

Issue of Code of Practice chapter in relation to Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules

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

The Hong Kong Monetary Authority today (March 20) issued in relation to the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules") a chapter of a code of practice ("LAC CoP") under section 196 of the Financial Institutions (Resolution) Ordinance ("FIRO").

The LAC Rules, which came into operation on December 14, 2018, give certain discretionary powers to the Monetary Authority ("MA") as resolution authority for the banking sector. The LAC CoP provides guidance on how the MA intends to exercise those powers, including the power to classify authorized institutions and certain of their group companies as "resolution entities" or "material subsidiaries". Those entities will then be required to maintain minimum levels of loss-absorbing capacity (LAC). In particular, the LAC CoP sets out the MA's planning assumption that where the total consolidated assets of a Hong Kong incorporated authorized institution exceed HK\$300 billion, LAC requirements should be imposed.

The Chief Executive of the Hong Kong Monetary Authority, Mr Norman Chan said "Requiring authorized institutions in Hong Kong to maintain sufficient loss-absorbing capacity resources is a crucial step towards ensuring that should they fail in the future, they can be resolved in an orderly way that avoids disruption to financial stability while minimising the risk to public funds."

A draft of the LAC CoP was issued for consultation last year (the consultation period ran from October 19, 2018 to December 3, 2018). A total of seven submissions were received. The Hong Kong Monetary Authority has carefully reviewed all comments, and reflected them in the final version of the LAC CoP where appropriate.

The LAC CoP can be downloaded from the [Hong Kong Monetary Authority's website](#).