



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/187C
S4/7C

31 August 2018

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Interest Rate Risk in the Banking Book: Scope of Application

While we are currently still in the process of finalising the policy documents for the local implementation of the standards on interest rate risk in the banking book (IRRBB) issued by the Basel Committee on Banking Supervision (BCBS)¹ in April 2016, we would like to inform you in advance about an impending change on the scope of Authorized Institutions (AIs) that will be subject to the new framework.

Feedback received from industry associations strongly suggested that the new local IRRBB framework may lead to disproportional costs for some AIs incorporated overseas, especially those with relatively simple and small-scale local operations in Hong Kong. Based on an analysis weighing costs and benefits of requiring all AIs incorporated overseas to implement the new IRRBB framework, we have decided to generally exempt AIs incorporated outside Hong Kong from the new local IRRBB framework in cases where the parent group of the AI is not additionally represented in Hong Kong through a locally incorporated AI.

The exempted overseas incorporated AIs will continue to be subject to the existing local standards on interest rate risk, and they will be expected to additionally manage their IRRBB together with their parent groups based on the IRRBB standards of their home jurisdictions and in accordance with the BCBS standards. The HKMA will however reserve the discretion to require any of these exempted AIs to implement the new local IRRBB framework and to meet the corresponding reporting standards with a reasonable notice period for any reason that may be relevant for us in exercising our key functions.

¹ <http://www.bis.org/bcbs/publ/d368.pdf>

Further details on the outlined exemption will be provided in the finalised version of the IRRBB policy documents and our second-round response to the industry's feedback to be issued later this year. Meanwhile, if you have any questions on the new local IRRBB framework or on the scope of application as outlined above, please feel free to contact Mr Jule Chong at 2878 1611 or jckchong@hkma.gov.hk.

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)