

L.N. 176 of 2017

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Banking (Liquidity) (Amendment) Rules 2017

(Made by the Monetary Authority under section 97H of the Banking Ordinance (Cap. 155) after consultation with the Financial Secretary, the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, The Hong Kong Association of Banks and The Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies)

1. Commencement

These Rules come into operation on 1 January 2018.

2. Banking (Liquidity) Rules amended

The Banking (Liquidity) Rules (Cap. 155 sub. leg. Q) are amended as set out in rules 3 to 26.

3. Rule 2 amended (interpretation)

(1) Rule 2(1), definition of *consolidated basis*—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

(2) Rule 2(1), definition of *Hong Kong office basis*—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

(3) Rule 2(1), definition of *unconsolidated basis*—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

- (4) Rule 2(1), Chinese text, definition of **RMBS**—

Repeal the full stop

Substitute a semicolon.

- (5) Rule 2(1)—

Add in alphabetical order

“**ACF** means available core funding;

ASF means available stable funding;

available core funding (可用核心資金), in relation to a category 2A institution, means the amount as determined in accordance with rule 77;

available stable funding (可用穩定資金), in relation to a category 1 institution, means the amount as determined in accordance with rule 65;

category 2A institution (第2A類機構) means a category 2 institution designated under rule 3A(1) as a category 2A institution;

CFR means a core funding ratio;

committed facility (有承諾融通), in relation to an authorized institution, means a contractual agreement between the institution and its customer under which the institution has a contractually irrevocable commitment to extend funds to the customer at a future date, whether for credit or liquidity purposes, in accordance with the terms and conditions specified in the agreement;

core funding ratio (核心資金比率), in relation to a category 2A institution, means the ratio, expressed as a percentage, of the amount (calculated in Hong Kong dollars) of the institution's ACF to the amount (calculated in Hong Kong dollars) of the institution's RCF, as calculated in accordance with Part 4 and Division 3 of Part 9;

net stable funding ratio (穩定資金淨額比率), in relation to a category 1 institution, means the ratio, expressed as a percentage, of the amount (calculated in Hong Kong dollars) of the institution's ASF to the amount (calculated in Hong Kong dollars) of the institution's RSF, as calculated in accordance with Part 4 and Division 2 of Part 9;

NSFR means a net stable funding ratio;

RCF means required core funding;

required core funding (所需核心資金), in relation to a category 2A institution, means the amount as determined in accordance with rule 80;

required stable funding (所需穩定資金), in relation to a category 1 institution, means the amount as determined in accordance with rule 68;

RSF means required stable funding;

uncommitted facility (無承諾融通), in relation to an authorized institution, means a facility granted by the institution to its customer that—

- (a) is for extending credit or providing liquidity to the customer at a future date; and
- (b) is unconditionally revocable by the institution without prior notice to the customer;”.

(6) Rule 2(2)—

Repeal

“same meaning as it has in”

Substitute

“meaning given by”.

(7) Rule 2(2)—

Add in alphabetical order

“*trade-related contingency* (貿易關聯或有項目)”.

(8) Rule 2(4)—

Repeal

“table or” (wherever appearing).

4. Rule 3A added

Part 1, after rule 3—

Add

“3A. Designation of category 2A institution

- (1) The Monetary Authority may, by notice in writing to a category 2 institution, designate the institution as a category 2A institution.
- (2) The designation may be made if the Monetary Authority is satisfied that it is prudent and reasonable to apply Division 2 of Part 3A to the institution, after taking into account—
 - (a) the size of its business operation; and
 - (b) the liquidity risks associated with it.

- (3) The designation takes effect—
 - (a) on the date specified in the notice; or
 - (b) when the event specified in the notice occurs.
- (4) If—
 - (a) a category 2 institution has been designated as a category 2A institution; and
 - (b) the Monetary Authority is satisfied that had the designation not been made, the Monetary Authority would not make the designation,
the Monetary Authority may, on the Monetary Authority's own volition or on application by the institution, by notice in writing to the institution, revoke the designation.
- (5) The revocation takes effect—
 - (a) on the date specified in the notice; or
 - (b) when the event specified in the notice occurs.
- (6) A decision made by the Monetary Authority under subrule (1) or (4) is a decision to which section 101B(1) of the Ordinance applies.
- (7) To avoid doubt, if the Monetary Authority designates, under rule 3(1), a category 2A institution as a category 1 institution, the institution ceases to be a category 2A institution immediately on the taking effect of the designation as a category 1 institution.”.

5. Part 3A added

After Part 3—

Add

“Part 3A

Minimum NSFR and Minimum CFR

Division 1—Minimum NSFR, Self-rectification of NSFR Shortfall and Notifiable Matters Concerning NSFR: for Category 1 Institution

8A. Minimum NSFR applicable to category 1 institution

Subject to rule 8B, a category 1 institution must at all times maintain an NSFR of not less than 100%.

8B. Self-rectification of NSFR shortfall

- (1) This rule applies to a category 1 institution if the institution’s NSFR—
 - (a) becomes less than 100% but not less than 90% at any time on a day (*first shortfall day*); and
 - (b) has been not less than 100% at all times in the 12-month period immediately before the first shortfall day.
- (2) Rule 8A does not apply to the institution between—
 - (a) the first shortfall day (including that day); and
 - (b) the earlier of the occurrence of the following—
 - (i) the expiry of the period of 30 calendar days after the first shortfall day;
 - (ii) the institution’s NSFR becoming less than 90%.

8C. Category 1 institution must notify Monetary Authority on rule 8B becoming applicable

If rule 8B becomes applicable to a category 1 institution, the institution must—

- (a) as soon as is practicable notify the Monetary Authority of the matter; and
- (b) provide the Monetary Authority with any particulars of the matter that the Monetary Authority requests.

Division 2—Minimum CFR: for Category 2A Institution**8D. Minimum CFR applicable to category 2A institution**

A category 2A institution must—

- (a) during the year of 2018, maintain a CFR of not less than 50% on average in each calendar month; and
- (b) on and after 1 January 2019, maintain a CFR of not less than 75% on average in each calendar month.”.

6. Part 4 heading amended (valuation of assets, etc., at fair value and bases of calculation for purposes of LCR and LMR)

Part 4, heading—

Repeal

“and LMR”

Substitute

“, LMR, NSFR and CFR”.

7. Rule 9 amended (valuation of assets, liabilities, off-balance sheet items and cash flows measured at fair value)

Rule 9(1)—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

8. Rule 10 amended (calculation of LCR or LMR on Hong Kong office basis and unconsolidated basis, etc.)

(1) Rule 10, heading—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

(2) Rule 10(1), (2) and (3)(a)—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

9. Rule 11 amended (calculation of LCR or LMR of authorized institution incorporated in Hong Kong on consolidated basis)

(1) Rule 11, heading—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

- (2) Rule 11(1), (5) and (6)(a)—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

- 10. Rule 12 amended (calculation of LCR or LMR of authorized institution incorporated in Hong Kong on basis other than those under rules 10 and 11)**

- (1) Rule 12, heading—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

- (2) Rule 12(1)—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

- 11. Rule 13 amended (authorized institution must notify Monetary Authority of certain matters concerning its associated entities)**

- Rule 13(1)—

Repeal

“or LMR”

Substitute

“, LMR, NSFR or CFR”.

12. Rule 14 amended (prescribed notification requirements for purposes of section 97I of Ordinance)

- (1) Rule 14(2)—

Repeal

“or (iv), or paragraph (b),”

Substitute

“, (iiia) or (iv), (b) or (c)”.

- (2) Rule 14(3), definition of *relevant liquidity event*, paragraph (a)(iii)—

Repeal

“; or”

Substitute a semicolon.

- (3) Rule 14(3), definition of *relevant liquidity event*, after paragraph (a)(iii)—

Add

“(iiia) that the institution, subject to rule 8B(2), fails to comply with rule 8A; or”.

- (4) Rule 14(3), definition of *relevant liquidity event*, paragraph (a)(iv)—

Repeal

“; or”

Substitute a semicolon.

- (5) Rule 14(3), definition of *relevant liquidity event*, paragraph (b)—

Repeal the full stop**Substitute**

“; or”.

- (6) Rule 14(3), definition of *relevant liquidity event*, after paragraph (b)—

Add

“(c) for a category 2A institution, means that the institution fails to comply with rule 8D.”.

13. Rule 17 amended (interpretation of Part 7)

- (1) Rule 17, heading, after “**Part 7**”—

Add

“**and Schedule 4A**”.

- (2) Rule 17, after “In this Part”—

Add

“and Schedule 4A”.

