L.N. 167 of 2023

Banking (Capital) (Amendment) Rules 2023

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Banking (Capital) (Amendment) Rules 2023

(Made by the Monetary Authority under section 97C of the Banking Ordinance (Cap. 155) after consultation with the Financial Secretary, the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, The Hong Kong Association of Banks and The Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies)

Part 1

Preliminary

1. Commencement

(1) Subject to subsection (2), these Rules come into operation on 1 April 2024.

(2) Parts 3, 4 and 5 come into operation on a day to be appointed by the Monetary Authority by notice published in the Gazette.

2. Banking (Capital) Rules amended

The Banking (Capital) Rules (Cap. 155 sub. leg. L) are amended as set out in Parts 2 to 5.

Part 2

Non-Basel III Related Amendments

3. Section 2 amended (interpretation)

(1) Section 2(1), definition of ***commodity-related derivative contract***, before "has"—

Add

", in relation to the calculation of market risk,".

(2) Section 2(1)—

Add in alphabetical order

"***IPO*** means an initial public offering;".

4. Section 3A repealed (minimum capital adequacy ratio applicable to authorized institutions in 2013 and 2014)

Section 3A—

Repeal the section.

5. Section 3B amended (minimum capital adequacy ratio applicable to authorized institutions from 2015)

(1) Section 3B, heading—

Repeal

"**from 2015**".

(2) Section 3B—

Repeal

"on and after 1 January 2015".

6. Section 3D amended (authorized institution must notify Monetary Authority of failure to have minimum capital adequacy ratio)

Section 3D—

Repeal

"3A or".

7. Section 3F amended (distribution payment requirements)

Section 3F—

Repeal subsection (1).

8. Section 3J amended (what authorized institution must do where net CET1 capital ratio above buffer level)

Section 3J—

Repeal subsection (1).

9. Section 3K amended (what authorized institution must do where net CET1 capital ratio not above buffer level)

Section 3K—

Repeal subsection (1).

10. Section 3L amended (other requirements)

Section 3L—

Repeal subsection (1).

11. Section 3M amended (CB ratio)

Section 3M—

Repeal

everything after "3G"

Substitute

"is 2.5%.".

12. Section 3P amended (applicable JCCyB ratio for jurisdiction outside Hong Kong)

(1) Section 3P—

Repeal subsection (2).

(2) Section 3P(3)—

Repeal

"Subject to subsection (2)"

Substitute

"For this Part".

(3) Section 3P(4)—

Repeal

"risks posed to the institutions because of the excessive credit growth in the"

Substitute

"identified system-wide risks related to that".

(4) Section 3P(5)—

Repeal

"(2), (6), (7), (8), (9) and (10)"

Substitute

"(6), (7), (8) and (9)".

(5) Section 3P(7)—

Repeal

"Subject to subsections (2) and (10), if"

Substitute

"If".

(6) Section 3P(8)—

Repeal

"subsections (9) and (10)"

Substitute

"subsection (9)".

(7) Section 3P(9)—

Repeal

"subject to subsection (10),".

(8) Section 3P—

Repeal subsection (10).

13. Section 3Q amended (applicable JCCyB ratio for Hong Kong)

(1) Section 3Q—

Repeal subsection (1).

(2) Section 3Q—

Repeal subsections (2), (3) and (4)

Substitute

"(2) The applicable JCCyB ratio for Hong Kong is the applicable JCCyB ratio announced by the Monetary Authority under subsection (3).

(3) Subject to subsection (7), the Monetary Authority may announce, in accordance with subsection (10), a ratio of 0% or greater that the Monetary Authority considers prudent to be the applicable JCCyB ratio for Hong Kong.

(4) In determining under subsection (3) whether a ratio is prudent, the Monetary Authority may take into account—

(a) the extent of risks for the financial system of Hong Kong; and

(b) any other matters the Monetary Authority considers relevant.".

(3) Section 3Q—

Repeal subsections (5) and (6).

(4) Section 3Q(7)—

Repeal

"The Monetary Authority may announce"

Substitute

"The Monetary Authority may, after consulting the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, The Hong Kong Association of Banks and The DTC Association, announce".

(5) Section 3Q(7)(b)—

Repeal

"pace of credit growth did not slow to any material extent"

Substitute

"system-wide risks did not materially recede".

(6) Section 3Q(7)(c)—

Repeal

"excessive credit growth and the build-up of system-wide risks in"

Substitute

"the build-up of system-wide risks for".

(7) Section 3Q(9)—

Repeal

"associated with a period of excessive credit growth".

(8) Section 3Q(10)—

Repeal

"(6),".

14. Section 3T amended (HLA ratio as applicable to G-SIB)

Section 3T(2)—

Repeal

everything after "concerned"

Substitute

"must be not less than 1% and not more than 3.5%.".

15. Section 3V amended (HLA ratio as applicable to D-SIB)

Section 3V(2)—

Repeal

everything after "concerned"

Substitute

"must be not less than 1% and not more than 3.5%.".

16. Section 43 amended (deductions from CET1 capital)

Section 43(1)(n)—

Repeal

"any capital investment in a connected company of the institution where that connected company is a commercial entity to the extent that the net book value of such investment"

Substitute

"in respect of any capital investment in a connected company of the institution where that connected company is a commercial entity, that part of the net book value of the investment that".

17. Section 54 amended (classification of exposures)

After section 54(i)—

Add

"(ia) exposures falling within section 64A;".

18. Section 64 amended (regulatory retail exposures)

(1) Section 64(2)(b)(ii)—

Repeal

"unlisted."

Substitute

"unlisted;".

(2) After section 64(2)(b)(ii)—

Add

"(iii) an exposure falling within section 64A.".

19. Section 64A added

After section 64—

Add

"**64A. Exposures arising from IPO financing**

(1) This section applies to a credit facility granted by an authorized institution to a securities firm, a small business, a corporate or an individual (***borrower***) if—

(a) the facility is granted by the institution solely for the purpose of financing the borrower's subscription of securities to be listed on The Stock Exchange of Hong Kong Limited through an IPO;

(b) the settlement process of the IPO is conducted on the Fast Interface for New Issuance operated by Hong Kong Securities Clearing Company Limited; and

(c) the money advanced by the institution under the facility is still legally owned and held by, and under the control of, the institution until the settlement of the payment for the securities successfully subscribed.

(2) The institution may allocate a risk-weight of 0% to its exposure arising from the facility during the period between the time the commitment to extend the facility is made by the institution and the time—

(a) payment for the securities successfully subscribed is made by the institution to the receiving bank of the issuer of the securities; or

(b) if the IPO is cancelled before the payment referred to in paragraph (a) is made, the outstanding loan amount under the facility is fully repaid.".

20. Section 66 amended (other exposures which are not past due exposures)

Section 66(1)(b)(ii), after "64,"—

Add

"64A,".

21. Section 67 amended (past due exposures)

Section 67(1), after "64,"—

Add

"64A,".

22. Section 108 amended (classification of exposures)

After section 108(d)—

Add

"(da) exposures falling within section 113A;".

23. Section 113A added

After section 113—

Add

"**113A. Exposures arising from IPO financing**

(1) This section applies to a credit facility granted by an authorized institution to a corporate or an individual (***borrower***) if—

(a) the facility is granted by the institution solely for the purpose of financing the borrower's subscription of securities to be listed on The Stock Exchange of Hong Kong Limited through an IPO;

(b) the settlement process of the IPO is conducted on the Fast Interface for New Issuance operated by Hong Kong Securities Clearing Company Limited; and

(c) the money advanced by the institution under the facility is still legally owned and held by, and under the control of, the institution until the settlement of the payment for the securities successfully subscribed.

(2) The institution may allocate a risk-weight of 0% to its exposure arising from the facility during the period between the time the commitment to extend the facility is made by the institution and the time—

(a) payment for the securities successfully subscribed is made by the institution to the receiving bank of the issuer of the securities; or

(b) if the IPO is cancelled before the payment referred to in paragraph (a) is made, the outstanding loan amount under the facility is fully repaid.

(3) In this section—

corporate (法團) means—

(a) a company; or

(b) a partnership or any other unincorporated body,

that is not a public sector entity, multilateral development bank or bank.".

24. Section 116 amended (other exposures)

Section 116(1)(b)(ii), after "113,"—

Add

"113A,".

25. Section 202B added

Part 6, Division 9, after section 202A—

Add

"**202B. Capital treatment of IPO financing**

An authorized institution may apply section 64A, with all necessary modifications, to determine the risk-weight for the purpose of calculating the risk-weighted amount of the exposures arising from IPO financing in respect of the institution's corporate, bank and retail exposures.".

26. Section 226A amended (interpretation of Part 6A)

Section 226A—

Add in alphabetical order

"***commodity-related derivative contract*** (商品關聯衍生工具合約) means a derivative contract the value of which is determined by reference to the value of, or any fluctuation in the value of, one or more commodities (within the meaning of paragraph (a) of the definition of ***commodity*** in section 2(1));".

27. Section 226X amended (exposures of clearing members to qualifying CCPs)

Section 226X(4), Formula 23K, paragraph (a), before "unless otherwise"—

Add

"subject to section 226Y(6A) and".

28. Section 226Y amended (provisions supplementary to section 226X(4))

After section 226Y(6)—

Add

"(6A) If a qualifying CCP (***first QCCP***) has a link to another qualifying CCP (***second QCCP***) such that an authorized institution, as a clearing member of the first QCCP, is able to centrally clear transactions carried out with the second QCCP's clearing members or their clearing clients without the need of the institution to become the second QCCP's clearing member or its clearing client, for the purposes of section 226X(4)—

(a) the second QCCP may be treated as if it were a clearing member of the first QCCP;

(b) in calculating the K_{CCP} of the first QCCP referred to in paragraph (a) of Formula 23K, a risk-weight of 2%, instead of the risk-weight of 20% required under that paragraph or the risk-weight specified by the Monetary Authority under section 226X(5), may be allocated to the first QCCP's default risk exposure to the second QCCP calculated in accordance with paragraphs 54.28 to 54.35 of the Basel CCR Rules; and

(c) for any asset posted to the first QCCP by the institution for the purposes of the link that could be used by that QCCP as both initial margin and contribution to the mutualized loss sharing arrangement in relation to the link, the

institution must treat the asset as a default fund contribution.".

29. Section 270 substituted

Repeal the section

Substitute

"**270. Determination of risk-weights of securitization exposures**

(1) If, for a securitization transaction, the total nominal amount of the underlying exposures whose delinquency status is unknown to an authorized institution is equal to or less than 5% of the total nominal amount of the entire pool of underlying exposures, the institution must determine the risk-weight of a securitization exposure to the transaction in accordance with section 271.

(2) If, for a securitization transaction, the total nominal amount of the underlying exposures whose delinquency status is unknown to an authorized institution exceeds 5% of the total nominal amount of the entire pool of underlying exposures, the institution must allocate a risk-weight of 1 250% to a securitization exposure to the transaction.".

30. Section 273 amended (calculation of capital charge factor for underlying exposures)

(1) Section 273(2)—

Repeal

"If an authorized institution knows the delinquency status for more than 5%, but not all, of the total nominal amount of the entire pool of underlying exposures of a securitization transaction"

Substitute

"If an authorized institution does not know the delinquency status for the entire pool of underlying exposures of a securitization transaction, but the total nominal amount of the underlying exposures whose delinquency status is unknown to the institution is equal to or less than 5% of the total nominal amount of the pool".

(2) Section 273(2), Formula 27L, heading—

Repeal

"**K_A when Delinquency Status for more than 5% (but not all) of Total Nominal Amount of Pool of Underlying Exposures is Known**"

Substitute

"**K_A when 5% or less (but not 0%) of Total Nominal Amount of Pool of Underlying Exposures whose Delinquency Status is Unknown**".

31. Schedule 1 amended (specifications for purposes of certain definitions in these Rules)

(1) Schedule 1, Part 1, after item 14—

Add

"15. Hong Kong Housing Society

16. West Kowloon Cultural District Authority".

(2) Schedule 1, Part 10, item 4—

Repeal

"Community"

Substitute

"Union".

32. Schedule 4D amended (requirements to be met for minority interests and capital instruments issued by consolidated bank subsidiaries and held by third parties to be included in authorized institution's capital base)

(1) Schedule 4D, section 3(1A)(a)(i)—

Repeal

"sections 3A and"

Substitute

"section".

(2) Schedule 4D, section 3(1A)(a)(ii)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the subsidiary under section 3G".

(3) Schedule 4D, section 3(1A)(b)(i)—

Repeal

"sections 3A and"

Substitute

"section".

(4) Schedule 4D, section 3(1A)(b)(ii)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the institution under section 3G".

(5) Schedule 4D, section 3(1B)(a)—

Repeal

"sections 3A and"

Substitute

"section".

(6) Schedule 4D, section 3(1B)(b)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the institution under section 3G".

(7) Schedule 4D, section 4(1A)(a)(i)—

Repeal

"sections 3A and"

Substitute

"section".

(8) Schedule 4D, section 4(1A)(a)(ii)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the subsidiary under section 3G".

(9) Schedule 4D, section 4(1A)(b)(i)—

Repeal

"sections 3A and"

Substitute

"section".

(10) Schedule 4D, section 4(1A)(b)(ii)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the institution under section 3G".

(11) Schedule 4D, section 4(1B)(a)—

Repeal

"sections 3A and"

Substitute

"section".

(12) Schedule 4D, section 4(1B)(b)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the institution under section 3G".

(13) Schedule 4D, section 5(1A)(a)(i)—

Repeal

"sections 3A and"

Substitute

"section".

(14) Schedule 4D, section 5(1A)(a)(ii)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the subsidiary under section 3G".

(15) Schedule 4D, section 5(1A)(b)(i)—

Repeal

"sections 3A and"

Substitute

"section".

(16) Schedule 4D, section 5(1A)(b)(ii)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the institution under section 3G".

(17) Schedule 4D, section 5(1B)(a)—

Repeal

"sections 3A and"

Substitute

"section".

(18) Schedule 4D, section 5(1B)(b)—

Repeal

"2.5%"

Substitute

"the buffer level applicable to the institution under section 3G".

Part 3

Amendments in relation to Credit Risk, Output Floor, Operational Risk and Sovereign Concentration Risk

33. Section 2 amended (interpretation)

(1) Section 2(1)—

Repeal

", unless the context otherwise requires".

(2) Section 2(1), definition of ***bank***—

Repeal paragraph (b)

Substitute

"(b) subject to subsection (7), a financial institution (other than an authorized institution) incorporated outside Hong Kong—

(i) that is licensed or authorized to take deposits from the public of the jurisdiction in which it is incorporated or it has an establishment; and

(ii) that is either—

(A) an internationally active financial institution subject to appropriate prudential standards (including regulatory capital and liquidity requirements) and level of supervision in accordance with the Basel Framework; or

(B) a financial institution (other than an internationally active financial institution) subject to appropriate prudential standards determined by the banking supervisory authority of the jurisdiction in which it is

incorporated that include at least a minimum regulatory capital requirement;".

(3) Section 2(1), definition of ***commodity***, paragraph (a)(ii)—

Repeal

"inflation); or"

Substitute

"inflation);".

(4) Section 2(1), definition of ***commodity***—

Repeal paragraph (b)

Substitute

"(b) in relation to the calculation of market risk—means any precious metal (other than gold), base metal, non-precious metal, energy, agricultural asset or other physical product that is traded on an exchange; and".

(5) Section 2(1), definition of ***commodity***, after paragraph (b)—

Add

"(c) in relation to the calculation of credit risk (other than counterparty credit risk)—means any item falling within paragraph (a)(i) that is traded on an exchange;".

(6) Section 2(1)—

Repeal the definition of *credit quality grade*

Substitute

"***credit quality grade*** (信用質素等級)—

(a) except in Part 8, means a grade represented by a numeral to which an ECAI rating is mapped in accordance with an LT ECAI rating mapping table or an ST ECAI rating mapping table; and

(b) in Part 8, means a grade represented by a numeral to which an ECAI rating is mapped in accordance with Schedule 11 or 14 to the pre-amended Rules (within the meaning of section 287A) or Schedule 6, 8 or 11 (all as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023);".

(7) Section 2(1)—

Repeal the definition of *ECAI issue specific rating*

Substitute

"***ECAI issue specific rating*** (ECAI特定債項評級)—

(a) in relation to an exposure, subject to paragraphs (b) and (c), means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the exposure by a Type A ECAI or a Type B ECAI;

(b) in relation to an exposure that is a securitization exposure, has the meaning given by section 227A; and

(c) in relation to an exposure in section 287, has the meaning given by section 287(11);".

(8) Section 2(1)—

Repeal the definition of *ECAI issuer rating*

Substitute

"***ECAI issuer rating*** (ECAI發債人評級), in relation to any person (however described)—

(a) except in section 287, means a long-term credit assessment rating that is assigned to the person by a Type A ECAI or a Type B ECAI; and

(b) in section 287, has the meaning given by section 287(11);".

(9) Section 2(1)—

Repeal the definition of *exposure amount*

Substitute

"***exposure amount*** (風險承擔數額)—

(a) in relation to the STC approach, has the meaning given by section 51(1);

(b) in relation to the BSC approach, has the meaning given by section 105; and

(c) in relation to a securitization transaction, has the meaning given by section 227(1);".

(10) Section 2(1)—

Repeal the definition of *external credit assessment institution*

Substitute

"***external credit assessment institution*** (外部信用評估機構) means an institution that is on the list published on the Monetary Authority's website under section 4B(3);".

(11) Section 2(1)—

Repeal the definition of *financial instrument*

Substitute

"***financial instrument*** (金融工具) includes a financial instrument in any one or more of the following forms—

(a) a written document;

(b) information recorded in the form of an entry in a book of account;

(c) information recorded (by means of a computer or otherwise) in a non-legible form but is capable of being reproduced in a legible form;".

(12) Section 2(1), definition of ***foreign public sector entity***—

Repeal paragraph (b)

Substitute

"(b) the Basel Framework;".

(13) Section 2(1), definition of ***insurance firm***, paragraph (a)(i)—

Repeal

"country"

Substitute

"jurisdiction".

(14) Section 2(1), definition of ***internal model***—

Repeal

", market risk or operational risk"

Substitute

"or market risk".

(15) Section 2(1)—

Repeal the definition of *long-term ECAI issue specific rating*

Substitute

"***long-term ECAI issue specific rating*** (長期ECAI特定債項評級) means an ECAI issue specific rating that is a long-term credit assessment rating;".

(16) Section 2(1)—

Repeal the definition of *non-securitization exposure*

Substitute

"***non-securitization exposure*** (非證券化類別風險承擔) means an exposure that is not a securitization exposure;".

(17) Section 2(1), definition of ***outstanding default risk exposure***, paragraph (b)(i)—

Repeal

"default risk exposures"

Substitute

"the amounts of the default risk exposures".

(18) Section 2(1)—

Repeal the definition of *positive current exposure*

Substitute

"***positive current exposure*** (現行風險承擔正數), in relation to a transaction of an authorized institution in securities, foreign exchange or commodities that is outstanding after the settlement date in respect of the transaction, means the risk of loss to the institution on the difference between—

(a) the transaction valued at the agreed settlement price; and

(b) the transaction valued at the current market price;".

(19) Section 2(1), definition of ***risk-weighted amount for credit risk***—

Repeal paragraph (a)

Substitute

"(a) the institution's non-securitization exposures to credit risk calculated in accordance with one or more of Parts 4, 5 and 6 and Division 4 of Part 6A, as the case requires;".

(20) Section 2(1), definition of ***risk-weighted amount for credit risk***—

Repeal paragraph (b)

Substitute

"(b) the institution's securitization exposures to credit risk calculated in accordance with Part 7; and

(c) the institution's CVA risk calculated by using the standardized CVA method, the advanced CVA method or a combination of those 2 methods, as the case requires;".

(21) Section 2(1), Chinese text, definition of ***信用風險的風險加權數額***—

Repeal

"兩項".

(22) Section 2(1)—

Repeal the definition of *SA-CCR risk-weighted amount*

Substitute

"***SA-CCR risk-weighted amount*** (SA-CCR風險加權數額), in relation to a netting set of an authorized institution with a counterparty that contains one or more derivative contracts, means the product of—

(a) either one of the following amounts calculated by using the SA-CCR approach—

(i) if the institution calculates the credit risk for exposures to the counterparty by using the IRB approach—the outstanding default risk exposure in respect of the netting set; or

(ii) in any other case—the exposure amount of the default risk exposure in respect of the netting set; and

(b) the risk-weight applicable to the amount referred to in paragraph (a) determined in accordance with Part 4, 5 or 6 or Division 4 of Part 6A, as the case requires;".

(23) Section 2(1)—

Repeal the definition of *securities firm*

Substitute

"***securities firm*** (證券商號)—

(a) means an entity (other than a bank)—

(i) that is authorized and supervised by a securities regulator under the law of a jurisdiction other than Hong Kong; and

(ii) that is subject to supervisory arrangements regarding the maintenance of adequate capital to support its business activities comparable to those prescribed for authorized institutions under the Ordinance and these Rules; and

(b) includes a licensed corporation that has been granted a licence to carry on a regulated activity by the Securities and Futures Commission; but

(c) does not include a credit rating agency that is authorized by a securities regulator outside Hong Kong or the Securities and Futures Commission to provide credit rating services;".

(24) Section 2(1), definition of ***sovereign concentration risk***, paragraph (a)—

Repeal

"country"

Substitute

"jurisdiction".

(25) Section 2(1), English text, definition of ***standard supervisory haircut***—

Repeal

"Table"

Substitute

"Tables".

(26) Section 2(1)—

Repeal the definition of *trade-related contingency*

Substitute

"***trade-related contingency*** (貿易關聯或有項目), in relation to an authorized institution, means an off-balance sheet exposure of the institution arising from a self-liquidating trade letter of credit—

(a) that has an original maturity below 1 year; and

(b) that is associated with the movement of goods,

including such an exposure arising from issuing or confirming a letter of credit, from acceptance on a trade bill or from shipping guarantee;".

(27) Section 2(1), definition of ***tranche***—

Repeal

", except in section 348,".

(28) Section 2(1), Chinese text, definition of ***STM 計算法***—

Repeal

"法；"

Substitute

"法。".

(29) Section 2(1)—

(a) definition of ***alternative standardized approach***;

(b) definition of ***ASA approach***;

(c) definition of ***basic indicator approach***;

(d) definition of ***BIA approach***;

(e) definition of ***CARE Ratings Limited***;

(f) definition of ***CEM risk-weighted amount***;

(g) definition of ***CRISIL Ratings Limited***;

(h) definition of ***Fitch Ratings***;

(i) definition of ***gross income***;

(j) definition of ***ICRA Limited***;

(k) definition of ***IRB coverage ratio***;

(l) definition of ***Japan Credit Rating Agency, Ltd.***;

(m) definition of ***last 3 years***;

(n) definition of ***Moody's Investors Service***;

(o) definition of ***past due exposure***;

(p) definition of ***PD/LGD approach***;

(q) definition of ***Rating and Investment Information, Inc.***;

(r) definition of ***residential mortgage loan***;

(s) definition of ***standardized business line***;

(t) definition of ***standardized (operational risk) approach***;

(u) definition of ***STO approach***;

(v) definition of ***S&P Global Ratings***;

(w) definition of ***transitional period***—

Repeal the definitions.

(30) Section 2(1)—

Add in alphabetical order

"***Basel Framework*** (巴塞爾框架) means—

(a) the current Basel Framework; or

(b) other standards (including FAQs) for the regulation and supervision of banks published by the Basel Committee in or after 2006 that have been superseded by the current Basel Framework;

covered bond (資產覆蓋債券), in relation to the calculation of the risk-weighted amount for credit risk, means a bond issued by a bank or mortgage institution—

(a) that is subject to relevant laws or regulations specially designed to protect the holders of the bond; and

(b) the proceeds from the issue of which must, in conformity with those relevant laws or regulations, be invested in assets that—

(i) during the whole period of the validity of the bond, are capable of covering claims attached to the bond; and

(ii) in the event of the failure of the issuer of the bond, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest;

current Basel Framework (現行巴塞爾框架) means the consolidated Basel Framework launched by the Basel Committee in December 2019 comprising standards and the associated FAQs, as amended or supplemented from time to time, that are currently in force according to the Basel Committee's implementation timeline;

eligible covered bond (合資格資產覆蓋債券), in relation to the STC approach and the BSC approach, means a covered bond that meets all the conditions specified by the Monetary Authority under section 59D(4);

home jurisdiction (原屬司法管轄區), in relation to a Type B ECAI, means—

(a) the jurisdiction in which the Type B ECAI is incorporated; or

(b) another jurisdiction specified by the Monetary Authority in a restriction published under section 4B(3) for the Type B ECAI;

IRB adoption class (IRB採用類別) means a class of exposures specified in Table 1AAB;

LT ECAI rating mapping table (LT ECAI評級配對表) means a table made by the Monetary Authority under section 4B(2) that includes the mapping of ECAI issuer ratings and long-term ECAI issue specific ratings to credit quality grades;

qualifying non-bank financial institution (合資格非銀行金融機構) means an entity (other than a bank)—

(a) that is a licensed corporation licensed and supervised by the Securities and Futures Commission (except a licensed corporation that has been licensed for Type 10 regulated activity (within the meaning of the Securities and Futures Ordinance (Cap. 571)));

(b) that is an authorized insurer or a designated insurance holding company within the meaning of the Insurance Ordinance (Cap. 41); or

(c) that is incorporated in a jurisdiction other than Hong Kong and is authorized by a regulator under the law of that jurisdiction to carry on financial activities in that jurisdiction, if the relevant banking supervisory authority in that jurisdiction—

(i) determines that the regulatory and supervisory standards imposed on the entity by its regulator are comparable to those (including capital and liquidity requirements) that are imposed on banks incorporated in that jurisdiction; or

(ii) has implemented capital standards consistent with the current Basel Framework and permits banks incorporated in that jurisdiction to treat exposures to the entity

as exposures to a bank for the purpose of complying with the capital standards;

revolving (循環)—

(a) for the purposes of Parts 4 and 6 and Schedule 6, and in relation to a facility granted by an authorized institution to an obligor, means that the obligor's outstanding balance under the facility is permitted to fluctuate based on the obligor's decisions to borrow and repay, up to a limit agreed with the institution; and

(b) for the purposes of Part 7, has the meaning given by section 227(1);

ST ECAI rating mapping table (ST ECAI評級配對表) means a table made by the Monetary Authority under section 4B(2) that includes the mapping of short-term ECAI issue specific ratings to credit quality grades;

transactor (交易者)—

(a) in relation to a revolving facility that has at least one scheduled repayment date during the previous 12 months, where all or part of the outstanding balance under the facility as at a predefined reference date is due for repayment at the succeeding scheduled repayment date (such as a credit card or charge card), means an obligor in respect of the facility who—

(i) has repaid in full the balance due under the facility at each scheduled repayment date for the previous 12 months; or

(ii) has no balance due under the facility over the previous 12 months; or

(b) in relation to an overdraft facility or a similar revolving facility that can be drawn and repaid at any time, means an obligor in respect of the facility who has not made any drawdown under the facility in the previous 12 months;

Type A ECAI (A類ECAI) means an ECAI other than a Type B ECAI;

Type B ECAI (B類ECAI) means an ECAI the use for the purposes of these Rules of the credit assessment ratings issued by which is subject to one or more restrictions published by the Monetary Authority under section 4B(3);

unspecified multilateral body (非指明多邊組織) means an entity (other than a multilateral development bank)—

(a) that is established by a group of countries to provide financing and professional advice for economic and social development projects;

(b) that has—

(i) a large sovereign membership;

(ii) its own independent legal and operational status; and

(iii) a mandate similar to the mandates of multilateral development banks; and

(c) a considerable number of the owners of which are also the owners of multilateral development banks;".

(31) After section 2(6)—

Add

"(7) A financial institution (other than an authorized institution) incorporated outside Hong Kong does not fall within paragraph (b) of the definition of ***bank*** in subsection (1) if—

(a) in the opinion of the Monetary Authority, the institution is not adequately supervised by the banking supervisory authority of the jurisdiction in which the institution is incorporated; or

(b) the licence or other authorization of the institution to take deposits from the public of the jurisdiction in which the institution is incorporated or it has an establishment is for the time being suspended.".

34. Section 4 amended (interpretation of Part 2)

(1) Section 4—

Repeal

", unless the context otherwise requires".

(2) Section 4, English text, definition of ***solo-consolidated subsidiary***—

Repeal

"28(2)(a);"

Substitute

"28(2)(a).".

(3) Section 4, Chinese text, definition of ***綜合集團***, paragraph (b)—

Repeal

"公司；"

Substitute

"公司。".

(4) Section 4—

(a) definition of ***IRB coverage ratio***;

(b) definition of ***transitional period***—

Repeal the definitions.

35. Section 4A amended (valuation of exposures measured at fair value)

Section 4A(1)—

Repeal

"Part 4, 5, 6, 6A, 7, 8 or 10"

Substitute

"one or more of Parts 4, 5, 6, 6A, 7, 8, 10 and 11".

36. Sections 4B to 4E added

Part 2, Division 1, after section 4A—

Add

"**4B. Recognition of ECAIs**

(1) A credit assessment rating assigned to a person or an exposure may be used by an authorized institution for the purposes of these Rules only where—

(a) the rating has been issued by an entity recognized by the Monetary Authority;

(b) the use of the rating is not for a purpose that is prohibited by a restriction published on the Monetary Authority's website under subsection (3);

(c) if the rating is assigned to an exposure, the exposure has not ceased to be outstanding; and

(d) the rating is for the time being neither withdrawn nor suspended by the entity that issued it.

(2) The Monetary Authority is to—

(a) determine with which of the credit quality grades, which are represented by the numerals 1 to 18, the relevant long-term credit assessment ratings issued by an entity falling within subsection (1)(a) are to be associated;

(b) determine with which of the credit quality grades, which are represented by the numerals 1 to 5, the relevant short-term credit assessment ratings issued by an entity falling within subsection (1)(a) are to be associated; and

(c) make tables to include the mappings determined under paragraphs (a) and (b).

(3) The Monetary Authority is to publish on the Monetary Authority's website—

(a) the list of entities that have been recognized under subsection (1)(a);

(b) any restrictions on the use of the credit assessment ratings issued by an entity that has been recognized under subsection (1)(a);

(c) the mapping tables made under subsection (2)(c); and

(d) any amendments made by the Monetary Authority from time to time to the list of entities, the restrictions or the mapping tables.

4C. Nomination of ECAIs to be used

(1) If an authorized institution is required under these Rules to determine the risk-weight attributable to an exposure in accordance with Part 4 or 7, the institution must nominate one or more ECAIs in accordance with this section.

(2) Subject to subsections (3) and (4), an authorized institution must nominate, for each of the ECAI ratings based portfolios relevant to it, one or more ECAIs the ECAI ratings issued by which the institution will use for the purposes of Part 4 or 7, in respect of—

(a) the ECAI ratings based portfolio concerned; or

(b) a certain type of exposures falling within the ECAI ratings based portfolio concerned.

(3) An authorized institution must not nominate an ECAI, or a group of ECAIs, for an ECAI ratings based portfolio unless, having regard to the obligors in respect of the exposures that fall within the portfolio and to the geographical regions where those exposures arise or may be required to be enforced, it can reasonably be concluded that the ECAI, or the group of ECAIs collectively, issues a range of ECAI ratings that—

(a) if the ECAI ratings will be used in respect of any exposure falling within that portfolio—provides a reasonable coverage for that portfolio; or

(b) if the ECAI ratings will be used in respect of a certain type of exposures falling within that portfolio—provides a reasonable coverage for those exposures.

(4) An authorized institution may nominate a Type B ECAI for an ECAI ratings based portfolio if the use of the ECAI ratings issued by the Type B ECAI for the purposes of Part 4 or 7 in respect of exposures falling within the ECAI ratings based portfolio is not prohibited by a restriction published on the Monetary Authority's website under section 4B(3).

(5) An authorized institution must give written notice to the Monetary Authority of a nomination under subsection (2) as soon as practicable after making the nomination.

(6) An authorized institution must not, in respect of an ECAI ratings based portfolio or a certain type of exposures falling within an ECAI ratings based portfolio, use, for the purposes of Part 4 or 7, the ECAI ratings of an ECAI unless—

(a) the ECAI has been nominated under subsection (2) in respect of that portfolio or type of exposures; and

(b) notice of that nomination has been given to the Monetary Authority under subsection (5).

(7) To avoid doubt, an authorized institution must, for the purposes of Part 4 or 7, treat as not having an ECAI rating any person or exposure that, although falling within an ECAI ratings based portfolio, does not have an ECAI rating assigned to it by an ECAI nominated under subsection (2) by the institution in respect of that portfolio or the type of exposures to which the exposure belongs.

(8) In this section—

ECAI ratings based portfolio (ECAI評級基準組合)—

(a) in relation to Part 4, has the meaning given by section 51(1);

(b) in relation to Part 7, means securitization exposures other than re-securitization exposures.

4D. Amendment of nomination

(1) An authorized institution may, with the prior consent of the Monetary Authority, amend a nomination made under section 4C(2) or further amend a nomination that has been amended previously under this section.

(2) Section 4C(3), (4), (5) and (6), with all necessary modifications, applies to a nomination to be amended, or amended, under this section as it applies to a nomination made under section 4C(2).

4E. Transitional provision in relation to nominations

(1) On and after the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023, unless an authorized institution makes a new nomination under section 4C(2) for the following exposures, any nomination (and the corresponding notification to the Monetary Authority) or any amendment to a nomination (and the corresponding consent of the Monetary Authority) made in accordance with section 70 or 267(1)(a), as the case requires, as in force immediately before that date for those exposures remains in effect as if it were a nomination made under section 4C(2) or an amendment made under section 4D—

(a) sovereign exposures;

(b) public sector entity exposures;

(c) bank exposures;

(d) securitization exposures subject to the SEC-ERBA.

(2) To avoid doubt, a nomination made in accordance with section 70 as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023 for the following exposures ceases to have effect on that date—

(a) securities firm exposures;

(b) corporate exposures.".

37. Section 5 amended (authorized institution shall only use STC approach, BSC approach or IRB approach to calculate its credit risk for non-securitization exposures)

(1) Section 5(1)(b), before "non-securitization"—

Add

"all of its".

(2) Section 5(2)—

Repeal

", BSC approach".

38. Section 6 amended (authorized institution may apply for approval to use BSC approach to calculate its credit risk for non-securitization exposures)

(1) Section 6(1) and (2)(a), before "non-securitization"—

Add

"all of its".

(2) Section 6(3)—

Repeal

"non-securitization exposures if any one or more of the requirements specified in section 7(a) or (b)"

Substitute

"all of its non-securitization exposures if any one or more of the requirements specified in section 7(a)".

(3) Section 6—

Repeal subsection (4).

39. Section 7 amended (minimum requirements to be satisfied for approval under section 6(2)(a) to use BSC approach)

(1) Section 7(a)—

Repeal subparagraph (ii)

Substitute

"(ii) there is no cause to believe that the use by the institution of the BSC approach to calculate its credit risk for all of its non-securitization exposures would not adequately identify, assess and reflect the credit risk of all of the institution's non-securitization exposures taking into account the nature of the institution's business.".

(2) Section 7—

Repeal paragraph (b).

40. Section 8 amended (authorized institution may apply for approval to use IRB approach to calculate its credit risk for non-securitization exposures)

(1) Section 8(1), (2)(a) and (3), after "approach"—

Add

"for one or more IRB adoption classes".

(2) Section 8(4), after "use the IRB approach"—

Add

"for one or more IRB adoption classes".

