



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Our Ref: G4/26/8C  
B1/15C

2 February 2018

The Chief Executive  
All Authorized Institutions

Dear Sir / Madam,

**Banking (Amendment) Ordinance 2018**

Further to our letter of 12 October 2017 regarding the gazetting of the Banking (Amendment) Bill 2017, I am writing to inform you that the Bill was passed by the Legislative Council on 24 January 2018 and enacted as the Banking (Amendment) Ordinance 2018 (“BAO 2018”). The BAO 2018 was published in the Gazette today.

The main purpose of the BAO 2018 is to amend the Banking Ordinance (BO) to bring our regulatory regime up-to-date with the latest international standards on large exposure limits and recovery planning. Specifically,

- on exposure limits, the BAO 2018 introduces sections 81A, 81B and 81C to empower the Monetary Authority (“MA”) to make rules prescribing limits on the exposures incurred by authorized institutions (“AIs”). The MA will use this power to make rules to implement the Basel Committee on Banking Supervision’s (BCBS) new large exposures framework, and to modernise certain existing large exposure provisions in the BO to bring them in line with latest market developments and risk management practices. Such rules will be in the form of subsidiary legislation, the making of which is subject to negative vetting by the Legislative Council and the same consultation requirements as applicable to the making of the capital, liquidity and disclosure rules. These rules will replace sections 80, 81, 83, 85, 87, 87A, 88 and 90 in Part XV of the BO, which will be repealed upon the commencement of the relevant new rules.
- on recovery planning, the MA has to date relied on the information gathering power under the BO to require AIs to prepare recovery plans. To provide greater transparency and certainty, and to ensure full compliance with the “Key Attributes of Effective Resolution Regimes for Financial Institutions” issued by the Financial Stability Board, the BAO 2018 introduces a new Part XIIA to prescribe explicit recovery planning requirements in the BO. Under the new provisions, the MA may require an AI to prepare, maintain and submit a recovery plan. The MA may also impose requirements on an AI in relation to its

recovery plan to ensure that the plan is fit for the purpose, having regard to the nature, scale and complexity of the AI. The MA may require an AI to revise the recovery plan to address any deficiencies identified, and direct an AI to implement one or more measures in the recovery plan under specific conditions. AIs are required to notify the MA of the occurrence (or likely occurrence) of any trigger events specified in their recovery plans. In addition, the MA may, in certain circumstances, impose similar requirements in relation to a recovery plan on an AI's holding company that is locally incorporated.

In addition to the above amendments, the BAO 2018 also repeals the Banking (Specification of Public Sector Entity in Hong Kong) Notice (Cap. 155 sub. leg. O), which is no longer required following the repeal of the Fourth Schedule to the BO under the Banking (Amendment) Ordinance 2012.

The provisions of the BAO 2018 will come into operation in phases. Those relating to recovery planning will take effect from today. The HKMA will update its supervisory policy manual module RE-1 on Recovery Planning accordingly to reflect the new legislative changes.

As to exposure limits, our current plan is to put in place new rules on equity exposures to replace BO section 87 as soon as practicable within 2018 and the rest of the new rules by 1 January 2019 to align with the date set by the BCBS to implement the revised large exposures framework. We will duly consult the industry in the rule-making process.

Should you have any questions regarding the above, please feel free to contact Ms Gillian Hui on 2878-1629, Mr Andy Cheung (for exposure limits) on 2878-1022 or Ms Echo Chan (for recovery planning) on 2878-1558.

Yours faithfully,

Daryl Ho  
Executive Director (Banking Policy)

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