14. Rule 22 amended (calculation of LCR on unconsolidated or consolidated basis, etc. when there are different liquidity requirements between Hong Kong and host countries)

- (1) Rule 22, Chinese text, heading—

Repeal

“與業務所在國家之間”

Substitute

“和業務所在國家”.

- (2) Rule 22(1)—

Repeal

“Where”

Substitute

“If”.

- (3) Rule 22(2)—

Repeal paragraph (a)

Substitute

“(a) any liquidity requirements for the equivalent of an LCR and applicable to the deposits and funding concerned are imposed by the relevant banking supervisory authority in the host country; and”.

- (4) Rule 22(3)—

Repeal paragraph (a)

Substitute

“(a) no liquidity requirements mentioned in subrule (2) are imposed by the relevant banking supervisory authority in the host country; or”.

- (5) Rule 22(3)(b)—

Repeal

“or apply”

Substitute

“those liquidity requirements or does not apply”.

- (6) Rule 22(4)(a), Chinese text—

Repeal

“的規定”

Substitute

“的比率”.

- (7) Rule 22(4)(b), English text—

Repeal

“as”.

- (8) Rule 22(5)—

Repeal

“Where”

Substitute

“If”.

15. Rule 35 amended (haircuts)

- (1) Rule 35(1)(a), after “Table 1”—

Add

“in Schedule 4A (*Table 4A-1*)”.

- (2) Rule 35(1)(a)(ii)—

Repeal

“Table 1”

Substitute

“Table 4A-1”.

- (3) Rule 35(1)(a)(ii), Chinese text—

Repeal

“因素”

Substitute

“因數”.

- (4) Rule 35(1)(b)—

Repeal

“Table 1” (wherever appearing)

Substitute

“Table 4A-1”.

- (5) Rule 35(1)(b)(ii), Chinese text—

Repeal

“因素”

Substitute

“因數”.

- (6) Rule 35(1)(c)—

Repeal

“Table 1” (wherever appearing)

Substitute

“Table 4A-1”.

- (7) Rule 35(1)(c)(ii), Chinese text—

Repeal

“因素”

Substitute

“因數”.

- (8) Rule 35—

Repeal Table 1.

- (9) Rule 35(2) and (3)—

Repeal

“Table 1”

Substitute

“Table 4A-1”.

16. Rule 38 amended (application of foreign exchange haircuts)

- (1) Rule 38(1), Chinese text—

Repeal

“減去”

Substitute

“扣除”.

- (2) Rule 38(1)(b), after “Table 2”—

Add

“in Schedule 4A”.

- (3) Rule 38—

Repeal Table 2.**17. Rule 39 amended (interpretation of Division 5)**

- (1) Rule 39, definition of *fully performing*—

Repeal

“past due”

Substitute

“overdue”.

- (2) Rule 39, definition of *stable retail deposit*—

Repeal

“and that is payable on demand, or has a remaining term to maturity (or a withdrawal notice period) within the LCR period”.

- (3) Rule 39—

(a) definition of *committed facility*;

(b) definition of *trade-related contingency*;

(c) definition of *uncommitted facility*—

Repeal the definitions.**18. Rule 40 amended (calculation of total net cash flows)**

Rule 40(1)(c), Chinese text—

Repeal

“減除”

Substitute

“扣除”.

19. Rule 41 amended (calculation of total expected cash outflows)

(1) Rule 41(1)(k)(viii), Chinese text—

Repeal

“金融”

Substitute

“融資”.

(2) Rule 41(10), after “Table 3”—

Add

“in Schedule 4A”.

(3) Rule 41—

Repeal Table 3.

(4) Rule 41(13)(a), after “Table 3”—

Add

“in Schedule 4A”.

20. Rule 42 amended (calculation of total expected cash inflows)

(1) Rule 42(5), after “Table 4”—

Add

“in Schedule 4A”.

(2) Rule 42—

Repeal Table 4.

21. Rule 53 amended (calculation of net weighted amount of qualifying liabilities (after deductions))

Rule 53(2), Chinese text—

Repeal

“扣減”

Substitute

“扣除”.

22. Part 9 added

After Part 8—

Add

“Part 9

Calculation of NSFR and CFR

Division 1—Interpretation

54. Interpretation of Part 9 and Schedule 6

(1) In this Part and Schedule 6—

Additional Tier 1 capital (before regulatory adjustments)

(額外一級資本(經監管調整前)), in relation to an authorized institution, means the sum of the following capital, calculated in Hong Kong dollars—

- (a) subject to rule 56(2), the institution’s Additional Tier 1 capital instruments;
- (b) the amount standing to the credit of the institution’s share premium account (if any) resulting from the issue of capital instruments that fall within paragraph (a);

- (c) subject to rule 56(3), the applicable amount of capital instruments issued by the consolidated bank subsidiaries of the institution and held by third parties, that is recognized as Additional Tier 1 capital of the institution on a consolidated basis, as calculated based on the requirements set out in sections 2(2) and 4 of Schedule 4D to the Capital Rules;

CET1 capital (before regulatory adjustments) (CET1資本 (經監管調整前)), in relation to an authorized institution, subject to rule 55, means the sum of the following capital, calculated in Hong Kong dollars—

- (a) the institution's CET1 capital instruments;
- (b) the amount standing to the credit of the institution's share premium account (if any) resulting from the issue of capital instruments that fall within paragraph (a);
- (c) the institution's retained earnings and other disclosed reserves;
- (d) the applicable amount of minority interests arising from the CET1 capital instruments issued by the consolidated bank subsidiaries of the institution and held by third parties, that is recognized as CET1 capital of the institution on a consolidated basis, as calculated based on the requirements set out in sections 2(1) and 3 of Schedule 4D to the Capital Rules;

insurance asset (保險資產), in relation to an authorized institution, means the book value of the institution's net contractual rights under an insurance contract entered into by the institution;

N/A means not applicable;

net derivative assets (衍生工具資產淨額), in relation to an authorized institution, means the net amount of the institution's total derivative assets (after adjustments) in excess of the institution's total derivative liabilities (after adjustments);

net derivative liabilities (衍生工具負債淨額), in relation to an authorized institution, means the net amount of the institution's total derivative liabilities (after adjustments) in excess of the institution's total derivative assets (after adjustments);

non-performing (未依期清償), in relation to an asset of an authorized institution representing a claim of the institution on a person, means that—

- (a) the claim is overdue for more than 90 calendar days; or
- (b) the person is in default;

principal amount (本金額)—

- (a) in relation to an on-balance sheet item, other than a derivative contract, of an authorized institution, means—
 - (i) if the item is measured at fair value—the value of the item determined in accordance with rule 9; or
 - (ii) if the item is not measured at fair value—the book value (including any accrued interest) of the item; or
- (b) in relation to an off-balance sheet item, other than a derivative contract, of an authorized institution, means—
 - (i) subject to subparagraphs (ii) and (iii), the contracted amount;

- (ii) for an undrawn facility, the amount of the undrawn facility; or
- (iii) for a partially drawn facility, the amount of the undrawn portion;

replacement cost (重置成本), in relation to a derivative contract of an authorized institution, means the costs, measured at fair value, that would be incurred by the institution if—

- (a) the institution were required to enter into another derivative contract with another counterparty to replace the existing derivative contract; and
- (b) that other derivative contract has substantially the same economic consequences for the institution;

retained earnings (保留溢利), in relation to an authorized institution incorporated in Hong Kong, has the meaning given by section 35 of the Capital Rules;

retained interest (保留權益), in relation to a structured financing transaction collateralized by assets of an authorized institution, means any part of such assets in respect of which the risks and rewards are retained by the institution;

Tier 1 capital (before regulatory adjustments) (一級資本(經監管調整前)), in relation to an authorized institution, means the sum of the institution's—

- (a) CET1 capital (before regulatory adjustments); and
- (b) Additional Tier 1 capital (before regulatory adjustments);

Tier 2 capital (before regulatory adjustments) (二級資本(經監管調整前)), in relation to an authorized institution, means the sum of the following capital, calculated in Hong Kong dollars—

- (a) subject to rule 57(2), the institution's Tier 2 capital instruments;
- (b) the amount standing to the credit of the institution's share premium account (if any) resulting from the issue of capital instruments that fall within paragraph (a);
- (c) subject to rule 57(3), the applicable amount of Tier 2 capital instruments issued by the consolidated bank subsidiaries of the institution and held by third parties, that is recognized as Tier 2 capital of the institution on a consolidated basis, as calculated based on the requirements set out in sections 2(2) and 5 of Schedule 4D to the Capital Rules;
- (d) the institution's collective provisions;

total derivative assets (after adjustments) (衍生工具資產總額(經調整)), in relation to an authorized institution, subject to rule 58, means the sum of the replacement costs of derivative contracts between the institution and its counterparties, where each of those contracts has a positive replacement cost after adjustment for any variation margin received in the form of cash by the institution from the counterparty under the contract;

total derivative liabilities (after adjustments) (衍生工具負債總額(經調整)), in relation to an authorized institution, subject to rule 58, means the sum of the replacement costs of derivative contracts between the

institution and its counterparties, where each of those contracts has a negative replacement cost after adjustment for any variation margin posted by the institution to the counterparty under the contract;

trade-date payable (交易日應支付帳項), in relation to an authorized institution, means the value of funds payable by the institution for settling transactions in respect of currencies, commodities or financial instruments, where for each of those transactions, the transaction order has been executed and the transaction—