(3) Section 8(4)(a), after "exposures"—

Add

"within the IRB adoption class for which an approval is granted to use the IRB approach".

41. Section 10 amended (measures which may be taken by Monetary Authority if authorized institution using BSC approach or IRB approach no longer satisfies specified requirements)

(1) Section 10(1), before "non-securitization" (wherever appearing)—

Add

"all of its".

(2) Section 10(2)—

Repeal

"non-securitization exposures in respect of".

(3) Section 10(5)(a)—

Repeal

"in respect of all of its non-securitization exposures, or such parts of its"

Substitute

"in respect of its non-securitization exposures within all the IRB adoption classes for which an approval to use the IRB approach has been granted, or such parts of those".

(4) Section 10(5)(c)(iii), after "ratio;"—

Add

"and".

(5) Section 10(5)—

Repeal paragraph (d).

(6) Section 10(6)—

Repeal

", (d)".

42. Section 10B amended (authorized institution may apply for approval to use IMM(CCR) approach to calculate its default risk exposures)

(1) Section 10B(1)—

Repeal

"that has obtained the Monetary Authority's approval to use the IMM approach to calculate its market risk".

(2) After section 10B(9)—

Add

"(10) Subject to section 10D, an approval granted under subsection (2)(a) before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023 for an authorized institution to use the IMM(CCR) approach to calculate its default risk exposures in respect of the categories of contracts or transactions specified in the approval remains in force on and after that date.".

43. Section 11 substituted

Section 11—

Repeal the section

Substitute

"**11. Adoption of IRB approach**

(1) When an authorized institution applies to the Monetary Authority under section 8(1) for approval to use the IRB approach, the institution must—

(a) submit an implementation plan agreed with the Monetary Authority that specifies to what extent and when the institution intends to use the IRB approach to calculate its credit risk for non-securitization exposures; and

(b) subject to subsection (2), choose one or more IRB adoption classes set out in Table 1AAB for which the institution applies to use the IRB approach to calculate its credit risk for non-securitization exposures.

Table 1AAB

IRB Adoption Classes

Column 1 Item	Column 2 IRB adoption class	Column 3 IRB class covered	Column 4 IRB subclass covered
1.	Corporate—other than specialized lending	Corporate exposures	(a) Small and medium-sized corporates (b) Large corporates (c) Financial institutions treated as corporates (d) Other corporates
2.	Corporate—specialized lending	Corporate exposures	(a) Specialized lending (project finance) (b) Specialized lending (object finance)

Column 1 Item	Column 2 IRB adoption class	Column 3 IRB class covered	Column 4 IRB subclass covered
			(c) Specialized lending (commodity finance)
			(d) Specialized lending (income-producing real estate)
			(e) Specialized lending (high-volatility commercial real estate)
3.	Sovereign	Sovereign exposures	(a) Sovereigns
			(b) Sovereign foreign public sector entities
			(c) Multilateral development banks

Column 1 Item	Column 2 IRB adoption class	Column 3 IRB class covered	Column 4 IRB subclass covered
4.	Bank	Bank exposures	(a) Banks (excluding covered bonds) (b) Qualifying non-bank financial institutions (c) Public sector entities (excluding sovereign foreign public sector entities) (d) Unspecified multilateral bodies (e) Covered bonds
5.	Retail—qualifying revolving retail exposures	Retail exposures	(a) Qualifying revolving retail exposures (transactor)

Column 1 Item	Column 2 IRB adoption class	Column 3 IRB class covered	Column 4 IRB subclass covered
			(b) Qualifying revolving retail exposures (revolver)
6.	Retail—residential mortgages	Retail exposures	(a) Residential mortgages to individuals (b) Residential mortgages to property-holding shell companies
7.	Retail—others	Retail exposures	(a) Small business retail exposures (b) Other retail exposures to individuals
8.	CIS	CIS exposures	CIS exposures

Column 1 Item	Column 2 IRB adoption class	Column 3 IRB class covered	Column 4 IRB subclass covered
9.	Others	Other exposures	(a) Cash items (b) Other items

(2) An authorized institution must not choose only the IRB adoption class of "Others" to apply for the use of the IRB approach to calculate its credit risk for exposures falling within the IRB class of "Other exposures".

(3) Subject to section 12, if an authorized institution uses the IRB approach to calculate its credit risk for an IRB adoption class, the institution must use the IRB approach to calculate its credit risk for all exposures that fall within that IRB adoption class.

(4) In this section, the following expressions have the meanings given to them by section 139(1)—

(a) cash items;

(b) corporate;

(c) financial institution treated as corporate;

(d) specialized lending.".

44. Section 12 amended (exemption for exposures)

(1) Section 12(2)—

Repeal

"Subject to subsection (4), the"

Substitute

"The".

(2) Section 12(2)(a)(i)—

Repeal

"IRB class (or, in the case of retail exposures, an IRB subclass)"

Substitute

"IRB adoption class".

(3) Section 12(3)(a)—

Repeal

"subject to paragraph (b),".

(4) Section 12(3)(a)—

Repeal

"relates; or"

Substitute

"relates.".

(5) Section 12(3)—

Repeal paragraph (b).

(6) Section 12—

Repeal subsection (4).

(7) Section 12(5)(b)—

Repeal

"or (4)".

45. Section 13 amended (revocation of exemption under section 12)

(1) Section 13(1)(a)—

Repeal

"or BSC approach".

(2) Section 13(1)(b)—

Repeal

"or (4)".

(3) Section 13(2)(a)(ii), after "plan;"—

Add

"and".

(4) Section 13(2)—

Repeal paragraph (b).

(5) Section 13(3) and (4)—

Repeal

"or (b)".

46. Section 14 repealed (transitional arrangements)

Section 14—

Repeal the section.

47. Section 15 amended (authorized institution must use SEC-IRBA, SEC-ERBA, SEC-SA or SEC-FBA to determine risk-weight of securitization exposure)

Section 15(2)(b)(i) and (2B)(b)(i)—

Repeal

"for the purposes of section 267(1)(a)"

Substitute

"under section 4C for the purposes of Part 7".

48. Section 15B amended (meaning of *eligible ABCP exposure*)

(1) Section 15B(e)—

Repeal

"for the purposes of Part 7 in the manner as set out in section 267(1)(a)"

Substitute

"under section 4C for the purposes of Part 7".

(2) Section 15B—

Repeal paragraph (j)

Substitute

"(j) the initial internal credit rating assigned to the specified exposure by the institution in accordance with the approved internal assessment process is at least equivalent to an ECAI issue specific rating that maps to—

(i) a credit quality grade of 1, 2, 3, 4, 5, 6, 7, 8, 9 or 10 in the LT ECAI rating mapping table made by the Monetary Authority under section 4B(2)(c) for securitization exposures; or

(ii) a credit quality grade of 1, 2 or 3 in the ST ECAI rating mapping table made by the Monetary Authority under section 4B(2)(c) for securitization exposures.".

49. Part 2, Division 6 repealed (prescribed approaches to calculation of operational risk)

Part 2—

Repeal Division 6.

50. Section 32 amended (provisions supplementary to section 31)

Section 32—

Repeal subsections (3) and (4).

51. Section 33 amended (exceptions to section 27)

Section 33(1)(b), (2)(a) and (3)—

Repeal

"country" (wherever appearing)

Substitute

"jurisdiction".

52. Part 2, Division 7A heading amended (attachment of conditions to approvals granted under section 6(2)(a), 8(2)(a), 10B(2)(a), 15C(2)(a), 18(2)(a) or 25(2)(a))

Part 2, Division 7A, heading—

Repeal

"**, 18(2)(a) or 25(2)(a)**"

Substitute

"**or 18(2)(a)**".

53. Section 33A amended (attachment of conditions to approvals granted under section 6(2)(a), 8(2)(a), 10B(2)(a), 15C(2)(a), 18(2)(a) or 25(2)(a))

(1) Section 33A, heading—

Repeal

"**, 18(2)(a) or 25(2)(a)**"

Substitute

"**or 18(2)(a)**".

(2) Section 33A(1) and (2)—

Repeal

", 18(2)(a) or 25(2)(a)"

Substitute

"or 18(2)(a)".

54. Section 34 amended (reviewable decisions)

Section 34(1)—

Repeal

", 25(2)".

55. Section 48 amended (deductions from Tier 2 capital)

Section 48(3)—

Repeal

"the applicable risk-weight under Part 4, 5, 6 or 8"

Substitute

"one or more of Parts 4, 5, 6 and 8".

56. Section 50 substituted

Section 50—

Repeal the section

Substitute

"**50. Application of Part 4**

(1) This Part applies to an authorized institution that is required or permitted by these Rules to use the STC approach to determine the risk-weight or the risk-weighted amount of a non-securitization exposure.

(2) A reference in this Part to an authorized institution is a reference to an authorized institution that is required or permitted by these Rules to use the STC approach to determine the risk-weight or the risk-weighted amount of a non-securitization exposure.".

57. Section 51 amended (interpretation of Part 4)

(1) Section 51(1)—

Repeal

", unless the context otherwise requires".

(2) Section 51(1)—

Repeal the definition of *attributed risk-weight*

Substitute

"***attributed risk-weight*** (歸屬風險權重)—

(a) subject to paragraphs (b), (c), (d) and (e), in relation to a person an exposure to whom would fall within an ECAI ratings based portfolio—

(i) if the person has an ECAI issuer rating—means the risk-weight that would be attributable, in accordance with Subdivision 3 of Division 3, to a senior and unsecured long-term debt obligation of the person based on that ECAI issuer rating and on the assumption that no ECAI issue specific rating has been assigned to any debt obligation of the person;

(ii) if the person does not have an ECAI issuer rating—means the risk-weight that would be attributable, in accordance with that Subdivision, to an unrated exposure to the person and on the assumption that no ECAI issue specific rating has been assigned to any debt obligation of the person;

(b) in relation to a person that is a public sector entity or sovereign foreign public sector entity—means the risk-weight that would be attributable, in accordance with section 57, to an unsecured exposure to the person;

(c) in relation to a relevant international organization or a multilateral development bank to which section 58(1) applies—means a risk-weight of 0%;

(d) in section 59C—has the meaning given by section 59C(5); and

(e) in sections 65C and 65D—means the risk-weight that would be attributable to an unsecured exposure to an obligor under Division 3;".

(3) Section 51(1)—

Repeal the definition of *corporate*

Substitute

"***corporate*** (法團) means—

(a) a company; or

(b) a partnership or any other unincorporated body,

that is not a multilateral development bank, unspecified multilateral body, public sector entity, bank or qualifying non-bank financial institution;".

(4) Section 51(1), definition of ***credit equivalent amount***—

Repeal

"or 73".

(5) Section 51(1)—

Repeal the definition of *credit protection covered portion*

Substitute

"***credit protection covered portion*** (信用保障涵蓋部分), in relation to an exposure of an authorized institution that is covered by recognized collateral, a recognized guarantee or a recognized credit derivative contract, means the portion of the exposure (which may be all of the exposure) that is covered by—

(a) in the case of recognized collateral—the current market value of the recognized collateral;

(b) in the case of a recognized guarantee or a credit derivative contract recognized under section 99(1) or (2)—the maximum liability of the credit protection provider to the institution under the recognized guarantee or recognized credit derivative contract, as the case may be;

(c) in the case of a credit derivative contract recognized under section 99(3) or (4)—the maximum liability of the credit protection provider to the institution under the recognized credit derivative contract, up to the maximum amount of the contract that may be recognized under that section;

(d) in the case of a credit derivative contract recognized under section 99B(1)—the maximum liability of the credit protection provider or credit protection providers to the institution under the external hedge referred to in that section, up to an amount equal to the amount of the internal risk transfer concerned; or

(e) in the case of a credit derivative contract recognized under section 99B(3)(a) or (b)—the maximum liability of the credit protection provider or credit protection providers to the institution under the external hedge referred to in that section, up to the maximum amount of the internal risk transfer concerned that may be recognized under that section;".

(6) Section 51(1)—

Repeal the definition of *credit protection uncovered portion*

Substitute

"***credit protection uncovered portion*** (不受信用保障涵蓋部分), in relation to an exposure of an authorized institution that is covered by recognized collateral, a recognized guarantee or a recognized credit derivative contract, means the portion of the exposure that is not the credit protection covered portion;".

(7) Section 51(1), definition of ***principal amount***, paragraph (b)(i) and (ii)—

Repeal

"Table 10 or to which section 73(2) applies"

Substitute

"Schedule 6".

(8) Section 51(1)—

Repeal the definition of *recognized credit derivative contract*

Substitute

"***recognized credit derivative contract*** (認可信用衍生工具合約) means—

(a) a credit derivative contract recognized under section 99(1), (2) or (5);

(b) a credit derivative contract to the extent that it is recognized under section 99(3) or (4);

(c) an internal risk transfer recognized under section 99B(1); or

(d) an internal risk transfer to the extent that it is recognized under section 99B(3)(a) or (b);".

(9) Section 51(1), English text, definition of ***sovereign foreign public sector entity***, paragraph (b)—

Repeal

"entity."

Substitute

"entity;".

(10) Section 51(1)—

(a) definition of ***cash items***;

(b) definition of ***past due exposure***;

(c) definition of ***regulatory retail exposure***;

(d) definition of ***rescheduled***;

(e) definition of ***SFT risk-weighted amount***;

(f) definition of ***small business***;

(g) definition of ***small business consent provisions***—

Repeal the definitions.

(11) Section 51(1), before the definition of ***attributed risk-weight***—

Add

"***3 months' bank exposure*** (3個月銀行風險承擔) means an exposure to a bank or qualifying non-bank financial institution with an original contractual period of time for full repayment of not more than 3 months, where—

(a) the exposure is not associated with cross-border movement of goods (including movement of goods between Hong Kong and mainland China or between Hong Kong and Macao); and

(b) the facility to which the exposure relates is not expected or anticipated to be rolled over at the expiration of the contractual period;

6 months' bank exposure (6個月銀行風險承擔) means an exposure to a bank or qualifying non-bank financial institution with an original contractual period of time for full repayment of not more than 6 months, where—

(a) the exposure is associated with cross-border movement of goods (including movement of goods between Hong Kong and mainland China or between Hong Kong and Macao); and

(b) the facility to which the exposure relates is not expected or anticipated to be rolled over at the expiration of the contractual period;".

(12) Section 51(1)—

Add in alphabetical order

"***ADC exposure*** (ADC風險承擔) means land acquisition, development and construction exposure;

commitment (承諾), in relation to the determination of a CCF applicable to an off-balance sheet exposure, has the meaning given by section 2 of Schedule 6;

commodities finance (商品融資) means short-term lending to finance reserves, inventories or receivables of exchange-traded commodities, where—

(a) the lending will be repaid from the proceeds of the sale of the commodities; and

(b) the borrower has no independent capacity to repay the lending;

defaulted exposure (違責風險承擔) means an exposure that—

(a) falls within section 67(2) or (3)(a), as the case requires; or

(b) is treated as a defaulted exposure by an authorized institution under section 67(3)(b);

ECAI ratings based portfolio (ECAI評級基準組合)—

(a) subject to paragraph (b), means—

(i) sovereign exposures;

(ii) public sector entity exposures;

(iii) multilateral development bank exposures;

(iv) unspecified multilateral body exposures;

(v) bank exposures;

(vi) eligible covered bond exposures;

(vii) qualifying non-bank financial institution exposures;

(viii) general corporate exposures; or

(ix) specialized lending; and

(b) excludes exposures referred to in paragraph (a) that are—

(i) real estate exposures;

(ii) equity exposures;

(iii) significant capital investments in commercial entities;

(iv) exposures to capital instruments issued by financial sector entities;

(v) exposures to non-capital LAC liabilities of financial sector entities;

(vi) exposures to subordinated debts issued by banks, qualifying non-bank financial institutions or corporates;

(vii) exposures falling within section 64A, 65K or 65L; or

(viii) defaulted exposures;

equity exposure (股權風險承擔) means an exposure that falls within section 54A;

exposure amount (風險承擔數額)—

(a) in relation to an on-balance sheet exposure—means the principal amount of the exposure (net of specific provisions, if any);

(b) in relation to an off-balance sheet exposure to a counterparty that is a default risk exposure in respect of one or more derivative contracts or in respect of a netting set that contains both derivative contracts and SFTs—means the outstanding default risk exposure in respect of the counterparty (net of specific provisions, if any);

(c) in relation to an off-balance sheet exposure to a counterparty that is a default risk exposure in respect of one or more SFTs—means the amount of the exposure calculated in

accordance with Division 2B of Part 6A (net of specific provisions, if any); or

(d) in relation to any other off-balance sheet exposure, means—

(i) the credit equivalent amount of the exposure calculated in accordance with section 71(1); or

(ii) the credit equivalent amount of the exposure calculated in accordance with section 71(2) and (3) (net of specific provisions, if any);

general bank exposure (一般銀行風險承擔) means an exposure to a bank or qualifying non-bank financial institution that is not a short-term bank exposure;

general corporate exposure (一般法團風險承擔) means an exposure to a corporate that is none of the following—

(a) an eligible covered bond exposure;

(b) a specialized lending;

(c) a regulatory retail exposure;

(d) an exposure falling within section 64A;

(e) a real estate exposure;

(f) an equity exposure;

(g) a significant capital investment in a commercial entity;

(h) an exposure to a capital instrument issued by a financial sector entity;

(i) an exposure to a non-capital LAC liability of a financial sector entity;

(j) an exposure to a subordinated debt;

(k) an exposure falling within section 65K or 65L;

(l) a defaulted exposure;

land acquisition, development and construction exposure (土地購買、開發及建築風險承擔)—

(a) subject to paragraph (b), means an exposure to an individual, a company or a special purpose vehicle financing or refinancing—

(i) land acquisition for development and construction purposes; or

(ii) development and construction of any residential or commercial property; and

(b) excludes an exposure to an individual, a company or a special purpose vehicle financing or refinancing the acquisition of forest or agricultural land, if there is no planning consent or intention to apply for planning consent;

object finance (物品融資) means a method of funding the acquisition of physical assets (other than immovable property) where the repayment of the funds provided by a lender is dependent on the cash flows generated by the assets that have been financed and pledged (or otherwise provided as security) or assigned to the lender;

project finance (項目融資) means a method of financing or refinancing a single project (other than a project of development and construction of residential or commercial property) in which the lender that provides the loan looks primarily to the revenue generated by the project, both as the source of repayment of, and as security for, the loan;

real estate exposure (地產風險承擔) means—

(a) an exposure extended by a lender to a borrower—

(i) that is secured by immovable property; and

(ii) that is required by the facility agreement between the lender and the borrower to be secured on the immovable property referred to in subparagraph (i); or

(b) an ADC exposure;

regulatory real estate exposure (監管地產風險承擔)—see section 65(1);

regulatory retail exposure (監管零售風險承擔)—see section 64(2);

short-term bank exposure (短期銀行風險承擔) means—

(a) a 3 months' bank exposure; or

(b) a 6 months' bank exposure;

significant capital investment in a commercial entity (對商業實體的重大資本投資) means an authorized institution's holdings of shares in a commercial entity if—

(a) the holdings amount to more than 10% of the ordinary shares issued by the commercial entity; or

(b) the commercial entity is an affiliate of the institution;

small business (小型企業) means—

(a) subject to paragraph (b), a corporate with annual sales not exceeding $500 million for the most recent financial year; or

(b) a corporate in a consolidated group where the annual sales for the group did not exceed $500 million for the most recent financial year;

specialized lending (專門性借貸) means an exposure of a lender to a corporate that—

(a) arises from object finance, project finance or commodities finance; and

(b) possesses both of the following characteristics, either in legal form or economic substance—

(i) the corporate has few or no other material assets or activities, and therefore the primary source of repayment of the exposure is the income generated by the asset or assets being financed by the lender, rather than the independent capacity of the corporate;

(ii) the terms of the exposure give the lender a substantial degree of control over the asset or assets being financed and the income that the asset or assets generate;

specific provisions (特定準備金) includes partial write-offs;

subordinated debt (後償債項), in relation to an obligor that is a bank, qualifying non-bank financial institution or corporate—

(a) includes a subordinated debt or junior subordinated debt—

(i) that is not an equity exposure to the obligor; and

(ii) that is higher in ranking, or senior, to equity exposures to the obligor in terms of the priority of repayment; but

(b) if the obligor is a financial sector entity, excludes—

(i) a capital instrument issued by the obligor; and

(ii) a non-capital LAC liability of the obligor;

unhedged credit exposure (無對沖信用風險承擔) has the meaning given by section 51A;

unrated exposure (無評級風險承擔) means—

(a) a non-securitization exposure—

(i) that—

(A) falls within an ECAI ratings based portfolio; and

(B) does not have an ECAI issue specific rating assigned to it; and

(ii) the obligor in respect of which has neither of the following—

(A) an ECAI issuer rating;

(B) a long-term ECAI issue specific rating assigned to any other debt obligation issued or undertaken by the obligor; or

(b) a non-securitization exposure—

(i) that—

(A) falls within an ECAI ratings based portfolio; and

(B) does not have an ECAI issue specific rating assigned to it;

(ii) the obligor in respect of which has either or both of the following—

(A) one or more ECAI issuer ratings;

(B) one or more than one debt obligation that has at least one long-term ECAI issue specific rating assigned to it; and

(iii) in respect of which, because of section 4B(1)(b), (c) or (d), 4C(6), 54E or 54F, none of the ratings referred to in subparagraph (ii) can be used for determining the risk-weight attributable to the exposure in accordance with Subdivision 3 of Division 3.".

(13) Section 51—

Repeal subsection (2).

58. Section 51A added

Part 4, Division 1, after section 51—

Add

"**51A. Meaning of *unhedged credit exposure***

(1) For the purposes of this Part—

unhedged credit exposure (無對沖信用風險承擔) means an exposure falling within section 64 or 65B where—

(a) the obligor in respect of the exposure is—

(i) if the exposure falls within section 64—an individual; and

(ii) if the exposure falls within section 65B—

(A) an individual; or

(B) a property-holding shell company with an individual acting as a guarantor for the exposure;

(b) the exposure is a non-revolving loan—

(i) with a pre-specified schedule of repayments of principal and interest and predefined repayment amounts such that the whole loan amount will be repaid within a fixed repayment period (including a loan with an irregular repayment structure or a loan that allows re-borrowing of the repaid principal with or without extension of the fixed repayment period); or

(ii) that will be repaid within a fixed repayment period with a bullet payment;

(c) the exposure is denominated in a currency that differs from—

(i) the currency of the obligor's source of income; or

(ii) if the obligor is a property-holding shell company and the primary source of repayment is the income of the guarantor—the currency of the guarantor's source of income; and

(d) less than 90% of the relevant amount of the exposure is hedged against the foreign exchange risk resulting from the mismatch in currencies referred to in paragraph (c) through one or both of the following means—

(i) income or income sources of the obligor or guarantor in a currency that matches the currency in which the exposure is denominated;

(ii) derivative contracts or other legal contracts with financial institutions.

(2) An authorized institution must regard an exposure as falling within paragraph (c) of the definition of ***unhedged credit exposure*** in subsection (1) if—

(a) the obligor in respect of the exposure has sources of income that are denominated in more than one currency; or

(b) the repayment of the exposure is dependent on the income of the guarantor of the exposure whose sources of income are denominated in more than one currency.

(3) For the purposes of paragraph (d) of the definition of ***unhedged credit exposure*** in subsection (1)—

relevant amount (有關數額)—

(a) in relation to an exposure falling within paragraph (b)(i) of that definition, means each of the scheduled repayment amounts; and

(b) in relation to an exposure falling within paragraph (b)(ii) of that definition, means the whole outstanding loan amount.

(4) If an authorized institution does not have readily available or sufficient information to determine whether an exposure falls within paragraph (c) of the definition of ***unhedged credit exposure*** in subsection (1), the institution—

(a) may regard the exposure as not falling within that paragraph if the exposure is to a non-revolving loan granted by the institution before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023; or

(b) if paragraph (a) does not apply, must regard the exposure as falling within paragraph (c) of that definition if the exposure is denominated in a currency that differs from the currency of the place of residence of the obligor or guarantor.".

59. Sections 52, 53 and 54 substituted

Sections 52, 53 and 54—

Repeal the sections

Substitute

"**52. Calculation of risk-weighted amount of exposures**

(1) Subject to section 53, if an authorized institution is required under these Rules to use only the STC approach to calculate the credit risk for all of its non-securitization exposures, the institution must calculate an amount representing the degree of credit risk to which it is exposed by aggregating—

(a) the risk-weighted amounts of the institution's on-balance sheet exposures; and

(b) the risk-weighted amounts of the institution's off-balance sheet exposures.

(2) Unless otherwise stated in these Rules, if an authorized institution is required or permitted by these Rules to use the STC approach to calculate the credit risk for some of its non-securitization exposures, the institution must calculate the risk-weighted amounts of those exposures in accordance with subsections (3), (4), (5), (6), (7) and (8).

(3) Subject to subsection (5), for the purposes of subsections (1) and (2)—

(a) the risk-weighted amount of each exposure (except CIS exposure and default risk exposure in respect of derivative contracts or SFTs) must be calculated by multiplying the exposure amount of the exposure by the relevant risk-weight attributable to the exposure determined under Division 3;

(b) the risk-weighted amount of each CIS exposure must be calculated in accordance with Division 3A; and

(c) the risk-weighted amount of each default risk exposure in respect of derivative contracts or SFTs is the amount specified in subsection (4).

(4) If an authorized institution—

(a) has an IMM(CCR) approval—

(i) the risk-weighted amount of the default risk exposure in respect of derivative contracts or SFTs covered by the IMM(CCR) approval is the IMM(CCR) risk-weighted amount;

(ii) the risk-weighted amount of the default risk exposure in respect of derivative contracts that are not covered by the IMM(CCR) approval or that fall within section 10B(5) or (7) is the sum of the SA-CCR risk-weighted amounts calculated for the contracts; and

(iii) the risk-weighted amount of the default risk exposure in respect of SFTs that are not covered by the IMM(CCR) approval or that fall within that section is the sum

of the SFT risk-weighted amounts calculated for the SFTs;

(b) does not have an IMM(CCR) approval for any of its derivative contracts or SFTs—

(i) the risk-weighted amount of the default risk exposure in respect of derivative contracts is the sum of the SA-CCR risk-weighted amounts calculated for the contracts; and

(ii) the risk-weighted amount of the default risk exposure in respect of SFTs is the sum of the SFT risk-weighted amounts calculated for the SFTs.

(5) An authorized institution may reduce the risk-weighted amount of its exposure by taking into account the effect of any recognized credit risk mitigation in respect of the exposure in the manner set out in Divisions 5, 6, 7, 8, 9 and 10, unless—

(a) the institution has made disclosures in respect of credit risk for the immediately preceding applicable reporting periods that do not fully comply with the applicable provisions of the Disclosure Rules; or

(b) subsection (6), (7) or (8) applies to the recognized credit risk mitigation concerned.

(6) If an exposure of an authorized institution has an ECAI issue specific rating, the institution must not take into account under subsection (5) the effect of any recognized credit risk mitigation applicable to the exposure that has already been taken into account in that rating.

(7) If an authorized institution has bought credit protection for an exposure and the credit protection is in the form of a single-name credit default swap that falls within section 226J(1), the institution must not take into account under subsection (5) the credit risk mitigating effect of the swap.

(8) If an exposure of an authorized institution is a default risk exposure in respect of derivative contracts or SFTs, the institution must not take into account under subsection (5) the effect of any recognized credit risk mitigation applicable to the exposure that has already been taken into account in the calculation of the amount of the default risk exposure under Part 6A.

(9) In this section—

applicable provisions (適用條文), in relation to an authorized institution that uses the STC approach to calculate the credit risk for all or part of its non-securitization exposures, means the provisions set out in Division 4 of Part 2A of the Disclosure Rules the application of which to the institution has not been exempted by the Monetary Authority under section 3 of those Rules;

applicable reporting period (適用報告期), in relation to an applicable provision, means the reporting period (within the meaning of the Disclosure Rules) referred to in that applicable provision;

Disclosure Rules (《披露規則》) means the Banking (Disclosure) Rules (Cap. 155 sub. leg. M);

SFT risk-weighted amount (SFT風險加權數額), in relation to a default risk exposure in respect of an SFT or portfolio of SFTs, means—

(a) if the amount of the default risk exposure in respect of an SFT is calculated in accordance with section 226MJ—the risk-weighted amount of the default risk exposure calculated in accordance with section 85 or 88, as the case requires; or

(b) if the amount of the default risk exposure in respect of a portfolio of SFTs is calculated in accordance with section 226MK—the risk-weighted amount of the default risk exposure calculated by multiplying the exposure amount of the default risk exposure by the risk-weight attributable to the exposure determined under Division 3.

53. On-balance sheet exposures and off-balance sheet exposures to be covered

(1) Subject to subsection (2), if an authorized institution is required under these Rules to use only the STC approach to calculate the credit risk for all of its non-securitization exposures, the institution must, for the purpose of calculating under section 52 an amount representing the degree of credit risk to which it is exposed, take into account and risk-weight—

(a) all of the institution's on-balance sheet exposures and off-balance sheet exposures booked in its banking book; and

(b) all of the institution's following exposures—

(i) default risk exposures to counterparties in respect of derivative contracts or SFTs booked in its trading book;

(ii) credit exposures to counterparties in respect of transactions (other than repo-style transactions) in securities, foreign exchange or commodities booked in its trading book that remain outstanding after the settlement dates in respect of the transactions;

(iii) credit exposures to counterparties in respect of unsegregated collateral posted by it and held by the counterparties for transactions or contracts booked in its trading book; and

(c) if applicable, all of the institution's market risk exposures that are exempted from section 17 under section 22, except for its total net open position in foreign exchange exposures as derived in accordance with section 296.

(2) Subsection (1) does not apply to—

(a) securitization exposures;

(b) the underlying exposures of eligible traditional securitization transactions (within the meaning of section 229) if the authorized institution opts to apply the treatment under section 230(1) to the underlying exposures;

(c) default fund contributions made to qualifying CCPs and non-qualifying CCPs (within the meaning of section 226V(1));

(d) default risk exposures to qualifying CCPs;

(e) exposures that are risk-weighted as if they were default risk exposures to qualifying CCPs under Division 4 of Part 6A; and

(f) any portion of an exposure (which may be all of the exposure) that is required to be deducted from any of the institution's CET1 capital, Additional Tier 1 capital and Tier 2 capital under Division 4 of Part 3.

54. Classification of exposures

(1) An authorized institution must classify its on-balance sheet exposures and off-balance sheet exposures into one only of the following categories and subcategories—

(a) exposures other than CIS exposures—

(i) ECAI ratings based portfolios;

(ii) exposures that are neither ECAI ratings based portfolios nor defaulted exposures;

(iii) defaulted exposures;

(b) CIS exposures.

(2) An authorized institution must—

(a) further classify each of its exposures falling within subsection (1)(a)(i), according to the obligor or the nature of the exposure, into one only of the ECAI ratings based portfolios; and

(b) determine the risk-weight attributable to each of the exposures in accordance with Subdivisions 2 and 3 of Division 3 and, if applicable, Subdivision 9 of that Division.

(3) An authorized institution must—

(a) further classify each of its exposures falling within subsection (1)(a)(ii), according to the obligor or the nature of the exposure, into one only of the following classes—

(i) retail exposures;

(ii) exposures falling within section 64A;

(iii) real estate exposures;

(iv) equity exposures (other than those falling within subparagraph (v) or (vi));

(v) significant capital investments in commercial entities;

(vi) holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities;

(vii) subordinated debts issued by banks, qualifying non-bank financial institutions and corporates;

(viii) cash and gold;

(ix) items in the process of clearing or settlement;

(x) other exposures; and

(b) determine the risk-weight attributable to each of the exposures in accordance with Subdivision 4, 5, 6 or 7 of Division 3, as the case requires, and, if applicable, Subdivision 9 of that Division.

(4) An authorized institution must determine the risk-weight attributable to each of the exposures falling within subsection (1)(a)(iii) in accordance with Subdivision 8 of Division 3 and, if applicable, Subdivision 9 of that Division.

(5) An authorized institution must determine the risk-weight attributable to each of the exposures falling within subsection (1)(b) in accordance with Division 3A.

(6) For the purposes of subsection (2)(a), an authorized institution may treat an entity incorporated outside Hong Kong that is none of the following as a corporate rather than a qualifying non-bank financial institution—

(a) a public sector entity;

(b) a multilateral development bank;

(c) an unspecified multilateral body;

(d) a bank;

(e) an entity that falls within paragraph (a) or (b) of the definition of ***qualifying non-bank financial institution*** in section 2(1).".

60. Headings before section 54A repealed

Headings before section 54A—

Repeal the headings.

61. Section 54A substituted

Section 54A—

Repeal the section

Substitute

"**54A. Provisions supplementary to section 54—equity exposures**

(1) If an exposure to an instrument issued by an entity (***issuer***) falls within subsection (2), (3), (4) or (5) based on the economic substance of the instrument,

an authorized institution must classify the exposure as an equity exposure for the purposes of this Part unless—

(a) the exposure is a CIS exposure;

(b) the exposure is fully deducted from the institution's capital base in accordance with Division 4 of Part 3;

(c) if classification of the exposure is for the purpose of calculating the institution's capital adequacy ratio on a solo-consolidated basis, the issuer is—

(i) a solo-consolidated subsidiary of the institution; and

(ii) the subject of consolidation under a section 3C requirement imposed on the institution; or

(d) if classification of the exposure is for the purpose of calculating the institution's capital adequacy ratio on a consolidated basis, the issuer is the subject of consolidation under a section 3C requirement imposed on the institution.

(2) An instrument falls within this subsection if it represents direct or indirect ownership interests (whether voting or non-voting) in the assets and income of the issuer or another entity.

(3) An instrument falls within this subsection if it meets all of the following requirements—

(a) it is irredeemable in the sense that the return of invested funds can be achieved only by the sale of the investment or sale of the rights to the investment or by the liquidation of the issuer;

(b) it does not embody an obligation on the part of the issuer;

(c) it conveys a residual claim on the assets or income of the issuer.

(4) An instrument falls within this subsection if—

(a) the issuer is not a bank but the instrument would be a Tier 1 capital in accordance with the current Basel Framework if it were issued by a bank; or

(b) it embodies an obligation on the part of the issuer and meets any one or more of the following requirements—

(i) the issuer may indefinitely defer the settlement of the obligation;

(ii) the obligation requires (or permits at the issuer's discretion) settlement by issuance of a fixed number of the issuer's equity shares;

(iii) the obligation requires (or permits at the issuer's discretion) settlement by issuance of a variable number of the issuer's equity shares and, other things being equal, any change in the value of the obligation is attributable to, comparable to, and in the same direction as, the change in the value of a fixed number of the issuer's equity shares;

(iv) the holder of the instrument has the option to require that the obligation be settled in equity shares, unless the authorized institution demonstrates to the satisfaction of the Monetary Authority that—

(A) in the case of a traded instrument—the instrument trades more like the debt of the issuer than equity; or

(B) in the case of a non-traded instrument—the instrument should be treated as a debt position.

(5) An instrument falls within this subsection if it is a debt obligation, a derivative contract or an instrument in any other form, that—

(a) does not fall within subsection (2), (3) or (4); and

(b) is structured with the intent of conveying the economic substance of equity ownership.

(6) To avoid doubt, equity exposures—

(a) include liabilities (such as short positions) falling within subsection (5) from which the return is linked to that of equities unless the liabilities are directly hedged by equity holdings such that the resulted net position in the equities concerned does not involve material risk; and

(b) exclude equity investments that are structured with the intent of conveying the economic substance of debt holdings or securitization exposures.

