Designation of Domestic Systemically Important Authorized Institutions

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

The Hong Kong Monetary Authority (HKMA) has completed its annual assessment of the list of Domestic Systemically Important Authorized Institutions (D-SIBs). Based on the assessment results, the list of authorised institutions designated as D-SIBs remains unchanged compared to the list of D-SIBs published by the HKMA on December 21, 2018. The latest list of D-SIBs is shown in the Annex.

Under the D-SIB framework, each of the authorised institutions designated as a D-SIB will be required to include a Higher Loss Absorbency (HLA) requirement into the calculation of their regulatory capital buffers within a period of 12 months after the formal notification of its designation. The HLA requirement applicable to a D-SIB (expressed as a ratio of an authorised institution's Common Equity Tier 1 capital to its risk-weighted assets as calculated under the Banking (Capital) Rules) ranges between 1 per cent and 3.5 per cent (depending on the assessed level of the D-SIB's systemic importance).

Compared with the list of D-SIBs published in December 2018, the HLA requirement for one authorised institution (Standard Chartered Bank (Hong Kong) Limited) has increased from 1 per cent to 1.5 per cent and that for another authorised institution (Hang Seng Bank Limited) has decreased from 1.5 per cent to 1 per cent.

Further details about the decision can be found on the HKMA website (Systemically Important Authorized Institutions (SIBs)).

Background

(1) D-SIB framework in Hong Kong

The Banking (Capital) Rules and the HKMA's regulatory framework for D-SIBs follow the provisions in "A framework for dealing with domestic systemically important banks" issued by the Basel Committee in October 2012, by enabling the Monetary Authority (i) to designate an authorised institution as a D-SIB if the Monetary Authority considers the authorised institution to be of systemic importance in the context of the Hong Kong banking and financial system and (ii) to require an authorised institution designated as a D-SIB to be subject to an HLA capital buffer.

The rationale for imposing an HLA requirement on D-SIBs is to reduce any probability of them becoming non-viable. This is considered both prudent and justified in view of the greater impact that they could have, in the unlikely event of their failure, on the domestic financial system and the local economy more broadly.

(2) HLA requirement for authorised institutions designated as D-SIBs

The Monetary Authority is empowered under sections 3U and 3V of the Banking (Capital) Rules to designate D-SIBs and to determine an HLA requirement for each of these D-SIBs by reference to the degree of domestic systemic importance which the Monetary Authority assesses them to bear. To achieve this aim, the HKMA's regulatory framework for D-SIBs provides for authorised institutions designated as D-SIBs to be allocated to different HLA "buckets". This differentiated approach reflects the diversified nature and varying degrees of systemic importance of authorised institutions in Hong Kong.

The designated D-SIBs must apply the HLA in the calculation of their regulatory capital buffers within 12 months of the formal notification of their designation. There are five HLA buckets in total ranging from 1 per cent to 3.5 per cent. While only the first four buckets (i.e. from 1 per cent to 2.5 per cent) have been populated so far, the framework includes an empty 3.5 per cent bucket to encourage D-SIBs to refrain from becoming even more systemically important.

The HLA applied to a D-SIB serves (together with the Countercyclical Capital Buffer) as an extension of the Basel III Capital Conservation Buffer. Accordingly, if and when a D-SIB's CET1 capital ratio falls within the extended buffer range, the D-SIB will be subject to restrictions on the discretionary distributions it may make. The effect of this is that D-SIBs will be required to retain earnings in order to bolster their regulatory capital.