Reference Note

Stable Funding Requirement (“SFR”)

Background

Reason for introducing the SFR

1. An objective of the HKMA’s policies is to maintain the stability of the banking system. Therefore, the HKMA has been closely monitoring the developments in local and overseas financial markets and has been paying attention to banks’ business plans, their funding strategies and how they manage their liquidity risk. The HKMA also requires banks to adopt prudential measures to ensure that they have sufficient capacity to address potential risks arising from possible significant fund outflows from Hong Kong.

2. While the overall liquidity of Hong Kong’s banking system remains stable, the HKMA believes that it is necessary to take precautionary steps to reduce the impact of potential financial market instability on the banking system, the credit market and the local economy. The SFR measure requires banks to hold a certain proportion of stable funding so that these funds can support banks’ lending business even if market liquidity should come under significant stress as a result of fund outflows.

3. Against this background, the HKMA wrote to certain banks with significant loan growth in October 2013 requiring them to maintain longer term stable funding to support their lending business from 2014 onwards if their loan growth in 2013 exceeds the banking sector’s average. Since the implementation of the SFR measure in the beginning of 2014, affected banks have obtained sufficient medium to long term funds to support their lending business.

Reason for the refinements

1. The SFR measure has been in place for nearly a year. The letters to certain banks in

October 2013 have indicated that the HKMA will regularly review the parameters and the SFR calculation to take into account relevant factors, such as credit, liquidity and capital conditions of the banking sector and macroeconomic environment. The HKMA also considers that the SFR should continue until international standard under Basel III designed to enhance banks' resilience against liquidity risk (e.g. Net Stable Funding Ratio) to be implemented in 2018.

2. In light of the above, the HKMA conducted a review on the SFR in October 2014 with a view to streamline its operation and alleviate reporting burden of authorized institutions ("AIs"). The review has given due consideration to industry feedback as well as our implementation experience. Based on the review results, the HKMA believes that it is an opportune time to refine the existing SFR measure.

Refinements

1. The refinements are mainly change in the calculation of the SFR and the policy objective of the measure remains the same. The HKMA believes that with the refined SFR, the sensitivity of banks' risk management will be further increased. The impact of the refined SFR measure on banks will vary, depending on the loan growth trend and the balance sheet structure of individual banks.

2. The HKMA issued letters to industry associations on 3 November 2014 requesting them to collect their members' views on the refinements to the SFR. In general, their members appreciated the refinements and did not envisage major operational difficulties in implementing the refinements. To formalise the implementation of the refined SFR, a circular letter was issued on 28 November 2014. The following refinements to the SFR are prepared to be implemented with effective from 1 January 2015:

   (i) AIs 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;

   (ii) frequency of review and report submission will be changed from monthly to quarterly;

(iii) 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, instead of the existing specified SFR ratio; and

(iv) subject to certain caps and conditions, additional flexibility will be allowed for exempting certain loans and accepting Head Office's irrevocable committed liquidity facility as stable funding.

3. Details of refinements and the relevant operations could be found in HKMA's circular issued on 28 November 2014. (http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/2014/)

4. Currently, for the calculation of the SFR, consideration is given to available stable funding sources of AIs including total customer deposits and capital base. Other term funds including net borrowing from Head Office / overseas offices, net inter-bank borrowings and issued negotiable debt instruments ("NDIs") with remaining maturity over 6 months are also considered. Under the refined SFR measure, the following flexibilities, subject to certain caps and conditions, will be allowed:

(i) to exempt loans, subject to cap of 25% of total loans, with remaining maturity of 6 months or less and supported by matched-term funds from its Head Office or overseas offices on a back-to-back basis from total loans;

(ii) to include Head Office's irrevocable committed liquidity facility, subject to a cap of 25% of total loans, as stable funding for SFR calculation purpose; and

(iii) to accept NDIs held by Head Office and placed in the Central Moneymarkets Unit as stable funding for SFR calculation purpose. The NDIs should be free from any encumbrances and there should be no legal or regulatory barriers that would prevent from converting the NDIs into funding support.

Hong Kong Monetary Authority
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