- (a) is expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction; or
- (b) has failed to settle but is still expected to settle within a period of less than 6 months;

trade-date receivable (交易日應收取帳項), in relation to an authorized institution, means the value of funds receivable by the institution for settling transactions in respect of currencies, commodities or financial instruments, where for each of those transactions, the transaction order has been executed and the transaction—

- (a) is expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction; or
- (b) has failed to settle but is still expected to settle within a period of less than 6 months;

value (價值) means—

- (a) in relation to an on-balance sheet item or off-balance sheet item, other than a derivative contract, of an authorized institution—the principal amount of the item; or
- (b) in relation to a derivative contract of an authorized institution—the replacement cost of the contract;

variation margin (變動保證金), in relation to an authorized institution and a counterparty under a derivative contract, means the collateral posted by the institution to, or received by the institution from, the counterparty on a daily or intraday basis based on the movement of the contract's replacement cost.

- (2) In this Part and Schedule 6, an expression specified below has the meaning given by rule 39—

derivative contract (衍生工具合約)

structured financing transaction (結構式融資交易)

- (3) In this Part and Schedule 6, an expression specified below has the meaning given by section 2(1) of the Capital Rules—

Additional Tier 1 capital instrument (額外一級資本票據)

CET1 capital instrument (CET1資本票據)

collective provisions (集體準備金)

special purpose vehicle (特定目的工具)

Tier 2 capital instrument (二級資本票據)

valid bilateral netting agreement (有效雙邊淨額結算協議)

55. CET1 capital (before regulatory adjustments) (capital instruments issued to third parties through special purpose vehicle)

- (1) This rule applies to the determination of an authorized institution's CET1 capital (before regulatory adjustments) under this Part.
- (2) To avoid doubt, any capital instruments issued to third parties through a special purpose vehicle must not be included in the institution's CET1 capital (before regulatory adjustments).

56. Additional Tier 1 capital (before regulatory adjustments) (capital instruments issued to third parties through special purpose vehicle)

- (1) This rule applies to the determination of an authorized institution's Additional Tier 1 capital (before regulatory adjustments) on a consolidated basis under this Part.
- (2) If the institution issues capital instruments to third parties through a special purpose vehicle and—
 - (a) the special purpose vehicle is consolidated with the institution;
 - (b) the capital instruments meet the qualifying criteria set out in Schedule 4B to the Capital Rules; and
 - (c) the only asset of the special purpose vehicle is its investment in the capital of the institution in a form that meets the qualifying criteria set out in Schedule 4B to the Capital Rules,

the capital instruments may be included in the Additional Tier 1 capital (before regulatory adjustments) of the institution on a consolidated basis as if the institution itself had issued the capital instruments directly to the third parties.

- (3) If the institution issues capital instruments to third parties through a special purpose vehicle via a consolidated bank subsidiary of the institution and—
- (a) the special purpose vehicle is consolidated with the bank subsidiary;
 - (b) the capital instruments meet the qualifying criteria set out in Schedule 4B to the Capital Rules; and
 - (c) the only asset of the special purpose vehicle is its investment in the capital of the bank subsidiary in a form that meets the qualifying criteria set out in Schedule 4B to the Capital Rules,

the institution may treat the capital instruments as if the bank subsidiary itself had issued the capital instruments directly to the third parties and, accordingly, may include the capital instruments in determining the applicable amount of the capital instruments to be included in the Additional Tier 1 capital (before regulatory adjustments) of the institution on a consolidated basis, as calculated based on the requirements set out in sections 2(2) and 4 of Schedule 4D to the Capital Rules.

57. Tier 2 capital (before regulatory adjustments) (capital instruments issued to third parties through special purpose vehicle)

- (1) This rule applies to the determination of an authorized institution's Tier 2 capital (before regulatory adjustments) on a consolidated basis under this Part and Schedule 6.
- (2) If the institution issues capital instruments to third parties through a special purpose vehicle and—
 - (a) the special purpose vehicle is consolidated with the institution;
 - (b) the capital instruments meet the qualifying criteria set out in Schedule 4C to the Capital Rules; and
 - (c) the only asset of the special purpose vehicle is its investment in the capital of the institution in a form that meets the qualifying criteria set out in Schedule 4C to the Capital Rules,the capital instruments may be included in the Tier 2 capital (before regulatory adjustments) of the institution on a consolidated basis as if the institution itself had issued the capital instruments directly to the third parties.
- (3) If the institution issues capital instruments to third parties through a special purpose vehicle via a consolidated bank subsidiary of the institution and—
 - (a) the special purpose vehicle is consolidated with the bank subsidiary;
 - (b) the capital instruments meet the qualifying criteria set out in Schedule 4C to the Capital Rules; and

- (c) the only asset of the special purpose vehicle is its investment in the capital of the bank subsidiary in a form that meets the qualifying criteria set out in Schedule 4C to the Capital Rules,

the institution may treat the capital instruments as if the bank subsidiary itself had issued the capital instruments directly to the third parties and, accordingly, may include the capital instruments in determining the applicable amount of the capital instruments to be included in the Tier 2 capital (before regulatory adjustments) of the institution on a consolidated basis, as calculated based on the requirements set out in sections 2(2) and 5 of Schedule 4D to the Capital Rules.

58. Total derivative assets (after adjustments) or total derivative liabilities (after adjustments)

- (1) This rule applies to the determination of an authorized institution's total derivative assets (after adjustments) or total derivative liabilities (after adjustments) under this Part and Schedule 6.
- (2) If the institution has entered into 2 or more derivative contracts with a particular counterparty that are subject to a valid bilateral netting agreement, the institution must determine the aggregate net value of those contracts by—
 - (a) offsetting those contracts in negative value with those contracts in positive value;
 - (b) adding variation margins (whether in the form of cash or other assets) posted by the institution to the counterparty under those contracts; and

- (c) deducting variation margins in the form of cash received by the institution from the counterparty under those contracts.
- (3) The aggregate net value determined under subrule (2) must be included in—
- (a) if it is a positive value—the institution’s total derivative assets (after adjustments); or
 - (b) if it is a negative value—the institution’s total derivative liabilities (after adjustments).

Division 2—Calculation of NSFR

Subdivision 1—General

59. Interpretation of Division 2 and Tables 1 and 2 in Schedule 6

- (1) In this Division and Tables 1 and 2 in Schedule 6—
- default fund contribution*** (違責基金承擔) has the meaning given by section 2(1) of the Capital Rules;
- free from encumbrances*** (沒有產權負擔), in relation to an asset of a category 1 institution, means having no regulatory, legal, contractual or other restrictions that inhibit the institution from liquidating, selling, transferring or assigning the asset;
- HKD CHATS Account*** (港元CHATS帳戶), in relation to a category 1 institution, means an account opened, maintained and operated by the institution under a requirement imposed on the institution under section 3A(1) of the Exchange Fund Ordinance (Cap. 66);

host country (業務所在國家), in relation to a category 1 institution incorporated in Hong Kong, has the meaning given by rule 17;

initial margin (開倉保證金), in relation to a category 1 institution and a counterparty under a derivative contract, means the collateral (whether in the form of cash or other assets) posted by the institution to the counterparty to mitigate the potential future exposure of the counterparty to the institution arising from the possible future change in the value of the contract;

national development bank (國家發展銀行) means—

- (a) an entity specified in Schedule 7; or
- (b) an entity specified by the relevant banking supervisory authority of a place outside Hong Kong (whether by means of legislation or a public notice or otherwise) to be a national development bank for the purposes of the calculation of the equivalent of an NSFR in accordance with the document entitled “Basel III: the net stable funding ratio” published by the Basel Committee in October 2014;

physical traded commodity (實物交易商品) means any metal (to avoid doubt, including gold), energy, agricultural product or any other physical product that is traded on an exchange or similar trading facility;

stable small business funding (穩定小型企業借款), in relation to a category 1 institution, means small business funding provided to the institution by a small business customer, where—

- (a) the funding is fully insured by an effective deposit insurance scheme; and
 - (b) either—
 - (i) the small business customer has at least 2 other established relationships with the institution, where—
 - (A) subject to sub-subparagraph (B), at least one of the relationships (but not that of a credit card account) has been established for not less than 6 months and the account underlying that relationship has not been dormant or inactive in the last 6 months; and
 - (B) the requirement in sub-subparagraph (A) is deemed to be satisfied if the relationship relates to a mortgage loan that charges a penalty for early settlement of the loan within 6 months from the date on which the loan is drawn down; or
 - (ii) the funding is maintained by the small business customer in a transactional account at the institution.
- (2) In this Division and Tables 1 and 2 in Schedule 6, an expression specified below has the meaning given by rule 39—

effective deposit insurance scheme (有效存款保險計劃)

fully insured (十足受保)

operational deposit (營運存款)

other established relationship (其他既定關係)

retail customer (零售客戶)

retail deposit (零售存款)

small business customer (小型企業客戶)

small business funding (小型企業借款)

stable retail deposit (穩定零售存款)

transactional account (交易帳戶)

wholesale customer (批發客戶)

60. Capital, etc. must not be double counted in calculation of NSFR

A category 1 institution must not, in the calculation of its NSFR, double count any capital, on-balance sheet liability, on-balance sheet asset or off-balance sheet obligation that is included in that calculation.

