



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/79C
B9/129C
CB/POL/4/5

25 May 2020

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Additional measures to alleviate the impact of Covid-19

Further to the deferral of the Basel III implementation announced by the Group of Central Bank Governors and Heads of Supervision (GHOS) on 27 March 2020, the Basel Committee on Banking Supervision (BCBS) issued additional guidance to alleviate the impact of Covid-19 on the global banking system on 3 April 2020.¹ We set out below the application of this guidance in the context of Hong Kong.

1) Clarifications on the treatment of extraordinary support measures related to Covid-19

Governments and public authorities in many jurisdictions have introduced extraordinary support measures to alleviate the financial and economic impact of Covid-19. These measures include, among others, guarantee programmes for bank loans and payment holidays offered by banks to borrowers. To ensure that AIs reflect the risk-reducing effect of these measures when calculating their regulatory capital requirements, several technical clarifications are enclosed in the Annex to this circular.

2) Expected credit loss provisioning

The HKMA expects AIs to continue to apply the relevant expected credit loss (ECL) frameworks for accounting purposes. It is noted by the BCBS that the ECL accounting frameworks are not designed to be applied

¹ <https://www.bis.org/press/p200403.htm>

mechanistically. There are high levels of uncertainty currently surrounding the forward-looking information relevant to estimating ECL and to applying the HKFRS/IFRS 9 assessment of significant increases in credit risk (SICR). At present, information available that is both reasonable and supportable on which to assess SICR and to measure ECL is limited.

The HKMA expects ECL estimates to reflect the mitigating effect of the significant economic support and payment relief measures put in place by public authorities and the banking sector. The provision of relief measures to borrowers should not automatically result in exposures moving from a 12-month ECL to a lifetime ECL measurement. Additionally, AIs are expected to exercise informed judgement and to use the flexibility inherent in HKFRS/IFRS 9, for example, to give due consideration to long-term economic trends in estimating ECL.

The BCBS transitional arrangements for the regulatory capital treatment of ECL accounting are not adopted in Hong Kong. Instead, the HKMA has lowered the regulatory reserve requirement by half to provide AIs with more room on their balance sheets to cater for future financing needs.²

For details on the reduction of the regulatory reserve requirement, please refer to another circular issued by the HKMA on 8 April 2020.³

3) Margin requirements for non-centrally cleared OTC derivatives

Following the announcement made by the BCBS and the International Organization of Securities Commissions (IOSCO) on 3 April 2020, the HKMA will defer the final two implementation phases of margin requirements for non-centrally cleared OTC derivatives by an additional year. With this extension, the final implementation phase will start on 1 September 2022, at which point covered entities with an average aggregate notional amount (AANA) of non-centrally cleared OTC derivatives greater than HKD 60 billion will be subject to the requirements. As an intermediate step, from 1 September 2021, covered entities with an AANA of non-centrally cleared OTC derivatives greater than HKD 375 billion will be subject to the requirements.

² <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/04/20200403-4/>

³ <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200408e1.pdf>

The HKMA will continue to monitor the banking and supervisory implications of Covid-19, and coordinate with the BCBS and other relevant standard-setting bodies on responses to the pandemic. If you have any queries about this letter, please approach your usual supervisory contact.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

Encl

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