(7) The Monetary Authority may, by written notice given to an authorized institution, require the institution to treat a debt position of the institution as an equity exposure for the purpose of calculating its credit risk if the Monetary Authority is satisfied that the nature and economic substance of the debt position are such that the debt position should more realistically be characterized as an equity exposure than as a debt position.

(8) An authorized institution must comply with the requirements of a notice given to it under subsection (7).".

62. Part 4, Division 3 heading and Part 4, Division 3, Subdivision 1 added

After section 54A—

Add

"Division 3—Determination of Risk-weights Applicable to Exposures other than CIS Exposures

Subdivision 1—Application of Division 3

54B. Application of Division 3

This Division applies to the determination of risk-weights applicable to on-balance sheet exposures, and off-balance sheet exposures, that are not CIS exposures.".

63. Part 4, Division 3, Subdivisions 2 and 3 repealed

Part 4, Division 3—

Repeal Subdivisions 2 and 3.

64. Part 4, Division 3, provisions added

After section 54B—

Add

"**Subdivision 2—Due Diligence Requirements**

54C. Due diligence requirements

(1) An authorized institution must perform due diligence on its credit exposures (at origination and at least annually thereafter) to ensure that it has an adequate understanding of the risk profile and characteristics of the obligors in respect of the exposures.

(2) If an authorized institution determines the risk-weight of an exposure in accordance with Subdivision 3 by using an ECAI issuer rating or a long-term ECAI issue specific rating (***relevant rating***)—

(a) the institution must, based on the due diligence performed under subsection (1) on the exposure, assess at least annually whether the risk-weight (***rating-based RW***) so determined is appropriate and prudent for the exposure;

(b) if the due diligence referred to in paragraph (a) indicates that the credit risk of the exposure is higher than that implied by the rating-based RW, the institution must allocate to the exposure a risk-weight that is at least the next higher base risk-weight than the base risk-weight applicable to the ECAI ratings based portfolio to which the exposure belongs based on the relevant rating; and

(c) if there is no such next higher base risk-weight, the institution must allocate to the exposure the highest base risk-weight applicable to the ECAI ratings based portfolio to which the exposure belongs.

(3) An authorized institution must not, according to the due diligence performed by it on an exposure, allocate to the exposure a risk-weight that is lower than the exposure's rating-based RW.

(4) Subsection (2) does not apply to—

(a) sovereign exposures; or

(b) public sector entity exposures.

(5) Despite the requirements of this Division, the Monetary Authority may, by written notice given to one or more authorized institutions, require the institution to allocate to an exposure, or exposures belonging to a class of exposure, a risk-weight specified in the notice, if the Monetary Authority considers that—

(a) the exposure or the class has, or could reasonably be construed as potentially having, adverse impacts on the financial soundness of the institution; or

(b) flexibility in the capital treatment of the class is necessary or expedient for supporting the economy or maintaining the stability and effective working of the financial system of Hong Kong.

(6) An authorized institution must comply with the requirements of a notice given to it under subsection (5).

(7) In this section—

base risk-weight (基準風險權重)—

(a) in relation to a multilateral development bank exposure or unspecified multilateral body exposure, means any risk-weight specified in column 3 of Table 2B;

(b) in relation to a bank exposure or qualifying non-bank financial institution exposure, means any risk-weight specified in column 3 of Table 3;

(c) in relation to an eligible covered bond exposure, means any risk-weight specified in column 3 of Table 4B or column 3 of Table 4C; and

(d) in relation to a general corporate exposure or a specialized lending, means any risk-weight specified in column 3 or 4 of Table 5.

Subdivision 3—ECAI Ratings Based Portfolios".

65. Sections 54D, 54E and 54F added

Before section 55—

Add

"**54D. Mapping ECAI rating to credit quality grade**

(1) For the purpose of determining the risk-weight attributable to an exposure that falls within one of the ECAI ratings based portfolios and that is not an unrated exposure, an authorized institution must determine the credit quality grade applicable to the exposure in accordance with this section and sections 54E and 54F.

(2) If—

(a) an exposure is a sovereign exposure, a multilateral development bank exposure that is not eligible for a risk-weight of 0%, an unspecified multilateral body exposure, a bank exposure, an eligible covered bond exposure, a qualifying non-bank financial institution exposure (***QNBFI exposure***), a general corporate exposure to a corporate incorporated outside the home jurisdictions of Type B ECAIs or a specialized lending; and

(b) there is a long-term ECAI issue specific rating assigned to the exposure by a Type A ECAI,

an authorized institution must determine the credit quality grade applicable to the exposure by mapping the long-term ECAI issue specific rating of the exposure to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs.

(3) If—

(a) an exposure is a bank exposure, a QNBFI exposure, a general corporate exposure to a corporate incorporated outside the home jurisdictions of Type B ECAIs or a specialized lending; and

(b) there is a short-term ECAI issue specific rating assigned to the exposure by a Type A ECAI,

an authorized institution must determine the credit quality grade applicable to the exposure by mapping the short-term ECAI issue specific rating of the exposure to a credit quality grade in accordance with the ST ECAI rating mapping table for Type A ECAIs.

(4) If—

(a) an exposure is a general corporate exposure to a corporate incorporated in the home jurisdiction of a Type B ECAI; and

(b) there is a long-term ECAI issue specific rating or short-term ECAI issue specific rating assigned to the exposure by a Type A ECAI or that Type B ECAI,

an authorized institution must determine the credit quality grade applicable to the exposure by mapping the rating of the exposure to a credit quality grade in accordance with the LT ECAI rating mapping table or the ST ECAI rating mapping table, as the case requires, applicable to the ECAI that assigns the rating.

(5) If—

(a) an exposure is a sovereign exposure, a multilateral development bank exposure that is not eligible for a risk-weight of 0% or an unspecified multilateral body exposure;

(b) there is no long-term ECAI issue specific rating assigned to the exposure by any Type A ECAI; and

(c) a Type A ECAI has assigned an ECAI issuer rating to the obligor in respect of the exposure or a long-term ECAI issue specific rating (***reference rating***) to any other exposure to the obligor,

an authorized institution must determine the credit quality grade applicable to the exposure by mapping the ECAI issuer rating of the obligor or the reference rating, as the case may be, to a credit quality grade

in accordance with the LT ECAI rating mapping table for Type A ECAIs.

(6) If—

(a) an exposure is a bank exposure, a QNBFI exposure or a general corporate exposure to a corporate incorporated outside the home jurisdictions of Type B ECAIs;

(b) there is neither a long-term ECAI issue specific rating nor a short-term ECAI issue specific rating assigned to the exposure by any Type A ECAI; and

(c) a Type A ECAI has assigned an ECAI issuer rating to the obligor in respect of the exposure or a long-term ECAI issue specific rating (***reference rating***) to any other exposure to the obligor,

an authorized institution must determine the credit quality grade applicable to the exposure by mapping the ECAI issuer rating of the obligor or the reference rating, as the case may be, to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs.

(7) If—

(a) an exposure is a general corporate exposure to a corporate incorporated in the home jurisdiction of a Type B ECAI;

(b) there is neither a long-term ECAI issue specific rating nor a short-term ECAI issue specific rating assigned to the exposure by any ECAI; and

(c) a Type A ECAI or the Type B ECAI referred to in paragraph (a) has assigned an ECAI issuer rating to the corporate or a long-term ECAI issue specific rating (***reference rating***) to any other exposure to the corporate,

an authorized institution must determine the credit quality grade applicable to the exposure by mapping the ECAI issuer rating of the corporate or the reference rating, as the case may be, to a credit quality grade in accordance with the LT ECAI rating mapping table applicable to the ECAI that assigns the rating.

(8) If an exposure is a public sector entity exposure (***PSE exposure***) (including a PSE exposure to a sovereign foreign public sector entity), an authorized institution must—

(a) map the ECAI issuer rating assigned to the sovereign of the jurisdiction in which the public sector entity is incorporated to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs; and

(b) regard the credit quality grade so obtained as the credit quality grade applicable to the PSE exposure.

(9) For the purpose of determining whether a multilateral development bank exposure is eligible for a risk-weight of 0%, an authorized institution must determine the credit quality grade applicable to the exposure by mapping the ECAI issuer rating of the multilateral development bank concerned to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs.

54E. Application of ECAI ratings

(1) This section applies to the use of ECAI ratings by an authorized institution under this Part for determining the risk-weight attributable to an exposure (however described) (***exposure A***) that falls within one of the ECAI ratings based portfolios.

(2) In complying with the requirements of section 54D, the institution must—

(a) if exposure A has only 1 ECAI issue specific rating—use that rating;

(b) if exposure A has 2 ECAI issue specific ratings that would map into different credit quality grades under that section and result in the allocation of different risk-weights to exposure A under the relevant section in relation to exposure A—use the rating that would result in the allocation of the higher of those risk-weights; and

(c) if exposure A has 3 or more ECAI issue specific ratings—refer to the 2 ratings that would, under that section, map into credit quality grades the use of which would result in the allocation of the lowest risk-weights to exposure A under the relevant section in relation to exposure A, and—

(i) if the 2 lowest risk-weights are the same, use any one of the 2 ratings; or

(ii) if the 2 lowest risk-weights are different, use the rating that would result in the allocation of the higher of those 2 risk-weights.

(3) Subject to subsections (5) and (6), if exposure A does not have an ECAI issue specific rating and the obligor in respect of exposure A does not have an ECAI issuer rating but there is a reference exposure, in complying with the requirements of section 54D the institution must determine the rating to be used as follows—

(a) if the long-term ECAI issue specific rating of the reference exposure is a low quality rating, the institution may use that long-term ECAI issue specific rating if exposure A ranks equally with, or is subordinated to, the reference exposure in respect of payment or repayment;

(b) if the long-term ECAI issue specific rating of the reference exposure is a high quality rating, the institution may use that long-term ECAI issue specific rating if exposure A ranks equally with, or senior to, the reference exposure in respect of payment or repayment.

(4) Subject to subsection (5), if exposure A does not have an ECAI issue specific rating and the obligor in respect of exposure A has an ECAI issuer rating but there is no reference exposure, in complying with the requirements of section 54D the institution must determine the rating to be used as follows—

(a) if the ECAI issuer rating is a low quality rating, the institution may use that ECAI issuer rating if—

(i) that rating is only applicable to unsecured exposures to the obligor as an issuer that are not subordinated to other exposures to that obligor; and

(ii) exposure A ranks equally with, or is subordinated to, the unsecured exposures referred to in subparagraph (i);

(b) subject to paragraph (c), if the ECAI issuer rating is a high quality rating, the institution may use that ECAI issuer rating if—

(i) that rating is only applicable to unsecured exposures to the obligor as an issuer that are not subordinated to other exposures to that obligor; and

(ii) exposure A is not subordinated to other exposures to that obligor;

(c) if the ECAI issuer rating is a high quality rating that only applies to a specific exposure class, the institution may use that ECAI issuer rating if—

(i) exposure A is in that exposure class;

(ii) that rating is only applicable to unsecured exposures to the obligor as an issuer that are not subordinated to other exposures to that obligor in that exposure class; and

(iii) exposure A is not subordinated to other exposures to the obligor in that exposure class.

(5) Subject to subsection (6), if exposure A is of a kind referred to in subsection (3) and the reference exposure has more than one long-term ECAI issue specific rating, or is of a kind referred to in subsection (4) and the obligor in respect of exposure A has more than one ECAI issuer rating, in complying with the requirements of section 54D, the institution must determine the rating to be used as follows—

(a) the institution must apply subsection (3) to each long-term ECAI issue specific rating or subsection (4) to each ECAI issuer rating, as the case requires;

(b) if it is determined under paragraph (a) that only 1 long-term ECAI issue specific rating or ECAI issuer rating can be used—the institution must use that rating;

(c) if it is determined under paragraph (a) that 2 long-term ECAI issue specific ratings or 2 ECAI issuer ratings can be used and the use of the 2 ratings would result in the allocation of different risk-weights to exposure A under the relevant section in relation to exposure A—the institution must use the rating that would result in the allocation of the higher of the 2 different risk-weights;

(d) if it is determined under paragraph (a) that 3 or more ECAI issue specific ratings or 3 or more ECAI issuer ratings can be used and the use of those ratings would result in the allocation of different risk-weights to exposure A under the relevant section in relation to exposure A—the institution must refer to the 2 ratings that would result in the allocation of the lowest risk-weights to exposure A and—

(i) if the 2 lowest risk-weights are the same, use any one of the 2 ratings; or

(ii) if the 2 lowest risk-weights are different, use the rating that would result in the allocation of the higher of those 2 risk-weights.

(6) If exposure A is of a kind referred to in subsection (3) and there is more than one reference exposure, the institution must—

(a) apply subsection (3) or (5), as the case requires, to each reference exposure, to determine the long-term ECAI issue specific rating to be used for the purposes of paragraph (b); and

(b) apply subsection (2), as if the long-term ECAI issue specific ratings determined under paragraph (a) were those of exposure A, to determine the long-term ECAI issue specific rating to be used for the purpose of complying with the requirements of section 54D.

(7) If—

(a) exposure A does not have an ECAI issue specific rating;

(b) the obligor in respect of exposure A has—

(i) at least one reference exposure that has one or more long-term ECAI issue specific ratings; and

(ii) one or more ECAI issuer ratings; and

(c) the use, in accordance with section 54D and the relevant section in relation to exposure A, of the ratings below would result in the allocation of 2 different risk-weights to exposure A—

(i) the long-term ECAI issue specific rating that would be determined under subsection (3), (5) or (6), as the case requires, as if the obligor did not have any ECAI issuer rating; and

(ii) the ECAI issuer rating that would be determined under subsection (4) or (5), as the case requires, as if there were no reference exposure,

the institution may, in complying with the requirements of that section, use the rating that would result in the allocation of the lower of the 2 different risk-weights to exposure A.

(8) In determining the ECAI rating to be used under subsection (3), (4), (5), (6) or (7)—

(a) subject to paragraph (b), the institution—

(i) must use ECAI ratings applicable to foreign currency, if available, to the extent that exposure A is denominated in foreign currency;

(ii) must use ECAI ratings applicable to local currency, if available, to the extent that exposure A is denominated in local currency; and

(iii) may use ECAI issuer ratings applicable to foreign currency, if available, to the extent that—

(A) exposure A is denominated in local currency; and

(B) no ECAI rating applicable to local currency is available;

(b) if exposure A is denominated in a currency different from the local currency of the obligor in respect of exposure A, the institution may use the obligor's ECAI rating applicable to the

obligor's local currency, if available, for the purpose of—

(i) risk-weighting exposure A where exposure A arises from the institution's participation in an exposure created by a multilateral development bank; or

(ii) risk-weighting the credit protection covered portion of exposure A where exposure A is guaranteed by a multilateral development bank against the risk of the obligor not being able to repay exposure A to the institution because of exchange controls of the jurisdiction in which the obligor is located.

(9) In this section—

high quality rating (高質素評級), in relation to exposure A, means an ECAI issuer rating assigned to the obligor in respect of exposure A, or a long-term ECAI issue specific rating assigned to a reference exposure to the obligor in respect of exposure A, that, if being used to determine a risk-weight attributable to exposure A in accordance with section 54D and the relevant section in relation to exposure A, would result in the allocation of a risk-weight to exposure A that would be lower than the risk-weight that would be allocated to an unrated exposure to the obligor;

low quality rating (低質素評級), in relation to exposure A, means an ECAI issuer rating assigned to the obligor in respect of exposure A, or a long-term ECAI issue specific rating assigned to a reference exposure to the obligor in respect of exposure A, that, if being used to determine a risk-weight attributable to exposure A in accordance with section 54D and the relevant

section in relation to exposure A, would result in the allocation of a risk-weight to exposure A that would be equal to or higher than the risk-weight that would be allocated to an unrated exposure to the obligor;

reference exposure (參照風險承擔), in relation to the obligor in respect of exposure A, means an exposure (other than exposure A) to the obligor that has one or more long-term ECAI issue specific ratings assigned to it;

relevant section (有關條文), in relation to an exposure that belongs to one of the ECAI ratings based portfolios, means the section in this Subdivision that is applicable to the ECAI ratings based portfolio to which the exposure belongs, but excludes sections 59A and 61(3) and (4).

54F. Further restrictions on use of ECAI ratings

(1) For the purposes of this Part—

(a) an authorized institution may use an ECAI rating to determine the risk-weight attributable to its exposure only if the rating takes into account and reflects the entire amount of the exposure with regard to all payments owed to the institution;

(b) subject to subsection (2), an authorized institution must not use an ECAI rating assigned to a bank or bank exposure that incorporates assumptions of implicit government support unless the bank is a public bank owned by the government concerned; and

(c) subject to subsection (2), any ECAI issuer rating assigned to a bank (other than a public bank owned by a government), and any ECAI issue specific rating assigned to an exposure to such a bank, that incorporates assumptions of implicit government support must be ignored when—

(i) determining under section 54E which ECAI rating may be used for the purposes of section 54D; and

(ii) determining whether an exposure to such a bank is an unrated exposure for the purposes of this Part.

(2) Despite subsection (1)(b) and (c), an authorized institution may continue to use ECAI ratings that incorporate assumptions of implicit government support for a period of up to 5 years after the commencement date of this section for the purpose of determining the risk-weights attributable to bank exposures.

(3) In this section—

implicit government support (隱性政府支持), in relation to banks incorporated in a jurisdiction, means the notion that the government of that jurisdiction would act to prevent bank creditors from incurring losses in the event of a bank default or bank distress.".

66. Sections 55 to 59 substituted

Sections 55, 56, 57, 58 and 59—

Repeal the sections

Substitute

"**55. Sovereign exposures**

(1) Subject to section 56, an authorized institution must allocate a risk-weight to a sovereign exposure that has been assigned a credit quality grade under section 54D(2) or (5) in accordance with Table 2.

Table 2

Risk-weights for Sovereign Exposures

Column 1	Column 2	Column 3
Item	Credit quality grade	Risk-weight
1.	1, 2	0%
2.	3	20%
3.	4	50%
4.	5, 6	100%
5.	7	150%

(2) Subject to section 56, an authorized institution must allocate a risk-weight of 100% to a sovereign exposure that is an unrated exposure.

56. Exceptions to section 55

(1) If a sovereign exposure is a domestic currency exposure to the Government (including an exposure to the Exchange Fund), an authorized institution may allocate a risk-weight of 0% to the exposure.

(2) If—

(a) a sovereign exposure is a domestic currency exposure to a sovereign (other than the Government or a restricted sovereign); and

(b) the relevant banking supervisory authority for the jurisdiction of the sovereign would permit banks incorporated in that jurisdiction to allocate a risk-weight to the exposure that is lower than the risk-weight that would be allocated under section 55 to the exposure,

an authorized institution may allocate the lower risk-weight to the exposure.

(3) If a sovereign exposure is an exposure to a relevant international organization, an authorized institution may allocate a risk-weight of 0% to the exposure.

57. Public sector entity exposures

(1) Subject to subsection (3), an authorized institution must allocate a risk-weight to a public sector entity exposure (***PSE exposure***) that has been assigned a credit quality grade under section 54D(8) in accordance with Table 2A.

Table 2A

Risk-weights for PSE Exposures

Column 1	Column 2	Column 3
Item	Credit quality grade	Risk-weight
1.	1, 2	20%
2.	3	50%
3.	4, 5, 6	100%
4.	7	150%

(2) If the sovereign of the jurisdiction in which the public sector entity is incorporated does not have an ECAI issuer rating, an authorized institution must allocate a risk-weight of 100% to the exposure.

(3) If a PSE exposure is an exposure to a sovereign foreign public sector entity, section 55, with all necessary modifications, applies to the exposure as if the entity were a sovereign, using the credit quality grade assigned to the PSE exposure under section 54D(8).

58. Multilateral development bank exposures and unspecified multilateral body exposures

(1) An authorized institution may allocate a risk-weight of 0% to a multilateral development bank exposure (***MDB exposure***) if the multilateral development bank concerned is assigned a credit quality grade of 1 or 2 under section 54D(9).

(2) If subsection (1) is not applicable to an MDB exposure, an authorized institution must treat the multilateral development bank as if it were an unspecified multilateral body and—

(a) if the MDB exposure is not an unrated exposure—

(i) determine the credit quality grade applicable to the exposure in accordance with section 54D(2) or (5), as the case requires; and

(ii) determine the risk-weight attributable to the exposure in accordance with subsection (3), based on the credit quality grade so determined; and

(b) if the MDB exposure is an unrated exposure—determine the risk-weight attributable to the exposure in accordance with subsection (4).

(3) Subject to section 54C, an authorized institution must allocate a risk-weight to an unspecified multilateral body exposure that has been assigned a credit quality grade under section 54D(2) or (5) in accordance with Table 2B.

Table 2B

Risk-weights for Unspecified Multilateral Body Exposures

Column 1	Column 2	Column 3
Item	Credit quality grade	Risk-weight
1.	1, 2	20%
2.	3	30%
3.	4	50%
4.	5, 6	100%
5.	7	150%

(4) An authorized institution must allocate a risk-weight of 50% to an unspecified multilateral body exposure that is an unrated exposure.

59. Bank exposures

(1) This section applies to a bank exposure that is neither of the following exposures—

(a) an unrated exposure to a bank;

(b) an eligible covered bond exposure.

(2) Subject to sections 54C and 59A, if the exposure has been assigned a credit quality grade under section 54D(2) or (6), an authorized institution must allocate a risk-weight to the exposure in accordance with Table 3.

Table 3

Risk-weights for Bank Exposures with Credit Quality Grades Obtained by Mapping to LT ECAI Rating Mapping Table for Type A ECAIs

Column 1	Column 2	Column 3	Column 4
Item	Credit quality grade	Risk-weight for general bank exposures	Risk-weight for short-term bank exposures (other than exposures that have a short-term ECAI issue specific rating)
1.	1, 2	20%	20%
2.	3	30%	20%
3.	4	50%	20%
4.	5, 6	100%	50%
5.	7	150%	150%

(3) If the exposure has been assigned a credit quality grade under section 54D(3), an authorized institution must allocate a risk-weight to the exposure in accordance with Table 4.

Table 4

Risk-weights for Bank Exposures with Credit Quality Grades Obtained by Mapping to ST ECAI Rating Mapping Table for Type A ECAIs

Column 1	Column 2	Column 3
Item	Credit quality grade	Risk-weight for general bank exposures and short-term bank exposures
1.	1	20%
2.	2	50%
3.	3	100%
4.	4	150%".

67. Sections 59A to 59D added

After section 59—

Add

"**59A. Provisions supplementary to section 59**

(1) Despite section 59(2), an authorized institution must allocate a risk-weight of 150% to a general bank exposure or a 3 months' bank exposure to a bank—

(a) if—

(i) section 54D(6) applies to the exposure; and

(ii) there is a reference exposure to the same bank; and

(b) if sections 54D(3) and 59(3) applied to the reference exposure, it would be allocated a risk-weight of 150% in accordance with those sections.

(2) The risk-weight allocated under section 59(2) to a bank exposure that is not a 6 months' bank exposure and has an original maturity of 1 year or less (***subject exposure***) must not be lower than 100%—

(a) if—

(i) section 54D(6) applies to the subject exposure; and

(ii) there are one or more reference exposures to the same bank but none of the reference exposures falls within subsection (1)(b); and

(b) if sections 54D(3) and 59(3) applied to the reference exposures, one or more of the reference exposures would be allocated a risk-weight of 50% or 100% in accordance with those sections.

(3) If—

(a) a bank exposure (***subject exposure***) to which section 54D(6) applies is a 3 months' bank exposure; and

(b) there are one or more reference exposures to the same bank but none of the reference exposures falls within subsection (1)(b) or (2)(b),

the subject exposure must be allocated a risk-weight in accordance with subsection (4).

(4) If subsection (3) applies, the subject exposure must be allocated a risk-weight that is the higher of—

(a) the risk-weight that would be allocated to the reference exposures in accordance with sections 54D(3) and 59(3) if those sections applied to the reference exposures; and

(b) the risk-weight that would be allocated to the subject exposure in accordance with sections 54D(6) and 59(2) if those sections applied to the subject exposure as if there were no reference exposures.

(5) For the purposes of subsection (4), if the 2 risk-weights referred to in subsection (4)(a) and (b) are the same, any one of those risk-weights may be allocated to the subject exposure.

(6) In this section—

reference exposure (參照風險承擔), in relation to a bank exposure to which section 54D(6) applies, means another exposure to the same bank that has a short-term ECAI issue specific rating, regardless of who is holding that other exposure.

59B. Bank exposures—standardized credit risk assessment approach—assignment of credit assessment grade

(1) This section applies to an unrated exposure to a bank other than an eligible covered bond exposure.

(2) An authorized institution must assign a credit assessment grade to the exposure in accordance with subsections (3), (4) and (5).

(3) The institution must not assign a credit assessment grade of A to the exposure unless the institution assesses that the bank—

(a) has adequate capacity to meet its financial commitments (including repayments of principal and interest) in a timely manner, for the projected life of the assets or exposures concerned and irrespective of the economic cycles and business conditions; and

(b) meets or exceeds the published minimum regulatory requirements (including buffers) established by the relevant supervisor.

(4) The institution may assign a credit assessment grade of B to the exposure if the institution assesses that—

(a) the bank falls within either or both of subparagraphs (i) and (ii)—

(i) the bank—

(A) does not fall within subsection (3)(a); and

(B) is subject to substantial credit risk, such as repayment capacities that are dependent on stable or favourable economic or business conditions;

(ii) the bank does not fall within subsection (3)(b), including because of the absence of a buffer requirement in the published minimum regulatory requirements applicable to the bank; and

(b) the bank meets or exceeds the published minimum regulatory requirements (excluding buffers) established by the relevant supervisor.

(5) The institution must assign a credit assessment grade of C to the exposure if—

(a) the institution assesses that—

(i) the bank—

(A) does not fall within subsection (3)(a) or (4)(a)(i)(B); and

(B) has material default risks and limited margins of safety; and

(ii) adverse business, financial or economic conditions are very likely to lead, or have led, to an inability of the bank to meet its financial commitments;

(b) the institution assesses that—

(i) the bank fails to meet the published minimum regulatory requirements (excluding buffers) established by the relevant supervisor; or

(ii) the minimum quantitative regulatory requirements imposed by the relevant supervisor are not publicly disclosed or otherwise made available by the bank to the institution; or

(c) the external auditor of the bank has issued an adverse audit opinion or has expressed substantial doubt about the bank's ability to continue as a going concern in the bank's financial statements or audited reports issued within the previous 12 months.

(6) Despite subsections (2), (3), (4) and (5), an authorized institution must assign a credit assessment grade of C to an unrated exposure to a bank if the institution chooses not to conduct an assessment to determine whether the bank would be eligible for a credit assessment grade of A or B.

(7) In this section—

home jurisdiction (原屬司法管轄區), in relation to a bank, means the jurisdiction in which the bank is incorporated;

published minimum regulatory requirements (已公布最低監管規定)—

(a) in relation to an internationally active bank, means the minimum quantitative regulatory requirements imposed by the relevant supervisor on the bank that are—

(i) consistent with the Basel Framework; and

(ii) publicly disclosed or otherwise made known by the bank to its creditors or counterparties;

(b) in relation to a bank that is not an internationally active bank, means the minimum quantitative regulatory requirements imposed by the relevant supervisor on the bank—

(i) that include at least a minimum regulatory capital requirement; and

(ii) that are publicly disclosed or otherwise made known by the bank to its creditors or counterparties; and

(c) do not include—

(i) liquidity standards; or

(ii) bank-specific minimum regulatory requirements—

(A) that may be imposed through supervisory actions taken by the relevant supervisor; and

(B) that are not made public;

relevant supervisor (有關監管者), in relation to a bank, means—

(a) the Monetary Authority if the bank is an authorized institution incorporated in Hong Kong; or

(b) in any other case, the relevant banking supervisory authority in the bank's home jurisdiction.

59C. Bank exposures—standardized credit risk assessment approach—allocation of risk-weight

(1) Subject to subsection (2), an authorized institution must allocate a risk-weight to an unrated exposure to a bank in accordance with Table 4A based on the credit assessment grade assigned by the institution to the unrated exposure under section 59B(2).

Table 4A

Risk-weights for Unrated Exposures to Banks

Column 1 Item	Column 2 Credit assessment grade	Column 3 Risk-weight for general bank exposures	Column 4 Risk-weight for short-term bank exposures
1.	A	40%	20%
2.	B	75%	50%
3.	C	150%	150%

(2) An authorized institution may allocate a risk-weight of 30% to an unrated exposure to a bank if—

(a) the institution assigns a credit assessment grade of A to the bank under section 59B(2); and

(b) the bank has—

(i) a CET1 capital ratio, calculated in the manner specified by the relevant supervisor of the bank, that meets or exceeds 14%; and

(ii) a leverage ratio, calculated in the manner specified by the relevant supervisor of the bank, that meets or exceeds 5%.

(3) Subject to subsection (4), an unrated exposure to a bank must not be allocated under subsection (1) or (2) a risk-weight that is lower than the attributed risk-weight of the sovereign of the bank's home jurisdiction if—

(a) the unrated exposure is not denominated in the local currency of the home jurisdiction; or

(b) the unrated exposure—

(i) is booked in a branch of the bank in a jurisdiction other than its home jurisdiction (***host jurisdiction***); and

(ii) is not denominated in the local currency of the host jurisdiction.

(4) Subsection (3) does not apply to an unrated exposure to a bank that is a trade-related contingency.

(5) In this section—

attributed risk-weight (歸屬風險權重), in relation to a sovereign—

(a) if the sovereign has an ECAI issuer rating or a long-term ECAI issue specific rating assigned to a debt obligation of the sovereign—means the risk-weight that would be attributable, in accordance with sections 54D and 55(1), to a senior and unsecured exposure (other than a domestic currency exposure) to the sovereign based on that rating; or

(b) in any other case—means the risk-weight that would be attributable, in accordance with section 55(2), to an unrated exposure (other than a domestic currency exposure) to the sovereign;

home jurisdiction (原屬司法管轄區) has the meaning given by section 59B(7);

relevant supervisor (有關監管者) has the meaning given by section 59B(7).

59D. Eligible covered bond exposures

(1) Subject to section 54C, an authorized institution must allocate a risk-weight to an eligible covered bond exposure that has been assigned a credit quality grade under section 54D(2) in accordance with Table 4B.

Table 4B

Risk-weights for Eligible Covered Bonds with Long-term ECAI Issue Specific Ratings

Column 1	Column 2	Column 3
Item	Credit quality grade	Risk-weight
1.	1, 2	10%
2.	3, 4	20%
3.	5, 6	50%
4.	7	100%

(2) Subject to section 54C, if no credit quality grade can be assigned to an eligible covered bond exposure under section 54D(2), an authorized institution must—

(a) determine the attributed risk-weight of the issuer of the eligible covered bond; and

(b) allocate a risk-weight to the eligible covered bond exposure in accordance with Table 4C based on the attributed risk-weight of the issuer determined under paragraph (a).

Table 4C

Risk-weights for Eligible Covered Bonds without Long-term ECAI Issue Specific Ratings

Column 1 Item	Column 2 Attributed risk-weight of issuer	Column 3 Risk-weight for eligible covered bond exposures
1.	20%	10%
2.	30%	15%
3.	40%	20%
4.	50%	25%
5.	75%	35%
6.	100%	50%
7.	150%	100%

(3) For the purposes of subsection (2), if the issuer of an eligible covered bond is a financial institution other than a bank, an authorized institution may determine the attributed risk-weight of the issuer in a manner as if the issuer were a bank.

(4) The Monetary Authority must develop implementing technical standards to specify the conditions a covered bond must meet in order to be recognized as an eligible covered bond for the purposes of this section, including—

(a) the types and qualities of claims included in the underlying assets of the covered bond;

(b) the size of the underlying assets assigned to the covered bond relative to the size of the outstanding amount of the covered bond; and

(c) information that must be made available to investors on a regular basis.".

68. Sections 60 and 61 substituted

Sections 60 and 61—

Repeal the sections

Substitute

"**60. Exposures to qualifying non-bank financial institutions**

(1) This section applies to a qualifying non-bank financial institution exposure that is neither an eligible covered bond exposure nor an exposure that falls within section 64A.

(2) If the exposure has been assigned a credit quality grade under section 54D(2), (3) or (6), sections 59 and 59A apply to the exposure as they apply to a bank exposure that is not an unrated exposure.

(3) Subject to subsection (4), if the exposure is an unrated exposure, sections 59B and 59C apply to the exposure as they apply to a bank exposure that is an unrated exposure, as if a reference in section 59B to published minimum regulatory requirements were a reference to the minimum quantitative regulatory requirements—

(a) that are—

(i) imposed on the qualifying non-bank financial institution concerned by the regulatory authority in the jurisdiction in which it is incorporated; and

(ii) publicly disclosed or otherwise made known by the qualifying non-bank financial institution to its creditors or counterparties; and

(b) that do not include—

(i) liquidity standards; or

(ii) institution-specific minimum regulatory requirements—

(A) that may be imposed through supervisory actions taken by the regulatory authority; and

(B) that are not made public.

(4) If—

(a) the exposure is an unrated exposure; and

(b) the obligor in respect of the exposure is a qualifying non-bank financial institution within the meaning of paragraph (a) or (b) of the definition of ***qualifying non-bank financial institution*** in section 2(1),

an authorized institution must allocate to the unrated exposure a risk-weight of 75% if the exposure is a general bank exposure or a risk-weight of 50% if the exposure is a short-term bank exposure.

61. General corporate exposures

(1) Subject to subsections (3) and (4) and section 54C, an authorized institution must allocate a risk-weight to a general corporate exposure that has been assigned a credit quality grade under section 54D(2), (3), (4), (6) or (7) in accordance with Table 5.

Table 5

Risk-weights for General Corporate Exposures

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Item	Credit quality grade	Risk-weight for credit quality grade obtained by mapping to LT ECAI rating mapping table for Type A ECAIs	Risk-weight for credit quality grade obtained by mapping to LT ECAI rating mapping table for Type B ECAIs	Risk-weight for credit quality grade obtained by mapping to ST ECAI rating mapping table for Type A ECAIs	Risk-weight for credit quality grade obtained by mapping to ST ECAI rating mapping table for Type B ECAIs
1.	1	20%	20%	20%	20%
2.	2	20%	30%	50%	30%
3.	3	50%	50%	100%	50%
4.	4	75%	75%	150%	100%

Item	Column 1 Credit quality grade	Column 2 Risk-weight for credit quality grade obtained by mapping to LT ECAI rating mapping table for Type A ECAIs	Column 3 Risk-weight for credit quality grade obtained by mapping to LT ECAI rating mapping table for Type B ECAIs	Column 4 Risk-weight for credit quality grade obtained by mapping to ST ECAI rating mapping table for Type A ECAIs	Column 5 Risk-weight for credit quality grade obtained by mapping to ST ECAI rating mapping table for Type B ECAIs
5.	5	100%	100%	Not applicable	150%
6.	6, 7	150%	150%	Not applicable	Not applicable

(2) Subject to subsections (3) and (4), if a general corporate exposure is an unrated exposure—

(a) subject to paragraph (b), an authorized institution must allocate a risk-weight of 100% to the general corporate exposure; or

(b) an authorized institution may allocate a risk-weight of 85% to the general corporate exposure if the corporate concerned is a small business.

(3) An authorized institution must allocate a risk-weight of 150% to a general corporate exposure—

(a) if—

(i) the exposure is an exposure to which section 54D(6) or (7) applies or an unrated exposure; and

(ii) there is a reference exposure to the same corporate; and

(b) if subsection (1) and section 54D(3) or (4) applied to the reference exposure, it would be allocated a risk-weight of 150% in accordance with those provisions.

