Our Ref.: B1/15C

22 October 2021

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Credit Risk Management of Share Margin Financing

I am writing to inform you of an update to the HKMA's supervisory policy in relation to share margin financing.

As stipulated in paragraph 7.1.4 of the Supervisory Policy Manual (SPM) Module CR-S-4 "New Share Subscription and Share Margin Financing", AIs should set maximum loan-to-value (LTV) ratios for share collateral in line with prevailing market norms. The SPM module further prescribes the market norms for different categories of shares with reference to common market practices in Hong Kong.

Since the SPM module was issued in 2007, the wealth management and private banking business in Hong Kong has become increasingly globally connected. Many AIs use Hong Kong as the regional hub to serve clients and manage related risks. Their share collateral portfolios often comprise shares from bourses in different markets. It has become operationally challenging for them to integrate the prescriptive market norms for LTV ratios specified in the HKMA's SPM module into their global risk management framework.

Considering the global nature of Hong Kong's wealth management and private banking business, and benchmarking against the latest supervisory practices in other major financial centres, the HKMA is of the view that continued enforcement of the requirement to observe market norms in the setting of maximum LTV ratios is no longer appropriate. Starting from the date of this letter, AIs are no longer expected to fulfil the said requirement.

The HKMA would like to stress that this change in supervisory policy does not reflect an intention to relax the existing supervisory standards on AIs' share margin financing business. AIs should continue to undertake share margin financing business in a prudent manner. In setting maximum LTV ratios for share collateral, AIs should give due regard to key factors such as their credit risk appetite, risk characteristics of individual stocks, and their expertise and proficiency in margin call management. Other requirements in the SPM module will continue to apply. Going forward, the HKMA will proactively assess whether AIs are prudent in setting maximum LTV ratios by stepping up surveillance and collection of data.

As the settlement process for initial public offerings of shares is going to be overhauled under the Fast Interface for New Issuance (FINI) arrangement in 2022/23, the HKMA plans to initiate a comprehensive review of the SPM module on “New Share Subscription and Share Margin Financing”. The HKMA will take the opportunity of the exercise to reflect the aforesaid change with respect to maximum LTV ratios setting in the SPM module.

Should you have any questions about this circular, please feel free to contact Ms Sophia Chan at 2878-1169 (skmchan@hkma.gov.hk) or Mr Steve Lau at 2878-1638 (schlau@hkma.gov.hk).

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

cc: SFC (Attn: Mr Keith Choy, Senior Director (Intermediaries Supervision, Intermediaries))