



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
S4/16C
S5/1C

31 December 2019

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Supervisory Policy Manual module LM-1 on Regulatory Framework for Supervision of Liquidity Risk, Return of Liquidity Position of an Authorized Institution, and Return of Stable Funding Position of an Authorized Institution

I am writing to inform you that, after consultation with the two industry associations, we have revised SPM module LM-1 on Regulatory Framework for Supervision of Liquidity Risk (“LM-1”) and two returns for reporting the statutory liquidity ratios. The main purposes of these revisions are to update our regulatory requirements consequential to the commencement of the Banking (Liquidity) (Amendment) Rules 2019¹ and incorporate certain provisions to keep pace with the latest development.

In particular, the major changes to LM-1 are to:

- (i) provide specific guidance for authorized institutions (“AIs”) in recognising Basel-compliant listed ordinary shares and triple-B rated marketable debt securities as “level 2B assets” and “liquefiable assets” under the Liquidity Coverage Ratio (“LCR”) and the Liquidity Maintenance Ratio (“LMR”) respectively;
- (ii) provide an overview of the statutory liquidity requirements in respect of the Net Stable Funding Ratio (“NSFR”) and the Core Funding Ratio (“CFR”) and explain the approach and criteria adopted by the Monetary Authority for the designation of category 2A institutions which are subject to the CFR requirements; and

¹ <https://www.legco.gov.hk/yr18-19/english/subleg/negative/2019ln084-e.pdf>

- (iii) streamline the guidance on the disclosure of liquidity information by AIs.

The main changes to the two returns are to:

- (i) include Basel-compliant listed ordinary shares and triple-B rated marketable debt securities as “level 2B assets” and “liquefiable assets” in the calculation of LCR and LMR respectively; and
- (ii) implement a required funding requirement on total derivative liabilities in the calculation of NSFR and CFR.

The revised version of LM-1 and the two liquidity-related returns (including templates and completion instructions) are enclosed with this letter. The returns will take effect from 1 January 2020 and the updated electronic files will be available from the HKMA’s supervisory communication website (<http://www.stet.iclnet.hk>) after reporting of December 2019 position under the respective returns is completed.

If you have any questions about this circular, please feel free to contact Eve Law (2878-1197), Olivia Chung (2878-1624) or Willy Mak (2878-1219).

Yours faithfully,

Alice Lee
Acting Executive Director (Banking Policy)

Enclosures

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