HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

8 April 2020

The Chief Executive
All Locally Incorporated Authorized Institutions

Dear Sir/Madam,

**Regulatory reserve**

I am writing to inform you that the Hong Kong Monetary Authority ("HKMA") has decided to lower the regulatory reserve ("RR") requirement on locally incorporated authorized institutions ("AIs") by 50% with immediate effect.

When the Hong Kong Financial Reporting Standard 9 ("HKFRS 9") was implemented in January 2018, the HKMA considered it prudent to continue requiring locally incorporated AIs to maintain an RR on top of accounting provisions. This decision was made taking into consideration that potential gaps might exist, at least initially, regarding the data, systems and controls required in determining expected credit loss provisions under HKFRS 9.

With HKFRS 9 having been implemented for more than two years, the HKMA observes that locally incorporated AIs have made good progress in enhancing their expected loss provisioning models, systems and controls. Specifically, locally incorporated AIs in general reported notable increases in their accounting provisions for the second half of 2019 given the deterioration in the economic environment. This indicates that the "expected loss" provisioning requirement under HKFRS 9 is robust and responsive to changes in external conditions. Accordingly, the need for locally incorporated AIs to maintain an RR on top of accounting provisions has diminished. In view of this development and to provide AIs with a greater lending headroom to support customers to cope with the COVID-19 outbreak, the HKMA has decided to lower the RR requirement on AIs by 50% with immediate effect.

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The mechanism for determining the level of RR reduction for individual AIs and the consequential adjustment to the target rate for the calculation of the benchmark regulatory provision is set out in the Annex.

The outbreak of COVID-19 has caused major disruptions to local economic activities. The HKMA strongly encourages your institution to utilise the additional lending headroom created by the RR release to support customers to overcome the impact of COVID-19. It is the HKMA's expectation that the RR release should not be used for dividend distribution, share buyback or payment of bonus to senior management.

The HKMA will keep the situation under regular review and will continue to assess the implementation of HKFRS 9 by locally incorporated AIs to see if any further adjustment to the RR requirement is warranted in the future. If you have any questions about this letter, please approach your usual contact at the Banking Supervision Department.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

Encl.