

# Banking sector sets up co-ordination mechanism to support small and medium-sized enterprises

The following is issued on behalf of the Hong Kong Monetary Authority:

The first meeting of the Banking Sector SME Lending Coordination Mechanism established by the Hong Kong Monetary Authority (HKMA) was held today (October 16). The meeting was attended by representatives from the Hong Kong Association of Banks (HKAB), nine major banks and the Hong Kong Mortgage Corporation Limited (HKMC).

The HKMA reiterated at the meeting that small and medium-sized enterprises (SMEs) are a major pillar of the Hong Kong economy. Banks should provide funding support to SMEs as far as their credit policies and risk management principles allow. Banks attending the meeting appreciated that, given the current economic environment, some SMEs may face financial difficulties. Banks will follow the guidelines set out in the "Hong Kong Approach to Corporate Difficulties" and be sympathetic to SME customers encountering financial difficulties. Banks will enhance communication with these customers and will not withdraw credit lines hastily or take other credit actions that will adversely affect the customers' business operations.

At the first meeting, the banks agreed to adopt the following measures to support SMEs:

1. The banks noted that the HKMA has reduced the countercyclical capital buffer (CCyB) ratio to 2 per cent from 2.5 per cent, releasing the capital buffer built up by the banking sector in the past. The banks agreed to make good use of the released buffer to support SMEs;
2. When banks come across SMEs facing financial difficulties, they will, as far as risk management principles permit, proactively consider allowing customers to extend or reschedule their repayment period, including making use of the recently introduced principal moratorium measure under the SME Financing Guarantee Scheme (SFGS), to lessen the cash flow pressure faced by SMEs;
3. Most banks have already reduced the guarantee fee and offered interest rebate under the SFGS. They will continue to explore whether there is further room to introduce more concessionary measures to alleviate the financial burden of SMEs;
4. The banks are strengthening their internal communication to ensure that frontline staff understand the banks' policy on supporting SMEs, and remind their staff to adopt an accommodative approach when dealing with SMEs' financing needs without compromising prudent risk management principles;

5. The banks support the real estate sector to help retailers ride out the current difficult period through arrangements such as rental reduction or rent-free period. The banks clarified that they will not reassess collateral value and adjust credit limits just because landlords offer rental concession to their tenants;

6. The banks indicated that they will make reference to the practices of those banks offering "Simple Bank Accounts" services, and conduct less extensive customer due diligence according to risk-based principles to facilitate SMEs to open bank accounts;

7. To support SMEs to meet the additional expenses arising from the restructuring of their supply chains in response to the Sino-US trade war, the banks indicated that they are willing to consider offering credits to finance SMEs' plant relocation or construction of new plants; and

8. The HKAB and the HKMC will set up a mechanism to collect SMEs' opinions on Government's SME support policies received by banks. The opinions will then be passed onto the Government to facilitate enhancement of these policies.

With regard to banks' question at the meeting on whether loans with rescheduled repayment periods in support of SMEs should be classified as "rescheduled loans", the HKMA clarified that under existing supervisory guidelines, a rescheduled loan refers to one which has been restructured or renegotiated either because of a deterioration in the financial position of the borrower or because of the inability of the borrower to meet the original repayment schedule, and the revised repayment terms are "non-commercial" to the bank concerned. If a bank proactively revises the repayment terms to support a borrower with overdue payments for a short period, and the revised repayment terms are "commercial", the loan to the borrower does not fall within the definition of "rescheduled loan". Accordingly, the bank need not categorise the loan as non-performing nor make any provision. A revision of repayment terms will generally be regarded as "commercial" if it does not involve a reduction in principal repayment, and the applicable interest rates of the loan are not substantially below prevailing market levels.

The HKMA, together with the banking sector, will continue to maintain close dialogue with the commercial sector with a view to providing appropriate support to SMEs and helping them tide over the current difficulties.