



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Our Ref.: B1/15C  
B9/75C

21 November 2024

The Chief Executive  
All Authorized Institutions

Dear Sir/Madam,

**Implementation of Basel III final reform package: Supervisory highlights**

I am writing to share with you the industry's progress in preparing for the implementation of the Basel III final reform package (B3F) and draw your attention to certain areas as the revised capital standards will soon come into effect on 1 January 2025.

The Hong Kong Monetary Authority (HKMA) has been working closely with the industry to support the implementation of the B3F. In addition to undertaking rounds of industry consultations and providing clarifications on various aspects of the revised capital standards, we have maintained ongoing dialogues with authorized institutions (AIs) to understand their preparatory progress and offer practical guidance as appropriate. Supervisory resources have also been prioritised to review AIs' applications associated with the implementation of the B3F, including adoption of model changes and specific treatments under the revised capital framework.

AIs have made significant strides to date in preparing for the implementation of the B3F. Most AIs have already completed user acceptance testing of their systems for regulatory reporting and are undergoing independent quality assurance review by their internal or external auditors. The HKMA encourages AIs to maintain this momentum as the final stage of transition to the B3F is approaching. Meanwhile, the following good practices are shared as a useful reference for AIs' final checks to support robust implementation of the revised capital standards:

- (i) **Senior management oversight**: The implementation of the B3F requires AIs to make major changes to their systems, models, controls and related processes. Before these changes are rolled out, AIs should obtain sign-off from senior management to demonstrate involvement and accountability in driving the changes, as well as capacity building for effective implementation.
- (ii) **Audit trails**: It is important that AIs maintain adequate documentation of the actions taken for the B3F implementation, including but not limited to system changes, model developments, introduction or redesign of control processes, and revisions to policies and procedures. All related reviews, testing and approvals must be

recorded properly. These documentation and records should help AIs to demonstrate to internal or external stakeholders, including the HKMA and external auditors, regarding compliance with the regulatory standards as well as effective oversight and management of the changes made.

- (iii) Updates of related internal processes: The implementation of the B3F may have significant implications for AIs' internal processes besides regulatory reporting, such as capital adequacy assessment, stress testing, management information reporting and capital planning. Therefore, AIs are expected to conduct a thorough review of their internal processes to identify areas that may need to be updated as a result of the B3F implementation and make necessary modifications to these processes to ensure ongoing compliance with the relevant supervisory requirements.
- (iv) Appropriate staff training: AIs should provide adequate training to their staff members to acquaint them with the revised capital standards and possible implications for existing workflows. This will enable AIs' employees to continue to discharge their responsibilities effectively after the implementation of the B3F with modified internal processes.
- (v) Post-implementation monitoring: Following the implementation of the revised capital standards, AIs are expected to perform ongoing monitoring to assess the effectiveness of the new or upgraded systems, models and control processes to ensure intended outcomes.

The HKMA will continue to provide guidance to AIs to facilitate a smooth transition to the B3F. Should you have any questions, please feel free to contact us at [b3f\\_implementation@hkma.gov.hk](mailto:b3f_implementation@hkma.gov.hk).

Yours faithfully,

Carmen Chu  
Executive Director (Banking Supervision)