(4) The risk-weight allocated to a general corporate exposure with an original maturity of 1 year or less under subsection (1) or (2), as the case requires, must not be lower than 100%—

(a) if—

(i) the exposure is an exposure to which section 54D(6) or (7) applies or an unrated exposure; and

(ii) there are one or more reference exposures to the same corporate but none of the reference exposures falls within subsection (3)(b); and

(b) if subsection (1) and section 54D(3) or (4) applied to the reference exposures, one or more of the reference exposures would be allocated a risk-weight of 50% or 100% in accordance with those provisions.

(5) In this section—

reference exposure (參照風險承擔), in relation to a general corporate exposure that does not have an ECAI issue specific rating, means another general corporate exposure to the same corporate that has a short-term ECAI issue specific rating, regardless of who is holding that other general corporate exposure.".

69. Section 61A repealed (application of section 61)

Section 61A—

Repeal the section.

70. Section 62 added

Before section 63—

Add

"**62. Specialized lending**

(1) Subject to section 54C, an authorized institution must allocate a risk-weight to a specialized lending that has been assigned a credit quality grade under section 54D(2) or (3) in accordance with Table 5.

(2) An authorized institution must allocate to a specialized lending that does not have an ECAI issue specific rating a risk-weight of—

(a) if the lending arises from an object finance—100%;

(b) if the lending arises from a commodities finance—100%;

(c) if the lending arises from a project finance (whether high quality or not)—130% during the preoperational phase;

(d) if the lending arises from a high quality project finance—80% during the operational phase; or

(e) if the lending arises from a project finance, other than a high quality project finance—100% during the operational phase.

(3) For the purposes of subsection (2), a specialized lending arising from a high quality project finance is an exposure to a project finance entity where—

(a) the entity is able to meet its financial commitments in a timely manner and its ability to do so is assessed to be robust against adverse changes in the economic cycle and business conditions;

(b) the entity is restricted from acting to the detriment of the creditors (for example, by not being able to issue additional debt without the consent of existing creditors);

(c) the entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project;

(d) the revenues are availability-based or subject to a rate-of-return regulation or take-or-pay contract;

(e) the entity's revenue depends on one main counterparty, which is a central government, public sector entity or a corporate, that has an attributed risk-weight of 80% or lower;

(f) the contractual provisions governing the exposure provide for a high degree of protection for creditors in case of a default of the entity;

(g) the main counterparty, or other counterparties that similarly comply with the eligibility criteria set out in paragraph (e) for the main counterparty, will protect the creditors from the losses resulting from a termination of the project;

(h) all assets and contracts necessary to operate the project have been pledged (or otherwise provided as security) to the creditors to the extent permitted by applicable law; and

(i) creditors may assume control of the entity in case of a default of the entity.

(4) For the purposes of subsection (3)(d), the revenues are availability-based if—

(a) once construction is completed, the project finance entity is entitled to payments from its contractual counterparties (***availability payments***), as long as contract conditions are fulfilled;

(b) the availability payments are sized to cover operating and maintenance costs, debt service costs and equity returns as the project finance entity operates the project; and

(c) the availability payments are not subject to swings in demand, such as traffic levels, and are adjusted typically only for lack of performance or lack of availability of the asset to the public of the jurisdiction in which the asset is located.

(5) In this section—

operational phase (營運階段), in relation to a project finance, means the phase in which the entity that was specifically created to finance the project has—

(a) a positive net cash flow that is sufficient to cover any remaining contractual obligation; and

(b) declining long-term debt;

preoperational phase (營運前階段), in relation to a project finance, means the phase before the operational phase.".

71. Sections 63 and 63A repealed

Sections 63 and 63A—

Repeal the sections.

72. Part 4, Division 3, Subdivision 4 heading added

Before section 64—

Add

"**Subdivision 4—Retail Exposures and IPO Financing**".

73. Section 64 substituted

Section 64—

Repeal the section

Substitute

"**64. Retail exposures**

(1) Subject to subsection (7), an authorized institution must allocate—

(a) a risk-weight of 75% to a regulatory retail exposure to an obligor if—

(i) the exposure arises from a credit facility other than a revolving credit facility or the obligor is not a transactor in respect of the exposure; and

(ii) the obligor is not a transactor in respect of any other exposure;

(b) to a regulatory retail exposure to an obligor—

(i) a risk-weight of 45% if the obligor is a transactor in respect of the exposure; or

(ii) a risk-weight of 75% if—

(A) the exposure arises from a credit facility other than a revolving credit facility or the obligor is not a transactor in respect of the exposure; and

(B) the institution has another exposure to the obligor that falls within subparagraph (i); and

(c) a risk-weight of 100% to an exposure (other than a real estate exposure, an exposure that falls within section 64A or a defaulted exposure) to an individual, if the exposure is not a regulatory retail exposure (***other retail exposure***).

(2) For the purposes of subsection (1), an exposure of an authorized institution to a single obligor, or to a particular obligor in a group of obligors that is considered by the institution as a group of obligors for risk management purposes (including, but not limited to, those grouped under the Banking (Exposure Limits) Rules (Cap. 155 sub. leg. S)), is a regulatory retail exposure if—

(a) that single obligor, or that particular obligor in the group of obligors, is an individual or a small business;

(b) the exposure is none of the following—

(i) a real estate exposure;

(ii) a default risk exposure in respect of derivative contracts entered into with the obligor;

(iii) an exposure that falls within section 64A;

(iv) a defaulted exposure;

(v) a holding of securities issued by the obligor, whether listed or not;

(vi) an exposure that falls within Subdivision 6 or section 65K or 65L;

(c) the exposure arises from a transaction, whether drawn down or not, that takes any of the following forms—

(i) a revolving credit facility or a line of credit to an individual (such as a credit card or an overdraft);

(ii) a term loan or a lease to an individual (such as an auto loan or other instalment loan);

(iii) a revolving credit facility, a line of credit, a term loan, a lease or a commitment (within the meaning of section 2 of Schedule 6) to a small business;

(d) the maximum aggregate exposure of the institution to that single obligor, or to that group of obligors, does not exceed $10 million; and

(e) no aggregate exposure of the institution to that single obligor, or to that group of obligors, exceeds 0.2% of the institution's overall regulatory retail portfolio.

(3) For the purposes of subsection (2)(d) and (e), aggregate exposure—

(a) includes all forms of exposures (other than real estate exposures secured by residential properties) to an individual or a small business (***in-scope exposures***); and

(b) must be calculated by aggregating the exposure amounts of the in-scope exposures without taking into account any recognized credit risk mitigation.

(4) For the purposes of subsection (2)(e), an authorized institution must—

(a) identify the full set of exposures to individuals and small businesses;

(b) from the full set of exposures identified under paragraph (a), identify the subset of exposures that meet all the criteria specified in subsection (2)(a), (b), (c) and (d); and

(c) regard the subset of exposures identified under paragraph (b) as the institution's overall regulatory retail portfolio.

(5) Subsection (6) applies if—

(a) an authorized institution has any branch or subsidiary in a jurisdiction outside Hong Kong (***relevant jurisdiction***);

(b) the branch or subsidiary has exposures to individuals or small businesses (***relevant exposures***) in the relevant jurisdiction; and

(c) transfer of any information on the relevant exposures necessary for complying with subsection (6) outside the relevant jurisdiction is not prohibited by law.

(6) The institution must include in the aggregate exposure referred to in subsection (3) and the full set of exposures identified under subsection (4)(a)—

(a) for the purpose of calculating its capital adequacy ratio on a solo basis—the relevant exposures of its overseas branches; and

(b) for the purpose of calculating its capital adequacy ratio on a solo-consolidated basis or consolidated basis—the relevant exposures of its overseas branches and overseas subsidiaries subject to the consolidation.

(7) If a regulatory retail exposure or other retail exposure is an unhedged credit exposure, an authorized institution must apply a multiplier of 1.5 to the risk-weight applicable to the exposure determined under subsection (1), subject to a cap of 150%.".

74. Section 64A amended (exposures arising from IPO financing)

Section 64A(1)—

Repeal

"securities firm, a small business"

Substitute

"qualifying non-bank financial institution".

75. Part 4, Division 3, Subdivision 5 heading added

Before section 65—

Add

"**Subdivision 5—Real Estate Exposures**".

76. Section 65 substituted

Section 65—

Repeal the section

Substitute

"**65. What are regulatory real estate exposures**

(1) Subject to subsection (3), a real estate exposure (other than an ADC exposure) of an authorized institution to an obligor is a regulatory real estate exposure if all of the following criteria are met in respect of the exposure—

(a) the exposure is secured by an immovable property that falls within subsection (2)(a), (b) or (c) (***mortgaged property***);

(b) any claim on the mortgaged property is legally enforceable in all relevant jurisdictions;

(c) the collateral agreement and the legal process underpinning any claim on the mortgaged property provide for the institution to realize the value of the mortgaged property within a reasonable time frame;

(d) the exposure is secured by a first legal charge on the mortgaged property or, if the mortgaged property falls within subsection (2)(c), the exposure will be secured by a first legal charge on the residential property after it is fully completed;

(e) the exposure is granted for one or more of the following purposes—

(i) financing the acquisition of the mortgaged property;

(ii) refinancing the acquisition of the mortgaged property;

(iii) cashing out the equity in the mortgaged property;

(f) the institution's underwriting policies with respect to the granting of real estate exposures are adequate and prudent and include—

(i) assessment of the ability of the obligor to repay; and

(ii) if the repayment of the exposure depends materially on the cash flows generated by the mortgaged property—assessment of relevant metrics (such as occupancy rate);

(g) the mortgaged property is valued in a manner consistent with the relevant guidance issued by the Monetary Authority and the value of the mortgaged property does not depend materially on the performance of the obligor;

(h) all the information (including information on the ability of the obligor to repay and on the valuation of the mortgaged property) required at loan origination and for monitoring purposes is properly documented.

(2) Immovable property falls within this subsection if the property is—

(a) a fully-completed immovable property;

(b) forest or agricultural land; or

(c) a residential property under construction or land on which a residential property will be constructed where—

(i) the real estate exposure secured by which is granted to an individual or a property-holding shell company owned by an individual who is the guarantor of the exposure; and

(ii) either of the following conditions is met—

(A) the residential property is constructed, or to be constructed, under a subsidized home ownership scheme launched by the Government or a domestic public sector entity;

(B) the institution is able to demonstrate, with the support of written and reasoned legal advice, that the sovereign of the jurisdiction (including Hong Kong) in which the property or land is located or any public sector entity of that jurisdiction has the legal power and ability to ensure that the

property under construction or to be constructed will be finished.

(3) An authorized institution may classify a real estate exposure secured by a residential property as a regulatory real estate exposure despite the criteria set out in subsection (1) if—

(a) the exposure was originated before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023;

(b) the exposure was eligible for a risk-weight of 35% under subsection (1) as in force immediately before that date; and

(c) there has been no material change to the loan terms and conditions since that date.

(4) For the purposes of sections 65B, 65C and 65D—

(a) subject to paragraphs (b), (c) and (d), a real estate exposure depends materially on the cash flows generated by the mortgaged property if both the servicing of the exposure and the prospects for recovery in the event of default depend materially on the cash flows generated by the mortgaged property, rather than on the income, revenue and net worth of the obligor generated from other sources;

(b) an authorized institution may treat a regulatory real estate exposure as an exposure that does not depend materially on the cash flows generated by the mortgaged property (***non-IPRE exposure***) if the mortgaged property is a residential property that is—

(i) the primary residence of the obligor in respect of the exposure; or

(ii) if the obligor in respect of the exposure is a property-holding shell company owned by an individual who is the guarantor of the exposure—that individual's primary residence;

(c) an authorized institution may treat a regulatory real estate exposure that does not fall within paragraph (b) as a non-IPRE exposure if the mortgaged property is a residential property and both of the following conditions are met—

(i) the obligor in respect of the exposure is an individual or a property-holding shell company owned by an individual who is the guarantor of the exposure;

(ii) the total number of residential properties (including the mortgaged property but excluding any residential property that falls within paragraph (b)(i) or (ii)) pledged (or otherwise provided as security) to the institution by the individual and any property-holding shell company owned by the individual is 2 or fewer; and

(d) for any real estate exposure that was originated before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023, an authorized institution may, if information necessary for assessment is not sufficient or readily available, treat the exposure as a non-IPRE exposure.".

77. Sections 65A to 65F added

After section 65—

Add

"**65A. Loan-to-value ratio**

(1) The loan-to-value ratio (***LTV ratio***) of a regulatory real estate exposure (***subject exposure***) secured by one or more immovable properties (***subject security***) must be calculated as a ratio of the amount specified in paragraph (a) to the amount specified in paragraph (b)—

(a) the sum of—

(i) the principal amount of any outstanding drawn portion of the subject exposure (including accrued interest); and

(ii) the amount of any undrawn committed portion of the subject exposure;

(b) the value at origination of the subject security, with the exceptions set out in subsections (6) and (7).

(2) If a pool of regulatory real estate exposures (collectively referred to as ***subject exposure***) is secured by one or more immovable properties (***subject security***), the LTV ratio of the subject exposure must be calculated as a ratio of the amount specified in paragraph (a) to the amount specified in paragraph (b)—

(a) the sum of—

(i) the principal amount of any outstanding drawn portion of each of the regulatory real estate exposures in the pool (including accrued interest); and

(ii) the amount of any undrawn committed portion of each of the regulatory real estate exposures in the pool;

(b) the value at origination of the subject security, with the exceptions set out in subsections (6) and (7).

(3) If—

(a) a pool of real estate exposures is secured by one or more immovable properties (***subject security***); and

(b) the pool consists of both regulatory real estate exposures and real estate exposures that are neither regulatory real estate exposures nor ADC exposures,

the LTV ratio applicable to the regulatory real estate exposures in the pool (***subject exposures***) must be calculated in accordance with subsection (2) where the reference to regulatory real estate exposures in subsection (2)(a) is taken to be a reference to all of the exposures in the pool referred to in paragraph (a).

(4) The numerator of the LTV ratio calculated under subsection (1), (2) or (3)—

(a) must not be reduced by any specific provisions; and

(b) must not take into account the effect of any recognized credit risk mitigation (including mortgage insurance) except for cash on deposit with the authorized institution—

(i) that is unconditionally and irrevocably pledged (or otherwise provided as security) by the obligor in respect of the subject exposure under a netting or offsetting agreement for the sole purpose of redemption of the subject exposure; and

(ii) for which the security arrangement meets all of the following requirements—

(A) the institution has a well-founded legal basis for concluding that the netting or offsetting agreement with the obligor is enforceable in each relevant jurisdiction regardless of whether the obligor is insolvent or bankrupt;

(B) the institution is able at any time to determine those assets and liabilities with the obligor that are subject to the netting or offsetting agreement;

(C) the institution monitors and controls the roll-off risks that may arise when short-term liabilities that have been netted against longer term exposures are no longer available;

(D) the institution monitors and controls its exposures to the obligor on a net basis.

(5) If a regulatory real estate exposure of an authorized institution secured by one or more immovable properties (***subject security***) was originated before the commencement date of this section and the subject security was revalued at least once before that date, the institution may treat the value at the last revaluation conducted before that date as the value at origination of the subject security.

(6) In calculating the LTV ratio of a subject exposure under subsection (1), (2) or (3), an authorized institution must use a value lower than the value at origination of the subject security if—

(a) downward adjustment of the value of the subject security is warranted by the prevailing local property market situations;

(b) the Monetary Authority, by written notice given to the institution, requires the institution to revise the value of the subject security downwards; or

(c) an extraordinary, idiosyncratic event occurs and results in a permanent reduction of the value of the subject security.

(7) If—

(a) an authorized institution incurs a new real estate exposure secured by a subject security that is also the security for at least one existing real estate exposure of the institution and an updated valuation of the security is obtained as part of the new loan application process in relation to the new real estate exposure, the institution may use the updated valuation in calculating the LTV ratio of the pool of

regulatory real estate exposures secured by the subject security under subsection (2) or (3);

(b) the value of a subject security has been adjusted downwards under subsection (6)(a), an authorized institution may make a subsequent upward adjustment to the value of the subject security and, except in cases where the resultant adjusted value is higher than the value at origination of the subject security, use the resultant adjusted value in the LTV ratio calculation under subsection (1), (2) or (3);

(c) the value of a subject security has been adjusted downwards under subsection (6)(b), an authorized institution may, with the prior consent of the Monetary Authority, make a subsequent upward adjustment to the value of the subject security and use the resultant adjusted value in the LTV ratio calculation under subsection (1), (2) or (3); and

(d) modifications are made to an immovable property included in a subject security that unequivocally increase the value of the property and there is an updated valuation that confirms the increase in value, an authorized institution may take into account that increase in the LTV ratio calculation under subsection (1), (2) or (3).

(8) In this section—

value at origination (批出承擔時價值)—

(a) in relation to a regulatory real estate exposure of an authorized institution secured by one or more immovable properties, means the valuation of the property or properties obtained by the institution at the time of origination of the exposure; and

(b) in relation to a pool of real estate exposures of an authorized institution originated at the same time and secured by one or more immovable properties, means the valuation of the property or properties obtained by the institution at the time of origination of the pool.

65B. Risk-weights of regulatory residential real estate exposures

(1) This section applies to a regulatory real estate exposure of an authorized institution that is secured by a residential property, including such a regulatory real estate exposure to a member of its staff (whether solely or jointly with another person).

(2) Subject to subsection (4) and section 65E, if the exposure is an exposure that does not depend materially on cash flows generated by the residential property securing the exposure (***non-IPRE exposure***), the institution must allocate a risk-weight to the exposure in accordance with Table 6 based on the LTV ratio of the exposure calculated under section 65A.

Table 6

Risk-weights for Regulatory Residential Real Estate Exposures that are Non-IPRE Exposures

Column 1	Column 2	Column 3
Item	LTV ratio	Risk-weight
1.	Not more than 50%	20%
2.	More than 50% but not more than 60%	25%
3.	More than 60% but not more than 80%	30%
4.	More than 80% but not more than 90%	40%
5.	More than 90% but not more than 100%	50%
6.	More than 100%	70%

(3) Subject to subsection (4) and section 65E, if the exposure is not a non-IPRE exposure, the institution must allocate a risk-weight to the exposure in accordance with Table 7 based on the LTV ratio of the exposure calculated under section 65A.

Table 7

Risk-weights for Regulatory Residential Real Estate Exposures that are not Non-IPRE Exposures

Column 1	Column 2	Column 3
Item	LTV ratio	Risk-weight
1.	Not more than 50%	30%

Column 1 Item	Column 2 LTV ratio	Column 3 Risk-weight
2.	More than 50% but not more than 60%	35%
3.	More than 60% but not more than 80%	45%
4.	More than 80% but not more than 90%	60%
5.	More than 90% but not more than 100%	75%
6.	More than 100%	105%

(4) If the exposure is an unhedged credit exposure, the institution must apply a multiplier of 1.5 to the risk-weight applicable to the exposure determined under subsection (2) or (3), as the case requires, subject to a cap of 150%.

65C. Risk-weights of regulatory commercial real estate exposures

(1) This section applies to a regulatory real estate exposure of an authorized institution to an obligor that is secured by a property other than residential property.

(2) If the exposure is an exposure that does not depend materially on cash flows generated by the property securing the exposure (***non-IPRE exposure***), the institution must allocate a risk-weight to the exposure in accordance with Table 8 based on the LTV ratio of the exposure calculated under section 65A.

Table 8

Risk-weights for Regulatory Commercial Real Estate Exposures that are Non-IPRE Exposures

Column 1	Column 2	Column 3
Item	LTV ratio	Risk-weight
1.	Not more than 60%	Min (60%, attributed risk-weight of the obligor)
2.	More than 60%	Attributed risk-weight of the obligor

(3) If the exposure is not a non-IPRE exposure, the institution must allocate a risk-weight to the exposure in accordance with Table 9 based on the LTV ratio of the exposure calculated under section 65A.

Table 9

Risk-weights for Regulatory Commercial Real Estate Exposures that are not Non-IPRE Exposures

Column 1	Column 2	Column 3
Item	LTV ratio	Risk-weight
1.	Not more than 60%	70%
2.	More than 60% but not more than 80%	90%
3.	More than 80%	110%

65D. Risk-weights of other real estate exposures

(1) This section applies to a real estate exposure of an authorized institution that is neither a regulatory real estate exposure nor an ADC exposure.

(2) Subject to section 65E, if the exposure does not depend materially on the cash flows generated by the property securing the exposure, the institution must allocate to the exposure—

(a) a risk-weight of 75% if the obligor in respect of the exposure is an individual;

(b) a risk-weight of 85% if the obligor in respect of the exposure is a small business; and

(c) in any other case, the attributed risk-weight of the obligor.

(3) Despite subsection (2)(b), the institution may allocate a risk-weight of 100% to the exposure if the obligor in respect of the exposure is a corporate and the institution has not verified whether the corporate is a small business.

(4) Subject to section 65E, if the exposure depends materially on the cash flows generated by the property securing the exposure, the institution must allocate a risk-weight of 150% to the exposure.

65E. Risk-weights of real estate exposures secured by residential property outside Hong Kong

If—

(a) a real estate exposure (other than an ADC exposure) of an authorized institution is secured by a residential property outside Hong Kong; and

(b) the relevant supervisory authority of the jurisdiction in which the residential property is situated has implemented capital adequacy standards that were formulated in accordance with the Basel Framework,

the institution may allocate a risk-weight to the exposure provided for under the capital adequacy standards (but excluding any approach that is based on internal models) applicable to banks incorporated in that jurisdiction.

65F. ADC exposures

(1) Subject to subsections (2) and (3), an authorized institution must allocate a risk-weight of 150% to an ADC exposure.

(2) An ADC exposure in respect of residential property situated in Hong Kong may be allocated a risk-weight of 100% if both of the following criteria are met—

(a) prudential underwriting standards with respect to the granting of ADC exposures meet the criteria specified in section 65(1) where applicable;

(b) the obligor in respect of the ADC exposure has substantial equity at risk, where the equity at risk is determined as an appropriate amount of obligor-contributed equity to the property's appraised as-completed value.

(3) If—

(a) an authorized institution has an ADC exposure in respect of one or more residential properties situated in a jurisdiction outside Hong Kong (***subject ADC exposure***); and

(b) the relevant banking supervisory authority of the jurisdiction—

(i) has implemented the standardized approach for credit risk under the current Basel Framework; and

(ii) would, under the standardized approach for credit risk set out in the capital adequacy standards of the jurisdiction, permit banks incorporated in the jurisdiction to allocate a risk-weight that is lower than 150% to certain ADC exposures in respect of residential properties situated in the jurisdiction,

the institution may allocate the same lower risk-weight to the subject ADC exposure if the conditions for the lower risk-weight specified in the capital adequacy standards of the jurisdiction are met in respect of the subject ADC exposure.".

78. Part 4, Division 3, Subdivision 6 added

After section 65F—

Add

"**Subdivision 6—Equity Exposures, Capital Instruments other than Equity Exposures, Non-capital LAC Liabilities, etc.**

65G. Equity exposures

(1) Subject to sections 65H and 65I, an authorized institution must allocate—

(a) a risk-weight of 400% to a speculative unlisted equity exposure; and

(b) a risk-weight of 250% to an equity exposure that is not a speculative unlisted equity exposure.

(2) In this section—

speculative unlisted equity exposure (投機性非上市股權風險承擔) means an equity investment in an unlisted company that is—

(a) invested for short-term resale purposes; or

(b) considered venture capital or similar investment that is—

(i) subject to price volatility; and

(ii) acquired in anticipation of significant future capital gains.

65H. Significant capital investments in commercial entities

If the net book value of an authorized institution's significant capital investment in a commercial entity exceeds 15% of the institution's capital base as at the immediately preceding calendar quarter end date as reported in its capital adequacy ratio return, the institution must—

(a) subject to section 43(1)(n), allocate a risk-weight of 1 250% to the amount of the net book value of the investment that exceeds that 15%; and

(b) allocate a risk-weight determined in accordance with section 65G(1)(a) or (b), as the case requires, to the amount of the net book value of the investment that does not exceed that 15%.

65I. Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities

(1) If an authorized institution has an insignificant LAC investment that is a direct holding, indirect holding or synthetic holding of a capital instrument issued by, or a non-capital LAC liability of, a financial sector entity, any amount of the insignificant LAC investment that is not deducted from the institution's capital base under sections 43(1)(o), 47(1)(c) and 48(1)(c) must be allocated—

(a) a risk-weight determined in accordance with section 65G(1)(a) or (b), as the case requires, if the insignificant LAC investment is an equity exposure; or

(b) a risk-weight of 150% if the insignificant LAC investment is not an equity exposure.

(2) If an authorized institution has a significant LAC investment that is a direct holding, indirect holding or synthetic holding of a capital instrument issued by, or a non-capital LAC liability of, a financial sector entity, any amount of the significant LAC investment that is not deducted from the institution's capital base under sections 43(1)(p), 47(1)(d) and 48(1)(d) must be allocated—

(a) a risk-weight of 250% if the significant LAC investment is in a CET1 capital instrument; or

(b) in any other case—

(i) a risk-weight determined in accordance with section 65G(1)(a) or (b), as the case requires, if the significant LAC investment is an equity exposure; or

(ii) a risk-weight of 150% if the significant LAC investment is not an equity exposure.

(3) If an authorized institution maintains any non-capital LAC debt resources and has holdings of non-capital LAC liabilities that fall within section 48A, the institution must allocate a risk-weight of 150% to any amount of the holdings that is not deducted from the institution's capital base under section 48(1)(g)(i).

65J. Exposures to subordinated debts

An authorized institution must allocate a risk-weight of 150% to an exposure to a subordinated debt issued by a bank, qualifying non-bank financial institution or corporate.".

79. Part 4, Division 3, Subdivision 7 heading added

After section 65J—

Add

"**Subdivision 7—Exposures not falling within Subdivision 3, 4, 5 or 6**".

80. Sections 65K and 65L added

Before section 66—

Add

"**65K. Cash and gold**

(1) An authorized institution must allocate a risk-weight of 0% to the following—

(a) notes and coins owned by the institution that are the lawful currency of a jurisdiction and are held by the institution or in transit;

(b) the institution's holding of certificates of indebtedness issued by the Government for the issue of legal tender notes;

(c) gold bullion held by the institution, or gold bullion held on an allocated basis for the institution by another person, that is backed by gold bullion liabilities.

(2) Gold bullion held on an unallocated basis for an authorized institution by another person that is backed by gold bullion liabilities must be risk-weighted as a claim on that person.

(3) Gold bullion held by an authorized institution, or gold bullion held for the institution by another person, that is not backed by gold bullion liabilities must be allocated a risk-weight of 100%.

65L. Items in the process of clearing or settlement

(1) An authorized institution must allocate a risk-weight of 0% to the following—

(a) an unsettled clearing item of the institution that is being processed through any interbank clearing system in Hong Kong;

(b) any receivable from a transaction of the institution in securities, foreign exchange or commodities that is not yet due for settlement.

(2) An authorized institution must allocate a risk-weight of 20% to a cheque, draft or other item drawn on another bank—

(a) that is payable to the account of the institution immediately on presentation; and

(b) that is in the process of collection.

(3) In the case of transactions in securities, foreign exchange and commodities that are entered into by an authorized institution on a delivery-versus-payment basis, if any of those transactions is outstanding after the settlement date in respect of the transaction concerned, the institution must allocate to the positive current exposure incurred by the institution under the transaction a risk-weight of—

(a) 0% if the transaction is outstanding up to and including the 4th business day after the settlement date;

(b) 100% if the transaction remains outstanding from 5 to 15 business days (both days inclusive) after the settlement date;

(c) 625% if the transaction remains outstanding from 16 to 30 business days (both days inclusive) after the settlement date;

(d) 937.5% if the transaction remains outstanding from 31 to 45 business days (both days inclusive) after the settlement date; and

(e) 1 250% if the transaction remains outstanding for 46 or more business days after the settlement date.

(4) In the case of transactions in securities, foreign exchange and commodities that are entered into by an authorized institution on a basis other than a delivery-versus-payment basis, if any of those transactions is outstanding after the settlement date in respect of the transaction concerned, the institution must—

(a) if the transaction remains outstanding up to and including the 4th business day after the settlement date, risk-weight the following items as exposures to the counterparty to the transaction—

(i) the amount of payment made, or the current market value of the thing delivered, by the institution under the transaction; and

(ii) any positive current exposure incurred by the institution under the transaction;

(b) if the transaction remains outstanding for 5 or more business days after the settlement date, allocate a risk-weight of 1 250% to—

(i) the amount of payment made, or the current market value of the thing delivered, by the institution under the transaction; and

(ii) any positive current exposure incurred by the institution under the transaction.

(5) Unless otherwise stated in Part 6A, subsections (1)(b), (3) and (4) do not apply to repo-style transactions.".

81. Section 66 substituted

Section 66—

Repeal the section

Substitute

"**66. Other exposures that are not defaulted exposures**

(1) If an exposure is not a defaulted exposure and none of the sections in Subdivisions 3, 4, 5 and 6 or section 65K or 65L applies to the exposure, an authorized institution must allocate a risk-weight of 100% to the exposure.

(2) If, in respect of an exposure of an authorized institution, the institution has difficulty in allocating any accrued interest under the exposure to the obligors of the institution, the institution may, with the prior consent of the Monetary Authority, treat the accrued interest as an exposure to which subsection (1) applies.".

82. Part 4, Division 3, Subdivision 8 heading added

After section 66—

Add

"**Subdivision 8—Defaulted Exposures**".

83. Section 67 substituted

Section 67—

Repeal the section

Substitute

"**67. Defaulted exposures**

(1) Despite Subdivisions 3, 4, 5 and 7 and section 65J, an authorized institution must—

(a) allocate a risk-weight of 100% to a defaulted exposure that is a residential real estate exposure (other than an ADC exposure) where repayments do not depend materially on the cash flows generated by the residential property securing the exposure; and

(b) in any other case, allocate a risk-weight of 150% to a defaulted exposure.

(2) An exposure of an authorized institution to an obligor is a defaulted exposure if—

(a) the exposure is past due for more than 90 days; or

(b) the obligor is a defaulted borrower.

(3) Despite subsection (2)—

(a) a retail exposure (being a regulatory retail exposure or an exposure to an individual that is neither a real estate exposure nor a regulatory retail exposure) of an authorized institution is a defaulted exposure if—

(i) the exposure is past due for more than 90 days;

(ii) the exposure is put on non-accrued status;

(iii) a write-off or specific provision is made for the exposure as a result of a significant perceived decline in the credit quality of the exposure; or

(iv) a distressed restructuring of the exposure is agreed by the institution; and

(b) if—

(i) the institution or any member of the consolidation group of the institution has other outstanding retail exposures to the obligor in respect of a defaulted exposure; and

(ii) those other outstanding retail exposures do not fall within paragraph (a)(i), (ii), (iii) or (iv),

the institution may choose whether to treat those other outstanding retail exposures as defaulted exposures for the purposes of this Part.

(4) For the purposes of subsection (2)(b), an obligor is a defaulted borrower in relation to an authorized institution if any one or more of the following events have occurred in respect of the obligor—

(a) any material credit obligation is past due for more than 90 days;

(b) any material credit obligation is put on non-accrued status;

(c) a write-off or specific provision is made as a result of a significant perceived decline in credit quality subsequent to the institution taking on any credit exposure to the obligor;

(d) any credit obligation is sold at a material credit-related economic loss;

(e) a distressed restructuring of any credit obligation is agreed by the institution;

(f) a filing for the obligor's bankruptcy or a similar order has been made in respect of any of the obligor's credit obligations to the institution or any member of the consolidation group of the institution;

(g) the obligor has sought, or has been placed in, bankruptcy or similar protection where this would avoid or delay repayment of any of the credit obligations to the institution or any member of the consolidation group of the institution;

(h) any other situation where the institution considers that the obligor is unlikely to pay in full its credit obligations to the institution, without recourse to actions by the institution such as realization of available collateral.

(5) For the purposes of subsections (2)(a), (3)(a)(i) and (4)(a)—

(a) if an authorized institution has provided an overdraft facility to an obligor and advised the obligor of the credit limit set for the facility, the facility becomes past due once—

(i) the obligor has breached the credit limit; or

(ii) the institution has advised the obligor of a new credit limit that is smaller than the current outstanding balance of the facility;

(b) if an authorized institution has not provided any overdraft facility to an obligor, an overdraft by the obligor becomes past due on the same day that the overdraft occurs.

(6) To avoid doubt, failure of a counterparty to settle a transaction on the settlement date referred to in section 65L(3) or (4) is not in itself regarded as a default for the purposes of this Part.

(7) In this section—

distressed restructuring (不利的重組) means a restructuring that may result in a diminished financial obligation caused by material forgiveness, or postponement, of principal, interest or, if relevant, fees;

non-accrued status (非累算狀況), in relation to an exposure of an authorized institution to an obligor, includes situations where accrued interest on the exposure is no longer recognized by the institution as income or, if recognized, an equivalent amount of provisions is made by the institution in respect of the exposure.".

84. Part 4, Division 3, Subdivision 9 heading added

After section 67—

Add

"**Subdivision 9—Miscellaneous Provisions**".

85. Sections 68 and 68A substituted

Sections 68 and 68A—

Repeal the sections

Substitute

"**68. Exposures to credit-linked notes**

(1) Subject to subsections (3), (4) and (5), if a credit-linked note issued by an issuer has an ECAI issue specific rating, an authorized institution must—

(a) subject to section 54E(2), determine the credit quality grade applicable to the note by mapping the ECAI issue specific rating of the note to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs or the LT ECAI rating mapping table for Type B ECAIs, as the case requires;

(b) determine the risk-weight that would be attributable to the note as an exposure to the issuer under Subdivision 3 based on the credit quality grade determined under paragraph (a);

(c) determine the risk-weight that would be attributable to the reference obligations of the note—

(i) under that Subdivision based on the credit quality grade determined under paragraph (a) if the reference obligations would fall within one of the ECAI ratings based portfolios; or

(ii) under Subdivision 4, 5, 6, 7 or 8, as applicable, if the reference obligations would not fall within any ECAI ratings based portfolio; and

(d) allocate to an exposure to the note the higher of the 2 risk-weights determined under paragraphs (b) and (c).

(2) Subject to subsections (3), (4) and (5), if a credit-linked note issued by an issuer does not have an ECAI issue specific rating, an authorized institution must allocate a risk-weight to an exposure to the note that is the higher of—

(a) the risk-weight that would be attributable to the note as an exposure to the issuer under Subdivision 3, 4 or 7, as applicable; and

(b) the risk-weight that would be attributable to the reference obligations of the note under Subdivision 3, 4, 5, 6, 7 or 8, as applicable.

(3) If a credit-linked note (whether having an ECAI issue specific rating or not)—

(a) is a first-to-default note, second-to-default note or n^{th}-to-default note; or

(b) provides credit protection proportionately to a basket of reference obligations,

an authorized institution must determine the risk-weight attributable to an exposure to the note as the risk-weight attributable to the pool of reference obligations of the note determined in accordance with section 68B(1), (2), (3) or (4), as the case requires, as if the exposure to the note were a direct exposure to the credit default swap embedded in the note.

(4) If an exposure to a credit-linked note is a defaulted exposure, an authorized institution must determine the risk-weight applicable to the exposure in accordance with Subdivision 8.

(5) This section does not apply to an exposure to a credit-linked note, or any part of such an exposure, to which any provision in Subdivision 6 applies.

