HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
CB/POL/4/5

30 March 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Deferral of Basel III implementation and HKMA's supervisory actions in response to Covid-19

On 27 March 2020, the oversight body of the Basel Committee on Banking Supervision (BCBS), the Group of Central Bank Governors and Heads of Supervision (GHOS), announced the deferral of the implementation of the final Basel III reform package[1] by one year to 1 January 2023. This was done to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of the coronavirus disease (Covid-19) on the global banking system. Details can be found in the press release at https://www.bis.org/press/p200327.htm.

In line with the revised timeline announced by the GHOS, the HKMA will defer the implementation of the Basel III final package accordingly, viz.,

- Revised frameworks on credit risk, operational risk, output floor and leverage ratio: the target implementation of these frameworks and their associated disclosure requirements will be deferred by one year to 1 January 2023;

- Revised market risk framework: locally incorporated AIs will be required to implement the new market risk framework for reporting purposes by 1 January 2023. The local implementation of the actual capital requirements based on the new framework will be no earlier than 1 January 2023. Its timing will take into account the implementation progress observed in major jurisdictions; and

[1] This refers to the BCBS standards "Minimum capital requirements for market risk" of January 2019 (https://www.bis.org/bcbs/publ/d457.pdf), "Basel III: Finalising post-crisis reforms" of December 2017 (https://www.bis.org/bcbs/publ/d424.pdf), and "Pillar 3 disclosure requirements – updated framework" of December 2018 (https://www.bis.org/bcbs/publ/d455.pdf).

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- <u>Revised credit valuation adjustment (CVA) framework</u>: the local implementation will be aligned with the revised market risk framework and follow the timelines used there both for reporting and the implementation of the CVA capital requirements.

The GHOS announcement is part of the on-going effort by supervisors around the world to address the challenges brought about by Covid-19. The supervisory initiatives are in line with the aims of recent actions taken by the HKMA to ameliorate the impact of Covid-19 on Hong Kong's economy and on the local banking sector. For instance, the HKMA has encouraged AIs to introduce measures to help tide their customers over this difficult time through forums such as the Banking Sector SME Lending Coordination Mechanism, and has provided guidance on the supervisory treatment of these relief measures to ensure that they are rolled out expeditiously. The HKMA is also considering the implications of Covid-19 for the AIs' application of expected credit loss provisioning. We have been in discussion with the relevant bodies and will provide our expectation on this matter shortly.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

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