

4 September 2023

Daryl Ho
Executive Director
Banking Policy Department
Hong Kong Monetary Authority
55/F, Two International Finance Centre
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By email: dho@hkma.gov.hk

Dear Mr. Daryl Ho,

ASIFMA-ISDA response to consultation on timeline for implementation of Basel III final reform package

The Asia Securities Industry & Financial Market Association (“ASIFMA”)¹ and the International Swaps and Derivatives Association, Inc. (“ISDA”)² welcomes the opportunity to respond to the consultation by the Hong Kong Monetary Authority (“HKMA”) on the timeline for implementation of Basel III final reform package.

Our members are supportive of the consultation to update the local schedule for implementing the Basel III final reform package and have set out our response below.

Implementation dates for market risk and CVA risk

Members welcome the revised timeline of minimum regulatory requirement for the revised standards on market risk and CVA risk to start no earlier than 1 January 2025 as this would be aligned with other major jurisdictions like the United Kingdom (“UK”) and European Union (“EU”) and closer to the implementation date consulted in the United States (“US”) which is 1 July 2025. We strongly encourage alignment of implementation dates of Basel III reforms across jurisdictions to avoid additional complexity and unlevel playing field issues.

Additionally, members note that the implementation of the reporting-only requirement for the revised standards on market risk and CVA risk will start no earlier than 1 July 2024. In this regard, members would greatly appreciate if the HKMA would consider a longer phase in

¹ ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading FIs from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region’s economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

² ISDA Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. ISDA has over 1000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association’s website: www.isda.org.

period than 6 months for the transition of compliance with the reporting requirement to the minimum regulatory requirement to allow the industry sufficient time of 12 months to implement and operationalise in an orderly manner.

Implementation dates for credit risk, operational risk and output floor

The HKMA stated that the implementation date for credit risk, operational risk, and output floor is slated for no earlier than 1 July 2024 and members note that this is ahead of the implementation timeline for UK and EU which is expected to be 1 January 2025 while the US is still undergoing consultation but have proposed for an implementation date of 1 July 2025, with a three-year phase in period.

Other areas which are dependent on the HKMA's approval

For areas which are dependent on the HKMA's approval, for example, IRB models to comply with the B3.1 rules, members would greatly appreciate the HKMA's review decisions as soon as possible or at least 12 months ahead of implementation to allow proper integration and testing with the B3.1 RWA calculation process, given the scale and complexity of the end-to-end changes involved.

Members would like to suggest for the HKMA to issue the B3.1 related guidelines, such as structural FX waiver under FRTB application, IRB Implementation FAQ update, and CA-G-4 on Validating Risk Rating Systems under the IRB Approach as soon as possible. This will allow for sufficient preparation time for members to perform self-assessment to ascertain compliance and process the application prior to the effective date of the new rules / HKMA requirements.

Finalisation of implementation timeline

Members would welcome more certainty on the go-live date as this will help the industry to ensure adequate resources are arranged for the revised timeframes.

Members also strongly encourage the HKMA to align the timeline with other key jurisdictions timelines as it is important that international standards such as Basel III are implemented consistently across jurisdictions to ensure a level playing field for market participants and to minimise any unintended consequences of market fragmentation.

Thank you for your consideration of our members' feedback. Should the HKMA wish to discuss our response, please do not hesitate to contact the undersigned at dparusheva@asifma.org, pdionysopoulos@isda.org, and speh@isda.org.

Yours sincerely,

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