61. Calculation of NSFR on Hong Kong office basis

A category 1 institution must, in the calculation of its NSFR on a Hong Kong office basis, determine—

- (a) the ASF of its Hong Kong office; and
- (b) the RSF of its Hong Kong office,

as if its Hong Kong office were a single legal entity.

62. Calculation of NSFR on unconsolidated basis

Subject to rule 64, a category 1 institution incorporated in Hong Kong must, in the calculation of its NSFR on an unconsolidated basis—

- (a) determine the aggregate of the ASF of its Hong Kong office and its overseas branches;

- (b) determine the aggregate of the RSF of its Hong Kong office and its overseas branches; and
- (c) ensure that all inter-branch balances with, and transactions between, its Hong Kong office and its overseas branches are offset in that calculation.

63. Calculation of NSFR on consolidated basis

- (1) Subject to rule 64, a category 1 institution incorporated in Hong Kong must, in the calculation of its NSFR on a consolidated basis—
 - (a) determine the aggregate of the ASF of the members of its consolidated group;
 - (b) determine the aggregate of the RSF of the members of its consolidated group; and
 - (c) ensure that all inter-branch or inter-company balances with, and transactions between, the members of its consolidated group are offset in that calculation.
- (2) A category 1 institution must comply with subrule (1) as if the members of its consolidated group were a single legal entity.

64. Calculation of NSFR on unconsolidated or consolidated basis, etc. when there are different liquidity requirements between Hong Kong and host countries

- (1) If—
 - (a) a category 1 institution incorporated in Hong Kong calculates its NSFR on an unconsolidated basis or consolidated basis, or the basis specified in a notice to the institution under rule 12; and

- (b) the institution has an overseas branch that operates, or a specified associated entity that is incorporated, in a host country,

this rule applies in respect of the deposits and funding of the overseas branch or specified associated entity.

- (2) For subrule (1), subject to subrule (4), if—
 - (a) any liquidity requirements for the equivalent of an NSFR and applicable to the deposits and funding concerned are imposed by the relevant banking supervisory authority in the host country; and
 - (b) those liquidity requirements are imposed for—
 - (i) implementing the prevailing banking supervisory standards issued by the Basel Committee relating to the equivalent of an NSFR; and
 - (ii) reflecting the prevailing standards issued by the Basel Committee for such types of the deposits and funding concerned,

the institution must apply those liquidity requirements to the calculation of its NSFR insofar as the calculation relates to the deposits and funding concerned.

- (3) For subrule (1), if—
 - (a) no liquidity requirements mentioned in subrule (2) are imposed by the relevant banking supervisory authority in the host country; or
 - (b) the authority, for the purposes of the calculation of the equivalent of an NSFR insofar as the calculation relates to the deposits and funding

concerned, does not adopt those liquidity requirements or does not apply those liquidity requirements to the institution,

the institution must apply the requirements of these Rules as applicable to the calculation of its NSFR insofar as the calculation relates to the deposits and funding concerned.

- (4) For subrule (2), if the Monetary Authority—
 - (a) is satisfied that the liquidity requirements imposed by the relevant banking supervisory authority in the host country are, for the purposes of the calculation of the equivalent of an NSFR insofar as the calculation relates to the types of the deposits and funding concerned, less stringent than the requirements of these Rules as applicable to the calculation of the institution's NSFR insofar as the calculation relates to the deposits and funding concerned; and
 - (b) has given the institution a notice in writing stating the matter mentioned in paragraph (a),
the institution must apply the requirements of these Rules as applicable to the calculation of its NSFR insofar as the calculation relates to the deposits and funding concerned.
- (5) If subrule (2), (3) or (4) applies to a category 1 institution, the institution must construe, with all necessary modifications, the other requirements of these Rules in a manner consistent with the application of that subrule to it.
- (6) In this rule—

deposits and funding (存款及借款), in relation to a category 1 institution's overseas branch that operates, or specified associated entity that is incorporated, in a host country, means the retail deposits and small business funding of the overseas branch or specified associated entity.

Subdivision 2—Determination of ASF and RSF

65. Determination of ASF

- (1) A category 1 institution must, for the purposes of the calculation of its NSFR, determine its ASF by adding together the weighted amounts of all of the institution's capital and on-balance sheet liabilities listed in column 1 of Table 1 in Schedule 6 (***Table 6-1***).
- (2) A capital item or on-balance sheet liability listed in column 1 of Table 6-1 is referred to in this rule as an ***ASF item***.
- (3) Subject to subrules (4), (5) and (6) and Subdivision 3, the weighted amount of an ASF item is determined by multiplying together—
 - (a) the value of the item; and
 - (b) the corresponding ASF factor specified in—
 - (i) if the item has a remaining term to maturity of less than 6 months or is repayable on demand—column 2 of Table 6-1;
 - (ii) if the item has a remaining term to maturity of 6 months to less than 12 months—column 3 of Table 6-1;

- (iii) if the item has a remaining term to maturity of 12 months or more—column 4 of Table 6-1; or
 - (iv) if the item has no specified term to maturity—column 5 of Table 6-1.
- (4) In determining, under subrule (3), the weighted amount of a deferred tax liability that has no specified term to maturity—
 - (a) if the earliest possible realization of the liability is in less than 6 months—the liability is to be treated as having a remaining term to maturity of less than 6 months or being repayable on demand;
 - (b) if the earliest possible realization of the liability is in less than 12 months but not less than 6 months—the liability is to be treated as having a remaining term to maturity of 6 months to less than 12 months; or
 - (c) if the earliest possible realization of the liability is in not less than 12 months—the liability is to be treated as having a remaining term to maturity of 12 months or more.
- (5) A category 1 institution must, in determining its ASF, account for an ASF item according to the earliest possible contractual maturity date of the item.
- (6) For an ASF item of a category 1 institution that is callable—
 - (a) if the item is callable at the option of the institution—the institution must, if there is market expectation that the institution will exercise the option and thus cause the item to

be repaid before its contractual maturity date, account for the item as if the option would be exercised; or

- (b) if the item is callable at the option of a person other than the institution—the institution must account for the item as if the option would be exercised.

66. General exclusion of capital or liabilities from ASF

- (1) The Monetary Authority may on the ground specified in subrule (2), by notice in writing to all category 1 institutions, specify that a category 1 institution must not include in its ASF, with effect from the date, or the occurrence of an event, specified in the notice, any capital or a liability, or a class of capital or liabilities, of the type specified in the notice.
- (2) The ground for giving a notice under subrule (1) is that the Monetary Authority is satisfied that the type of capital or liability, or class of capital or liabilities, as the case may be, is not, or is no longer, a sufficiently reliable source of liquidity for inclusion in a category 1 institution's ASF.
- (3) Every category 1 institution must comply with the requirements of a notice given under subrule (1).

67. Specific exclusion of capital or liabilities from ASF

- (1) The Monetary Authority may on the ground specified in subrule (2), by notice in writing to a category 1 institution, require the institution to cease to include in its ASF, with effect from the date, or the occurrence of an event, specified in the notice,

any capital or a liability, or a class of capital or liabilities, of the type specified in the notice.

- (2) The ground for giving a notice under subrule (1) is that the Monetary Authority is satisfied that the type of capital or liability, or class of capital or liabilities, as the case may be, is not, or is no longer, a sufficiently reliable source of liquidity for inclusion in the institution's ASF.
- (3) A category 1 institution must comply with the requirements of a notice given to it under subrule (1).

