



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/55C
CB/POL/4/5/33

13 April 2017

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Guidelines on Prudential Treatment of Problem Assets – Definitions of Non-performing Exposures and Forbearance

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued a guideline on “*Prudential Treatment of Problem Assets – Definitions of Non-performing Exposures and Forbearance*” (see <http://www.bis.org/bcbs/publ/d403.pdf>) on 4 April 2017.

In view of significant differences in how banks across jurisdictions identify and report asset quality, the guideline sets out definitions for two important terms to promote harmonisation in credit categorisation:

- The definition of **non-performing exposures** introduces harmonised criteria for categorising loans and debt securities that are centred on delinquency status (90 days past due) or the unlikeliness of repayment. It clarifies the consideration of collateral in categorising assets as non-performing and introduces clearer rules regarding the upgrading of a non-performing exposure to performing and the interaction between forbearance and non-performing status.
- The definition of **forbearance** provides a harmonised view on the modification or refinancing of loans and debt securities that results from a borrower’s financial difficulty. It allows forborne exposures to be categorised as performing or non-performing exposures while setting out criteria for the discontinuation of the forbearance categorisation, with emphasis on the need to ensure a borrower’s financial soundness as a

precondition.

The BCBS expects the guideline to apply to internationally active banks at a minimum (and wider application is permitted at a supervisor's discretion). The guideline will therefore have a bearing on those authorized institutions in Hong Kong that are part of internationally active banks, depending on how their home supervisors are implementing the guideline. The HKMA will consider the recommendations in the guideline and consult the industry on any relevant policy proposals in due course.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

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