



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/196C
S4/3C

20 December 2022

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Prudential treatment of cryptoasset exposures

As you may be aware, the Basel Committee on Banking Supervision (“BCBS”) issued on 16 December 2022 its final standard on the *Prudential treatment of cryptoasset exposures*¹, following two rounds of public consultation².

The standard has been developed to provide a global baseline framework for banks’ cryptoasset exposures that promotes responsible innovation while preserving financial stability. To determine the prudential classifications, cryptoassets will be categorised into two broad groups:

- Group 1 cryptoassets consist of qualifying tokenised assets and stablecoins. They will generally be subject to the risk-based capital requirements of the existing Basel capital framework.
- Group 2 cryptoassets are cryptoassets that fail to meet all of the Group 1 classification conditions. These cryptoassets will be subject to a more conservative capital treatment. A limited degree of hedging can be recognised for certain types of Group 2 cryptoassets.

Additional key features of the standard include:

- Infrastructure risk add-on to cover infrastructure risk for all Group 1 cryptoassets that member jurisdictions can activate based on any observed weaknesses in the infrastructure on which cryptoassets are based

¹ <https://www.bis.org/bcbs/publ/d545.pdf>

² <https://www.bis.org/bcbs/publ/d519.pdf> and <https://www.bis.org/bcbs/publ/d533.pdf>

- Redemption risk test and a supervision/regulation requirement to ensure that only stablecoins issued by supervised and regulated entities that have robust redemption rights and proper governance are eligible for a Group 1 qualification
- Group 2 exposure limit to serve as an additional guardrail against Group 2 exposures growing too large in a bank's portfolio
- Other elements to (i) prescribe the supervisory review process and disclosure requirements as well as (ii) specify how the operational risk, liquidity, leverage ratio and large exposures requirements have to be applied in the context of banks' cryptoasset exposures

Please be aware that some areas, such as permissionless blockchains and additional statistical tests to identify low risk stablecoins, will remain subject to monitoring and further review by the BCBS.

The final standard is scheduled to be implemented by member jurisdictions by 1 January 2025, and it is our intention to implement it locally in accordance with the BCBS timetable. The industry will be consulted on the specific local implementation proposal in due course. In the meantime, authorized institutions with plans to conduct cryptoasset-related business activities are recommended to familiarise themselves with the new standard and consider its implications.

Yours faithfully,

Martin Sprenger
Acting Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairperson, The DTC Association
FSTB (Attn: Mr Justin To)