68. Determination of RSF

- (1) A category 1 institution must, for the purposes of the calculation of its NSFR, determine its RSF by adding together the weighted amounts of all of the institution's on-balance sheet assets and off-balance sheet obligations listed in column 1 of Table 2 in Schedule 6 (*Table 6-2*).
- (2) An on-balance sheet asset or off-balance sheet obligation listed in column 1 of Table 6-2 is referred to in this rule as an *RSF item*.
- (3) Subject to subrules (4), (5) and (6) and Subdivision 3, the weighted amount of an RSF item is determined by multiplying together—
 - (a) the value of the item; and
 - (b) the corresponding RSF factor specified in—
 - (i) if the item has a remaining term to maturity of less than 6 months or is repayable on demand—column 2 of Table 6-2;

- (ii) if the item has a remaining term to maturity of 6 months to less than 12 months—column 3 of Table 6-2;
 - (iii) if the item has a remaining term to maturity of 12 months or more—column 4 of Table 6-2; or
 - (iv) if the item has no specified term to maturity—column 5 of Table 6-2.
- (4) A category 1 institution must, in determining its RSF, account for an asset that is an RSF item according to the latest possible contractual maturity date of the asset.
- (5) For an asset that is an RSF item of a category 1 institution—
 - (a) if the contractual maturity date of the asset is extendable at the option of the institution—the institution must, if there is market expectation that the institution will exercise the option and thus cause the contractual maturity date of the asset to be extended, account for the asset as if the option would be exercised; or
 - (b) if the contractual maturity date of the asset is extendable at the option of a person other than the institution—the institution must account for the asset as if the option would be exercised.
- (6) If an asset that is an RSF item of a category 1 institution is not free from encumbrances, the institution must—
 - (a) if the asset is encumbered for a period of less than 6 months—regard the asset as if it were free from encumbrances;

- (b) if the asset is encumbered for a period of 6 months to less than 12 months—apply an RSF factor of 50% for the asset, if the RSF factor for the asset specified in Table 6-2 is less than 50%; or
- (c) if the asset is encumbered for a period of 12 months or more—apply an RSF factor of 100% for the asset.

Subdivision 3—Interdependent Assets and Liabilities

69. Legal tender notes and certificates of indebtedness

- (1) This rule applies to—
 - (a) a category 1 institution that is a note-issuing bank; and
 - (b) legal tender notes issued by the institution, in relation to which a certificate of indebtedness has been issued to the institution to be held as cover for the notes.
- (2) The institution, in determining its ASF and RSF, may choose either to—
 - (a) treat the weighted amounts of both the legal tender notes and certificate of indebtedness as \$0; or
 - (b) apply rules 65 and 68 to determine the weighted amounts of the legal tender notes and certificate of indebtedness.
- (3) In this rule—

certificate of indebtedness (負債證明書) means a certificate of indebtedness issued under section 4(1) of the Exchange Fund Ordinance (Cap. 66);

note-issuing bank (發鈔銀行) has the meaning given by section 2 of the Legal Tender Notes Issue Ordinance (Cap. 65).

70. Permission for treating assets and liabilities as interdependent

- (1) The Monetary Authority may, if satisfied with the matters specified in subrule (2), by notice in writing to a category 1 institution, permit the institution, subject to any conditions that the Monetary Authority thinks proper, to treat the following as a pair of interdependent asset and liability in determining the institution's ASF and RSF—
 - (a) a pair of asset and liability specified in the notice; or
 - (b) a pair of asset and liability falling within a class of pairs of asset and liability specified in the notice.
- (2) The matters are that, in relation to the pair of asset and liability or the class of pairs of asset and liability, as the case may be, on the basis of contractual arrangements—
 - (a) the asset and liability are clearly identifiable;
 - (b) the asset and liability have the same principal amount;
 - (c) the liability cannot fall due while the asset remains on the balance sheet;
 - (d) the terms to maturity (if any) of the asset and liability are the same;

- (e) the institution acts solely as a pass-through unit to channel the funds received arising from the taking up of the liability to finance the acquisition of the asset only, and—
 - (i) the funds cannot be used to fund other assets; and
 - (ii) the cash flows in relation to the asset's principal payment cannot be used other than to repay the liability; and
 - (f) the institution's customer in respect of the asset is not the institution's customer in respect of the liability.
- (3) The permission takes effect—
 - (a) on the date specified in the notice; or
 - (b) when the event specified in the notice occurs.
 - (4) On the taking effect of the permission, in determining the institution's ASF and RSF, if the conditions mentioned in subrule (1) are complied with in relation to a pair of asset and liability covered by the notice, the institution may choose to treat the pair of asset and liability as a pair of interdependent asset and liability.
 - (5) In determining the institution's ASF and RSF, the institution is to—
 - (a) if the institution makes the choice under subrule (4)—treat the weighted amounts of both the asset and liability in the pair as \$0; or
 - (b) if the institution does not make the choice—continue to apply rules 65 and 68 to determine the weighted amounts of the asset and liability.

Division 3—Calculation of CFR

Subdivision 1—General

71. Interpretation of Division 3

In this Division—

average CFR (平均CFR), in relation to a category 2A institution for a calendar month, means the average of the institution's CFR in that month as calculated in accordance with rule 76.

72. Capital, etc. must not be double counted in calculation of CFR

A category 2A institution must not, in the calculation of its CFR, double count any capital, on-balance sheet liability, on-balance sheet asset or off-balance sheet obligation that is included in that calculation.

73. Calculation of CFR on Hong Kong office basis

A category 2A institution must, in the calculation of its CFR on a Hong Kong office basis, determine—

- (a) the ACF of its Hong Kong office; and
- (b) the RCF of its Hong Kong office,

as if its Hong Kong office were a single legal entity.

74. Calculation of CFR on unconsolidated basis

A category 2A institution incorporated in Hong Kong must, in the calculation of its CFR on an unconsolidated basis—

- (a) determine the aggregate of the ACF of its Hong Kong office and its overseas branches;

- (b) determine the aggregate of the RCF of its Hong Kong office and its overseas branches; and
- (c) ensure that all inter-branch balances with, and transactions between, its Hong Kong office and its overseas branches are offset in that calculation.

75. Calculation of CFR on consolidated basis

- (1) A category 2A institution incorporated in Hong Kong must, in the calculation of its CFR on a consolidated basis—
 - (a) determine the aggregate of the ACF of the members of its consolidated group;
 - (b) determine the aggregate of the RCF of the members of its consolidated group; and
 - (c) ensure that all inter-branch or inter-company balances with, and transactions between, the members of its consolidated group are offset in that calculation.
- (2) A category 2A institution must comply with subrule (1) as if the members of its consolidated group were a single legal entity.

Subdivision 2—Calculation of Average CFR and Determination of ACF and RCF

76. Calculation of average CFR in each calendar month

- (1) Subject to subrule (2), a category 2A institution must, for the purposes of rule 8D, calculate, for each calendar month, its average CFR on the basis of—

- (a) the sum of the weighted amounts of all of its capital and on-balance sheet liabilities listed in column 1 of Table 3 in Schedule 6, as determined in accordance with rule 77; and
- (b) the sum of the weighted amounts of all of its on-balance sheet assets and off-balance sheet obligations listed in column 1 of Table 4 in Schedule 6, as determined in accordance with rule 80,

for each working day of that month.

- (2) The Monetary Authority may, by notice in writing to a category 2A institution, permit the institution to calculate its average CFR by reference to such days during the month as the Monetary Authority specifies in the notice (and if any such specified day is a public holiday, the immediately preceding working day must be taken to be that specified day for the purposes of that calculation).

77. Determination of ACF

- (1) A category 2A institution must, for the purposes of the calculation of its CFR, determine its ACF by adding together the weighted amounts of all of the institution's capital and on-balance sheet liabilities listed in column 1 of Table 3 in Schedule 6 (*Table 6-3*).
- (2) A capital item or on-balance sheet liability listed in column 1 of Table 6-3 is referred to in this rule as an *ACF item*.
- (3) Subject to subrules (4), (5) and (6), the weighted amount of an ACF item is determined by multiplying together—

- (a) the value of the item; and
 - (b) the corresponding ACF factor specified in—
 - (i) if the item has a remaining term to maturity of less than 6 months or is repayable on demand—column 2 of Table 6-3;
 - (ii) if the item has a remaining term to maturity of 6 months to less than 12 months—column 3 of Table 6-3;
 - (iii) if the item has a remaining term to maturity of 12 months or more—column 4 of Table 6-3; or
 - (iv) if the item has no specified term to maturity—column 5 of Table 6-3.
- (4) In determining, under subrule (3), the weighted amount of a deferred tax liability that has no specified term to maturity—
- (a) if the earliest possible realization of the liability is in less than 6 months—the liability is to be treated as having a remaining term to maturity of less than 6 months or being repayable on demand;
 - (b) if the earliest possible realization of the liability is in less than 12 months but not less than 6 months—the liability is to be treated as having a remaining term to maturity of 6 months to less than 12 months; or
 - (c) if the earliest possible realization of the liability is in not less than 12 months—the liability is to be treated as having a remaining term to maturity of 12 months or more.