68A. Determination of risk-weight applicable to certain types of off-balance sheet exposures

(1) If an off-balance sheet exposure of an authorized institution (***subject exposure***) is an asset sale with recourse, a sale and repurchase agreement (other than a repo-style transaction) or a forward asset purchase, where the institution is exposed to the credit risk of the assets sold or to be purchased, the risk-weight applicable to the subject exposure is the risk-weight applicable to those assets.

(2) If a subject exposure is partly paid-up shares and securities, the risk-weight applicable to the subject exposure is the risk-weight applicable to the relevant shares or securities.

(3) If a subject exposure is a direct credit substitute arising from the selling of credit protection in the form of total return swap or credit default swap in the authorized institution's banking book, subject to section 68B, the risk-weight applicable to the subject exposure is the risk-weight applicable to the reference obligation specified in the swap.

(4) If a subject exposure is a default risk exposure in respect of a single-name credit default swap that falls within section 226J(1) and the amount of the default risk exposure is determined in accordance with section 226J(3), the risk-weight applicable to the subject exposure is the attributed risk-weight of the counterparty in respect of the swap without taking

into account any recognized credit risk mitigation afforded to the swap.

(5) If a subject exposure is a commitment to extend a loan secured by a fully completed immovable property and the exposure, but for the fact that it does not satisfy any one or more of section 65(1)(b), (c) or (d), would have been a regulatory real estate exposure, the authorized institution may allocate a risk-weight in accordance with section 65B or 65C, as the case requires, to the exposure, if the institution has no reason to believe that any of section 65(1)(b), (c) or (d) will not be satisfied immediately after the loan that is the subject of the commitment is drawn down.".

86. Sections 68B and 68C added

After section 68A—

Add

"**68B. Further provisions in relation to direct credit substitutes**

(1) If a subject exposure referred to in section 68A(3) arises from a first-to-default credit derivative contract—

(a) subject to paragraph (b), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract; and

(b) the risk-weight applicable to the subject exposure is subject to a cap of 1 250%.

(2) If a subject exposure referred to in section 68A(3) arises from a second-to-default credit derivative contract—

(a) subject to paragraph (b), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract but excluding the lowest of those risk-weights; and

(b) the risk-weight applicable to the subject exposure is subject to a cap of 1 250%.

(3) If a subject exposure referred to in section 68A(3) arises from any other n^{th}-to-default credit derivative contract, subsection (2), with all necessary modifications, applies to that contract as it applies to a second-to-default credit derivative contract, so that the reference to "lowest" in subsection (2)(a) means—

(a) "lowest and second lowest" in the case of a third-to-default credit derivative contract; and

(b) "lowest, second lowest and third lowest" in the case of a fourth-to-default credit derivative contract,

and likewise for other n^{th}-to-default credit derivative contracts.

(4) If a subject exposure referred to in section 68A(3) arises from a credit derivative contract that provides credit protection proportionately in respect of the reference obligations in the basket of reference obligations specified in the contract, the risk-weight applicable to the subject exposure is calculated in accordance with Formula 1B.

Formula 1B

Calculation of Risk-weight of Off-balance Sheet Exposure Arising from Credit Derivative Contract under Section 68B(4)

$$RW_a = \sum_i (a_i \cdot RW_i)$$

where—

(a) RW_a is the weighted average risk-weight of a basket of reference obligations;

(b) a_i is the proportion of credit protection allocated to reference obligation i; and

(c) RW_i is the risk-weight of reference obligation i.

68C. Exposures in respect of assets underlying SFTs

(1) This section applies to an authorized institution's exposure to the asset underlying a specified SFT.

(2) Subject to subsection (3), if a specified SFT is booked in the institution's banking book, the institution must—

(a) treat the securities sold or lent, or the securities provided as collateral, under the specified SFT as an on-balance sheet exposure of the institution as if the institution had never entered into the specified SFT; and

(b) allocate to the exposure the risk-weight attributable to the securities.

(3) If the securities referred to in subsection (2)(a) are securitization issues, the risk-weight attributable to the securities must be determined in accordance with Part 7.

(4) To avoid doubt, if a specified SFT is booked in an authorized institution's trading book, an exposure of the institution to the asset underlying the specified SFT is an exposure subject to the requirements of Part 8 instead of this Part.

(5) In this section—

specified SFT (指明SFT), in relation to an authorized institution, means—

(a) a repo-style transaction that falls within paragraph (a) or (b) of the definition of ***repo-style transaction*** in section 2(1); or

(b) a repo-style transaction that falls within paragraph (d) of that definition under which the collateral provided by the institution is in the form of securities.".

87. Part 4, Division 3A heading added

After section 68C—

Add

"**Division 3A—CIS Exposures**".

88. Sections 69 and 70 substituted

Sections 69 and 70—

Repeal the sections

Substitute

"**69. Interpretation of Division 3A**

In this Division—

indirect CIS exposure (間接CIS風險承擔) means an indirect CIS exposure within the meaning of section 226ZH;

Level 1 CIS (1級CIS) means a Level 1 CIS within the meaning of section 226ZH;

Level 2 CIS (2級CIS) means a Level 2 CIS within the meaning of section 226ZH;

Level n+1 CIS (n+1級CIS) means a Level n+1 CIS within the meaning of section 226ZH.

70. Treatment of CIS exposure held by authorized institution

(1) If no amount of an authorized institution's CIS exposure to a Level 1 CIS constitutes a deductible holding, the institution must calculate the risk-weighted amount of the exposure in accordance with Part 6B.

(2) If any amount of an authorized institution's CIS exposure to a Level 1 CIS constitutes one or more deductible holdings, the institution must—

(a) classify the amounts of the CIS exposure that constitute deductible holdings into one portion (***portion A***);

(b) classify the amount of the CIS exposure that does not constitute deductible holdings into another portion (***portion B***);

(c) apply the treatment set out in section 70A to each of the amounts of the CIS exposure in portion A; and

(d) calculate the risk-weighted amount of portion B (if any) in accordance with Part 6B.".

89. Sections 70A and 70B added

Part 4, at the end of Division 3A—

Add

"**70A. Treatment of CIS exposure constituting deductible holding**

(1) This section applies in relation to an authorized institution's CIS exposure to a Level 1 CIS, or any part of the exposure, that constitutes a deductible holding.

(2) The institution must—

(a) determine, in accordance with Division 4 of Part 3, the amount of the deductible holding that is required to be deducted from its capital base;

(b) if the deductible holding falls within section 43(1)(o) or (p), 47(1)(c) or 48(1)(c) or (g)(i)—determine the amount of the deductible holding that is required to be risk-weighted in accordance with section 48(3), section 5 of Schedule 4F or section 1(7) of Schedule 4G, as the case requires;

(c) deduct any amount determined under paragraph (a) from its capital base; and

(d) calculate the risk-weighted amount of any amount determined under paragraph (b) by multiplying that amount by the applicable risk-weight determined in accordance with subsection (3).

(3) The institution must—

(a) allocate a risk-weight, determined in accordance with section 65G(1)(a) or (b), as the case requires, to any amount of deductible holding determined under subsection (2)(b), if the deductible holding is an insignificant LAC investment that is an equity exposure;

(b) allocate a risk-weight of 150% to any amount of deductible holding determined under subsection (2)(b), if the deductible holding is—

(i) an insignificant LAC investment that is not an equity exposure; or

(ii) a holding of non-capital LAC liabilities falling within section 48A; and

(c) allocate a risk-weight of 250% to any amount of deductible holding determined under subsection (2)(b), if the deductible holding is a significant LAC investment in a CET1 capital instrument.

(4) To avoid doubt, this section also applies to cases where a CIS exposure to a Level 1 CIS, or any part of the exposure, constitutes a deductible holding because regulatory deductible items are held by—

(a) a Level 2 CIS to which the Level 1 CIS has a CIS exposure; or

(b) a Level n+1 CIS (where n is an integer equal to or greater than 2) to which the Level 1 CIS has an indirect CIS exposure.

70B. Determination of risk-weights applicable to certain types of off-balance sheet CIS exposures

(1) This section applies to a CIS exposure that is an off-balance sheet exposure.

(2) If the CIS exposure is an asset sale with recourse, a sale and repurchase agreement (other than a repo-style transaction) or a forward asset purchase, where the seller or buyer of the assets underlying the transaction is exposed to the credit risk of the assets sold or to be purchased, the risk-weight applicable to the CIS exposure is the risk-weight applicable to those assets.

(3) If the CIS exposure is partly paid-up shares and securities, the risk-weight applicable to the CIS exposure is the risk-weight applicable to the relevant shares or securities.".

90. Part 4, Division 4 heading amended (calculation of risk-weighted amount of authorized institution's off-balance sheet exposures)

Part 4, Division 4, heading—

Repeal

"**Risk-weighted Amount of Authorized Institution's**"

Substitute

"**Exposure Amounts of**".

91. Section 71 amended (off-balance sheet exposures)

(1) Section 71, heading—

Repeal

"**Off-balance**"

Substitute

"**Calculation of exposure amounts of off-balance**".

(2) Section 71—

Repeal subsection (1) (including Table 10)

Substitute

"(1) An authorized institution must calculate the credit equivalent amount of an off-balance sheet exposure (other than an exposure to which subsection (2) or (5) applies) by—

(a) determining the CCF applicable to the exposure in accordance with Schedule 6 and, if applicable, subsection (1A); and

(b) multiplying the principal amount of the exposure, after deducting any specific provisions applicable to the exposure, by the CCF determined under paragraph (a).

(1A) If an off-balance sheet exposure (***exposure A***) is a commitment the drawdown of which would give rise to another off-balance sheet exposure (***exposure B***), the CCF applicable to exposure A is the lower of—

(a) the CCF applicable to the commitment determined in accordance with Schedule 6; and

(b) the CCF applicable to exposure B determined in accordance with Schedule 6.".

(3) Section 71—

Repeal subsection (4).

92. Sections repealed

Sections 72, 73, 75, 76 and 76A—

Repeal the sections.

93. Section 77 substituted

Section 77—

Repeal the section

Substitute

"**77. Recognized collateral**

(1) Collateral is recognized for the purpose of calculating the risk-weighted amount of an exposure (***collateralized exposure***) of an authorized institution if—

(a) for an institution that uses the simple approach in its treatment of recognized collateral—all the criteria specified in subsections (2) and (3) are met; or

(b) for an institution that uses the comprehensive approach in its treatment of recognized collateral—all the criteria specified in subsections (2) and (4) are met.

(2) The criteria specified in this subsection are—

(a) all documentation creating the collateral and providing for the obligations of the parties with respect to each other in respect of the collateral is binding on all parties and legally enforceable in all relevant jurisdictions;

(b) the legal mechanism by which the collateral is pledged (or otherwise provided as security) ensures that the authorized institution has the right to realize, or to take legal possession of, the collateral in a timely manner in the event of a default by, or the insolvency or bankruptcy of,

or any other event specified in the relevant legal documentation applicable to any of—

(i) the obligor in respect of the collateralized exposure; or

(ii) the custodian, if any, holding the collateral;

(c) the authorized institution has clear and adequate procedures for the timely realization of collateral in respect of an event referred to in paragraph (b);

(d) the authorized institution has taken all steps to fulfil requirements under the law applicable to the institution's interest in the collateral that are necessary to obtain and maintain an enforceable security interest, whether by registration or otherwise, or to exercise a right to set-off in relation to the title transfer of the collateral;

(e) if the collateral is to be held by a custodian, the authorized institution has taken reasonable steps to ensure that the custodian segregates the collateral from the custodian's assets;

(f) if the collateral is provided under a margin agreement for derivative contracts or SFTs, the authorized institution—

(i) has devoted sufficient resources to enable the orderly operation of the agreement; and

(ii) has collateral management policies in place to control, monitor and report—

(A) risks (including liquidity risk and concentration risk) associated with the agreement;

(B) reuse of collateral; and

(C) the rights ceded by the institution in respect of collateral posted; and

(g) the credit quality of the obligor in respect of the collateralized exposure does not have material positive correlation with—

(i) the current market value of the collateral; and

(ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the collateral for the purpose of mitigating the credit risk of the collateralized exposure.

(3) The criteria specified in this subsection are—

(a) the collateral falls within any one of the items listed in section 79(1);

(b) the collateral is pledged (or otherwise provided as security) for not less than the life of the collateralized exposure; and

(c) the collateral—

(i) subject to subparagraph (ii), is revalued not less than every 6 months from the date on which the collateral is taken in respect of the collateralized exposure; and

(ii) if the collateralized exposure is a defaulted exposure, is revalued not less than every 3 months from the date on which the collateralized exposure is classified as a defaulted exposure.

(4) The criteria specified in this subsection are—

(a) the collateral falls within any one of the items listed in section 80(1);

(b) the authorized institution has in place a written internal policy and systems and procedures—

(i) adequate to enable the institution to manage collateral provided to it in respect of any exposure; and

(ii) to revalue collateral as necessary and take account of the minimum holding periods for collateral in the calculation of the risk-weighted amounts of its collateralized exposures.".

94. Section 78 amended (approaches to use of recognized collateral)

Section 78—

Repeal subsection (2)

Substitute

"(2) An authorized institution must—

(a) for exposures that are not defaulted exposures, use only the simple approach or only the comprehensive approach to the treatment of recognized collateral; and

(b) for defaulted exposures, use only the simple approach to the treatment of recognized collateral.".

95. Section 79 amended (collateral which may be recognized for purposes of section 77(i)(i))

(1) Section 79, heading—

Repeal

"**for purposes of section 77(i)(i)**"

Substitute

"**under simple approach**".

(2) Section 79—

Repeal subsections (1) and (2)

Substitute

"(1) Subject to subsections (2) and (3), only collateral of the following description may be recognized in relation to an authorized institution that uses the simple approach in its treatment of recognized collateral—

(a) cash on deposit with the institution or held at a third-party bank;

(b) certificates of deposit issued by the institution;

(c) instruments issued by the institution that are comparable to instruments referred to in paragraph (b);

(d) gold bullion;

(e) debt securities issued by a sovereign that have a long-term ECAI issue specific rating that, if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3, 4 or 5;

(f) debt securities (other than restricted debt securities) issued by a sovereign foreign public sector entity that have a long-term ECAI issue specific rating that, if mapped to a credit quality grade in accordance with the LT ECAI rating

mapping table for Type A ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3, 4 or 5;

(g) debt securities issued by a multilateral development bank that would be allocated a risk-weight of 0% under section 58;

(h) debt securities issued by an entity (other than an entity falling within paragraph (e), (f) or (g)) that have a long-term ECAI issue specific rating where that rating—

(i) is issued by a Type A ECAI; and

(ii) if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;

(i) debt securities issued by a corporate incorporated in the home jurisdiction of a Type B ECAI that have a long-term ECAI issue specific rating where that rating—

(i) is issued by that Type B ECAI; and

(ii) if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type B ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;

(j) debt securities issued by an entity (other than an entity falling within paragraph (g)) that have a short-term ECAI issue specific rating where that rating—

(i) is issued by a Type A ECAI; and

(ii) if mapped to a credit quality grade in accordance with the ST ECAI rating mapping table for Type A ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2 or 3;

(k) debt securities issued by a corporate incorporated in the home jurisdiction of a Type B ECAI that have a short-term ECAI issue specific rating where that rating—

(i) is issued by that Type B ECAI; and

(ii) if mapped to a credit quality grade in accordance with the ST ECAI rating mapping table for Type B ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;

(l) debt securities issued by a bank that do not have an ECAI issue specific rating where—

(i) the debt securities are not subordinated to any other debt obligations of the bank;

(ii) the debt securities are listed on a recognized exchange and the institution is of the reasonable opinion that, having regard to current market conditions, there is sufficient liquidity in the market for the debt securities to enable the institution to dispose of the debt securities at an open market price;

(iii) other debt securities issued by the bank that rank equally with the first-mentioned debt securities—

(A) have a long-term ECAI issue specific rating that, if mapped to a credit

quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs, would result in those other debt securities being assigned a credit quality grade of 1, 2, 3 or 4; or

(B) have a short-term ECAI issue specific rating that, if mapped to a credit quality grade in accordance with the ST ECAI rating mapping table for Type A ECAIs, would result in those other debt securities being assigned a credit quality grade of 1, 2 or 3; and

(iv) the institution is not aware, and has no reason to be aware, of information suggesting that it is justifiable for the debt securities to have an ECAI issue specific rating that would be mapped to a credit quality grade of 5, 6 or 7 in accordance with the LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 4 in accordance with the ST ECAI rating mapping table for Type A ECAIs;

(m) equities (including convertible bonds) that are included in any main indices;

(n) units or shares in a collective investment scheme where—

(i) the price of the units or shares in that scheme is quoted publicly on a daily basis; and

(ii) that scheme is restricted by its investment guidelines or objects to investing in those items listed in this subsection except in paragraph (o); or

(o) securities that are—

(i) eligible for inclusion in the trading book; and

(ii) received by the institution under a repo-style transaction booked in the institution's trading book.

(2) A reference to debt securities in subsection (1) does not include debt securities that are re-securitization exposures.".

96. Section 80 substituted

Section 80—

Repeal the section

Substitute

"**80. Collateral that may be recognized under comprehensive approach**

(1) Subject to subsection (2), only collateral of the following description may be recognized in relation to an authorized institution that uses the comprehensive approach in its treatment of recognized collateral—

(a) collateral falling within any paragraph of section 79(1);

(b) equities (including convertible bonds) that are not included in a main index but are listed on a recognized exchange; or

(c) units or shares in a collective investment scheme where—

(i) the price of the units or shares in that scheme is quoted publicly on a daily basis; and

(ii) that scheme is restricted by its investment guidelines or objects to investing in the equities referred to in paragraph (b) and those items listed in section 79(1) (except in section 79(1)(o)).

(2) Collateral referred to in subsection (1) does not include debt securities that are re-securitization exposures.".

97. Sections 81 and 82 substituted

Sections 81 and 82—

Repeal the sections

Substitute

"**81. Calculation of risk-weighted amount of exposures taking into account credit risk mitigating effect of recognized collateral under simple approach**

If an authorized institution uses the simple approach in its treatment of recognized collateral, the institution must calculate the risk-weighted amounts of its on-balance sheet exposures and off-balance sheet exposures to which the collateral relates in accordance with this Division.

82. Determination of risk-weight to be allocated to recognized collateral under simple approach

(1) Subject to subsections (2), (3), (4) and (5), if an authorized institution uses the simple approach in its treatment of recognized collateral, the institution—

(a) subject to paragraph (b), must determine the risk-weight to be allocated to the collateral in accordance with Division 3, section 226ZJ or Part 7, as the case requires, as if the collateral were an on-balance sheet exposure; and

(b) must not allocate a risk-weight of less than 20% to the collateral.

(2) For recognized collateral—

(a) that falls within section 79(1)(a), (b) or (c);

(b) that is held at a third-party bank in a non-custodial arrangement; and

(c) that is unconditionally and irrevocably pledged (or otherwise provided as security) or assigned to an authorized institution,

the institution must treat the credit protection covered portion of the exposure to which the collateral relates as an exposure to the third-party bank and allocate a risk-weight to the credit protection covered portion in accordance with sections 59 and 59A, or sections 59B and 59C, as the case requires.

(3) An authorized institution may allocate—

(a) a risk-weight of 0% to recognized collateral provided under a repo-style transaction entered into with a counterparty if all the criteria specified in subsection (4) are met; or

(b) a risk-weight of 10% to recognized collateral provided under a repo-style transaction entered into with a counterparty if all the criteria specified in subsection (4) (other than subsection (4)(a)) are met.

(4) The criteria specified in this subsection are—

(a) the counterparty is—

(i) a sovereign;

(ii) a public sector entity;

(iii) a multilateral development bank, where exposures to which would be allocated a risk-weight of 0% under section 58;

(iv) a bank or securities firm;

(v) a qualifying non-bank financial institution (other than a securities firm) that has an attributed risk-weight of not more than 20%;

(vi) a corporate (other than a securities firm)—

(A) that is an investment company, insurance firm, finance company or other similar financial institution; and

(B) that has an attributed risk-weight of not more than 20%; or

(vii) a qualifying CCP;

(b) the exposure to which the collateral relates and the collateral are—

(i) cash; or

(ii) debt securities issued by a sovereign, or a sovereign foreign public sector entity, that would be allocated a risk-weight of 0% under this Part;

(c) the exposure and the collateral have no currency mismatch;

(d) either—

(i) the exposure is only an overnight exposure; or

(ii) the exposure and the collateral are subject to daily mark-to-market, and, if the mark-to-market value of any excess collateral (***margin***) is below the value required under the terms of the transaction, the counterparty is required to bring the margin up to the required value on the same day (***remargin***);

(e) the authorized institution reasonably expects, if the counterparty fails to remargin, the time between the day on which the exposure is marked-to-market for the last time before the counterparty's failure to remargin and the day on which the institution realizes the collateral for its benefit to be no more than 4 business days;

(f) the transaction is settled by means of a settlement system customarily used for repo-style transactions;

(g) the transaction is documented using standard market documentation for repo-style transactions involving securities of the same type as those that are the subject matter of the transaction; and

(h) the documentation setting out the transaction provides that—

(i) the authorized institution may terminate the transaction immediately if—

(A) the counterparty commits an event of default under the transaction; or

(B) an event of default occurs in respect of the counterparty; and

(ii) the authorized institution has, immediately on any such default, an unfettered and legally enforceable right to seize and realize the collateral for its benefit, whether or not the counterparty is insolvent or bankrupt.

(5) An authorized institution may allocate a risk-weight of 0% to recognized collateral provided in respect of an exposure other than a default risk exposure where—

(a) the collateral and the exposure have no currency mismatch; and

(b) the collateral is either—

(i) cash; or

(ii) debt securities—

(A) that are issued by a sovereign, or a sovereign foreign public sector entity, and would be allocated a risk-weight of 0% under this Part; and

(B) the current market value of which has been discounted by 20%.

(6) In this section—

cash (現金)—

(a) in relation to an exposure, means money paid by an authorized institution to a counterparty under a repo-style transaction; or

(b) in relation to collateral, means recognized collateral that falls within section 79(1)(a), (b) or (c), other than collateral held at a third-party bank in a non-custodial arrangement.".

98. Section 83 amended (calculation of risk-weighted amount of on-balance sheet exposures)

Section 83(a)—

Repeal

"principal amount of the exposure, net of specific provisions,"

Substitute

"exposure amount of the exposure".

99. Section 85 amended (calculation of risk-weighted amount of default risk exposures)

Section 85(1)—

Repeal paragraph (a)

Substitute

"(a) dividing the exposure amount of the exposure into—

(i) the credit protection covered portion; and

(ii) the credit protection uncovered portion;".

100. Section 86 substituted

Section 86—

Repeal the section

Substitute

"**86. Calculation of risk-weighted amount of exposures taking into account credit risk mitigating effect of recognized collateral under comprehensive approach**

If an authorized institution uses the comprehensive approach in its treatment of recognized collateral, the institution must calculate the risk-weighted amounts of its on-balance sheet exposures and off-balance sheet exposures to which the collateral relates by—

(a) calculating the net credit exposure to the obligor of each of the exposures in accordance with section 87, 88 or 89, with the applicable haircuts determined in accordance with sections 90, 91 and 92; and

(b) multiplying the net credit exposure so obtained by the risk-weight attributable to the exposure.".

101. Section 87 amended (calculation of net credit exposure of on-balance sheet exposures)

Section 87, Formula 2—

Repeal

"principal amount of on-balance sheet exposure net of specific provisions, if any"

Substitute

"exposure amount of on-balance sheet exposure".

102. Section 88 amended (calculation of net credit exposure of off-balance sheet exposures other than default risk exposures in respect of derivative contracts)

(1) Section 88—

Renumber the section as section 88(1).

(2) Section 88(1), Formula 3—

Repeal

"default risk exposure mentioned in section 78(1A)(a)—the default risk exposure"

Substitute

"default risk exposure mentioned in section 78(1A)(a)—the amount of the default risk exposure calculated in accordance with section 226MJ".

(3) After section 88(1)—

Add

"(2) If an off-balance sheet exposure is a default risk exposure mentioned in section 78(1A)(a), the net credit exposure in respect of the exposure calculated by using Formula 3 may be further reduced by the amount of any specific provisions made by the authorized institution.".

103. Section 89 amended (calculation of net credit exposure of default risk exposures in respect of derivative contracts)

Section 89, Formula 4—

Repeal

"outstanding default risk exposure calculated for the derivative contracts concerned, net of specific provisions (if any)"

Substitute

"exposure amount of the default risk exposure in respect of the derivative contracts concerned".

104. Section 90 substituted

Section 90—

Repeal the section

Substitute

"**90. Haircut applicable to a basket of recognized collateral**

If a basket of recognized collateral is provided to an authorized institution in respect of an exposure of the institution and the recognized collateral is made up of assets that are subject to haircuts of different values, the institution must calculate the haircut applicable to the basket of recognized collateral by the use of Formula 5.

Formula 5

Calculation of Haircut where Recognized Collateral is made up of Assets with Different Haircuts

$$H_a = \sum_i (a_i \times H_i)$$

where—

(a) H_a is the haircut applicable to the basket of recognized collateral;

(b) a_i is the weight of asset i in relation to the aggregate value of all assets in the basket; and

(c) H_i is the haircut applicable to asset i under the standard supervisory haircuts subject to adjustment as set out in section 92.".

105. Section 92 amended (adjustment of standard supervisory haircuts in certain circumstances)

(1) Section 92—

Renumber the section as section 92(1).

(2) After section 92(1)—

Add

"(2) Despite subsection (1) and the standard supervisory haircuts specified in Schedule 7, an authorized institution may, in calculating the risk-weighted amount of a default risk exposure in respect of a repo-style transaction under section 88, apply a haircut of 0% to both the exposure and the recognized collateral received under the repo-style transaction if the repo-style transaction satisfies all the criteria set out in section 82(4).".

106. Section 93 repealed (calculation of risk-weighted amount of collateralized transactions under comprehensive approach)

Section 93—

Repeal the section.

107. Section 94 amended (on-balance sheet netting)

Section 94—

Repeal subsection (3)

Substitute

"(3) An authorized institution must calculate the risk-weighted amount of its net credit exposure to an obligor as the product of the net credit exposure and the risk-weight attributable, in accordance with Division 3, to the exposure.".

108. Section 98 amended (recognized guarantees)

(1) Section 98—

Repeal

"an exposure of the institution where"

Substitute

"a specific exposure or a specific pool of exposures of the institution (***guaranteed exposure***) if".

(2) Section 98—

Repeal paragraphs (a), (b) and (c)

Substitute

"(a) the guarantee is given by an eligible credit protection provider described in section 99A (***guarantor***);

(b) the guarantee gives the institution a direct claim against the guarantor;

(c) the credit protection provided by the guarantee relates specifically to the guaranteed exposure;

(ca) the credit quality of the obligor in respect of the guaranteed exposure does not have material positive correlation with—

(i) the credit quality of the guarantor; and

(ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the guarantee for the purpose of mitigating the credit risk of the guaranteed exposure;".

(3) Section 98(g)—

Repeal

"country"

Substitute

"jurisdiction".

(4) Section 98(g), English text—

Repeal

"called upon"

Substitute

"called on".

109. Section 99 substituted

Section 99—

Repeal the section

Substitute

"**99. Recognized credit derivative contracts**

(1) Subject to subsections (2), (3), (4) and (5), a credit derivative contract (***subject contract***) entered into by an authorized institution as a protection buyer may be recognized for the purpose of calculating the risk-weighted amount of an exposure of the institution (***protected exposure***) if—

(a) the subject contract is a credit default swap or total return swap (other than a restricted credit derivative contract);

(b) the protection seller of the subject contract is an eligible credit protection provider described in section 99A;

(c) the economic benefit derived by the institution would make good the economic loss suffered by the institution in consequence of the default of the obligor in respect of the protected exposure in a manner substantially similar to that of a recognized guarantee;

(d) the subject contract gives the institution a direct claim against the protection seller;

(e) the credit protection provided by the subject contract relates to a specific exposure or a specific pool of exposures;

(f) the credit quality of the reference entity of the subject contract does not have material positive correlation with—

(i) the credit quality of the protection seller; and

(ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the subject contract for the purpose of mitigating the credit risk of the protected exposure;

(g) the undertaking of the protection seller under the subject contract to make payment in specified circumstances is clearly documented so that the extent of the credit protection provided by the subject contract is clearly defined;

(h) there is no clause in the subject contract, the satisfaction of which is outside the direct control of the institution, that would—

(i) allow the protection seller to cancel the subject contract unilaterally; or

(ii) increase the effective cost of the credit protection offered by the subject contract as a result of the deteriorating credit quality of the reference entity or any of the specified obligations of the subject contract,

except for a clause permitting termination in the event of a failure by the institution to pay sums due from it under the terms of the subject contract;

(i) there is no clause in the subject contract, the satisfaction of which is outside the direct control of the institution, that could operate to prevent the protection seller from being obliged to pay out promptly in the event that the reference entity defaults in making any payments due;

(j) the jurisdiction in which the protection seller is located and from which the protection seller may be obliged to make payment has no existing exchange controls in place or, if there are existing exchange controls in place, approval has been obtained for the funds to be remitted freely in the event that the protection seller is called on under the terms of the subject contract to make payment to the institution;

(k) the protection seller has no recourse to the institution for any losses suffered as a result of the protection seller being obliged to make any payment to the institution under the subject contract;

(l) the subject contract obliges the protection seller to make payment to the institution in the following credit events—

(i) any failure by the reference entity to pay amounts due under the terms of any of the specified obligations (subject to any grace period in the subject contract that is of substantially similar duration to any grace period provided for in the terms of the specified obligations);

(ii) the bankruptcy or insolvency of the reference entity, or the reference entity's failure or inability to pay its debts as they fall due, or the reference entity's written admission of the reference entity's inability generally to pay its debts as they fall due, or any event with respect to the reference entity that has an analogous effect to any of the foregoing events; or

(iii) restructuring of any of the specified obligations, involving forgiveness or postponement of payment of any principal or interest or fees, that results in the holder of the specified obligation restructured making specific provision or other similar debit to its profit and loss account;

(m) in any case where any of the specified obligations provides a grace period within which the reference entity may make good a default in payment, the subject contract is not capable of terminating prior to the expiry of the grace period;

(n) in any case where the subject contract provides for settlement in cash, it provides an adequate mechanism for valuation of loss and specifies a reasonable period within which that valuation is to be arrived at following a credit event;

(o) in any case where the specified obligations do not include or are different from the protected exposure—

(i) each of the specified obligations ranks for payment or repayment equally with, or junior to, the protected exposure; and

(ii) the obligor in respect of the protected exposure is the same person as the reference entity of the subject contract and legally enforceable cross default or cross acceleration clauses are included in the terms of both the protected exposure and the specified obligations;

(p) in any case where, under the terms of the subject contract, it is a condition of settlement that the institution transfers the protected exposure to the protection seller, the terms of the protected exposure provide that any consent which may be required from the obligor in respect of the protected exposure must not be unreasonably withheld;

(q) the subject contract specifies clearly the identity of the person who is empowered to determine whether a credit event has occurred, that person is not solely the protection seller and the institution is, under the terms of the subject contract, entitled to inform the protection seller of the occurrence of a credit event; and

(r) the subject contract is binding on all parties and legally enforceable in all relevant jurisdictions.

(2) If all the criteria set out in subsection (1) are met in respect of the subject contract except that the credit events specified in the subject contract do not include the credit event described in subsection (1)(l)(iii), the subject contract may be recognized for the purpose of calculating the risk-weighted amount of the protected exposure if all of the following conditions are met—

(a) the protected exposure is an exposure to a corporate;

(b) unanimous consent of all creditors in respect of the protected exposure is required to amend the maturity, principal, coupon, currency or seniority status of the protected exposure;

(c) the legal domicile in which the protected exposure is governed has well-established legislation on insolvency, bankruptcy or liquidation that—

(i) allows for a corporate to reorganize or restructure; and

(ii) provides for an orderly settlement of creditor claims.

(3) If—

(a) all the criteria set out in subsection (1) are met in respect of the subject contract except that the credit events specified in the subject contract do not include the credit event described in subsection (1)(l)(iii);

(b) any one or more of the conditions set out in subsection (2) are not met in respect of the subject contract; and

(c) the maximum liability of the protection seller to the authorized institution under the subject contract is more than the amount of the protected exposure,

the amount of the subject contract that may be recognized for the purpose of calculating the risk-weighted amount of the protected exposure must not be more than 60% of the amount of the protected exposure.

(4) If—

(a) all the criteria set out in subsection (1) are met in respect of the subject contract except that the credit events specified in the subject contract do not include the credit event described in subsection (1)(l)(iii);

(b) any one or more of the conditions set out in subsection (2) are not met in respect of the subject contract; and

(c) the maximum liability of the protection seller to the authorized institution under the subject contract is equal to or less than the amount of the protected exposure,

the amount of the subject contract that may be recognized for the purpose of calculating the risk-weighted amount of the protected exposure must not be more than 60% of the maximum liability of the protection seller to the institution under the subject contract.

(5) If the subject contract is a credit derivative contract embedded in a cash funded credit-linked note issued by the authorized institution, the subject contract is recognized for the purpose of calculating the risk-weighted amount of the protected exposure if all the criteria set out in subsection (1), excluding the criterion set out in subsection (1)(b), are met.

(6) In this section—

restricted credit derivative contract (受限制信用衍生工具合約), in relation to an authorized institution, means—

(a) a total return swap where—

(i) the institution is the protection buyer under the swap; and

(ii) the institution records the net payments received by it under the swap as net income but does not record, through deductions in fair value in the accounts of the institution or by an addition to reserves or provisions, the extent to which the value of the protected exposure has deteriorated; or

(b) a first-to-default credit derivative contract, a second-to-default credit derivative contract or any other n^{th}-to-default credit derivative contract;

specified obligation (指明義務), in relation to a credit derivative contract entered into by an authorized institution as a protection buyer in respect of an exposure of the institution—

(a) means an obligation of a specified reference entity specified in the credit derivative contract that is—

(i) a reference obligation; or

(ii) an obligation used for the purpose of determining whether a credit event has occurred; and

(b) may or may not include the exposure of the institution.".

110. Sections 99A and 99B added

After section 99—

Add

"**99A. Eligible credit protection providers**

(1) For the purposes of sections 98 and 99, an entity that provides credit protection is an eligible credit protection provider if the conditions set out in subsection (2)(a) and (b) are met.

(2) The conditions are—

(a) the entity is—

(i) a sovereign;

(ii) a public sector entity;

(iii) a multilateral development bank;

(iv) an unspecified multilateral body;

(v) a bank;

(vi) a qualifying CCP;

(vii) a prudentially regulated financial institution; or

(viii) an entity not listed in subparagraphs (i) to (vii) that has an ECAI issuer rating; and

(b) the attributed risk-weight of the entity is lower than the risk-weight that would be allocated to the exposure in respect of which the credit protection is provided.

(3) In this section—

prudentially regulated financial institution (受審慎監管的金融機構) means—

(a) a qualifying non-bank financial institution other than a qualifying CCP;

(b) an entity (other than a bank, qualifying non-bank financial institution or qualifying CCP) that is—

(i) authorized by a regulator under the law of a jurisdiction to carry on financial activities in that jurisdiction; and

(ii) subject to supervisory standards imposed by the regulator that are substantially consistent with international norms; or

(c) an entity that is a member of a group of companies (comprised of the ultimate holding company and all of its subsidiaries) where any major entity in the group is a bank or falls within paragraph (a) or (b).

99B. Recognized internal risk transfer to trading book

(1) Subject to subsection (3), an internal risk transfer used by an authorized institution to transfer the credit risk of one or more credit exposures (***protected credit exposure***) booked in the institution's banking book to its trading book may be recognized for the purpose of calculating the risk-weighted amount of the protected credit exposure under this Part if there

is an external hedge that meets all the conditions specified in subsection (2)(a) or (b).

