

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 29, 2017. 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. In line with the phase-in arrangements in the frameworks issued by the Basel Committee on Banking Supervision (Basel Committee) for assessing D-SIBs and global systemically important banks (G-SIBs), the full amount of the HLA requirement will be phased-in from 2016 to 2019 in parallel with the Capital Conservation Buffer and Countercyclical Capital Buffer. Ultimately, 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) will range between 1 per cent and 3.5 per cent (depending on the assessed level of the D-SIB's systemic importance).

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 additional 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, which came into effect on January 1, 2015, to designate D-SIBs and to determine an HLA requirement for such 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 authorized 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 notification of their designation. There are five HLA buckets in total ranging from 1 per cent to 3.5 per cent. Initially, only the first four buckets (i.e. from 1 per cent to 2.5 per cent) are populated, with an empty 3.5 per cent bucket to deter D-SIBs from becoming even more systemically important. The HLA requirement has started to phase-in from January 2016 and will reach full implementation by January 2019. This means that the HLA applicable to a D-SIB between 2016 and 2018 is only a percentage of the full HLA requirement, and this percentage will increase by 25 per cent of the full HLA requirement each year. The phase-in ranges of the HLA requirement are as follows (1):

HLA bucket	2016	2017	2018	≥2019
5	0.875 per cent	1.75 per cent	2.625 per cent	3.5 per cent
4	0.625 per cent	1.25 per cent	1.875 per cent	2.5 per cent
3	0.5 per cent	1 per cent	1.5 per cent	2 per cent
2	0.375 per cent	0.75 per cent	1.125 per cent	1.5 per cent
1	0.25 per cent	0.5 per cent	0.75 per cent	1 per cent

The HLA applied to a D-SIB takes effect (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.

(1) However, it does not necessarily follow that a D-SIB in a given HLA bucket will remain in that bucket throughout the phase-in period, as there may be intervening changes in its perceived degree of systemic importance.