- (5) A category 2A institution must, in determining its ACF, account for an ACF item according to the earliest possible contractual maturity date of the item.
- (6) For an ACF item of a category 2A institution that is callable—
 - (a) if the item is callable at the option of the institution—the institution must, if there is market expectation that the institution will exercise the option and thus cause the item to be repaid before its contractual maturity date, account for the item as if the option would be exercised; or
 - (b) if the item is callable at the option of a person other than the institution—the institution must account for the item as if the option would be exercised.

78. General exclusion of capital or liabilities from ACF

- (1) The Monetary Authority may on the ground specified in subrule (2), by notice in writing to all category 2A institutions, specify that a category 2A institution must not include in its ACF, with effect from the date, or the occurrence of an event, specified in the notice, any capital or a liability, or a class of capital or liabilities, of the type specified in the notice.
- (2) The ground for giving a notice under subrule (1) is that the Monetary Authority is satisfied that the type of capital or liability, or class of capital or liabilities, as the case may be, is not, or is no longer, a sufficiently reliable source of liquidity for inclusion in a category 2A institution's ACF.

- (3) Every category 2A institution must comply with the requirements of a notice given under subrule (1).

79. Specific exclusion of capital or liabilities from ACF

- (1) The Monetary Authority may on the ground specified in subrule (2), by notice in writing to a category 2A institution, require the institution to cease to include in its ACF, with effect from the date, or the occurrence of an event, specified in the notice, any capital or a liability, or a class of capital or liabilities, of the type specified in the notice.
- (2) The ground for giving a notice under subrule (1) is that the Monetary Authority is satisfied that the type of capital or liability, or class of capital or liabilities, as the case may be, is not, or is no longer, a sufficiently reliable source of liquidity for inclusion in the institution's ACF.
- (3) A category 2A institution must comply with the requirements of a notice given to it under subrule (1).

80. Determination of RCF

- (1) A category 2A institution must, for the purposes of the calculation of its CFR, determine its RCF by adding together the weighted amounts of all of the institution's on-balance sheet assets and off-balance sheet obligations listed in column 1 of Table 4 in Schedule 6 (*Table 6-4*).
- (2) An on-balance sheet asset or off-balance sheet obligation listed in column 1 of Table 6-4 is referred to in this rule as an *RCF item*.

- (3) Subject to subrules (4) and (5), the weighted amount of an RCF item is determined by multiplying together—
- (a) the value of the item; and
 - (b) the corresponding RCF factor specified in—
 - (i) if the item has a remaining term to maturity of less than 6 months or is repayable on demand—column 2 of Table 6-4;
 - (ii) if the item has a remaining term to maturity of 6 months to less than 12 months—column 3 of Table 6-4;
 - (iii) if the item has a remaining term to maturity of 12 months or more—column 4 of Table 6-4; or
 - (iv) if the item has no specified term to maturity—column 5 of Table 6-4.
- (4) A category 2A institution must, in determining its RCF, account for an asset that is an RCF item according to the latest possible contractual maturity date of the asset.
- (5) For an asset that is an RCF item of a category 2A institution—
- (a) if the contractual maturity date of the asset is extendable at the option of the institution—the institution must, if there is market expectation that the institution will exercise the option and thus cause the contractual maturity date of the asset to be extended, account for the asset as if the option would be exercised; or

- (b) if the contractual maturity date of the asset is extendable at the option of a person other than the institution—the institution must account for the asset as if the option would be exercised.”.

23. Schedule 2 amended (classes of assets which may be included in HQLA for calculating LCR and qualifying criteria applicable to those classes)

- (1) Schedule 2—

Repeal

“, 25 & 35]”

Substitute

“& 25 & Sch. 4A]”.

- (2) Schedule 2, Chinese text, Part 3, section 4(1)(c)—

Repeal

“資產”

Substitute

“性”.

- (3) Schedule 2, Chinese text, Part 3, section 5(1)(e)—

Repeal

“資產”

Substitute

“性”.

- (4) Schedule 2, Chinese text, Part 3, section 6(1)(e)—

Repeal

“動資產”

Substitute

“動性”.

(5) Schedule 2, Chinese text, Part 3, section 7(1)(e)—

Repeal

“資金”

Substitute

“性”.

(6) Schedule 2, Chinese text, Part 3, section 8(1)(g)—

Repeal

“資金”

Substitute

“性”.

24. Schedule 4A added

After Schedule 4—

Add

“Schedule 4A[rr. 17, 35, 38, 41 &
42]**Tables Related to LCR****Table 1****Post-haircut Factors**

	Column 1 Asset class/asset subclass	Column 2 Post-haircut factor
1.	Level 1 assets	
	(a) currency notes and coins	100%
	(b) withdrawable central bank reserves	100%
	(c) marketable debt securities mentioned in section 1(c) of Part 2 of Schedule 2	100%
	(d) marketable debt securities mentioned in section 1(d) of Part 2 of Schedule 2	100%
	(e) marketable debt securities mentioned in section 1(e) of Part 2 of Schedule 2	100%

	Column 1	Column 2
	Asset class/asset subclass	Post-haircut factor
2.	Level 2A assets	
	(a) marketable debt securities mentioned in section 2(a) of Part 2 of Schedule 2	85%
	(b) marketable debt securities mentioned in section 2(b) of Part 2 of Schedule 2	85%
	(c) covered bonds mentioned in section 2(c) of Part 2 of Schedule 2	85%
3.	Level 2B assets	
	(a) marketable debt securities mentioned in section 3(a) of Part 2 of Schedule 2	50%
	(b) approved RMBS	75%

Table 2**Foreign Exchange Haircuts**

Column 1	Column 2
Type of foreign currency	Foreign exchange haircut
Level 1 assets denominated in US dollars	2%

Column 1	Column 2
Type of foreign currency	Foreign exchange haircut
Level 1 assets denominated in Euro, Japanese yen or pound sterling	8%
Level 1 assets denominated in any other foreign currency that is freely convertible into Hong Kong dollars	10%

Table 3

Outflow Rates for Calculation of Total Expected Cash Outflows Arising from On-balance Sheet Liabilities or Off-balance Sheet Obligations Mentioned in Rule 41(10)

Column 1	Column 2	Column 3
Paragraph under rule 41(1)	Type of on-balance sheet liability or off-balance sheet obligation	Outflow rate
Paragraph (b)	Less stable retail deposits	10% (subject to rule 41(13))
Paragraph (c)	Retail term deposits	5%

Column 1	Column 2	Column 3
Paragraph under rule 41(1)	Type of on-balance sheet liability or off-balance sheet obligation	Outflow rate
Paragraph (h)	Debt securities and prescribed instruments issued by a category 1 institution and redeemable within the LCR period (irrespective of whether the holders of the debt securities or prescribed instruments are retail customers or wholesale customers)	100%
Paragraph (o)	Other contingent funding obligations—	
	(a) trade-related contingencies;	3%
	(b) guarantees and letters of credit unrelated to trade-related contingencies;	10%
	(c) uncommitted facilities;	0%
	(d) non-contractual contingent funding obligations arising from—	100%

Column 1	Column 2	Column 3
Paragraph under rule 41(1)	Type of on-balance sheet liability or off-balance sheet obligation	Outflow rate
	<ul style="list-style-type: none"> <li data-bbox="480 409 757 958">(i) debt securities or structured financial instruments, in respect of which a category 1 institution (or an associated entity of it) is the issuer, a market maker or a dealer, or has been involved as an originator, sponsor, marketing agent or seller; <li data-bbox="480 973 757 1282">(ii) money market funds or other types of collective investment funds marketed by a category 1 institution (or an associated entity of it); or 	

Column 1	Column 2	Column 3
Paragraph under rule 41(1)	Type of on-balance sheet liability or off-balance sheet obligation	Outflow rate
	(iii) circumstances not otherwise specified in paragraph 140 of the Basel III LCR document, where there is a reasonable expectation that the obligations will materialize within the LCR period	

Table 4**Inflow Rates for Calculation of Expected Cash Inflow Applicable to Other Contractual Cash Inflows under Rule 42(2)(h)**

Column 1	Column 2
Type of other contractual cash inflow	Inflow rate
Other contractual cash inflow to be received from—	
(a) any of the following—	100%

Column 1	Column 2
Type of other contractual cash inflow	Inflow rate
(i) the Monetary Authority for the account of the Exchange Fund	
(ii) central banks	
(iii) financial institutions	
(b) retail customers or small business customers	50%
(c) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers), or any other persons not covered by paragraph (a) or (b)	50%”.

