HONG KONG MONETARY AUTHORITY
香港金融管理局

***Banking Policy Department***

Our Ref: B1/15C
B9/75C

25 November 2022

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

**<u>Implementation of Basel III final reform package</u>**

Further to our recent consultation with the industry, we would like to inform you about a few adjustments to our policy intent for implementing the revised capital standards under the Basel III final reform package. The adjustments have taken into account views from the industry about competing priorities and resource constraints amid challenges associated with the Covid-19 pandemic, as well as the need to harmonise with the implementation schedules and approaches of major jurisdictions.

*Implementation timetable*

To allow more time for the industry to prepare for the necessary system changes for the adoption and the regulatory data reporting required of the standards, the implementation timeline will be revised as follows:

(a) the implementation date of those standards associated with credit risk, operational risk, the output floor and the leverage ratio will be adjusted from 1 July 2023 to a date no earlier than 1 January 2024; and

(b) the new standards for market risk and CVA risk will, as previously communicated, take full effect on a date no earlier than 1 January 2024.[1] However, the reporting-only period for these two standards will be shifted from 1 July 2023 to 1 January 2024.

[1] This date may not necessarily be identical to the one mentioned under paragraph (a) above.

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*Transition of output floor and calibration of minimum risk-weight for residential real estate exposures*

To align more closely with the Basel requirements, we consider it appropriate to incorporate the following adjustments to our policy proposals, viz.,

(i) for the output floor phase-in arrangement to follow more closely that of the package, having regard to the arrangements adopted by other major jurisdictions[2]; and

(ii) for the minimum LTV-based risk-weight of residential real estate exposures under the revised standardized approach to follow that of the package (i.e. 20% instead of 25%). Relatedly, having regard to this latest calibration, and the target output floor level of 72.5% under the package (representing a discount of 27.5% of risk-weighted assets calculated under the revised standardized approach), we consider that for authorized institutions with approval to use the internal ratings-based ("IRB") approach, a risk-weight floor of 15% (approximately 72.5% of the minimum 20% risk-weight under the revised standardized approach) for this type of exposures would more appropriately reflect such calibration. In this regard, we intend to notify institutions using the IRB approach that the 15% risk-weight floor will apply to the relevant exposures[3] with effect from 1 January 2023.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

cc: FSTB (Attn: Mr Justin To)

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[2] The HKMA will subsequently consult the industry on the proposed phase-in schedule.

[3] These will cover all outstanding and future residential mortgage loans secured on Hong Kong properties that fall within the IRB exposure subclasses of "Residential mortgages to individuals" and "Residential mortgages to property-holding shell companies" under section 142 of the Banking (Capital) Rules.