(2) The conditions are—

(a) the external hedge in respect of the protected credit exposure—

(i) is in the form of a credit derivative contract entered into by the institution with a third party and booked in the institution's trading book;

(ii) exactly matches the internal risk transfer; and

(iii) meets the requirements set out in section 99(1)(a), (b), (c), (l), (m), (n), (o), (p), (q) and (r); or

(b) all of the following apply—

(i) the external hedge in respect of the protected credit exposure is made up of multiple credit derivative contracts entered into by the institution with one or more third parties (***aggregate external hedge***) and booked in the institution's trading book;

(ii) each of those credit derivative contracts meets the requirements set out in section 99(1)(a), (b), (c), (l), (m), (n), (o), (p), (q) and (r);

(iii) the aggregate external hedge exactly matches the internal risk transfer;

(iv) the internal risk transfer exactly matches the aggregate external hedge.

(3) For the purposes of subsection (1), if the external hedge meets the conditions specified in subsection (2)(a) or (b) except that the credit events specified in the external hedge do not include the credit event described in section 99(1)(l)(iii)—

(a) in cases where the amount of the internal risk transfer is more than the amount of the protected credit exposure—the amount of the internal risk transfer that may be recognized for the purpose of calculating the risk-weighted amount of the protected credit exposure must not be more than 60% of the amount of the protected credit exposure; or

(b) in cases where the amount of the internal risk transfer is equal to or less than the amount of the protected credit exposure—only up to 60% of the amount of the internal risk transfer may be recognized for the purpose of calculating the risk-weighted amount of the protected credit exposure.

(4) In this section—

internal risk transfer (內部風險轉移) means an internal written record of a transfer of credit risk from an authorized institution's banking book to its trading book.".

111. Section 100 substituted

Section 100—

Repeal the section

Substitute

"**100. Capital treatment of recognized guarantees and recognized credit derivative contracts**

(1) If an exposure is covered by a recognized guarantee or recognized credit derivative contract (***protected exposure***)—

(a) in the case of a recognized guarantee or a recognized credit derivative contract recognized under section 99—an authorized institution must calculate the risk-weighted amount of the protected exposure in accordance with subsection (2); and

(b) in the case of a recognized credit derivative contract in the form of an internal risk transfer recognized under section 99B—

(i) an authorized institution is not required to calculate a risk-weighted amount under this Part for the credit protection covered portion of the protected exposure if capital charges are held by the institution for the trading book leg of the internal risk transfer and the corresponding external hedge in accordance with the requirements of Part 8; and

(ii) if there is any credit protection uncovered portion, the institution must calculate the risk-weighted amount of the unprotected amount of the protected exposure in accordance with subsection (2).

(2) If the credit protection covered portion and the credit protection uncovered portion of a protected exposure rank equally—

(a) sections 83, 84 and 85, with all necessary modifications, apply to the authorized institution in relation to the calculation of the risk-weighted amount of the protected exposure; and

(b) the authorized institution must—

(i) subject to subsections (5), (6) and (7), allocate to the protected amount of the protected exposure the risk-weight determined in accordance with Division 3 by regarding the protected amount as an exposure of the institution to the credit protection provider; and

(ii) allocate to the unprotected amount of the protected exposure the risk-weight attributable to the protected exposure under that Division.

(3) For the purposes of subsection (2)—

(a) if section 83 or 85 applies to the authorized institution—

(i) subject to subsection (4), the protected amount of the protected exposure is the credit protection covered portion of the protected exposure; and

(ii) the unprotected amount of the protected exposure is the credit protection uncovered portion of the protected exposure; and

(b) if section 84 applies to the authorized institution—

(i) subject to subsection (4), the protected amount of the protected exposure is the

product of the credit protection covered portion of the protected exposure and the CCF applicable to the protected exposure; and

(ii) the unprotected amount of the protected exposure is the product of the credit protection uncovered portion of the protected exposure and the CCF applicable to the protected exposure.

(4) If, in respect of a protected exposure, there is a currency mismatch, an authorized institution, in determining the credit protection covered portion for the purposes of subsection (1)(b) or the protected amount for the purposes of subsection (2), must adjust the amount of the credit protection covered portion of the protected exposure by the use of Formula 11.

Formula 11

Calculation of Amount of Credit Protection Covered Portion if there is a Currency Mismatch

$$G_a = G \times (1 - H_{fx})$$

where—

(a) G_a is the credit protection covered portion adjusted for a currency mismatch;

(b) G is the credit protection covered portion before adjustment for a currency mismatch; and

(c) H_{fx} is the haircut applicable in consequence of a currency mismatch in accordance with the standard supervisory haircuts subject to adjustment as set out in section 92.

(5) If—

(a) section 56(1) or (2) applies to domestic currency exposures to a sovereign; and

(b) a protected exposure—

(i) is funded in the local currency of that sovereign; and

(ii) is the subject of a recognized guarantee by that sovereign denominated in the local currency,

an authorized institution may allocate the lower risk-weight provided for by section 56(1) or (2), as the case requires, to the protected amount of the protected exposure.

(6) If the credit protection covered portion of a protected exposure is such a credit protection covered portion because of a recognized guarantee (***original guarantee***) and is the subject of a counter-guarantee given by a sovereign, an authorized institution may, in respect of the credit protection covered portion, treat the counter-guarantee as if it were the original guarantee if—

(a) the counter-guarantee covers all credit risk elements of the protected exposure to the extent that it relates to the credit protection covered portion;

(b) the counter-guarantee is given in such terms that it can be called if—

(i) for any reason the obligor in respect of the protected exposure fails to make payments due in respect of the protected exposure; and

(ii) the original guarantee could be called;

(c) the counter-guarantee meets all of the requirements for guarantees set out in section 98 (except that the counter-guarantee need not meet the requirements set out in section 98(b) and (c)); and

(d) the institution reasonably considers, and demonstrates to the satisfaction of the Monetary Authority, that—

(i) the cover of the counter-guarantee is adequate and effective; and

(ii) there is no evidence to suggest that the coverage of the counter-guarantee is less effective than that of a direct and explicit guarantee by the sovereign that gives the counter-guarantee.

(7) If a recognized credit derivative contract is cleared by a qualifying CCP, an authorized institution may allocate to the protected amount of the protected exposure to which the contract relates—

(a) a risk-weight of 2% if—

(i) the institution is a clearing member of the qualifying CCP;

(ii) the institution is a direct client of a clearing member of the qualifying CCP and all of the conditions set out in section 226ZA(6) are met; or

(iii) the institution is an indirect client within a multi-level client structure associated with the qualifying CCP and all of the conditions set out in section 226ZA(6), with all necessary modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the institution within the multi-level client structure, and the institution; or

(b) a risk-weight of 4% if—

(i) the institution is a direct client of a clearing member of the qualifying CCP and all of the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)) are met; or

(ii) the institution is an indirect client within a multi-level client structure associated with the qualifying CCP and all of the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)), with all necessary modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the institution within the multi-level client structure, and the institution.".

112. Section 101 amended (provisions supplementary to section 100)

(1) Section 101(1)—

Repeal

"Where"

Substitute

"Subject to subsection (9) and section 99(2), (3) and (4), if".

(2) Section 101—

Repeal subsections (2), (3), (4), (5), (6) and (6A).

(3) Section 101(8)—

Repeal

"Where"

Substitute

"Subject to subsection (9), if".

(4) Section 101(8)(a), after "covered;"—

Add

"and".

(5) Section 101(8)(b)—

Repeal

"deposit; and"

Substitute

"deposit.".

(6) Section 101(8)—

Repeal paragraph (c).

(7) After section 101(8)—

Add

"(9) If the credit protection in respect of an authorized institution's exposure consists of a recognized credit derivative contract (including such a contract

embedded in credit-linked notes issued by the institution) that provides that, on the happening of a credit event, the protection seller is not obliged to make a payment in respect of any loss or to absorb any loss if the loss is below a specified amount (***materiality threshold***), the institution must, in calculating its capital adequacy ratio, allocate a risk-weight of 1 250% to the portion of the exposure that is below the materiality threshold.".

113. Section 102 amended (multiple recognized credit risk mitigation)

Section 102(1) and (3)—

Repeal

"these Rules"

Substitute

"this Part".

114. Section 103 amended (maturity mismatches)

(1) Section 103(1)—

Repeal

"repo-style transactions"

Substitute

"SFTs".

(2) Section 103(3)(a)—

Repeal

"if the credit protection is in the form of recognized collateral, guarantees or credit derivative contracts,".

(3) Section 103(4), after "section 79(1)(a)"—

Add

", (d), (m) or (n) or 80(1)(b) or (c)".

115. Section 104 amended (application of Part 5)

Section 104(2)—

Repeal

"Unless the context otherwise requires, a"

Substitute

"A".

116. Section 105 amended (interpretation of Part 5)

(1) Section 105—

Repeal

", unless the context otherwise requires".

(2) Section 105—

Repeal the definition of *attributed risk-weight*

Substitute

"***attributed risk-weight*** (歸屬風險權重)—

(a) in relation to a person (however described), subject to paragraph (b), means the risk-weight that would be attributable, in accordance with Subdivision 2 or 5 of Division 3, to an unsecured exposure to the person as an obligor on the following assumptions—

(i) that the unsecured exposure is a loan granted to the person;

(ii) that the residual maturity of the loan is not less than one year;

(iii) that the loan is not a domestic currency exposure;

(b) in sections 132, 133 and 134—

(i) in relation to the credit protection provider of a credit protection afforded to an exposure (other than a real estate exposure), means the risk-weight that would be attributable, in accordance with Division 3, to the exposure as if the credit protection provider were the obligor in respect of the exposure; and

(ii) in relation to the credit protection provider of a credit protection afforded to a real estate exposure, means the risk-weight that would be attributable, in accordance with that Division, to a senior and unsecured exposure to the credit protection provider;".

(3) Section 105, definition of ***credit equivalent amount***—

Repeal

"or 120".

(4) Section 105—

Repeal the definition of *credit protection covered portion*

Substitute

"***credit protection covered portion*** (信用保障涵蓋部分), in relation to an exposure of an authorized institution that is covered by recognized collateral, a recognized guarantee or a recognized credit derivative contract, means the portion of the exposure (which may be all of the exposure) that is covered by—

(a) in the case of recognized collateral—the current market value of the recognized collateral;

(b) in the case of a recognized guarantee or a credit derivative contract recognized under section 133(1) or (2)—the maximum liability of the credit protection provider to the institution under the recognized guarantee or recognized credit derivative contract, as the case may be; or

(c) in the case of a credit derivative contract recognized under section 133(3) or (4)—the maximum liability of the credit protection provider to the institution under the recognized credit derivative contract, up to the maximum amount of the contract that may be recognized under that section;".

(5) Section 105—

Repeal the definition of *credit protection uncovered portion*

Substitute

"***credit protection uncovered portion*** (不受信用保障涵蓋部分), in relation to an exposure of an authorized institution that is covered by recognized collateral, a recognized guarantee or a recognized credit derivative contract, means the portion of the exposure that is not the credit protection covered portion;".

(6) Section 105, definition of ***principal amount***, paragraph (b)(i) and (ii)—

Repeal

"Table 14 or to which section 120(2) applies"

Substitute

"Schedule 6".

(7) Section 105—

Repeal the definition of *recognized credit derivative contract*

Substitute

"***recognized credit derivative contract*** (認可信用衍生工具合約) means—

(a) a credit derivative contract recognized under section 133(1), (2) or (5); or

(b) a credit derivative contract to the extent that it is recognized under section 133(3) or (4);".

(8) Section 105—

(a) definition of ***cash items***;

(b) definition of ***SFT risk-weighted amount***—

Repeal the definitions.

(9) Section 105—

Add in alphabetical order

"***ADC exposure*** (ADC風險承擔) has the meaning given by section 51(1);

commitment (承諾), in relation to the determination of a CCF applicable to an off-balance sheet exposure, has the meaning given by section 2 of Schedule 6;

corporate (法團) means—

(a) a company; or

(b) a partnership or any other unincorporated body,

that is not a multilateral development bank, unspecified multilateral body, public sector entity or bank;

equity exposure (股權風險承擔) means an exposure that falls within section 54A;

exposure amount (風險承擔數額)—

(a) in relation to an on-balance sheet exposure—means the principal amount of the exposure (net of specific provisions, if any);

(b) in relation to an off-balance sheet exposure to a counterparty that is a default risk exposure in respect of one or more derivative contracts or in respect of a netting set that contains both derivative contracts and SFTs—means the outstanding default risk exposure in respect of the counterparty (net of specific provisions, if any);

(c) in relation to an off-balance sheet exposure to a counterparty that is a default risk exposure in respect of one or more SFTs—means the amount of the exposure calculated in accordance with Division 2B of Part 6A (net of specific provisions, if any); or

(d) in relation to any other off-balance sheet exposure, means—

(i) the credit equivalent amount of the exposure calculated in accordance with section 118(1); or

(ii) the credit equivalent amount of the exposure calculated in accordance with section 118(2);

real estate exposure (地產風險承擔) has the meaning given by section 51(1);

regulatory residential real estate exposure (監管住宅地產風險承擔)—see section 115(1);

specific provisions (特定準備金) has the meaning given by section 51(1);

subordinated debt (後償債項), in relation to an obligor that is a bank or corporate—

(a) includes a subordinated debt or junior subordinated debt—

(i) that is not an equity exposure to the obligor; and

(ii) that is higher in ranking, or senior, to equity exposures to the obligor in terms of the priority of repayment; but

(b) if the obligor is a financial sector entity, excludes—

(i) a capital instrument issued by the obligor; and

(ii) a non-capital LAC liability of the obligor;".

117. Sections 106, 107 and 108 substituted

Sections 106, 107 and 108—

Repeal the sections

Substitute

"**106. Calculation of risk-weighted amount of exposures**

(1) Subject to section 107, an authorized institution must calculate an amount representing the degree of credit risk to which it is exposed by aggregating—

(a) the risk-weighted amounts of the institution's on-balance sheet exposures; and

(b) the risk-weighted amounts of the institution's off-balance sheet exposures.

(2) Subject to subsection (4), for the purposes of subsection (1)—

(a) the risk-weighted amount of each exposure (except CIS exposure and default risk exposure in respect of derivative contracts or SFTs) must be calculated by multiplying the exposure amount of the exposure by the relevant risk-weight attributable to the exposure determined under Division 3;

(b) the risk-weighted amount of each CIS exposure must be calculated in accordance with Division 3A; and

(c) the risk-weighted amount of each default risk exposure in respect of derivative contracts or SFTs is the amount specified in subsection (3).

(3) If an authorized institution—

(a) has an IMM(CCR) approval—

(i) the risk-weighted amount of the default risk exposure in respect of derivative contracts or SFTs covered by the IMM(CCR) approval is the IMM(CCR) risk-weighted amount;

(ii) the risk-weighted amount of the default risk exposure in respect of derivative contracts that are not covered by the IMM(CCR) approval or that fall within section 10B(5) or (7) is the sum of the SA-CCR risk-weighted amounts calculated for the contracts; and

(iii) the risk-weighted amount of the default risk exposure in respect of SFTs that are not covered by the IMM(CCR) approval

or that fall within that section is the sum of the SFT risk-weighted amounts calculated for the SFTs;

(b) does not have an IMM(CCR) approval for any of its derivative contracts or SFTs—

(i) the risk-weighted amount of the default risk exposure in respect of derivative contracts is—

(A) if the institution uses the current exposure method to calculate default risk exposures in respect of derivative contracts—the sum of the CEM risk-weighted amounts calculated for the contracts; or

(B) if the institution uses the SA-CCR approach to calculate default risk exposures in respect of derivative contracts—the sum of the SA-CCR risk-weighted amounts calculated for the contracts; and

(ii) the risk-weighted amount of the default risk exposure in respect of SFTs is the sum of the SFT risk-weighted amounts calculated for the SFTs.

(4) An authorized institution may reduce the risk-weighted amount of its exposure by taking into account the effect of any recognized credit risk mitigation in respect of the exposure in the manner set out in Divisions 5, 6, 7 and 8, unless—

(a) the institution has made disclosures in respect of credit risk for the immediately preceding applicable reporting periods that do not fully comply with the applicable provisions of the Disclosure Rules; or

(b) subsection (5) or (6) applies to the recognized credit risk mitigation concerned.

(5) If an authorized institution has bought credit protection for an exposure and the credit protection is in the form of a single-name credit default swap that falls within section 226J(1), the institution must not take into account under subsection (4) the credit risk mitigating effect of the swap.

(6) If an exposure of an authorized institution is a default risk exposure in respect of derivative contracts or SFTs, the institution must not take into account under subsection (4) the effect of any recognized credit risk mitigation applicable to the exposure that has already been taken into account in the calculation of the amount of the default risk exposure under Part 6A.

(7) In this section—

applicable provisions (適用條文), in relation to an authorized institution that uses the BSC approach to calculate the credit risk for all of its non-securitization exposures, means the provisions set out in Division 4 of Part 2A of the Disclosure Rules the application of which to the institution has not been exempted by the Monetary Authority under section 3 of those Rules;

applicable reporting period (適用報告期), in relation to an applicable provision, means the reporting period

(within the meaning of the Disclosure Rules) referred to in that applicable provision;

CEM risk-weighted amount (CEM風險加權數額) means the risk-weighted amount of the default risk exposure in respect of a derivative contract calculated as the product of—

(a) the exposure amount of the default risk exposure calculated by using the current exposure method; and

(b) the risk-weight applicable to the default risk exposure determined under this Part;

Disclosure Rules (《披露規則》) means the Banking (Disclosure) Rules (Cap. 155 sub. leg. M);

SFT risk-weighted amount (SFT風險加權數額) means the risk-weighted amount of the default risk exposure in respect of an SFT calculated in accordance with section 129.

107. On-balance sheet exposures and off-balance sheet exposures to be covered

(1) Subject to subsection (2), if an authorized institution is required under these Rules to use only the BSC approach to calculate the credit risk for all of its non-securitization exposures, the institution must, for the purpose of calculating under section 106 an amount representing the degree of credit risk to which it is exposed, take into account and risk-weight—

(a) all of the institution's on-balance sheet exposures and off-balance sheet exposures booked in its banking book;

(b) all of the institution's following exposures—

(i) default risk exposures to counterparties in respect of derivative contracts or SFTs booked in its trading book;

(ii) credit exposures to counterparties in respect of transactions (other than repo-style transactions) in securities, foreign exchange or commodities booked in its trading book that remain outstanding after the settlement dates in respect of the transactions;

(iii) credit exposures to counterparties in respect of unsegregated collateral posted by it and held by the counterparties for transactions or contracts booked in its trading book; and

(c) if applicable, all of the institution's market risk exposures that are exempted from section 17 under section 22, except for its total net open position in foreign exchange exposures as derived in accordance with section 296.

(2) Subsection (1) does not apply to—

(a) securitization exposures;

(b) the underlying exposures of eligible traditional securitization transactions (within the meaning of section 229) if the authorized institution opts to apply the treatment under section 230(1) to the underlying exposures;

(c) default fund contributions made to qualifying CCPs and non-qualifying CCPs (within the meaning of section 226V(1));

(d) default risk exposures to qualifying CCPs;

(e) exposures that are risk-weighted as if they were default risk exposures to qualifying CCPs under Division 4 of Part 6A; and

(f) any portion of an exposure (which may be all of the exposure) that is required to be deducted from any of the institution's CET1 capital, Additional Tier 1 capital and Tier 2 capital under Division 4 of Part 3.

108. Classification of exposures

(1) An authorized institution must classify its on-balance sheet exposures and off-balance sheet exposures into one only of the following categories—

(a) exposures that are not CIS exposures;

(b) CIS exposures.

(2) An authorized institution must—

(a) further classify each of the exposures falling within subsection (1)(a), according to the obligor or the nature of the exposure, into one only of the following subcategories—

(i) exposures that do not fall within subparagraph (ii), (iii), (iv), (v), (vi) or (vii)—

(A) sovereign exposures;

(B) public sector entity exposures;

(C) multilateral development bank exposures;

(D) unspecified multilateral body exposures;

(E) bank exposures (other than eligible covered bond exposures);

(F) eligible covered bond exposures;

(G) exposures falling within section 113A;

(H) real estate exposures;

(ii) equity exposures (other than those falling within subparagraph (iii) or (iv));

(iii) significant capital investments in commercial entities within the meaning of section 115F(2);

(iv) holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities;

(v) subordinated debts issued by banks and corporates;

(vi) cash and gold;

(vii) items in the process of clearing or settlement; and

(b) classify each of the exposures falling within subsection (1)(a) that does not fall within paragraph (a) as other exposures.

(3) An authorized institution must—

(a) determine the risk-weight attributable to each of the exposures falling within subsection (1)(a) in accordance with Division 3; and

(b) determine the risk-weight attributable to each of the exposures falling within subsection (1)(b) in accordance with Division 3A.".

118. Part 5, Division 3 heading amended (determination of risk-weights applicable to on-balance sheet exposures and off-balance sheet exposures)

Part 5, Division 3, heading—

Repeal

"**On-balance Sheet Exposures and Off-balance Sheet Exposures**"

Substitute

"**Exposures other than CIS Exposures**".

119. Part 5, Division 3, Subdivision 1 heading amended (exposures other than CIS exposures)

Part 5, Division 3, Subdivision 1, heading—

Repeal

"**Exposures other than CIS Exposures**"

Substitute

"**Application of Division 3**".

120. Section 108A substituted

Section 108A—

Repeal the section

Substitute

"**108A. Application of Division 3**

This Division applies to the determination of risk-weights applicable to on-balance sheet exposures, and off-balance sheet exposures, that are not CIS exposures.".

121. Part 5, Division 3, Subdivisions 2 and 3 repealed

Part 5, Division 3—

Repeal Subdivisions 2 and 3.

122. Part 5, Division 3, Subdivision 2 heading added

After section 108A—

Add

"**Subdivision 2—Exposures not falling within Subdivision 3, 4 or 5**".

123. Sections 109 to 113 substituted

Sections 109, 110, 111, 112 and 113—

Repeal the sections

Substitute

"**109. Sovereign exposures**

(1) An authorized institution must allocate a risk-weight to a sovereign exposure in accordance with this section.

(2) An authorized institution must allocate a risk-weight of 0% to the following exposures—

(a) an exposure to a sovereign of a Tier 1 country that arises from a loan granted to the sovereign;

(b) an exposure to a sovereign of a Tier 2 country that—

(i) arises from a loan granted to the sovereign; and

(ii) is a domestic currency exposure;

(c) an exposure to a sovereign that is a relevant international organization.

(3) An authorized institution must allocate a risk-weight of 10% to the following exposures—

(a) an exposure to a sovereign of a Tier 1 country that arises from—

(i) fixed rate debt securities with a residual maturity of less than one year that are issued by the sovereign; or

(ii) floating rate debt securities of any maturity that are issued by the sovereign;

(b) an exposure to a sovereign of a Tier 2 country that—

(i) arises from—

(A) fixed rate debt securities with a residual maturity of less than one year that are issued by the sovereign; or

(B) floating rate debt securities of any maturity that are issued by the sovereign; and

(ii) is a domestic currency exposure.

(4) An authorized institution must allocate a risk-weight of 20% to the following exposures—

(a) an exposure to a sovereign of a Tier 1 country that arises from fixed rate debt securities with a residual maturity of not less than one year that are issued by the sovereign;

(b) an exposure to a sovereign of a Tier 2 country that—

(i) arises from fixed rate debt securities with a residual maturity of not less than one year that are issued by the sovereign; and

(ii) is a domestic currency exposure.

(5) An authorized institution must allocate a risk-weight of 100% to an exposure to a sovereign of a Tier 2 country that does not fall within subsection (2)(b), (3)(b) or (4)(b).

(6) To avoid doubt, for the purposes of this section, an exposure to the Government includes an exposure to the Exchange Fund.

110. Public sector entity exposures

An authorized institution must allocate a risk-weight of—

(a) 20% to an exposure to a public sector entity of a Tier 1 country; and

(b) 100% to an exposure to a public sector entity of a Tier 2 country.

111. Multilateral development bank exposures

An authorized institution must allocate a risk-weight of 0% to an exposure to a multilateral development bank.

112. Unspecified multilateral body exposures

An authorized institution must allocate a risk-weight of 50% to an exposure to an unspecified multilateral body.

113. Bank exposures

(1) An authorized institution must allocate a risk-weight of—

(a) 20% to—

(i) an exposure to a bank that falls within paragraph (a) of the definition of ***bank*** in section 2(1);

(ii) an exposure to a bank that falls within paragraph (b) of that definition and that is incorporated in a Tier 1 country; and

(iii) an exposure, with a residual maturity of less than one year, to a bank that falls within paragraph (b) of that definition and that is incorporated in a Tier 2 country; and

(b) 100% to an exposure, with a residual maturity of not less than one year, to a bank that falls within paragraph (b) of that definition and that is incorporated in a Tier 2 country.

(2) This section does not apply to an exposure to a bank that is an eligible covered bond exposure.".

124. Section 113A amended (exposures arising from IPO financing)

Section 113A—

Repeal subsection (3).

125. Section 113B added

After section 113A—

Add

"**113B. Eligible covered bond exposures**

(1) An authorized institution must—

(a) determine the attributed risk-weight of the issuer of an eligible covered bond; and

(b) allocate a risk-weight to an exposure to that eligible covered bond in accordance with Table 13 based on the attributed risk-weight of the issuer determined under paragraph (a).

Table 13

Risk-weights for Eligible Covered Bonds

Column 1	Column 2	Column 3
Item	Attributed risk-weight of issuer	Risk-weight for eligible covered bond exposures
1.	20%	10%
2.	100%	50%

(2) For the purposes of subsection (1), if the issuer of an eligible covered bond is a financial institution other than a bank, an authorized institution may determine the attributed risk-weight of the issuer in a manner as if the issuer were a bank.".

126. Sections 114 and 114A substituted

Sections 114 and 114A—

Repeal the sections

Substitute

"**114. Cash and gold**

(1) An authorized institution must allocate a risk-weight of 0% to the following—

(a) notes and coins owned by the institution that are the lawful currency of a jurisdiction and are held by the institution or in transit;

(b) the institution's holding of certificates of indebtedness issued by the Government for the issue of legal tender notes;

(c) gold bullion held by the institution, or gold bullion held on an allocated basis for the institution by another person, that is backed by gold bullion liabilities.

(2) Gold bullion held on an unallocated basis for an authorized institution by another person that is backed by gold bullion liabilities must be allocated the attributed risk-weight of that person.

(3) Gold bullion held by an authorized institution, or gold bullion held for the institution by another person, that is not backed by gold bullion liabilities must be allocated a risk-weight of 100%.

114A. Items in the process of clearing or settlement

(1) An authorized institution must allocate a risk-weight of 0% to the following—

(a) an unsettled clearing item of the institution that is being processed through any interbank clearing system in Hong Kong;

(b) any receivable from a transaction of the institution in securities, foreign exchange or commodities that is not yet due for settlement.

(2) An authorized institution must allocate a risk-weight of 20% to a cheque, draft or other item drawn on another bank—

(a) that is payable to the account of the institution immediately on presentation; and

(b) that is in the process of collection.

(3) In the case of transactions in securities, foreign exchange and commodities that are entered into by an authorized institution on a delivery-versus-payment basis, if any of those transactions is outstanding after the settlement date in respect of the transaction concerned, the institution must allocate to the positive current exposure incurred by the institution under the transaction a risk-weight of—

(a) 0% if the transaction is outstanding up to and including the 4th business day after the settlement date;

(b) 100% if the transaction remains outstanding from 5 to 15 business days (both days inclusive) after the settlement date;

(c) 625% if the transaction remains outstanding from 16 to 30 business days (both days inclusive) after the settlement date;

(d) 937.5% if the transaction remains outstanding from 31 to 45 business days (both days inclusive) after the settlement date; and

(e) 1 250% if the transaction remains outstanding for 46 or more business days after the settlement date.

(4) In the case of transactions in securities, foreign exchange and commodities that are entered into by an authorized institution on a basis other than a delivery-versus-payment basis, if any of those transactions is outstanding after the settlement date in respect of the transaction concerned, the institution must—

(a) if the transaction remains outstanding up to and including the 4th business day after the settlement date, risk-weight the following items as loans to the counterparty to the transaction—

(i) the amount of payment made, or the current market value of the thing delivered, by the institution under the transaction; and

(ii) any positive current exposure incurred by the institution under the transaction;

(b) if the transaction remains outstanding for 5 or more business days after the settlement date, allocate a risk-weight of 1 250% to—

(i) the amount of payment made, or the current market value of the thing delivered, by the institution under the transaction; and

(ii) any positive current exposure incurred by the institution under the transaction.

(5) Unless otherwise stated in Part 6A, subsections (1)(b), (3) and (4) do not apply to repo-style transactions.".

127. Part 5, Division 3, Subdivision 3 heading added

After section 114A—

Add

"**Subdivision 3—Real Estate Exposures**".

128. Section 115 substituted

Section 115—

Repeal the section

Substitute

"**115. What are regulatory residential real estate exposures**

(1) Subject to subsection (3), a real estate exposure (other than an ADC exposure) of an authorized institution to an obligor is a regulatory residential real estate exposure if all of the following criteria are met in respect of the exposure—

(a) the exposure is secured by a residential property that falls within subsection (2)(a) or (b) (***mortgaged property***);

(b) any claim on the mortgaged property is legally enforceable in all relevant jurisdictions;

(c) the collateral agreement and the legal process underpinning any claim on the mortgaged property provide for the institution to realize the value of the mortgaged property within a reasonable time frame;

(d) the exposure is secured by a first legal charge on the mortgaged property or, if the mortgaged property falls within subsection (2)(b), the exposure will be secured by a first legal charge on the residential property after it is fully completed;

(e) the exposure is granted for one or more of the following purposes—

(i) financing the acquisition of the mortgaged property;

(ii) refinancing the acquisition of the mortgaged property;

(iii) cashing out the equity in the mortgaged property;

(f) the institution's underwriting policies with respect to the granting of real estate exposures are adequate and prudent and include—

(i) assessment of the ability of the obligor to repay; and

(ii) if the repayment of the exposure depends materially on the cash flows generated by the mortgaged property—assessment of relevant metrics (such as occupancy rate);

(g) the mortgaged property is valued in a manner consistent with the relevant guidance issued by the Monetary Authority and the value of the mortgaged property does not depend materially on the performance of the obligor;

(h) all the information (including information on the ability of the obligor to repay and on the valuation of the mortgaged property) required at loan origination and for monitoring purposes is properly documented.

(2) Residential property falls within this subsection if the property is—

(a) a fully-completed residential property; or

(b) a residential property under construction or land on which a residential property will be constructed where—

(i) the real estate exposure secured by which is granted to an individual or a property-holding shell company owned by an individual who is the guarantor of the exposure; and

(ii) either of the following conditions is met—

(A) the residential property is constructed, or to be constructed, under a subsidized home ownership scheme launched by the Government or a domestic public sector entity;

(B) the institution is able to demonstrate, with the support of written and reasoned legal advice, that the sovereign of the jurisdiction (including Hong Kong) in which the property or land is located or any public sector entity of that jurisdiction has the legal power and ability to ensure that the property under construction or to be constructed will be finished.

(3) An authorized institution may classify a real estate exposure secured by a residential property as a regulatory residential real estate exposure despite the criteria set out in subsection (1) if—

(a) the exposure was originated before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023;

(b) the exposure was eligible for a risk-weight of 50% under subsection (1) as in force immediately before that date; and

(c) there has been no material change to the loan terms and conditions since that date.".

129. Sections 115A to 115D added

After section 115—

Add

"**115A. Loan-to-value ratio**

(1) The loan-to-value ratio (***LTV ratio***) of a regulatory residential real estate exposure (***subject exposure***) secured by one or more residential properties (***subject security***) must be calculated as a ratio of the amount specified in paragraph (a) to the amount specified in paragraph (b)—

(a) the sum of—

(i) the principal amount of any outstanding drawn portion of the subject exposure (including accrued interest); and

(ii) the amount of any undrawn committed portion of the subject exposure;

(b) the value at origination of the subject security, with the exceptions set out in subsections (6) and (7).

(2) If a pool of regulatory residential real estate exposures (collectively referred to as ***subject exposure***) is secured by one or more residential properties (***subject security***), the LTV ratio of the subject exposure must be calculated as a ratio of the amount

specified in paragraph (a) to the amount specified in paragraph (b)—

(a) the sum of—

(i) the principal amount of any outstanding drawn portion of each of the regulatory residential real estate exposures in the pool (including accrued interest); and

(ii) the amount of any undrawn committed portion of each of the regulatory residential real estate exposures in the pool;

(b) the value at origination of the subject security, with the exceptions set out in subsections (6) and (7).

(3) If—

(a) a pool of real estate exposures is secured by one or more residential properties (***subject security***); and

(b) the pool consists of both regulatory residential real estate exposures and real estate exposures that are neither regulatory residential real estate exposures nor ADC exposures,

the LTV ratio applicable to the regulatory residential real estate exposures in the pool (***subject exposures***) must be calculated in accordance with subsection (2) where the reference to regulatory residential real estate exposures in subsection (2)(a) is taken to be a reference to all of the exposures in the pool referred to in paragraph (a).

(4) The numerator of the LTV ratio calculated under subsection (1), (2) or (3)—

(a) must not be reduced by any specific provisions; and

(b) must not take into account the effect of any recognized credit risk mitigation (including mortgage insurance) except for cash on deposit with the authorized institution—

(i) that is unconditionally and irrevocably pledged (or otherwise provided as security) by the obligor in respect of the subject exposure under a netting or offsetting agreement for the sole purpose of redemption of the subject exposure; and

(ii) for which the security arrangement meets all of the following requirements—

(A) the institution has a well-founded legal basis for concluding that the netting or offsetting agreement with the obligor is enforceable in each relevant jurisdiction regardless of whether the obligor is insolvent or bankrupt;

(B) the institution is able at any time to determine those assets and liabilities with the obligor that are subject to the netting or offsetting agreement;

(C) the institution monitors and controls the roll-off risks that may arise when short-term liabilities that have been netted against longer term exposures are no longer available;

(D) the institution monitors and controls its exposures to the obligor on a net basis.

(5) If a regulatory residential real estate exposure of an authorized institution secured by one or more residential properties (***subject security***) was originated before the commencement date of this section and the subject security was revalued at least once before that date, the institution may treat the value at the last revaluation conducted before that date as the value at origination of the subject security.

(6) In calculating the LTV ratio of a subject exposure under subsection (1), (2) or (3), an authorized institution must use a value lower than the value at origination of the subject security if—

(a) downward adjustment of the value of the subject security is warranted by the prevailing local property market situations;

(b) the Monetary Authority, by written notice given to the institution, requires the institution to revise the value of the subject security downwards; or

(c) an extraordinary, idiosyncratic event occurs and results in a permanent reduction of the value of the subject security.

(7) If—

(a) an authorized institution incurs a new residential real estate exposure secured by a subject security that is also the security for at least one existing residential real estate exposure of the institution and an updated valuation of the security is obtained as part of the new loan

application process in relation to the new residential real estate exposure, the institution may use the updated valuation in calculating the LTV ratio of the pool of regulatory residential real estate exposures secured by the subject security under subsection (2) or (3);

(b) the value of a subject security has been adjusted downwards under subsection (6)(a), an authorized institution may make a subsequent upward adjustment to the value of the subject security and, except in cases where the resultant adjusted value is higher than the value at origination of the subject security, use the resultant adjusted value in the LTV ratio calculation under subsection (1), (2) or (3);

(c) the value of a subject security has been adjusted downwards under subsection (6)(b), an authorized institution may, with the prior consent of the Monetary Authority, make a subsequent upward adjustment to the value of the subject security and use the resultant adjusted value in the LTV ratio calculation under subsection (1), (2) or (3); and

(d) modifications are made to a residential property included in a subject security that unequivocally increase the value of the property and there is an updated valuation that confirms the increase in value, an authorized institution may take into account that increase in the LTV ratio calculation under subsection (1), (2) or (3).