25. Schedule 5 amended (liquidity conversion factors applicable to assets and liabilities in calculation of LMR)

Schedule 5—

Repeal

“49]”

Substitute

“49 & Sch. 6]”.

26. Schedules 6 and 7 added

After Schedule 5—

Add

“Schedule 6

[rr. 54, 57, 58, 59, 65,
68, 76, 77 &
80]

Tables Related to NSFR and CFR**Table 1****ASF Factors for Determination of Weighted Amounts of Capital and On-balance Sheet Liabilities**

Capital or on-balance sheet liability of a category 1 institution	Remaining term to maturity—ASF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
1. Capital—					
(a) Tier 1 capital (before regulatory adjustments)	100%	100%	100%	100%	100%
(b) Tier 2 capital (before regulatory adjustments)	0%	50%	100%	100%	100%
(c) minority interests not covered by sub-item (a) or (b)	0%	50%	100%	100%	100%

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B5421

Rule 26

Capital or on-balance sheet liability of a category 1 institution	Remaining term to maturity—ASF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
(d) capital instruments not covered by sub-item (a), (b) or (c)		0%	50%	100%	100%
2. Debt securities or prescribed instruments issued by the institution		0%	50%	100%	100%
3. Retail deposits—					
(a) stable retail deposits		95%	95%	100%	N/A
(b) retail deposits not covered by sub-item (a)		90%	90%	100%	N/A
4. Small business funding—					
(a) stable small business funding		95%	95%	100%	N/A
(b) small business funding not covered by sub-item (a)		90%	90%	100%	N/A
5. Operational deposits		50%	50%	100%	N/A

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B5423

Rule 26

Capital or on-balance sheet liability of a category 1 institution	Remaining term to maturity—ASF factor			
	Column 1	Column 2	Column 3	Column 4
	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
6. Funding (other than operational deposits) provided to the institution by—				
(a) corporates (other than small business customers), sovereigns, multilateral development banks, national development banks and public sector entities	50%	50%	100%	N/A
(b) the Monetary Authority for the account of the Exchange Fund or central banks	0%	50%	100%	N/A
(c) financial institutions and other entities not covered by sub-item (a) or (b)	0%	50%	100%	N/A

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B5425

Rule 26

Capital or on-balance sheet liability of a category 1 institution	Remaining term to maturity—ASF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
7. Funding provided to the institution not covered by items 1 to 6		0%	50%	100%	0%
8. Deferred tax liabilities		0%	50%	100%	N/A
9. Net derivative liabilities		N/A	N/A	N/A	0%
10. Trade-date payables		0%	N/A	N/A	N/A
11. Liabilities not covered by items 1 to 10		0%	0%	0%	0%

Table 2**RSF Factors for Determination of Weighted Amounts of On-balance Sheet Assets and Off-balance Sheet Obligations**

On-balance sheet asset or off-balance sheet obligation of a category 1 institution	Remaining term to maturity—RSF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
1. Currency notes and coins		N/A	N/A	N/A	0%
2. Claims on the Monetary Authority for the account of the Exchange Fund or central banks—					
(a) funds placed with the institution's HKD CHATS Account, or with central banks to meet reserve requirements		0%	0%	0%	0%

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B5429

Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 1 institution	Remaining term to maturity—RSF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
(b) claims on the Monetary Authority for the account of the Exchange Fund or central banks not covered by sub-item (a), having a remaining term to maturity of less than 6 months or being repayable on demand	0%	N/A	N/A	N/A	
(c) loans provided by the institution to the Monetary Authority for the account of the Exchange Fund or central banks, having a remaining term to maturity of 6 months or more—					
(i) loans that are subject to a risk-weight of 20% or less under section 55(2) of the Capital Rules	N/A	50%	65%	65%	

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Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 1 institution	Remaining term to maturity—RSF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
(ii) loans not covered by sub- sub-item (i)		N/A	50%	85%	85%
3. Securities held by the institution (other than securities representing the institution's claims covered by item 2(b))—					
(a) level 1 assets		5%	5%	5%	5%
(b) level 2A assets		15%	15%	15%	15%
(c) level 2B assets		50%	50%	50%	50%
(d) debt securities not covered by sub-item (a), (b) or (c)		50%	50%	85%	85%
(e) listed equities		N/A	N/A	N/A	85%
4. Physical traded commodities held by the institution		N/A	N/A	N/A	85%

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Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 1 institution	Remaining term to maturity—RSF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
5. Operational deposits placed by the institution at other financial institutions		50%	50%	100%	100%
6. Loans and funds (other than operational deposits) provided by the institution to other financial institutions—					
(a) loans and funds secured by level 1 assets		10%	50%	100%	100%
(b) loans and funds not covered by sub-item (a)		15%	50%	100%	100%

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Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 1 institution	Remaining term to maturity—RSF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
7. Loans and funds provided by the institution to retail customers and wholesale customers (other than the Monetary Authority for the account of the Exchange Fund, central banks and financial institutions)—					
(a) loans and funds that are subject to a risk- weight of 35% or less under Division 3 of Part 4 of the Capital Rules	50%	50%	65%	65%	
(b) loans and funds not covered by sub-item (a)	50%	50%	85%	85%	
8. Assets posted by the institution as initial margins or default fund contributions—					

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B5437

Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 1 institution	Remaining term to maturity—RSF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
(a) assets that would have been subject to an RSF factor of 100% had it not been posted by the institution		100%	100%	100%	100%
(b) assets not covered by sub-item (a)		85%	85%	85%	85%
9. Net derivative assets		N/A	N/A	N/A	100%
10. Trade-date receivables		0%	N/A	N/A	N/A
11. Assets not covered by items 1 to 10—					

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B5439

Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 1 institution	Remaining term to maturity—RSF factor				
Column 1	Column 2	Column 3	Column 4	Column 5	
	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity	
(a) fixed assets, investments in associated entities and other unlisted equities, goodwill and other intangible assets, assets of any defined benefit pension fund or plan, investments in own capital instruments (if not derecognized under applicable accounting standards), insurance assets, retained interests, non-performing assets, and other assets that do not have specified terms to maturity	100%	100%	100%	100%	
(b) other assets that have specified terms to maturity	50%	50%	100%	N/A	

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B5441

Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 1 institution	Remaining term to maturity—RSF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
12. Off-balance sheet obligations arising from—					
(a) potential drawdown of undrawn committed facilities	5%	5%	5%	5%	
(b) potential drawdown of uncommitted facilities	0%	0%	0%	0%	
(c) trade-related contingencies	0%	0%	0%	0%	
(d) guarantees and letters of credit unrelated to trade- related contingencies	0%	0%	0%	0%	

Table 3**ACF Factors for Determination of Weighted Amounts of Capital and On-balance Sheet Liabilities**

Capital or on-balance sheet liability of a category 2A institution	Remaining term to maturity—ACF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
1. Capital—					
(a) Tier 1 capital (before regulatory adjustments)	100%	100%	100%	100%	100%
(b) Tier 2 capital (before regulatory adjustments)	0%	50%	100%	100%	100%
(c) minority interests not covered by sub-item (a) or (b)	0%	50%	100%	100%	100%
(d) capital instruments not covered by sub-item (a), (b) or (c)	0%	50%	100%	100%	100%
2. Debt securities or prescribed instruments issued by the institution	0%	50%	100%	100%	100%
3. Deposits	80%	90%	100%	100%	N/A

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B5445

Rule 26

Capital or on-balance sheet liability of a category 2A institution	Remaining term to maturity—ACF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
4. Funding provided to the institution not covered by item 1, 2 or 3		0%	50%	100%	0%
5. Deferred tax liabilities		0%	50%	100%	N/A
6. Net derivative liabilities		N/A	N/A	N/A	0%
7. Trade-date payables		0%	N/A	N/A	N/A
8. Liabilities not covered by items 1 to 7		0%	0%	0%	0%

Table 4**RCF Factors for Determination of Weighted Amounts of On-balance Sheet Assets and Off-balance sheet Obligations**

On-balance sheet asset or off-balance sheet obligation of a category 2A institution	Remaining term to maturity—RCF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
1. Currency notes and coins		N/A	N/A	N/A	0%
2. Gold bullion		N/A	N/A	N/A	0%
3. Claims on, or reserves maintained with, the Monetary Authority for the account of the Exchange Fund or central banks		0%	0%	0%	0%
4. Export bills		0%	50%	100%	N/A
5. Securities or prescribed instruments held by the institution—					

