HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/25/2C
B9/25/4C
B9/188C

16 December 2019

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Exposure to HKMCI: 90% Loan Guarantee Product under SME Financing Guarantee Scheme

On 16 December 2019, the HKMC Insurance Limited ("HKMCI") announced the introduction of a 90% Loan Guarantee Product under the SME Financing Guarantee Scheme ("90% Guarantee Scheme") with effect from 16 December 2019. This followed the approval by the Finance Committee of the Legislative Council, on 6 December 2019, of a total guarantee commitment of HK$33 billion by the Government to cover the HKMCI's guarantee obligations under the 90% Guarantee Scheme. The Government subsequently issued a letter of comfort to the Monetary Authority on 12 December 2019 confirming its commitment under the Scheme.

I am writing to confirm that the letter of comfort referred to above has been approved for the purposes of Banking (Exposure Limits) Rules ("BELR") Rule 57(1)(d) in respect of an AI's exposure to the HKMCI arising from the provisions of the guarantee by the HKMCI under the 90% Guarantee Scheme. Accordingly, for the exposure to the HKMCI arising from any loan to an SME which is covered by the HKMCI guarantee under the 90% Guarantee Scheme, the amount so covered is deducted from the AI's exposures to the HKMCI.

For capital adequacy calculation purposes, AIs participating in the 90% Guarantee Scheme should follow the relevant requirements set out in the Banking (Capital) Rules ("BCR") for calculating the risk-weighted amount of their related exposures to the HKMCI under the Scheme. For this purpose, an AI may regard the Government's commitment to support the HKMCI for the 90% Guarantee Scheme as a counter-guarantee under section 100(9), 134(6), 216(3A) or 217(4) of the BCR, and treat this counter-guarantee as if it were the

original guarantee issued by the HKMCI to the AI for the 90% Guarantee Scheme provided that paragraphs (a) to (d) of section 100(9), 134(6), 216(3A) or 217(4), as the case may be, are met. While an AI should, of course, conduct its own review of the relevant requirements in section 100(9), 134(6), 216(3A) or 217(4), the HKMA would not consider it unreasonable (for the purposes of paragraph (d)(i) of those sections) for an AI to regard the cover of the Government's commitment for the Scheme to be adequate and effective for the purposes of credit risk mitigation.

Furthermore, after taking into account the arrangements in relation to the 90% Guarantee Scheme described above, applying the underlying principle of paragraph 3.2.4 of SPM module CR-G-7, the HKMA would not consider it unreasonable for an AI to regard the cover of the Government's commitment for the Scheme as enabling them to treat the portion of any loan to an SME which is covered by the respective HKMCI guarantee as "secured" (in the sense of there being a separate obligation to pay by the HKMCI as guarantor) for risk management purposes.

If you have any questions on the regulatory treatments in this letter, please feel free to contact Mr Andy Cheung on 2878-1022 regarding large exposures; Miss Samantha Yau on 2878-8284 regarding the STC approach, the BSC approach and collateral risk management; and Ms Echo Chan on 2878-1558 regarding the IRB approach.

Yours faithfully,

Richard Chu
for Monetary Authority

cc: FSTB (Attn: Ms Eureka Cheung)
HKMC (Attn: Mr Raymond Li)
HKMCI (Attn: Ms Tess Leung)