HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C, B1/21C
B9/25/2C, B9/25/4C
B9/75C, B9/188C

6 April 2020

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

100% Loan Guarantee Product under SME Financing Guarantee Scheme

The Financial Secretary proposed in the Budget 2020-21 the introduction of a concessionary low-interest loan under the SME Financing Guarantee Scheme administered by the HKMC Insurance Limited ("HKMCI"), in which 100% loan guarantee will be provided by the Government for a total loan guarantee commitment of HK$20 billion ("100% Scheme"). On 20 March 2020, the Finance Committee of the Legislative Council approved the related guarantee commitment and expenditure. The Government will issue a letter of comfort to the Monetary Authority confirming its commitment under the 100% Scheme before the proposed launch in April 2020.

I am writing to set out the policy intent of the HKMA on the relevant regulatory treatments in respect of a loan granted by any participating authorized institution ("AI") to an eligible SME borrower under the 100% Scheme.

Large exposure, capital adequacy and collateral risk management

For the period in which the legal title of the loan remains with the AI, the HKMA will apply the same treatment as mentioned in its circular letter of 16 December 2019 in relation to the Banking (Exposure Limits) Rules ("BELR"), the Banking (Capital) Rules ("BCR") (except as stated in item 2(b) below), and the SPM module CR-G-7 in respect of the AI's credit exposures during the period, viz.,

1. **BELR** – the letter of comfort referred to above will be approved for the purposes of the BELR Rule 57(1)(d) in respect of an AI's exposure to the

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HKMCI arising from the provisions of the guarantee by the HKMCI under the 100% Scheme. Accordingly, for the exposure to the HKMCI arising from any loan to an SME which is covered by the HKMCI guarantee under the 100% Scheme, the amount so covered is deducted from the AI's exposures to the HKMCI;

2. **BCR** –

   (a) *for the STC approach and the BSC approach* - an AI may regard the Government's commitment to support the HKMCI for the 100% Scheme as a counter-guarantee under section 100(9) or section 134(6) of the BCR, and treat this counter-guarantee as if it were the original guarantee issued by the HKMCI to the AI for the 100% Scheme provided that paragraphs (a) to (d) of section 100(9) or section 134(6), 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) or 134(6), 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 100% Scheme to be adequate and effective for the purposes of credit risk mitigation;

   (b) *for the IRB approach* - an AI should seek the Monetary Authority's exemption approval under section 12(1) of the BCR and apply the STC approach for loans granted under the 100% Scheme instead.[1] The HKMA will process the application expeditiously; and

3. **SPM module CR-G-7** – after taking into account the arrangements in relation to the 100% Scheme described above, applying the underlying principle of paragraph 3.2.4 of the module, the HKMA would not consider it unreasonable for an AI to regard the cover of the Government's commitment for the 100% Scheme as enabling the AI to treat 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.

Credit assessment and approval

A participating AI is expected to check the eligibility of the applicants based on the established criteria specified under the 100% Scheme, and the loans will be transferred by the participating AI as loan owner to The Hong Kong Mortgage Corporation Limited shortly after they are created without recourse. The

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[1] The absence of credit assessment on the part of a lender and the irrelevance of repayment ability of borrowers under the 100% Scheme will effectively render an IRB AI unable to derive the required IRB parameters (notably the probability of default associated with borrowers and the loss given default associated with the credit facility) in accordance with applicable requirements of the BCR. The IRB approach is therefore inoperable for this type of exposures.

HKMA therefore considers any residual credit risk the AI is exposed to should be very minimal and regulatory requirements on credit assessment and credit risk management set out in the SPM module CR-G-2 do not apply to loans granted by the AI under the 100% Scheme.

If you have any questions on the regulatory treatments in this letter, please feel free to contact Ms Irene Tse on 2878 1870 regarding credit assessment and approval, and Mr Andy Cheung on 2878-1022 regarding other policy items.

Yours faithfully,

Daryl Ho
for Monetary Authority

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