

Consultation conclusion on rules prescribing loss-absorbing capacity requirements for authorized institutions

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

The Hong Kong Monetary Authority (HKMA) today (July 25) released the consultation conclusion on the public consultation relating to rules prescribing loss-absorbing capacity (LAC) requirements for authorized institutions (Rules) proposed to be made as subsidiary legislation under section 19(1) of the Financial Institutions (Resolution) Ordinance (Cap 628) (Ordinance).

The core of the HKMA's LAC policy proposal is that authorized institutions whose failure could pose a risk to the financial system in Hong Kong should be required to have sufficient LAC in order to facilitate the orderly failure of such entities, should they reach the point of non-viability. To this end, requiring authorized institutions to maintain sufficient LAC is a pre-requisite to enabling the Monetary Authority, as resolution authority for the banking sector, to use the powers under the resolution regime established by the Ordinance to manage any future failure of an authorized institution in an orderly manner that avoids disruption to financial stability and minimises the risk to public funds.

At the end of the consultation period (January 17 to March 16), a total of ten submissions had been received, including from industry associations (both domestic and international), authorized institutions and financial market infrastructures.

Respondents provided constructive comments on the proposals set out in the consultation paper. While some sought additional clarity on the details of the proposals in the consultation paper, no respondents challenged the basic principle of the policy proposal.

The HKMA has carefully reviewed all comments, and the Monetary Authority's responses are set out in the consultation conclusion, with appropriate changes adopted in developing the draft Rules. The intention is to consult industry on the text of the draft Rules before introducing the Rules as subsidiary legislation under the Ordinance into the Legislative Council for negative vetting later in 2018.

The Ordinance was enacted by the Legislative Council on June 22, 2016. The main provisions of the Ordinance came into operation on July 7, 2017.

The consultation conclusion can be downloaded from the HKMA's website

(www.hkma.gov.hk/eng/key-functions/banking-stability/resolution/resolution-publications).