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HKMA ANNOUNCES PRE-APPROVED PRINCIPAL PAYMENT HOLIDAY SCHEME AMID COVID-19 PANDEMIC

The Hong Kong Monetary Authority (**HKMA**) and the Banking Sector SME Lending Coordination Mechanism (established by the HKMA in October 2019) have announced a scheme for banks to provide a six-month principal payment holiday to eligible corporate customers aimed at providing relief for SMEs affected by the COVID-19 outbreak (the **Principal Payment Holiday Scheme**). The scheme is expected to launch on 1 May 2020 and details are set out in the Annex¹ to HKMA's press release of 17 April 2020.²

The Principal Payment Holiday Scheme is aimed at providing relief to corporate borrowers affected by the COVID-19 outbreak and importantly, protecting jobs. The relief measures will be welcomed by SMEs, who have taken the brunt of the crisis, with four in 10 SMEs reportedly anticipating that earnings will drop by at least 75% over the next year.³

Deferments of principal payments under the Principal Payment Holiday Scheme will not cause the loan account to be downgraded to a lower category, and the HKMA's FAQs of 28 October 2019 and 9 March 2020 on Rescheduled Loans and Relief Measures for SMEs and Retail Clients apply.

In consideration of the severe economic pressures caused by the pandemic, the HKMA aims to implement the scheme as quickly as possible, with the launch date set for 1 May 2020. All authorised institutions are expected to participate.

1. Key Features of the Pre-approved Principal Payment Holiday Scheme

a. Corporate Borrowers' Eligibility

Corporate borrowers are eligible for the scheme if they:

- i) have annual sales turnover of HK\$ 800 million or less, based on their latest financial statements;
- ii) have no outstanding payments payable to the participating institution which have been overdue for more than 30 days at the scheme's launch date (1 May 2020); and
- iii) are not in the process of ceasing operations or declaring bankruptcy or liquidation.

The threshold of annual sales turnover below HK\$ 800 million is set to cover 80% of corporate borrowers in Hong Kong and will cover a wide range of companies.⁴

For corporate borrowers not covered by the scheme, the HKMA emphasises that participating institutions should be

1 Pre-approved Principal Payment Holiday Scheme for Corporate Customers available at <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2020/20200417e3a1.pdf>

2 HKMA. 17 April 2020. The banking sector launches pre-approved principal payment holiday scheme for corporate customers. Available at: <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/04/20200417-3/>

3 <https://www.scmp.com/business/banking-finance/article/3080467/hong-kong-orders-banks-grant-unprecedented-six-month-loan>

4 <https://www.scmp.com/business/banking-finance/article/3080467/hong-kong-orders-banks-grant-unprecedented-six-month-loan>

accommodating and consider what financial assistance they can provide, assessing borrowers on a case-by-case basis in line with established risk management principles.

For covered borrowers with loans under the SME Financing Guarantee Scheme (**SFGS**) and SME Loan Guarantee Scheme (**SGS**), participating institutions do not need prior written consent from the Hong Kong Mortgage Corporation Insurance Limited (**HKMCI**) or the Trade and Industry Department (**TID**) before offering pre-approval to borrowers. Participating institutions should inform the HKMCI and TID of the revised principal payment terms of loans under the SFGS and SGS.

b. Payments Covered by Principal Payment Holiday Scheme

All principal payments of bilateral loans falling due within 6 months from the scheme's launch date (1 May 2020) to be made by a covered borrower to the participating institution are covered.

Syndicated loans and loans financing the purchase of shares and other financial assets are not covered.

c. Applicable Payment Holiday

Ordinarily, the payment holiday period will be 6 months beginning from the original due dates of the payments covered.

For trade facilities, the payment holiday will be 90 days, and for facilities which are self-liquidating in nature, participating institutions may require the loan to be settled when the underlying payment has been received by the covered borrower.

For revolving facilities with facility limits that are due for review within 6 months from the launch date of the scheme (1 May 2020), the HKMA has said that the participating institution should extend the review dates by 6 months, or not adjust downward the existing facility limit within 6 months from the review dates.

2. Notifying Borrowers that they are Covered by HKMA Principal Payment Holiday Scheme

Participating institutions should begin informing covered borrowers that they are covered by the scheme during April, and should prioritise notifying customers that have principal payments due soon after the launch date (1 May 2020).

The notice should request covered borrowers to contact the bank within 14 days and advise those covered borrowers who respond to the notice of the detailed terms of the pre-approved principal payment holiday and the financial implications.

Importantly, the HKMA emphasises that participating institutions should ensure sufficient resources are dedicated to implementing and operating the scheme and that staff have sufficient knowledge of the scheme to be able to answer customer queries.

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