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B5449

Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 2A institution	Remaining term to maturity—RCF factor			
	Column 1	Column 2	Column 3	Column 4
	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
(a) securities or prescribed instruments mentioned in item 6 of Table A in section 2 of Schedule 5	0%	0%	0%	0%
(b) securities or prescribed instruments not covered by sub-item (a)	0%	50%	100%	100%
6. Loans and funds provided by the institution to banks	0%	50%	100%	100%
7. Loans and funds provided by the institution to customers (other than the Monetary Authority for the account of the Exchange Fund, central banks and banks)—				

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B5451

Rule 26

On-balance sheet asset or off-balance sheet obligation of a category 2A institution	Remaining term to maturity—RCF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
(a) residential mortgage loans mentioned in item 7 of Table A in section 2 of Schedule 5		0%	0%	0%	N/A
(b) loans and funds provided to customers not covered by sub-item (a)		0%	50%	100%	100%
8. Net derivative assets		N/A	N/A	N/A	100%
9. Trade-date receivables		0%	N/A	N/A	N/A
10. Assets not covered by items 1 to 9—					

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Rule 26

B5453

On-balance sheet asset or off-balance sheet obligation of a category 2A institution	Remaining term to maturity—RCF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
(a) fixed assets, investments in associated entities and other unlisted equities, goodwill and other intangible assets, assets of any defined benefit pension fund or plan, investments in own capital instruments (if not derecognized under applicable accounting standards), insurance assets, retained interests, non-performing assets, and other assets that do not have specified terms to maturity		100%	100%	100%	100%
(b) other assets that have specified terms to maturity		0%	50%	100%	N/A

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B5455

On-balance sheet asset or off-balance sheet obligation of a category 2A institution	Remaining term to maturity—RCF factor				
	Column 1	Column 2	Column 3	Column 4	Column 5
		< 6 months or repayable on demand	6 months to < 12 months	12 months or more	No specified term to maturity
11. Off-balance sheet obligations arising from—					
(a) potential drawdown of undrawn committed facilities		5%	5%	5%	5%
(b) potential drawdown of uncommitted facilities		0%	0%	0%	0%
(c) trade-related contingencies		0%	0%	0%	0%
(d) guarantees and letters of credit unrelated to trade- related contingencies		0%	0%	0%	0%

Schedule 7

[r. 59]

Specified National Development Banks”.

Norman CHAN
Monetary Authority

17 October 2017

Explanatory Note

These Rules amend the Banking (Liquidity) Rules (Cap. 155 sub. leg. Q) (*BLR*).

Main Purpose

2. The existing BLR requires—
 - (a) the maintenance of a liquidity coverage ratio (*LCR*) by an authorized institution that is a category 1 institution designated under rule 3(1) of the BLR (*category 1 institution*); and
 - (b) the maintenance of a liquidity maintenance ratio (*LMR*) by an authorized institution that is not a category 1 institution (*category 2 institution*).
3. In addition to the LCR and LMR, these Rules add the requirements to maintain the following new ratios—
 - (a) a net stable funding ratio (*NSFR*) (applicable to a category 1 institution);
 - (b) a core funding ratio (*CFR*) (applicable to a category 2A institution designated under the new rule 3A(1) of the BLR (*category 2A institution*) (added by rule 4)).
4. The NSFR requirements seek to reduce funding risk of category 1 institutions over a longer time horizon by requiring the institutions to fund their activities with sufficiently stable sources of funding. The requirements are drawn mainly from the following documents—

- (a) “Basel III: the net stable funding ratio” published by the Basel Committee on Banking Supervision (**BCBS**) in October 2014;
 - (b) “Basel III—The Net Stable Funding Ratio: frequently asked questions” published by the BCBS in February 2017.
5. The CFR requirements for category 2A institutions are developed by the Monetary Authority (**MA**), based on the NSFR requirements with certain modifications.

NSFR

6. Category 1 institutions are designated by the MA on grounds specified in Part 1 or 2 of Schedule 1 to the BLR, including, among others, that the institution is internationally active or significant to the general stability and effective working of the banking system in Hong Kong, or that the liquidity risk associated with the institution is material.
7. A category 1 institution’s NSFR is the ratio of its available stable funding (**ASF**) to its required stable funding (**RSF**). The minimum NSFR level must be 100%, as provided for under Division 1 of the new Part 3A of the BLR (added by rule 5), subject to a self-rectification mechanism (in the new rule 8B in that Division). Division 2 of the new Part 9 of the BLR (**Part 9**) (added by rule 22) provides for the calculation of NSFR.

8. The ASF is the sum of the values of the institution's capital and on-balance sheet liabilities (listed in Table 1 in the new Schedule 6 to the BLR (*Schedule 6*) (added by rule 26)) weighted by the applicable ASF factors. The RSF is the sum of the values of the institution's on-balance sheet assets and off-balance sheet obligations (listed in Table 2 in Schedule 6) weighted by the applicable RSF factors. Division 2 of Part 9 also provides for the determination of ASF and RSF. ASF factors and RSF factors are specified in the above mentioned Tables 1 and 2.
9. Rule 12(1) to (4) amends rule 14 of the BLR so that if a category 1 institution fails to maintain the minimum NSFR level, the institution must notify the MA immediately (except where the new rule 8B of the BLR (added by rule 5) applies). The institution and the MA must then enter into discussions, and the MA may determine whether (and what) remedial actions should be taken.

CFR

10. The new rule 3A of the BLR (added by rule 4) provides that the MA may designate a category 2 institution as a category 2A institution, after taking into account the size of its business operation and the liquidity risks associated with it.
11. A category 2A institution's CFR is the ratio of its available core funding (*ACF*) to its required core funding (*RCF*). The new rule 8D of the BLR (added by rule 5) provides that the minimum CFR level (on average in each calendar month) must be 50% in 2018, and 75% from 1 January 2019 onwards. Division 3 of Part 9 provides for the calculation of CFR.

12. The ACF is the sum of the values of the institution's capital and on-balance sheet liabilities (listed in Table 3 in Schedule 6) weighted by the applicable ACF factors. The RCF is the sum of the values of the institution's on-balance sheet assets and off-balance sheet obligations (listed in Table 4 in Schedule 6) weighted by the applicable RCF factors. Division 3 of Part 9 also provides for the determination of ACF and RCF. ACF factors and RCF factors are specified in the above mentioned Tables 3 and 4.
13. Rule 12(5) and (6) amends rule 14 of the BLR so that if a category 2A institution fails to maintain the minimum CFR level, the institution must notify the MA immediately. The institution and the MA must then enter into discussions, and the MA may determine whether (and what) remedial actions should be taken.

Valuation, Bases of Calculation and Associated Entities

14. Part 4 (rules 9 to 12) of the BLR provides for valuation of assets, etc., at fair value and bases of calculation for the purposes of LCR and LMR. That Part is amended to apply the provisions to NSFR and CFR also.
15. Rule 7 amends rule 9 of the BLR to provide for prudent and reliable valuation and adjustments in relation to NSFR and CFR.
16. Rules 8, 9 and 10 amend rules 10, 11 and 12 of the BLR to provide for the bases of calculation of NSFR and CFR, which are in principle as follows (subject to detailed provisions in those rules)—
 - (a) a category 1 institution or category 2A institution must calculate its NSFR or CFR—

-
- (i) irrespective of its place of incorporation, on a basis covering all of its business in Hong Kong (*Hong Kong office basis*); and
 - (ii) if it is incorporated in Hong Kong with an overseas branch, on an unconsolidated basis (being the Hong Kong office basis with the inclusion of the business of its overseas branches but not its associated entities);
 - (b) the MA may require a category 1 institution or category 2A institution incorporated in Hong Kong to calculate its NSFR or CFR—
 - (i) on a consolidated basis (being the basis with the inclusion of all of its business and one or more of its associated entities as specified by the MA); or
 - (ii) on the basis of a part of the institution's business in or outside Hong Kong by itself, or in conjunction with any other part of the institution's other business.
17. Rule 11 amends rule 13 of the BLR to require a category 1 institution or category 2A institution that calculates its NSFR or CFR on a consolidated basis to give notice to the MA of certain matters concerning its associated entities.

Other Amendments

18. Rules 3 and 17 amend rules 2 and 39 of the BLR to—
- (a) amend or relocate existing definitions; and
 - (b) add new definitions.

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Explanatory Note
Paragraph 19

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19. Rules 15, 16, 19 and 20 amend rules 35, 38, 41 and 42 of the BLR to group the existing Tables 1 to 4 in those rules in the new Schedule 4A to the BLR (added by rule 24).
20. Rules 14, 15(3), (5) and (7), 21 and 23(2), (3), (4), (5) and (6) make minor amendments to rules 22, 35 and 53 of and Schedule 2 to the BLR for textual consistency.