



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/75C
S4/2C
S4/3C

17 January 2019

The Chief Executive
All Locally Incorporated Authorized Institutions

Dear Sir/Madam,

FRTB: Revised Market Risk Standards

As you may be aware, the Basel Committee on Banking Supervision (“BCBS”) issued on 14 January 2019 its new *Minimum capital requirements for market risk* (often referred to as the “FRTB”, as they resulted from a “fundamental review of the trading book”).¹ They update an earlier version of the framework originally published in January 2016.²

The revised FRTB includes a set of amendments to address issues that have been identified through input from a wide spectrum of stakeholders since the publication of its original 2016 version. It takes into account extensive feedback received on a consultative document³ issued by the BCBS in March 2018 and it is calibrated based on the most recent set of the BCBS’s quantitative impact study (“QIS”) data.

Key revisions to the FRTB include:

- further clarification of the assignment of certain instruments between the banking book and the trading book;
- for the standardised approach, changes to further enhance its risk sensitivity and a recalibration of risk weights;
- for the internal models approach, revisions to the tests used to determine model eligibility and clarification of the process to identify risk factors that are eligible for internal modelling; and

¹ <http://www.bis.org/bcbs/publ/d457.pdf>

² <http://www.bis.org/bcbs/publ/d352.pdf>

³ <http://www.bis.org/bcbs/publ/d436.pdf>

- introduction of a simplified standardised approach for banks with small/non-complex trading book portfolios.

The HKMA previously communicated to align its local implementation of the new market risk standards with the latest BCBS timetable, i.e. 1 January 2022.⁴ For this local implementation, which we expect to closely follow the BCBS standards, we plan to issue a consultation paper in the second quarter of 2019. We will also assess the impact of the updated FRTB for Hong Kong based on local data in due course.

Given the size and complexity of the new market risk standards, the HKMA urges all locally incorporated authorized institutions to start working on their firm-specific FRTB implementation, based on the published BCBS framework, within 2019.

If you should have any questions relating to this letter, please feel free to contact Mr Horace Lee (2878 1540, hhwlee@hkma.gov.hk) or Mr Steven Yu (2878 1324, schyu@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)

⁴ <http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2017/20171214e1.pdf>