(8) In this section—

value at origination (批出承擔時價值)—

(a) in relation to a regulatory residential real estate exposure of an authorized institution secured by one or more residential properties, means the valuation of the property or properties obtained by the institution at the time of origination of the exposure; and

(b) in relation to a pool of residential real estate exposures of an authorized institution originated at the same time and secured by one or more residential properties, means the valuation of the property or properties obtained by the institution at the time of origination of the pool.

115B. Risk-weights of regulatory residential real estate exposures

(1) This section applies to a regulatory residential real estate exposure of an authorized institution, including a regulatory residential real estate exposure to a member of its staff (whether solely or jointly with another person).

(2) Subject to section 115C, if the exposure is an exposure that does not depend materially on cash flows generated by the residential property securing the exposure (***non-IPRE exposure***), the institution must allocate a risk-weight to the exposure in accordance with Table 13A based on the LTV ratio of the exposure calculated under section 115A.

Table 13A

Risk-weights for Regulatory Residential Real Estate Exposures that are Non-IPRE Exposures

Column 1	Column 2	Column 3
Item	LTV ratio	Risk-weight
1.	Not more than 70%	40%
2.	More than 70% but not more than 90%	50%
3.	More than 90%	100%

(3) Subject to section 115C, if the exposure is not a non-IPRE exposure, the institution must allocate a risk-weight to the exposure in accordance with Table 13B based on the LTV ratio of the exposure calculated under section 115A.

Table 13B

Risk-weights for Regulatory Residential Real Estate Exposures that are not Non-IPRE Exposures

Column 1	Column 2	Column 3
Item	LTV ratio	Risk-weight
1.	Not more than 70%	50%
2.	More than 70% but not more than 90%	70%
3.	More than 90%	120%

(4) For the purposes of subsections (2) and (3)—

(a) subject to paragraphs (b) and (c), the exposure is not a non-IPRE exposure if both the

servicing of the exposure and the prospects for recovery in the event of default depend materially on the cash flows generated by the residential property securing the exposure, rather than on the income, revenue and net worth of the obligor in respect of the exposure generated from other sources;

(b) the institution may treat the exposure as a non-IPRE exposure if the property is—

(i) the primary residence of the obligor in respect of the exposure; or

(ii) if the obligor in respect of the exposure is a property-holding shell company owned by an individual who is the guarantor of the exposure—that individual's primary residence; and

(c) if the exposure was originated before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023, the institution may, if information necessary for assessment is not sufficient or readily available, treat the exposure as a non-IPRE exposure.

115C. Risk-weights of real estate exposures secured by residential property outside Hong Kong

If—

(a) a real estate exposure (other than an ADC exposure) of an authorized institution is secured by a residential property outside Hong Kong; and

(b) the relevant supervisory authority of the jurisdiction in which the residential property is situated has implemented capital adequacy standards that were formulated in accordance with the Basel Framework,

the institution may allocate a risk-weight to the exposure provided for under the capital adequacy standards (but excluding any approach that is based on internal models) applicable to banks incorporated in that jurisdiction.

115D. Risk-weights of other real estate exposures

An authorized institution must allocate a risk-weight of 150% to—

(a) an ADC exposure; and

(b) any other real estate exposure that is neither a regulatory residential real estate exposure nor a real estate exposure to which section 115C applies.".

130. Part 5, Division 3, Subdivision 4 added

After section 115D—

Add

"**Subdivision 4—Equity Exposures and Subordinated Debts**

115E. Equity exposures

(1) Subject to sections 115F and 115G, an authorized institution must allocate—

(a) a risk-weight of 400% to a speculative unlisted equity exposure; and

(b) a risk-weight of 250% to an equity exposure that is not a speculative unlisted equity exposure.

(2) In this section—

speculative unlisted equity exposure (投機性非上市股權風險承擔) means an equity investment in an unlisted company that is—

(a) invested for short-term resale purposes; or

(b) considered venture capital or similar investment that is—

(i) subject to price volatility; and

(ii) acquired in anticipation of significant future capital gains.

115F. Significant capital investments in commercial entities

(1) If the net book value of an authorized institution's significant capital investment in a commercial entity exceeds 15% of the institution's capital base as at the immediately preceding calendar quarter end date as reported in its capital adequacy ratio return, the institution must—

(a) subject to section 43(1)(n), allocate a risk-weight of 1 250% to the amount of the net book value of the investment that exceeds that 15%; and

(b) allocate a risk-weight determined in accordance with section 115E(1)(a) or (b), as the case requires, to the amount of the net book value of the investment that does not exceed that 15%.

(2) In this section—

significant capital investment in a commercial entity (對商業實體的重大資本投資) means an authorized institution's holdings of shares in a commercial entity if—

(a) the holdings amount to more than 10% of the ordinary shares issued by the commercial entity; or

(b) the commercial entity is an affiliate of the institution.

115G. Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities

(1) If an authorized institution has an insignificant LAC investment that is a direct holding, indirect holding or synthetic holding of a capital instrument issued by, or a non-capital LAC liability of, a financial sector entity, any amount of the insignificant LAC investment that is not deducted from the institution's capital base under sections 43(1)(o), 47(1)(c) and 48(1)(c) must be allocated—

(a) a risk-weight determined in accordance with section 115E(1)(a) or (b), as the case requires, if the insignificant LAC investment is an equity exposure; or

(b) a risk-weight of 150% if the insignificant LAC investment is not an equity exposure.

(2) If an authorized institution has a significant LAC investment that is a direct holding, indirect holding or synthetic holding of a capital instrument issued by, or a non-capital LAC liability of, a financial sector entity, any amount of the significant LAC investment that is not deducted from the institution's

capital base under sections 43(1)(p), 47(1)(d) and 48(1)(d) must be allocated—

(a) a risk-weight of 250% if the significant LAC investment is in a CET1 capital instrument; or

(b) in any other case—

(i) a risk-weight determined in accordance with section 115E(1)(a) or (b), as the case requires, if the significant LAC investment is an equity exposure; or

(ii) a risk-weight of 150% if the significant LAC investment is not an equity exposure.

(3) If an authorized institution maintains any non-capital LAC debt resources and has holdings of non-capital LAC liabilities that fall within section 48A, the institution must allocate a risk-weight of 150% to any amount of the holdings that is not deducted from the institution's capital base under section 48(1)(g)(i).

115H. Exposures to subordinated debts

An authorized institution must allocate a risk-weight of 150% to an exposure to a subordinated debt issued by a bank or corporate.".

131. Part 5, Division 3, Subdivision 5 heading added

After section 115H—

Add

"**Subdivision 5—Other Exposures**".

132. Section 116 substituted

Section 116—

Repeal the section

Substitute

"**116. Other exposures**

(1) Subject to subsection (2), if none of the sections in Subdivisions 2, 3 and 4 applies to an exposure, an authorized institution must allocate a risk-weight of 100% to the exposure.

(2) The Monetary Authority may, by written notice given to an authorized institution, direct the institution to allocate to an exposure, or an exposure belonging to a class of exposures, to which this section applies, a risk-weight specified in the notice, being a risk-weight greater than 100%.

(3) An authorized institution must comply with a notice given to it under subsection (2).

(4) If, in respect of an exposure of an authorized institution, the institution has difficulty in allocating any accrued interest under the exposure to the obligors of the institution, the institution may, with the prior consent of the Monetary Authority, treat the accrued interest as an exposure to which this section applies.".

133. Part 5, Division 3, Subdivision 6 heading added

After section 116—

Add

"**Subdivision 6—Provisions Supplementary to Subdivisions 2, 3, 4 and 5**".

134. Sections 117 and 117A substituted

Sections 117 and 117A—

Repeal the sections

Substitute

"**117. Exposures to credit-linked notes**

(1) Subject to subsections (2) and (3), an authorized institution must allocate a risk-weight to an exposure to a credit-linked note that is the higher of the following—

(a) the risk-weight that would be attributable to the note as an exposure to the issuer of the note under Subdivision 2 or 5, as applicable;

(b) the risk-weight that would be attributable to the reference obligations of the note under Subdivision 2, 3, 4 or 5, as applicable.

(2) Subject to subsection (3), if a credit-linked note—

(a) is a first-to-default note, second-to-default note or n^{th}-to-default note; or

(b) provides credit protection proportionately to a basket of reference obligations,

an authorized institution must determine the risk-weight attributable to an exposure to the note as the risk-weight attributable to the pool of reference obligations of the note determined in accordance with section 117B(1), (2), (3) or (4), as the case requires, as if the exposure to the note were a direct

exposure to the credit default swap embedded in the note.

(3) This section does not apply to an exposure to a credit-linked note, or any part of such an exposure, to which any provision in Subdivision 4 applies.

117A. Determination of risk-weight applicable to certain types of off-balance sheet exposures

(1) If an off-balance sheet exposure of an authorized institution (***subject exposure***) is an asset sale with recourse, a sale and repurchase agreement (other than a repo-style transaction) or a forward asset purchase, where the institution is exposed to the credit risk of the assets sold or to be purchased, the risk-weight applicable to the subject exposure is the risk-weight applicable to those assets.

(2) If a subject exposure is partly paid-up shares and securities, the risk-weight applicable to the subject exposure is the risk-weight applicable to the relevant shares or securities.

(3) If a subject exposure is a direct credit substitute arising from the selling of credit protection in the form of total return swap or credit default swap in the authorized institution's banking book, subject to section 117B, the risk-weight applicable to the subject exposure is the risk-weight applicable to the reference obligation specified in the swap.

(4) If a subject exposure is a default risk exposure in respect of a single-name credit default swap that falls within section 226J(1) and the amount of the default risk exposure is determined in accordance with section 226J(3), the risk-weight applicable to the subject exposure is the attributed risk-weight of the

counterparty in respect of the swap without taking into account any recognized credit risk mitigation afforded to the swap.

(5) If a subject exposure is a commitment to extend a loan secured by a fully completed residential property and the exposure, but for the fact that it does not satisfy any one or more of section 115(1)(b), (c) or (d), would have been a regulatory residential real estate exposure, the authorized institution may allocate a risk-weight in accordance with section 115B to the exposure, if the institution has no reason to believe that any of section 115(1)(b), (c) or (d) will not be satisfied immediately after the loan that is the subject of the commitment is drawn down.".

135. Sections 117B and 117C added

After section 117A—

Add

"**117B. Further provisions in relation to direct credit substitutes**

(1) If a subject exposure referred to in section 117A(3) arises from a first-to-default credit derivative contract—

(a) subject to paragraph (b), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract; and

(b) the risk-weight applicable to the subject exposure is subject to a cap of 1 250%.

(2) If a subject exposure referred to in section 117A(3) arises from a second-to-default credit derivative contract—

(a) subject to paragraph (b), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract but excluding the lowest of those risk-weights; and

(b) the risk-weight applicable to the subject exposure is subject to a cap of 1 250%.

(3) If a subject exposure referred to in section 117A(3) arises from any other n^{th}-to-default credit derivative contract, subsection (2), with all necessary modifications, applies to that contract as it applies to a second-to-default credit derivative contract, so that the reference to "lowest" in subsection (2)(a) means—

(a) "lowest and second lowest" in the case of a third-to-default credit derivative contract; and

(b) "lowest, second lowest and third lowest" in the case of a fourth-to-default credit derivative contract,

and likewise for other n^{th}-to-default credit derivative contracts.

(4) If a subject exposure referred to in section 117A(3) arises from a credit derivative contract that provides credit protection proportionately in respect of the reference obligations in the basket of reference obligations specified in the contract, the risk-weight applicable to the subject exposure is calculated in accordance with Formula 13.

Formula 13

Calculation of Risk-weight of Off-balance Sheet Exposure Arising from Credit Derivative Contract under Section 117B(4)

$$RW_a = \sum_i (a_i \cdot RW_i)$$

where—

(a) RW_a is the weighted average risk-weight of a basket of reference obligations;

(b) a_i is the proportion of credit protection allocated to reference obligation i; and

(c) RW_i is the risk-weight of reference obligation i.

117C. Exposures in respect of assets underlying SFTs

(1) This section applies to an authorized institution's exposure to the asset underlying a specified SFT.

(2) Subject to subsection (3), if a specified SFT is booked in the institution's banking book, the institution must—

(a) treat the securities sold or lent, or the securities provided as collateral, under the specified SFT as an on-balance sheet exposure of the institution as if the institution had never entered into the specified SFT; and

(b) allocate to the exposure the risk-weight attributable to the securities.

(3) If the securities referred to in subsection (2)(a) are securitization issues, the risk-weight attributable to the securities must be determined in accordance with Part 7.

(4) To avoid doubt, if a specified SFT is booked in an authorized institution's trading book, an exposure of the institution to the asset underlying the specified SFT is an exposure subject to the requirements of Part 8 instead of this Part.

(5) In this section—

specified SFT (指明SFT), in relation to an authorized institution, means—

(a) a repo-style transaction that falls within paragraph (a) or (b) of the definition of ***repo-style transaction*** in section 2(1); or

(b) a repo-style transaction that falls within paragraph (d) of that definition under which the collateral provided by the institution is in the form of securities.".

136. Part 5, Division 3A added

Part 5, after section 117C—

Add

"Division 3A—CIS Exposures

117D. Interpretation of Division 3A

In this Division—

indirect CIS exposure (間接CIS風險承擔) means an indirect CIS exposure within the meaning of section 226ZH;

Level 1 CIS (1級CIS) means a Level 1 CIS within the meaning of section 226ZH;

Level 2 CIS (2級CIS) means a Level 2 CIS within the meaning of section 226ZH;

Level n+1 CIS (n+1級CIS) means a Level n+1 CIS within the meaning of section 226ZH.

117E. Treatment of CIS exposure held by authorized institution

(1) If no amount of an authorized institution's CIS exposure to a Level 1 CIS constitutes a deductible holding, the institution must calculate the risk-weighted amount of the exposure in accordance with Part 6B.

(2) If any amount of an authorized institution's CIS exposure to a Level 1 CIS constitutes one or more deductible holdings, the institution must—

(a) classify the amounts of the CIS exposure that constitute deductible holdings into one portion (***portion A***);

(b) classify the amount of the CIS exposure that does not constitute deductible holdings into another portion (***portion B***);

(c) apply the treatment set out in section 117F to each of the amounts of the CIS exposure in portion A; and

(d) calculate the risk-weighted amount of portion B (if any) in accordance with Part 6B.

117F. Treatment of CIS exposure constituting deductible holding

(1) This section applies in relation to an authorized institution's CIS exposure to a Level 1 CIS, or any part of the exposure, that constitutes a deductible holding.

(2) The institution must—

(a) determine, in accordance with Division 4 of Part 3, the amount of the deductible holding that is required to be deducted from its capital base;

(b) if the deductible holding falls within section 43(1)(o) or (p), 47(1)(c) or 48(1)(c) or (g)(i)—determine the amount of the deductible holding that is required to be risk-weighted in accordance with section 48(3), section 5 of Schedule 4F or section 1(7) of Schedule 4G, as the case requires;

(c) deduct any amount determined under paragraph (a) from its capital base; and

(d) calculate the risk-weighted amount of any amount determined under paragraph (b) by multiplying that amount by the applicable risk-weight determined in accordance with subsection (3).

(3) The institution must—

(a) allocate a risk-weight, determined in accordance with section 115E(1)(a) or (b), as the case requires, to any amount of deductible holding determined under subsection (2)(b), if the deductible holding is an insignificant LAC investment that is an equity exposure;

(b) allocate a risk-weight of 150% to any amount of deductible holding determined under subsection (2)(b), if the deductible holding is—

(i) an insignificant LAC investment that is not an equity exposure; or

(ii) a holding of non-capital LAC liabilities falling within section 48A; and

(c) allocate a risk-weight of 250% to any amount of deductible holding determined under subsection (2)(b), if the deductible holding is a significant LAC investment in a CET1 capital instrument.

(4) To avoid doubt, this section also applies to cases where a CIS exposure to a Level 1 CIS, or any part of the exposure, constitutes a deductible holding because regulatory deductible items are held by—

(a) a Level 2 CIS to which the Level 1 CIS has a CIS exposure; or

(b) a Level n+1 CIS (where n is an integer equal to or greater than 2) to which the Level 1 CIS has an indirect CIS exposure.

117G. Determination of risk-weights applicable to certain types of off-balance sheet CIS exposures

(1) This section applies to a CIS exposure that is an off-balance sheet exposure.

(2) If the CIS exposure is an asset sale with recourse, a sale and repurchase agreement (other than a repo-style transaction) or a forward asset purchase, where the seller or buyer of the assets underlying the transaction is exposed to the credit risk of the assets sold or to be purchased, the risk-weight applicable to

the CIS exposure is the risk-weight applicable to those assets.

(3) If the CIS exposure is partly paid-up shares and securities, the risk-weight applicable to the CIS exposure is the risk-weight applicable to the relevant shares or securities.".

137. Part 5, Division 4 heading amended (calculation of risk-weighted amount of authorized institution's off-balance sheet exposures)

Part 5, Division 4, heading—

Repeal

"**Risk-weighted Amount of Authorized Institution's**"

Substitute

"**Exposure Amounts of**".

138. Section 118 amended (off-balance sheet exposures)

(1) Section 118, heading—

Repeal

"**Off-balance**"

Substitute

"**Calculation of exposure amounts of off-balance**".

(2) Section 118—

Repeal subsection (1) (including Table 14)

Substitute

"(1) An authorized institution must calculate the credit equivalent amount of an off-balance sheet exposure (other than an exposure to which subsection (2) or (3) applies) by—

(a) determining the CCF applicable to the exposure in accordance with Schedule 6 and, if applicable, subsection (1A); and

(b) multiplying the principal amount of the exposure, after deducting any specific provisions applicable to the exposure, by the CCF determined under paragraph (a).

(1A) If an off-balance sheet exposure (***exposure A***) is a commitment the drawdown of which would give rise to another off-balance sheet exposure (***exposure B***), the CCF applicable to exposure A is the lower of—

(a) the CCF applicable to the commitment determined in accordance with Schedule 6; and

(b) the CCF applicable to exposure B determined in accordance with Schedule 6.".

139. Sections repealed

Sections 119, 120, 122, 123 and 123A—

Repeal the sections.

140. Section 124 amended (recognized collateral)

(1) Section 124(b)—

Repeal

"or transferred"

Substitute

"(or otherwise provided as security)".

(2) Section 124(d)—

Repeal

"title transfer"

Substitute

"the title transfer of the".

(3) Section 124—

Repeal paragraph (f)

Substitute

"(f) the credit quality of the obligor in respect of the exposure does not have material positive correlation with—

(i) the current market value of the collateral; and

(ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the collateral for the purpose of mitigating the credit risk of the exposure;".

(4) Section 124(g)(i), after "pledged"—

Add

"(or otherwise provided as security)".

(5) Section 124(h)—

Repeal

"section 125(1)(a), (b), (c), (d), (e), (f) or (g)"

Substitute

"any one of the paragraphs of section 125(1)".

141. Section 125 amended (collateral which may be recognized for purposes of section 124(h))

(1) After section 125(1)(c)—

Add

"(ca) gold bullion;".

(2) Section 125(1)(f)—

Repeal

"or".

(3) Section 125(1)(g)—

Repeal

"bank."

Substitute

"bank;".

(4) After section 125(1)(g)—

Add

"(h) debt securities issued by an unspecified multilateral body;

(i) debt securities (other than eligible covered bonds) issued by—

(i) a bank falling within paragraph (a) of the definition of ***bank*** in section 2(1); or

(ii) a bank falling within paragraph (b) of that definition that is incorporated in a Tier 1 country; or

(j) eligible covered bonds.".

(5) Section 125—

Repeal subsection (2)

Substitute

"(2) A reference to debt securities in subsection (1) does not include debt securities that are re-securitization exposures.".

142. Section 126 amended (calculation of risk-weighted amount of exposures taking into account credit risk mitigation effect of recognized collateral)

(1) Section 126, heading—

Repeal

"**mitigation**"

Substitute

"**mitigating**".

(2) Section 126(1), (1A) and (1C), English text—

Repeal

"mitigation"

Substitute

"mitigating".

(3) Section 126(3)—

Repeal

"a standard haircut of".

(4) Section 126(4)(a)—

Repeal

"sections 109, 110, 111, 112, 113, 114, 115 and 116"

Substitute

"Subdivision 2 of Division 3".

143. Section 127 amended (calculation of risk-weighted amount of on-balance sheet exposures)

Section 127(a)—

Repeal

"principal amount of the exposure, net of specific provisions,"

Substitute

"exposure amount of the exposure".

144. Section 129 amended (calculation of risk-weighted amount of default risk exposures)

Section 129(1)(a)—

Repeal

"amount of the default risk exposure in respect of an SFT or the outstanding default risk exposure calculated for one or more than one derivative contract, net of specific provisions,"

Substitute

"exposure amount of the exposure".

145. Section 132 amended (recognized guarantees)

(1) Section 132—

Repeal

"an exposure of the institution where"

Substitute

"a specific exposure or a specific pool of exposures of the institution (***guaranteed exposure***) if".

(2) Section 132—

Repeal paragraph (a)

Substitute

"(a) the guarantee is given by—

(i) a sovereign;

(ii) a public sector entity of a Tier 1 country;

(iii) a multilateral development bank;

(iv) an unspecified multilateral body;

(v) a bank; or

(vi) a qualifying CCP,

in each case having an attributed risk-weight lower than the risk-weight that would be allocated to the guaranteed exposure;".

(3) Section 132—

Repeal paragraph (c)

Substitute

"(c) the credit protection provided by the guarantee relates specifically to the guaranteed exposure;

(ca) the credit quality of the obligor in respect of the guaranteed exposure does not have material positive correlation with—

(i) the credit quality of the guarantor; and

(ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the guarantee for the purpose of mitigating the credit risk of the guaranteed exposure;".

(4) Section 132(g)—

Repeal

"country"

Substitute

"jurisdiction".

(5) Section 132(g), English text—

Repeal

"called upon"

Substitute

"called on".

146. Sections 133 and 134 substituted

Sections 133 and 134—

Repeal the sections

Substitute

"**133. Recognized credit derivative contracts**

(1) Subject to subsections (2), (3), (4) and (5), a credit derivative contract (***subject contract***) entered into by an authorized institution as a protection buyer may be recognized for the purpose of calculating the risk-weighted amount of an exposure of the institution (***protected exposure***) if—

(a) the subject contract is a credit default swap or total return swap (other than a restricted credit derivative contract);

(b) the protection seller of the subject contract is—

(i) a sovereign;

(ii) a public sector entity of a Tier 1 country;

(iii) a multilateral development bank;

(iv) an unspecified multilateral body;

(v) a bank; or

(vi) a qualifying CCP,

in each case having an attributed risk-weight lower than the risk-weight that would be allocated to the protected exposure;

(c) the economic benefit derived by the institution would make good the economic loss suffered by the institution in consequence of the default of the obligor in respect of the protected exposure in a manner substantially similar to that of a recognized guarantee;

(d) the subject contract gives the institution a direct claim against the protection seller;

(e) the credit protection provided by the subject contract relates to a specific exposure or a specific pool of exposures;

(f) the credit quality of the reference entity of the subject contract does not have material positive correlation with—

(i) the credit quality of the protection seller; and

(ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the subject contract for the purpose of mitigating the credit risk of the protected exposure;

(g) the undertaking of the protection seller under the subject contract to make payment in specified circumstances is clearly documented so that the extent of the credit protection provided by the subject contract is clearly defined;

(h) there is no clause in the subject contract, the satisfaction of which is outside the direct control of the institution, that would—

(i) allow the protection seller to cancel the subject contract unilaterally; or

(ii) increase the effective cost of the credit protection offered by the subject contract as a result of the deteriorating credit quality of the reference entity or any of the specified obligations of the subject contract,

except for a clause permitting termination in the event of a failure by the institution to pay sums due from it under the terms of the subject contract;

(i) there is no clause in the subject contract, the satisfaction of which is outside the direct control of the institution, that could operate to prevent the protection seller from being obliged to pay out promptly in the event that the reference entity defaults in making any payments due;

(j) the jurisdiction in which the protection seller is located and from which the protection seller may be obliged to make payment has no existing exchange controls in place or, if there are existing exchange controls in place, approval has been obtained for the funds to be remitted freely in the event that the protection seller is called on under the terms of the subject contract to make payment to the institution;

(k) the protection seller has no recourse to the institution for any losses suffered as a result of the protection seller being obliged to make any payment to the institution under the subject contract;

(l) the subject contract obliges the protection seller to make payment to the institution in the following credit events—

(i) any failure by the reference entity to pay amounts due under the terms of any of the specified obligations (subject to any grace period in the subject contract that is of substantially similar duration to any grace period provided for in the terms of the specified obligations);

(ii) the bankruptcy or insolvency of the reference entity, or the reference entity's failure or inability to pay its debts as they fall due, or the reference entity's written admission of the reference entity's inability generally to pay its debts as they fall due, or any event with respect to the reference entity that has an analogous effect to any of the foregoing events; or

(iii) restructuring of any of the specified obligations, involving forgiveness or postponement of payment of any principal or interest or fees, that results in the holder of the specified obligation restructured making specific provision or other similar debit to its profit and loss account;

(m) in any case where any of the specified obligations provides a grace period within which the reference entity may make good a default in payment, the subject contract is not capable of terminating prior to the expiry of the grace period;

(n) in any case where the subject contract provides for settlement in cash, it provides an adequate mechanism for valuation of loss and specifies a reasonable period within which that valuation is to be arrived at following a credit event;

(o) in any case where the specified obligations do not include or are different from the protected exposure—

(i) each of the specified obligations ranks for payment or repayment equally with, or junior to, the protected exposure; and

(ii) the obligor in respect of the protected exposure is the same person as the reference entity of the subject contract and legally enforceable cross default or cross acceleration clauses are included in the terms of both the protected exposure and the specified obligations;

(p) in any case where, under the terms of the subject contract, it is a condition of settlement that the institution transfers the protected exposure to the protection seller, the terms of the protected exposure provide that any consent which may be required from the obligor in respect of the protected exposure must not be unreasonably withheld;

(q) the subject contract specifies clearly the identity of the person who is empowered to determine whether a credit event has occurred, that person is not solely the protection seller and the institution is, under the terms of the subject contract, entitled to inform the protection seller of the occurrence of a credit event; and

(r) the subject contract is binding on all parties and legally enforceable in all relevant jurisdictions.

(2) If all the criteria set out in subsection (1) are met in respect of the subject contract except that the credit events specified in the subject contract do not include the credit event described in subsection (1)(l)(iii), the subject contract may be recognized for the purpose of calculating the risk-weighted amount of the protected exposure if all of the following conditions are met—

(a) the protected exposure is an exposure to a corporate;

(b) unanimous consent of all creditors in respect of the protected exposure is required to amend the maturity, principal, coupon, currency or seniority status of the protected exposure;

(c) the legal domicile in which the protected exposure is governed has well-established legislation on insolvency, bankruptcy or liquidation that—

(i) allows for a corporate to reorganize or restructure; and

(ii) provides for an orderly settlement of creditor claims.

(3) If—

(a) all the criteria set out in subsection (1) are met in respect of the subject contract except that the credit events specified in the subject contract do not include the credit event described in subsection (1)(l)(iii);

(b) any one or more of the conditions set out in subsection (2) are not met in respect of the subject contract; and

(c) the maximum liability of the protection seller to the authorized institution under the subject contract is more than the amount of the protected exposure,

the amount of the subject contract that may be recognized for the purpose of calculating the risk-weighted amount of the protected exposure must not be more than 60% of the amount of the protected exposure.

(4) If—

(a) all the criteria set out in subsection (1) are met in respect of the subject contract except that the credit events specified in the subject contract do not include the credit event described in subsection (1)(l)(iii);

(b) any one or more of the conditions set out in subsection (2) are not met in respect of the subject contract; and

(c) the maximum liability of the protection seller to the authorized institution under the subject contract is equal to or less than the amount of the protected exposure,

the amount of the subject contract that may be recognized for the purpose of calculating the risk-weighted amount of the protected exposure must not be more than 60% of the maximum liability of the protection seller to the institution under the subject contract.

(5) If the subject contract is a credit derivative contract embedded in a cash funded credit-linked note issued by the authorized institution, the subject contract is recognized for the purpose of calculating the risk-weighted amount of the protected exposure if all the criteria set out in subsection (1), excluding the criterion set out in subsection (1)(b), are met.

(6) In this section—

restricted credit derivative contract (受限制信用衍生工具合約), in relation to an authorized institution, means—

(a) a total return swap where—

(i) the institution is the protection buyer under the swap; and

(ii) the institution records the net payments received by it under the swap as net income but does not record, through deductions in fair value in the accounts of the institution or by an addition to reserves or provisions, the extent to which the value of the protected exposure has deteriorated; or

(b) a first-to-default credit derivative contract, a second-to-default credit derivative contract or any other n^{th}-to-default credit derivative contract;

specified obligation (指明義務), in relation to a credit derivative contract entered into by an authorized institution as a protection buyer in respect of an exposure of the institution—

(a) means an obligation of a specified reference entity specified in the credit derivative contract that is—

(i) a reference obligation; or

(ii) an obligation used for the purpose of determining whether a credit event has occurred; and

(b) may or may not include the exposure of the institution.

134. Capital treatment of recognized guarantees and recognized credit derivative contracts

(1) If an exposure is covered by a recognized guarantee or recognized credit derivative contract (***protected exposure***), an authorized institution must calculate the risk-weighted amount of the protected exposure in accordance with subsection (2).

(2) If the credit protection covered portion and the credit protection uncovered portion of a protected exposure rank equally—

(a) sections 127, 128 and 129, with all necessary modifications, apply to the authorized institution in relation to the calculation of the risk-weighted amount of the protected exposure; and

(b) the authorized institution must—

(i) subject to subsections (5) and (6), allocate to the protected amount of the protected exposure the attributed risk-weight of the credit protection provider; and

(ii) allocate to the unprotected amount of the protected exposure the risk-weight attributable to the protected exposure under Division 3.

(3) For the purposes of subsection (2)—

(a) if section 127 or 129 applies to the authorized institution—

(i) subject to subsection (4), the protected amount of the protected exposure is the credit protection covered portion of the protected exposure; and

(ii) the unprotected amount of the protected exposure is the credit protection uncovered portion of the protected exposure; and

(b) if section 128 applies to the authorized institution—

(i) subject to subsection (4), the protected amount of the protected exposure is the product of the credit protection covered portion of the protected exposure and the CCF applicable to the protected exposure; and

(ii) the unprotected amount of the protected exposure is the product of the credit protection uncovered portion of the protected exposure and the CCF applicable to the protected exposure.

(4) If, in respect of a protected exposure, there is a currency mismatch, an authorized institution, in determining the protected amount for the purposes of subsection (2), must reduce the amount of the credit protection covered portion of the protected exposure by 8%.

(5) If the credit protection covered portion of a protected exposure is such a credit protection covered portion because of a recognized guarantee (***original***

guarantee) and is the subject of a counter-guarantee given by a sovereign, an authorized institution may, in respect of the credit protection covered portion, treat the counter-guarantee as if it were the original guarantee if—

(a) the counter-guarantee covers all credit risk elements of the protected exposure to the extent that it relates to the credit protection covered portion;

(b) the counter-guarantee is given in such terms that it can be called if—

(i) for any reason the obligor in respect of the protected exposure fails to make payments due in respect of the protected exposure; and

(ii) the original guarantee could be called;

(c) the counter-guarantee meets all of the requirements for guarantees set out in section 132 (except that the counter-guarantee need not meet the requirements set out in section 132(b) and (c)); and

(d) the institution reasonably considers, and demonstrates to the satisfaction of the Monetary Authority, that—

(i) the cover of the counter-guarantee is adequate and effective; and

(ii) there is no evidence to suggest that the coverage of the counter-guarantee is less effective than that of a direct and explicit guarantee by the sovereign that gives the counter-guarantee.

(6) If a recognized credit derivative contract is cleared by a qualifying CCP, an authorized institution may allocate to the protected amount of the protected exposure to which the contract relates—

(a) a risk-weight of 2% if—

(i) the institution is a clearing member of the qualifying CCP;

(ii) the institution is a direct client of a clearing member of the qualifying CCP and all of the conditions set out in section 226ZA(6) are met; or

(iii) the institution is an indirect client within a multi-level client structure associated with the qualifying CCP and all of the conditions set out in section 226ZA(6), with all necessary modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the institution within the multi-level client structure, and the institution; or

(b) a risk-weight of 4% if—

(i) the institution is a direct client of a clearing member of the qualifying CCP and all of the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)) are met; or

(ii) the institution is an indirect client within a multi-level client structure associated with the qualifying CCP and all of the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)), with all necessary

modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the institution within the multi-level client structure, and the institution.".

147. Section 135 amended (provisions supplementary to section 134)

(1) Section 135(1)—

Repeal

"Where"

Substitute

"Subject to subsection (9) and section 133(2), (3) and (4), if".

(2) Section 135—

Repeal subsections (2), (3), (4), (5), (6) and (6A).

(3) Section 135(8)—

Repeal

"Where"

Substitute

"Subject to subsection (9), if".

(4) Section 135(8)(a), after "covered;"—

Add

"and".

(5) Section 135(8)(b)—

Repeal

"deposit; and"

Substitute

"deposit.".

(6) Section 135(8)—

Repeal paragraph (c).

(7) After section 135(8)—

Add

"(9) If the credit protection in respect of an authorized institution's exposure consists of a recognized credit derivative contract (including such a contract embedded in credit-linked notes issued by the institution) that provides that, on the happening of a credit event, the protection seller is not obliged to make a payment in respect of any loss or to absorb any loss if the loss is below a specified amount (***materiality threshold***), the institution must, in calculating its capital adequacy ratio, allocate a risk-weight of 1 250% to the portion of the exposure that is below the materiality threshold.".

148. Section 136 amended (multiple recognized credit risk mitigation)

Section 136(1)—

Repeal

"these Rules"

Substitute

"this Part".

149. Section 137 amended (maturity mismatches)

(1) Section 137(2)(a)—

Repeal

"if the credit protection is in the form of recognized collateral, guarantees or credit derivative contracts,".

(2) Section 137(3), after "section 125(1)(a)"—

Add

"or (ca)".

150. Section 138 amended (application of Part 6)

Section 138(2)—

Repeal

"Unless the context otherwise requires, a"

Substitute

"A".

151. Section 139 amended (interpretation of Part 6)

(1) Section 139(1)—

Repeal

", unless the context otherwise requires".

(2) Section 139(1), definition of ***advanced IRB approach***—

Repeal

"corporate, sovereign or bank"

Substitute

"corporate or sovereign".

(3) Section 139(1), definition of ***cash items***—

Repeal paragraph (a)

Substitute

"(a) notes and coins owned by the institution that are the lawful currency of a jurisdiction and are held by the institution or in transit;".

(4) Section 139(1), definition of ***cash items***, paragraphs (g), (h), (i) and (j)—

Repeal

"(other than repo-style transactions)".

(5) Section 139(1)—

Repeal the definition of *corporate*

Substitute

"***corporate*** (法團) has the meaning given by section 51(1);".

(6) Section 139(1), definition of ***credit risk components***, paragraph (a)—

Repeal

"exposures; or"

Substitute

"exposures;".

