HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/164C

18 October 2016

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

TLAC Holdings Standard

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued a standard on *TLAC Holdings* (see http://www.bis.org/bcbs/publ/d387.pdf) on 12 October 2016.

The new standard amends the text of the Basel III standard relating to the definition of capital to specify the regulatory capital treatment for banks' holdings of total loss-absorbing capacity ("TLAC") instruments issued by global systemically important banks ("G-SIBs"). It will apply to both G-SIBs and non-G-SIBs with the aim of reducing contagion risk within the financial system if an issuing G-SIB were to fail.

The main elements of the prescribed regulatory capital treatment include –

- **Deduction**: a bank's holdings of TLAC instruments, and instruments ranking pari passu with subordinated forms of TLAC instruments, that are not already included as regulatory capital of the issuing G-SIB, must be deducted from the investing bank's Tier 2 capital.

- **Exemption thresholds**: in addition to permitting non-regulatory capital TLAC holdings to be included within the existing 10% threshold for "insignificant" investments in regulatory capital, another 5% threshold applicable only to non-regulatory capital TLAC holdings will be made available. G-SIBs which hold other G-SIBs' TLAC instruments are subject to additional conditions in applying the 5% threshold, including that the holdings must be booked in the trading book.

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- **Capital buffers**: G-SIBs must take into account the TLAC requirement when calculating their regulatory capital buffers. Common Equity Tier 1 capital that is being used to meet the TLAC requirement cannot be used to meet the regulatory capital buffers.

The standard is scheduled to take effect at the same time as the minimum TLAC requirements for G-SIBs become effective according to Section 21 of the TLAC Term Sheet published in November 2015 by the Financial Stability Board (i.e. 1 January 2019, but later for those whose headquarters are in emerging market economies). The HKMA intends to implement the revised treatment in accordance with the BCBS timetable through appropriate amendments to the Banking (Capital) Rules and relevant supervisory guidance, and will consult the industry on its implementation proposals in due course. In the meantime, AIs are strongly recommended to study the revised standard issued by the BCBS and to prepare for any system changes that may be necessary for its implementation in Hong Kong.

Should you have any questions, please feel free to contact Mr Richard Chu at rshchu@hkma.gov.hk or Miss Theresa Kwan at tyykwan@hkma.gov.hk.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

c.c. The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Eureka Cheung)