



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
S4/3C

30 November 2020

The Chief Executive
All Locally Incorporated Authorized Institutions

Dear Sir/Madam,

Capital treatment of securitisations of non-performing loans

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued a technical amendment¹ to the Basel capital framework on 26 November 2020 to set out the capital treatment of non-performing loan (NPL) securitisations.

While permitting banks to determine the risk weights of NPL securitisations in accordance with the hierarchy of approaches in the existing securitisation framework, the technical amendment allows banks using the internal ratings-based approach or the standardised approach of the existing securitisation framework to apply a risk weight of 100% to senior tranches of certain types of NPL securitisations. Risk weights for other tranches determined under these two approaches must not be lower than 100%. Foundation IRB parameters are also not permitted to be used as inputs for risk weight calculations. The technical amendment will not change the existing capital treatment of securitisations of performing assets.

The HKMA intends to implement the technical amendment and the Basel III final reform package at the same time (currently intended to be 1 January 2023). In the meantime, authorized institutions are strongly recommended to familiarise themselves with the technical amendment and to carefully consider any implication it may have on their business activities.

Yours faithfully,

Richard Chu
Acting Executive Director (Banking Policy)

cc: FSTB (Attn: Ms Eureka Cheung)

¹ See <https://www.bis.org/bcbs/publ/d511.htm>.