



HONG KONG MONETARY AUTHORITY  
香港金融管理局

14 November 2012

Mr Hugo Chiu  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong

Dear Mr Chiu,

**Subcommittee on Banking (Capital) (Amendment) Rules 2012, Banking (Specification of Multilateral Development Bank) (Amendment) Notice 2012 and Banking (Amendment) Ordinance 2012 (Commencement) Notice 2012**

I write in response to your letter of 6 November 2012 seeking views from Members of The Banking Advisory Committee and The Deposit-taking Companies Advisory Committee ("Advisory Committees") on the above subsidiary legislation and on the impact of implementing the Basel III standards in Hong Kong on the banking sector.

In the course of preparing to implement the Basel III standards in Hong Kong, the Monetary Authority (MA) has frequently consulted and updated the Advisory Committees on its implementation proposals and the progress made during the Committee's regular meetings held since January 2011.

In relation to the minimum capital requirements and counterparty credit risk (CCR) framework, which are covered by the Banking (Capital) (Amendment) Rules 2012, a paper setting out the relevant detailed proposals was first discussed in a meeting of the Advisory Committees on 3 November 2011. Further discussions occurred in March and July 2012 respectively whilst the proposals were released to the two industry associations for consultation in January and June 2012. Taking into account the comments received, the proposals were reflected in the Banking (Capital) (Amendment) Rules 2012, which were then circulated to Members of the Advisory Committees for consultation in August 2012 as part of the process required under section 97C of the Banking (Amendment) Ordinance 2012.

During the consultation, Members of the Advisory Committees noted the importance of Basel III implementation for enhancing the ability of the Hong Kong banking system to withstand external and internal shocks, and of following the Basel Committee's implementation timeline in reinforcing the strategic

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position of Hong Kong as a stable international financial centre with a strongly capitalized banking system. The benefits of the strengthened CCR framework were acknowledged in incentivizing banks to actively manage counterparty credit risks and reducing systemic risks posed by the interconnectedness of systemically important banks. A potential technical challenge was noted in the application of the new capital charge for credit valuation adjustments (CVA) under the CCR framework in certain specific circumstances where a dynamic portfolio may require gathering of position and market data and application of robust CVA analytics. A couple of recommendations were also made, viz., (i) a minimum capital ratio requirement that varies among banks according to their size and systemic importance to avoid excessive costs, and (ii) a more open approach to approval for institutions' adoption of risk models and systems employed by their overseas head offices.

I circulated your letter to the Members of the Advisory Committees on 7 November but Members did not raise any further comments in respect of the Banking (Capital) (Amendment) Rules or the other two pieces of subsidiary legislation referred to above.

I hope the above is helpful and please feel free to let me know if you require any further information.

Yours sincerely,



Jasmin Fung  
Secretary  
Banking Advisory Committee /  
Deposit-taking Companies Advisory Committee

c.c. FSTB (Attn. Mr Jackie Liu)