerely,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. FSTB (Attn: Jackie Liu)