HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
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9 July 2019

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Frequently Asked Questions on Reporting Treatment of Transactions Related to Initial Public Offerings

The Hong Kong Monetary Authority (HKMA) has received enquiries from authorized institutions (AIs) about the reporting treatment of transactions related to initial public offerings (IPOs) in calculating capital and liquidity ratios. As the HKMA's responses to these enquiries may be of interest to other AIs, we are making them available to the industry in the form of frequently asked questions (FAQs), which are enclosed in the Annex to this circular.

Should you have any questions about this circular, please send an email to bsliquidityrisk@hkma.gov.hk.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

Encl.

55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Website: www.hkma.gov.hk

香港中環金融街8號國際金融中心2期55樓
網址： www.hkma.gov.hk

Annex

Frequently Asked Questions on Reporting Treatment of IPO-related Transactions in Calculating Capital and Liquidity Ratios

No.	Question	Answer
Capital ratios		
1	AIs using the foundation internal ratings-based (FIRB) approach are normally required to use 2.5 years as the maturity in calculating the risk-weighted amounts of their corporate, sovereign or bank exposures (other than repo-style transactions) in accordance with section 167(a) of the Banking (Capital) Rules (BCR). During an IPO, receiving banks are required to use their best efforts to recycle the IPO subscription monies in the money market. As these recycled funds tend to be very short-term and the amounts concerned can be substantial, should receiving banks still use 2.5 years as the maturity of this kind of exposures in calculating their capital ratios?	Considering the special nature of this kind of exposures, the HKMA is prepared to give prior consent under section 167(c) of the BCR to receiving banks which use the FIRB approach in relation to the IPO subscription monies that they have received and recycled in the interbank market as bank placements. This will allow the AIs concerned to use the advanced maturity treatment as specified in section 168 of the BCR, instead of 2.5 years normally prescribed for AIs using the FIRB approach, in calculating the capital charge for these exposures.
Liquidity ratios		
2	When a receiving bank's retail or corporate customers use their deposits to make IPO subscriptions, the funds will be transferred from these customers' deposit accounts to a nominee company's deposit account opened at the (same) receiving bank. What outflow rates and available stable funding (ASF) factors should be applied to such deposits during the IPO period in the calculations of the	For the amount of IPO subscription monies transferred from the deposit accounts of the receiving bank's existing customers to the deposit account of the nominee company held with the receiving bank ("existing customer subscription monies"), instead of reclassifying such amount as financial institution deposits and changing the outflow rates and ASF factors accordingly in

	receiving bank's LCR and NSFR respectively?	calculating LCR and NSFR respectively, the receiving bank may apply a "look-through" approach in this regard.
		
		Under the "look-through" approach, the receiving bank will need to first estimate (i) the amount of existing customer subscription monies going to the share issuer as payment for the allotted shares and (ii) the remaining amount of existing customer subscription monies (being the expected oversubscribed portion, if any) to be returned to its customers.
		
		For (i), the receiving bank may treat this amount as the share issuer's deposits instead of the nominee company's deposits (e.g. if the issuer is a corporate, a 40% outflow rate and a 50% ASF factor may be applied). However, if there is a reasonable expectation that any portion of such deposits will be withdrawn from the receiving bank during the reporting period, the "look-through" approach should not be adopted, i.e. the receiving bank should classify such amount as financial institution deposits and apply a 100% outflow rate and a 0% ASF factor.
		
		For (ii), the receiving bank may continue to treat such amount as the subscribers' deposits rather than the nominee company's deposits (e.g. a 10% outflow rate may be applied to the portion of existing customer subscription monies transferred from retail deposit accounts).
		
		A receiving bank may apply the above "look-through" approach only if it has adequate capability to make reasonable and prudent estimation (e.g. regarding the oversubscribed portion) and to

		identify the relevant amounts (e.g. the amount of existing customer subscription monies). Otherwise, the receiving bank should not use the "look-through" approach in calculating its LCR and NSFR. For the avoidance of doubt, the above "look-through" approach should not be applied to IPO subscription monies funded by any loans granted by the receiving bank (i.e. IPO loans).