(7) Section 139(1), definition of ***credit risk components***—

Repeal paragraph (b).

(8) Section 139(1), definition of ***foundation IRB approach***, paragraph (b), before "using"—

Add

"subject to section 167(1)(c),".

(9) Section 139(1), definition of ***maturity***, paragraph (a)—

Repeal

", 168 or 169, as the case requires; or"

Substitute

"or 168, as the case requires;".

(10) Section 139(1), definition of ***maturity***—

Repeal paragraph (b).

(11) Section 139(1), definition of ***recognized collateral***, paragraph (b)—

Repeal

"corporate, sovereign or bank"

Substitute

"corporate or sovereign".

(12) Section 139(1), definition of ***recognized collateral***, paragraph (b)(ii)—

Repeal

"77(a), (b), (c), (d), (e), (ea) and (f)"

Substitute

"77(2)".

(13) Section 139(1)—

Repeal the definition of *recognized credit derivative contract*

Substitute

"***recognized credit derivative contract*** (認可信用衍生工具合約)—

(a) if an authorized institution uses the substitution framework to take into account the credit risk mitigating effect of credit derivative contracts for its corporate, sovereign, bank or retail exposures—means a credit derivative contract that falls within section 211 or 212, as the case requires; or

(b) in any other case—means an internal risk transfer recognized under section 213(1) or an internal risk transfer to the extent that it is recognized under section 213(2)(a);".

(14) Section 139(1)—

Repeal the definition of *recognized financial collateral*

Substitute

"***recognized financial collateral*** (認可財務抵押品)—

(a) subject to paragraph (b), means any collateral that—

(i) falls within the description in section 80(1)(a), (b) or (c); and

(ii) meets the criteria specified in section 77(2); and

(b) does not include any collateral in the form of—

(i) real property; or

(ii) debt securities that are re-securitization exposures;".

(15) Section 139(1), definition of ***recognized guarantee***, paragraph (a)—

Repeal

", retail or equity exposures, means a guarantee which falls within section 211 or 212, as the case requires; or"

Substitute

"or retail exposures, means a guarantee that falls within section 211 or 212, as the case requires;".

(16) Section 139(1), definition of ***recognized guarantee***—

Repeal paragraph (b).

(17) Section 139(1), definition of ***risk-weight function***, paragraph (a)—

Repeal

"institution; or"

Substitute

"institution;".

(18) Section 139(1), definition of ***risk-weight function***—

Repeal paragraph (b).

(19) Section 139(1)—

Repeal the definition of *specialized lending*

Substitute

"***specialized lending*** (專門性借貸) means an exposure of a lender to a corporate that—

(a) falls within section 143(1); and

(b) possesses both of the following characteristics, either in legal form or economic substance—

(i) the corporate has few or no other material assets or activities, and therefore the primary source of repayment of the exposure is the income generated by the asset or assets being financed by the lender, rather than the independent capacity of the corporate;

(ii) the terms of the exposure give the lender a substantial degree of control over the asset or assets being financed and the income that the asset or assets generate;".

(20) Section 139(1), definition of ***specific risk-weight approach***—

Repeal

"equity"

Substitute

"CIS".

(21) Section 139(1)—

Repeal the definition of *total EL amount*

Substitute

"***total EL amount*** (EL總額), in relation to an authorized institution, means the sum of the institution's EL amounts attributed to corporate, sovereign, bank and retail exposures of the institution that are subject to the IRB approach;".

(22) Section 139(1)—

Repeal the definition of *total eligible provisions*

Substitute

"***total eligible provisions*** (合資格準備金總額), in relation to an authorized institution, means the sum of the institution's eligible provisions attributed to corporate, sovereign, bank and retail exposures of the institution that are subject to the IRB approach.".

(23) Section 139(1)—

(a) definition of ***capital floor***;

(b) definition of ***double default framework***;

(c) definition of ***financial firm***;

(d) definition of ***hedged exposure***;

(e) definition of ***internal models method***;

(f) definition of ***market-based approach***;

(g) definition of ***PD/LGD approach***;

(h) definition of ***revolving***;

(i) definition of ***seasoning***;

(j) definition of ***simple risk-weight method***;

(k) definition of ***unhedged exposure***—

Repeal the definitions.

(24) Section 139(1)—

Add in alphabetical order

"***equity exposure*** (股權風險承擔) means an exposure that falls within section 54A;

financial institution (金融機構) means an entity that—

(a) is a financial sector entity; or

(b) is engaged predominantly in any one or more of the following activities, whether by itself or through any of its subsidiaries—

(i) lending;

(ii) factoring;

(iii) provisions of credit enhancement;

(iv) securitization;

(v) proprietary trading;

(vi) any other financial services activity specified in Part 11 of Schedule 1;

financial institution treated as corporate (視為法團的金融機構) means a financial institution (other than a bank) that is not a qualifying non-bank financial institution;

fully secured exposure (具全數保證風險承擔), for the purpose of taking into account the credit risk mitigating effect of recognized collateral under the advanced IRB approach and retail IRB approach, means an exposure that is secured by recognized collateral the value of which (after the application of haircut in accordance with the standard supervisory haircuts subject to adjustment as set out in section 92) is equal to or more than the value of the exposure (after the application of haircut in

accordance with the standard supervisory haircuts subject to adjustment as set out in section 92);

partially secured exposure (具部分保證風險承擔), for the purpose of taking into account the credit risk mitigating effect of recognized collateral under the advanced IRB approach and retail IRB approach, means an exposure that is secured by recognized collateral but is not a fully secured exposure;

residential mortgage loan (住宅按揭貸款), in relation to an authorized institution, means a credit facility provided by the institution to a borrower—

(a) that is secured on residential property or residential properties; and

(b) that is required by the facility agreement between the institution and the borrower to be secured on the residential property or residential properties referred to in paragraph (a);".

(25) Section 139—

Repeal subsection (3).

152. Section 140 amended (calculation of risk-weighted amount of exposures)

(1) Section 140—

Repeal subsection (1B)

Substitute

"(1B) For a CIS exposure constituting a deductible holding that is not deducted from the capital base of an authorized institution under Division 4 of Part 3, the institution must calculate the risk-weighted amount of the exposure in accordance with section 183.".

(2) Section 140(1BA)—

Repeal

"an equity exposure that is".

(3) Section 140(1C)(a)—

Repeal

"and an approval to use the IMM approach to calculate the market risk capital charge for specific risk for interest rate exposures"

Substitute

"for its transactions or contracts".

(4) Section 140(1C)(a)(i), after "approval;"—

Add

"and".

(5) Section 140(1C)(a)(ii), before "SA-CCR"—

Add

"sum of the".

(6) Section 140(1C)(a)—

Repeal subparagraph (iii).

(7) Section 140(1C)—

Repeal paragraph (b).

(8) Section 140(1C)(c)(i), before "SA-CCR"—

Add

"sum of the".

(9) Section 140(1C)(c)(i), after "amount;"—

Add

"and".

(10) Section 140(1C)(c)(ii)—

Repeal

"amount; and"

Substitute

"amount.".

(11) Section 140(1C)(c)—

Repeal subparagraph (iii).

(12) Section 140—

Repeal subsection (1E).

153. Section 140A amended (calculation of exposure at default)

Section 140A(2)(b)—

Repeal

"an equity exposure of the institution as the value of the equity exposure"

Substitute

"a CIS exposure constituting deductible holding as the value of the deductible holding".

154. Section 141 substituted

Section 141—

Repeal the section

Substitute

"**141. Exposures to be covered**

(1) Subject to subsection (2) and section 12, if the Monetary Authority grants an approval to an authorized institution to use the IRB approach for one or more IRB adoption classes to calculate its credit risk for non-securitization exposures, the

institution must, for the purpose of calculating under section 140 an amount representing the degree of credit risk to which it is exposed, take into account and risk-weight—

(a) all of the institution's exposures booked in its banking book within the IRB adoption class for which the approval is granted; and

(b) all of the institution's following exposures within the IRB adoption class for which the approval is granted—

(i) default risk exposures to counterparties in respect of derivative contracts or SFTs booked in its trading book;

(ii) credit exposures to counterparties in respect of transactions (other than repo-style transactions) in securities, foreign exchange or commodities booked in its trading book that remain outstanding after the settlement dates in respect of the transactions;

(iii) credit exposures to counterparties in respect of unsegregated collateral posted by it and held by the counterparties for transactions or contracts booked in its trading book.

(2) Subsection (1) does not apply to—

(a) securitization exposures;

(b) the underlying exposures of eligible traditional securitization transactions (within the meaning of section 229) if the authorized institution opts to apply the treatment under section 230(1) to the underlying exposures;

(c) equity exposures;

(d) default fund contributions made to qualifying CCPs and non-qualifying CCPs (within the meaning of section 226V(1));

(e) default risk exposures to qualifying CCPs;

(f) exposures that are risk-weighted as if they were default risk exposures to qualifying CCPs under Division 4 of Part 6A; and

(g) any portion of an exposure (which may be all of the exposure) that is required to be deducted from any of the institution's CET1 capital, Additional Tier 1 capital and Tier 2 capital under Division 4 of Part 3.

(3) To avoid doubt, if an authorized institution uses a combination of the STC approach and the IRB approach to calculate its credit risk for non-securitization exposures (***exposures***), section 53 applies to the institution with respect to its exposures subject to the STC approach even though it does not use the STC approach to calculate the credit risk for all of its exposures.".

155. Section 142 amended (classification of exposures)

(1) Section 142(1)—

Repeal

", 145".

(2) Section 142(1)(b)—

Repeal

"27"

Substitute

"26".

(3) Section 142(1), Table 16, item 1, column 3, paragraphs (a), (b), (c) and (d)—

Repeal

"under supervisory slotting criteria approach".

(4) Section 142(1), Table 16, item 1, column 3, after paragraph (e)—

Add

"(ea) Large corporates

(eb) Financial institutions treated as corporates".

(5) Section 142(1), Table 16, item 3, column 3, paragraph (a), after "Banks"—

Add

"(excluding covered bonds)".

(6) Section 142(1), Table 16, item 3, column 3—

Repeal paragraph (b)

Substitute

"(b) Qualifying non-bank financial institutions".

(7) Section 142(1), Table 16, item 3, column 3, after paragraph (c)—

Add

"(d) Unspecified multilateral bodies

(e) Covered bonds".

(8) Section 142(1), Table 16, item 4, column 3, paragraph (d), after "exposures"—

Add

"(transactor)".

(9) Section 142(1), Table 16, item 4, column 3, after paragraph (d)—

Add

"(da) Qualifying revolving retail exposures (revolver)".

(10) Section 142(1), Table 16, item 5, column 2—

Repeal

"Equity"

Substitute

"CIS".

(11) Section 142(1), Table 16, item 5, column 3—

Repeal paragraphs (a), (b), (c), (d), (e), (f) and (g)

Substitute

"CIS exposures".

(12) Section 142(3)—

Repeal

"144(2) or (4)(c)"

Substitute

"(3A) or 144(2), (4)(c) or (4A)(a)".

156. Section 143 amended (corporate exposures)

(1) Section 143(1)(a)—

Repeal

"collateral"

Substitute

"security".

(2) Section 143(1)(b), after "pledged"—

Add

"(or otherwise provided as security)".

(3) Section 143(1)(c)—

Repeal

"(including gold)" (wherever appearing).

(4) Section 143(1)(c), Chinese text—

Repeal

"清單".

(5) Section 143(1)(c)(ii), Chinese text—

Repeal

"身分"

Substitute

"能力".

(6) Section 143(3)—

Repeal

"and (4A)"

Substitute

", (4A), (4B) and (4C)".

(7) Section 143(3)(a)—

Repeal

"paragraphs (b) and (c), the corporate concerned has a reported total annual revenue"

Substitute

"paragraph (b), the corporate concerned has a reported total annual sales".

(8) Section 143(3)(a), after "million;"—

Add

"or".

(9) Section 143(3)—

Repeal paragraph (b)

Substitute

"(b) in any case where the corporate concerned is a member of a group of companies, the group of companies has a consolidated reported total annual sales, in the group's latest consolidated annual financial statements, of less than $500 million.".

(10) Section 143(3)—

Repeal paragraph (c).

(11) After section 143(3)—

Add

"(3A) Subject to subsections (3B), (4A), (4B) and (4C), for the purposes of section 142(1) as read with Table 16, an authorized institution may only classify an exposure to a corporate as a corporate exposure that falls within the IRB subclass of large corporates if—

(a) subject to paragraph (b), the corporate concerned has a reported total annual revenue, in its audited annual financial statements, of more than $5 billion; or

(b) in any case where the corporate concerned is a member of a group of companies, the group of companies has a consolidated reported total annual revenue, in the group's audited consolidated annual financial statements, of more than $5 billion.

(3B) The reported total annual revenue referred to in subsection (3A) must be either an average amount of the annual revenue of the corporate or the group concerned in the past 3 years or the latest amount of the annual revenue updated every 3 years by an authorized institution.

(3C) Subject to subsections (4A) and (4B), for the purposes of section 142(1) as read with Table 16, an authorized institution may only classify an exposure to a corporate as a corporate exposure that falls within the IRB subclass of financial institutions treated as corporates if the corporate is a financial institution treated as corporate.".

(12) Section 143(4)—

Repeal

"revenue" (wherever appearing)

Substitute

"sales".

(13) Section 143(4A)(a)—

Repeal

"or".

(14) Section 143(4A)(b)—

Repeal

"(3)."

Substitute

"(3);".

(15) After section 143(4A)(b)—

Add

"(c) be classified as exposures that fall within the IRB subclass of large corporates under subsection (3A); or

(d) be classified as exposures that fall within the IRB subclass of financial institutions treated as corporates under subsection (3C).".

(16) After section 143(4A)—

Add

"(4B) For the purposes of section 142(1) as read with Table 16, an authorized institution must classify all of its exposures to corporates that fall within the description in subsection (1)(a), (b), (c) or (d) as exposures that fall within the IRB subclass of specialized lending (project finance), specialized lending (object finance), specialized lending (commodities finance) or specialized lending (income-producing real estate) respectively, whether or not the exposures may be classified as exposures that fall within—

(a) the IRB subclass of small-and-medium sized corporates under subsection (3);

(b) the IRB subclass of large corporates under subsection (3A); or

(c) the IRB subclass of financial institutions treated as corporates under subsection (3C).

(4C) For the purposes of section 142(1) as read with Table 16, an authorized institution must classify all of its exposures to corporates that fall within the description in subsection (3C) as exposures that fall within the IRB subclass of financial institutions treated as corporates, whether or not the exposures may be classified as exposures that fall within—

(a) the IRB subclass of small-and-medium sized corporates under subsection (3); or

(b) the IRB subclass of large corporates under subsection (3A).".

(17) Section 143(5)—

Repeal paragraph (a)

Substitute

"(a) the IRB subclass of specialized lending under subsection (1);".

(18) Section 143(5)—

Repeal paragraph (ba)

Substitute

"(ba) the IRB subclass of large corporates under subsection (3A);

(bb) the IRB subclass of financial institutions treated as corporates under subsection (3C);".

157. Section 144 amended (retail exposures)

(1) Section 144(1), after "revolving retail exposures"—

Add

"(transactor), qualifying revolving retail exposures (revolver)".

(2) Section 144(4), before "if"—

Add

"(transactor)".

(3) Section 144(4)(e)—

Repeal

"and".

(4) Section 144(4)(f)—

Repeal

"is consistent with the underlying risk characteristics of the exposure."

Substitute

"(transactor) is consistent with the underlying risk characteristics of the exposure; and".

(5) After section 144(4)(f)—

Add

"(g) the exposure is to an obligor who is a transactor.".

(6) After section 144(4)—

Add

"(4A) Subject to subsection (1), for the purposes of section 142(1) as read with Table 16, an authorized institution must classify an exposure as a retail exposure that falls within the IRB subclass of qualifying revolving retail exposures (revolver) if—

(a) the requirements set out in subsection (4)(a), (b), (c), (d) and (e) are satisfied;

(b) treatment of the exposure as falling within the IRB subclass of qualifying revolving retail exposures (revolver) is consistent with the underlying risk characteristics of the exposure; and

(c) the exposure does not fall within the IRB subclass of qualifying revolving retail exposures (transactor).".

(7) Section 144(5)(a)—

Repeal

"or".

(8) Section 144(5)(b)—

Repeal

"exposures,"

Substitute

"exposures (transactor); or".

(9) After section 144(5)(b)—

Add

"(c) the IRB subclass of qualifying revolving retail exposures (revolver),".

158. Section 145 repealed (equity exposures)

Section 145—

Repeal the section.

159. Section 146 amended (other exposures)

Section 146(1)—

Repeal

"equity"

Substitute

"CIS".

160. Section 147 amended (IRB calculation approaches)

(1) Section 147(1)—

Repeal

"and (3)"

Substitute

", (3) and (3B)".

(2) Section 147(1), Table 17, item 3, column 3—

Repeal paragraphs (a) and (b)

Substitute

"Foundation IRB approach".

(3) Section 147(1), Table 17, item 5, column 2—

Repeal

"Equity"

Substitute

"CIS".

(4) Section 147(1), Table 17, item 5, column 3—

Repeal paragraphs (a), (b), (c) and (d)

Substitute

"CIS calculation approach".

(5) Section 147(3)—

Repeal

"Where"

Substitute

"Subject to subsection (3A), if".

(6) After section 147(3)—

Add

"(3A) If an authorized institution used the advanced IRB approach before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023 for—

(a) exposures to corporates that satisfy the requirements set out in section 143(3A)(a) or (b);

(b) exposures to corporates that are financial institutions treated as corporates; or

(c) bank exposures,

the institution is not required to obtain the prior consent of the Monetary Authority under subsection (3) to commence using the foundation IRB approach to calculate its credit risk for those exposures on and after that date.

(3B) An authorized institution must not use the advanced IRB approach to calculate its credit risk for exposures to corporates that satisfy the requirements set out in section 143(3A)(a) or (b) and corporates that are financial institutions treated as corporates.

(3C) Despite section 8(4)(a), if an authorized institution used the IRB approach before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023 to calculate its credit risk for equity exposures (within the meaning of the pre-amended Part 6), the institution must use the STC approach on and after that date to calculate its credit risk for equity exposures.".

(7) After section 147(4)—

Add

"(5) In this section—

pre-amended Part 6 (原有的第6部) means Part 6 of these Rules as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023.".

161. Section 149 amended (default of obligor)

(1) After section 149(1)—

Add

"(1A) For the purposes of subsection (1)(a), an authorized institution may regard an obligor as being unlikely to pay in full its credit obligations to the institution if one or more of the following events have occurred in respect of the obligor—

(a) any material credit obligation is put on non-accrued status;

(b) a write-off or specific provision is made as a result of a significant perceived decline in credit quality subsequent to the institution taking on any credit exposure to the obligor;

(c) any credit obligation is sold at a material credit-related economic loss;

(d) a distressed restructuring of any credit obligation is agreed by the institution;

(e) a filing for the obligor's bankruptcy or a similar order has been made in respect of any of the obligor's credit obligations to the institution or any member of the consolidation group of the institution;

(f) the obligor has sought, or has been placed in, bankruptcy or similar protection where this would avoid or delay repayment of any of the credit obligations to the institution or any member of the consolidation group of the institution.".

(2) Section 149(9)—

Add in alphabetical order

"***distressed restructuring*** (不利的重組) has the meaning given by section 67(7);

non-accrued status (非累算狀況) has the meaning given by section 67(7);".

162. Section 156 amended (calculation of risk-weighted amount of corporate, sovereign and bank exposures)

(1) Section 156(1)(a)—

Repeal

"section 167(c)"

Substitute

"section 167(1)(c)".

(2) Section 156(2)—

Repeal

"subsections (5) and"

Substitute

"subsection".

(3) Section 156—

Repeal subsections (5) (including Formula 17), (6), (7) and (8).

(4) Section 156(9)(a)—

Repeal

"set equal to 1; and"

Substitute

"set equal to 1.".

(5) Section 156(9)—

Repeal paragraph (b).

(6) Section 156(10)—

Repeal the definition of *full maturity adjustment*

Substitute

"***full maturity adjustment*** (全面到期期限調整) means the amount calculated by the component (1 – 1.5 × b)^–1 × (1 + (M – 2.5) × b) in Formula 16.".

163. Section 157 amended (provisions supplementary to section 156(2) and (5)—firm-size adjustments for small-and-medium sized corporates)

(1) Section 157, heading—

Repeal

"**and (5)**".

(2) Section 157—

Repeal subsection (1)

Substitute

"(1) If a corporate exposure of an authorized institution falls within the IRB subclass of small-and-medium sized corporates, the institution must make an adjustment to take into account the size of the corporate concerned (***firm-size adjustment***) to the calculation of the correlation (R) in the risk-weight function specified in Formula 16 by substituting the following correlation formula for that in Formula 16—

Correlation (R) = 0.12 × (1 – EXP (–50 × PD)) / (1 – EXP (–50)) + 0.24 ×[1 – (1 – EXP (–50 × PD)) / (1 – EXP (–50))] – 0.04 ×(1 – (S – 50) / 450).".

(3) Section 157(2)—

Repeal

"(1)(a) or (b)"

Substitute

"(1)".

(4) Section 157(2)(a)—

Repeal

"paragraphs (b) and (c), the total annual revenue of the corporate;"

Substitute

"paragraph (b), the total annual sales of the corporate; or".

(5) Section 157(2)(b)—

Repeal

"subject to paragraph (c),".

(6) Section 157(2)(b)—

Repeal

"the consolidated total annual revenue of the group of companies of which the corporate is a member; or"

Substitute

"the consolidated total annual sales of the group of companies of which the corporate is a member,".

(7) Section 157(2)—

Repeal paragraph (c).

(8) Section 157(3) and (4)—

Repeal

"revenue" (wherever appearing)

Substitute

"sales".

(9) Section 157—

Repeal subsection (5)

Substitute

"(5) If an authorized institution's specialized lending or its exposure that falls within the IRB subclass of financial institutions treated as corporates would have been classified as a corporate exposure that falls within the IRB subclass of small-and-medium sized corporates under section 143(3) but for the operation of section 143(4A), (4B) and (4C)—

(a) the institution may make a firm-size adjustment referred to in subsection (1) to the calculation of the correlation (R) in the risk-weight function specified in Formula 16 in respect of the exposure; and

(b) subsections (2), (3) and (4) apply accordingly.".

164. Section 157A amended (provisions supplementary to section 156(2) and (5)—asset value correlation multiplier for exposures to certain financial institutions)

(1) Section 157A, heading—

Repeal

"**and (5)**".

(2) Section 157A(2)—

Repeal

"or correlation (ρ_{os}) in the risk-weight function set out in Formula 16 or 17, as the case requires,"

Substitute

"in the risk-weight function specified in Formula 16".

(3) Section 157A(3), Chinese text, definition of ***金融監管者***—

Repeal

"當局；"

Substitute

"當局。".

(4) Section 157A(3)—

Repeal the definition of *financial institution*.

165. Section 158 amended (provisions supplementary to section 156—risk-weights for specialized lending)

(1) Section 158(1)—

Repeal

"or 17, as the case requires, (if applicable, adjusted in accordance with section 157(1) in respect of exposures to small-and-medium sized corporates, section 157(5) in respect of HVCRE exposures that fall"

Substitute

"(if applicable, adjusted in accordance with section 157(5) in respect of specialized lending that falls".

(2) Section 158(1A)(a)—

Repeal

"or correlation (ρ_{os}) in the risk-weight function specified in Formula 16 or 17"

Substitute

"in the risk-weight function specified in Formula 16".

(3) Section 158(1A)(b)—

Repeal

"or correlation (ρ_{os}) in section 157(1)(a) or (b)"

Substitute

"in section 157(1)".

(4) Section 158(1A)(c)—

Repeal

"or 17".

(5) Section 158(1B)(b)—

Repeal

"reference exposures"

Substitute

"exposures falling within the IRB subclass of specialized lending (income-producing real estate)".

(6) Section 158(2)(c)—

Repeal subparagraphs (i) and (ii)

Substitute

"(i) the criteria specified in paragraphs CRE33.13 to CRE33.16 in Chapter CRE33 of the consolidated Basel Framework launched by the Basel Committee as amended or supplemented from time to time; or

(ii) the credit quality grades specified in a table made by the Monetary Authority under section 4B(2);".

(7) Section 158(3) and (4)—

Repeal

"assign"

Substitute

"allocate".

(8) Section 158(5)—

Repeal

"reference exposures"

Substitute

"exposures falling within the IRB subclass of specialized lending (income-producing real estate)".

(9) Section 158(6), Chinese text, definition of ***指明ADC風險承擔***, paragraph (b)—

Repeal

"權益；"

Substitute

"權益。".

(10) Section 158(6)—

Repeal the definition of *reference exposure*.

166. Section 159 amended (probability of default)

(1) Section 159(1)(a)—

Repeal

"paragraphs (b) and (c)"

Substitute

"paragraphs (ab), (b), (ba) and (c)".

(2) After section 159(1)(a)—

Add

"(ab) the long run average PD referred to in paragraph (a) must be an observed historical average PD that is a simple average based on the number of obligors in respect of the corporate, sovereign and bank exposures;".

(3) Section 159(1)—

Repeal paragraph (b)

Substitute

"(b) subject to paragraph (ba), in the case of a corporate or bank exposure of the institution that is not in default, the estimate of the PD is not less than 0.05%;

(ba) paragraph (b) does not apply to the portion of such an exposure of the institution that is covered by a recognized guarantee issued by a sovereign;".

(4) Section 159(1)(d)(i)—

Repeal

"and".

(5) Section 159(1)(d)(ii)—

Repeal

", subject to section 14, covers a period of not less than 5 years."

Substitute

"covers a period of not less than 5 years; and".

(6) After section 159(1)(d)(ii)—

Add

"(iii) which includes a representative mix of good and bad years of the economic cycle relevant for the institution's corporate, sovereign or bank exposures.".

167. Section 160 amended (loss given default under foundation IRB approach)

(1) Section 160(1)(a)—

Repeal

"which are corporate, sovereign or bank exposures which are"

Substitute

"that are financial institution treated as corporate, sovereign or bank exposures that are".

(2) After section 160(1)(a)—

Add

"(ab) subject to paragraphs (c) and (d), use a supervisory estimate of 40% for the LGD of its senior exposures that are corporate exposures (other than financial institution treated as corporate exposures) that are—

(i) unsecured; or

(ii) secured by collateral which is not recognized collateral;".

(3) After section 160(1)(b)—

Add

"(ba) subject to paragraphs (c) and (d), use the supervisory estimate of the LGD specified in paragraph (a), (ab) or (b), as the case requires, for its default risk exposures;".

(4) Section 160(2)—

Repeal

"(3) and (4)"

Substitute

"(1)(ba) and (3)".

(5) Section 160—

Repeal subsection (3) (including Formulas 18 and 19)

Substitute

"(3) For the purposes of subsection (2), an authorized institution must—

(a) subject to paragraph (d), use Formula 18 to determine the effective LGD (LGD*) applicable

to an exposure covered by a recognized collateral for inclusion into the risk-weight function specified in Formula 16;

(b) continue to calculate EAD without taking into account the presence of any collateral and, to avoid doubt, the terms unsecured portion of the exposure (E_U) and the secured portion of the exposure (E_S) are only used to calculate LGD* for the purposes of Formula 18;

(c) for the purposes of Formula 18—

(i) use sections 90, 91 and 92(1) to determine H_E and H_{fx};

(ii) use sections 90, 91 and 92(1) to determine H_C if the recognized collateral is a recognized financial collateral and use 40% as H_C if the recognized collateral is a recognized IRB collateral;

(iii) to avoid doubt, apply a haircut of 0% to applicable repo-style transactions that are treated as collateralized loans to the counterparty in accordance with section 92(2); and

(iv) adjust the value of the recognized collateral in accordance with section 103, with all necessary modifications, if the recognized collateral in respect of an exposure of the institution has a residual maturity that is shorter than the residual maturity of the exposure; and

(d) if the institution has obtained more than one recognized collateral in respect of the exposure—

(i) use Formula 19 to determine the effective LGD (LGD*) applicable to an exposure covered by the recognized collaterals for inclusion into the risk-weight function specified in Formula 16;

(ii) continue to calculate EAD without taking into account the presence of any collateral and, to avoid doubt, the terms unsecured portion of the exposure (E_U) and the secured portion of the exposure (E_S) are only used to calculate LGD* for the purposes of Formula 19; and

(iii) for the purposes of Formula 19—

(A) use sections 90, 91 and 92(1) to determine H_E and $H_{fx,i}$;

(B) use sections 90, 91 and 92(1) to determine $H_{C,i}$ if the recognized collateral is a recognized financial collateral and use 40% as $H_{C,i}$ if the recognized collateral is a recognized IRB collateral;

(C) to avoid doubt, apply a haircut of 0% to applicable repo-style transactions that are treated as collateralized loans to the counterparty in accordance with section 92(2); and

(D) adjust the value of the recognized collateral in accordance with section 103, with all necessary modifications, if the recognized collateral in respect of an exposure of the institution has a residual maturity that is shorter

than the residual maturity of the exposure.

Formula 18

Determination of Effective LGD of Exposure Secured by Recognized Collateral

$$LGD^* = LGD_U \times \frac{E_U}{E \times (1 + H_E)} + LGD_S \times \frac{E_S}{E \times (1 + H_E)}$$

where—

(a) LGD^* is the effective LGD;

(b) LGD_U is the supervisory estimate of the LGD specified in subsection (1)(a), (ab), (c) or (d), as the case requires, for the unsecured portion of the exposure;

(c) E_U is $E \times (1 + H_E) - E_S$;

(d) E is the EAD of the exposure;

(e) H_E is the haircut applicable to the authorized institution's exposure to the obligor under the standard supervisory haircuts subject to adjustment as set out in section 92(1);

(f) LGD_S is—

(i) 0% if the recognized collateral is a recognized financial collateral; or

(ii) the applicable value of LGD_S specified in Table 18B in respect of the type of recognized IRB collateral concerned, if the recognized collateral is a recognized IRB collateral;

(g) E_S is min $[C \times (1 - H_C - H_{fx}), E \times (1 + H_E)]$;

(h) C is the current market value of the recognized collateral before adjustment required by the comprehensive approach to the treatment of recognized collateral;

(i) H_C is—

(i) the haircut applicable to the recognized financial collateral under the standard supervisory haircuts, if the recognized collateral is a recognized financial collateral; or

(ii) 40% if the recognized collateral is a recognized IRB collateral; and

(j) H_{fx} is the haircut applicable in consequence of a currency mismatch, if any, under the standard supervisory haircuts subject to adjustment as set out in section 92(1).

Table 18B

LGD_S Applicable to Recognized IRB Collateral

Column 1	Column 2	Column 3
Item	Recognized IRB collateral	LGD_S
1.	Recognized financial receivables	20%
2.	Recognized commercial real estate and recognized residential real estate	20%
3.	Other recognized IRB collateral	25%

Formula 19

Determination of Effective LGD of Exposure Secured by more than One Recognized Collateral

$$LGD^* = LGD_U \times \frac{E_U}{E \times (1 + H_E)} + \sum_i LGD_{S,i} \times \frac{E_{S,i}}{E \times (1 + H_E)}$$

where—

(a) LGD* is the effective LGD;

(b) LGD_U is the supervisory estimate of the LGD specified in subsection (1)(a), (ab), (c) or (d), as the case requires, for the unsecured portion of the exposure;

(c) E_U is max [0, E × (1 + H_E) – $\sum_i E_{S,i}$];

(d) E is the EAD of the exposure;

(e) H_E is the haircut applicable to the authorized institution's exposure to the obligor under the standard supervisory haircuts subject to adjustment as set out in section 92(1);

(f) $LGD_{S,i}$, for each recognized collateral i is—

(i) 0% if the recognized collateral is a recognized financial collateral; or

(ii) the applicable value of LGD_S specified in Table 18B in respect of the type of recognized IRB collateral concerned, if the recognized collateral is a recognized IRB collateral;

(g) $E_{S,i}$ is C_i × (1 – $H_{C,i}$ – $H_{fx,i}$), where the total $E_{S,i}$ across all collaterals, $\sum_i E_{S,i}$, is subject to a maximum value of E × (1 + H_E);

(h) C_i is the current market value of each recognized collateral i before adjustment required by the comprehensive approach to the treatment of recognized collateral;

(i) $H_{C,i}$, for each recognized collateral i, is—

(i) the haircut applicable to the recognized financial collateral under the standard supervisory haircuts, if the recognized collateral is a recognized financial collateral; or

(ii) 40% if the recognized collateral is a recognized IRB collateral; and

(j) $H_{fx,i}$, for each recognized collateral i, is the haircut applicable in consequence of a currency mismatch, if any, under the standard supervisory haircuts subject to adjustment as set out in section 92(1).".

(6) Section 160—

Repeal subsection (4) (including Table 19).

(7) Section 160(5)—

Add in alphabetical order

"***financial institution treated as corporate exposures*** (視為法團的金融機構風險承擔) means exposures to financial institutions treated as corporates;".

168. Section 161 amended (loss given default under advanced IRB approach)

(1) After section 161(1)(b)—

Add

"(ba) subject to paragraph (be) and subsection (1B), the estimate of the LGD of a corporate exposure that is unsecured or secured by a collateral that is not a recognized collateral is not less than 25%;

(bb) subject to paragraph (be), the estimate of the LGD of a corporate exposure that is a fully secured exposure secured by—

(i) financial receivables; or

(ii) commercial real estate or residential real estate,

is not less than 10%;

(bc) subject to paragraph (be), the estimate of the LGD of a corporate exposure that is a fully secured exposure secured by physical collateral (other than commercial real estate and residential real estate) is not less than 15%;

(bd) subject to paragraph (be) and subsections (1A) and (1B), the estimate of the LGD of a corporate exposure that is a partially secured exposure or is secured by more than one recognized collateral is not less than the effective LGD floor calculated by the use of Formula 19A;

(be) paragraphs (ba), (bb), (bc) and (bd) do not apply to the portion of a corporate exposure of the institution that is covered by a recognized guarantee issued by a sovereign;".

(2) After section 161(1)(f)—

Add

"**Formula 19A**

Determination of Effective LGD Floor for Partially Secured Exposure or Exposure Secured by more than One Recognized Collateral

$$LGD^{\#} = 25\% \times \frac{E_U}{E \times (1 + H_E)} + \sum_i LGD_{S\ floor,i} \times \frac{E_{S,i}}{E \times (1 + H_E)}$$

where—

(a) $LGD^{\#}$ is the effective LGD floor;

(b) E_U is max [0, $E \times (1 + H_E) - \sum_i E_{S,i}$];

(c) E is the EAD of the exposure;

(d) H_E is the haircut applicable to the authorized institution's exposure to the obligor under the standard supervisory haircuts subject to adjustment as set out in section 92(1);

(e) $LGD_{S\ floor,i}$, for each recognized collateral i, is the applicable value of LGD floor specified in Table 19A in respect of the type of recognized collateral concerned;

(f) $E_{S,i}$ is $C_i \times (1 - H_{C,i} - H_{fx,i})$, subject to a minimum value of 0 and the total $E_{S,i}$ across all collaterals, $\sum_i E_{S,i}$, is subject to a maximum value of $E \times (1 + H_E)$;

(g) C_i is the current market value of each recognized collateral i before adjustment required by the comprehensive approach to the treatment of recognized collateral;

(h) $H_{C,i}$, for each recognized collateral i, is—

(i) the haircut applicable to the recognized collateral under the standard supervisory haircuts, if the recognized collateral is of the type of financial collateral; or

(ii) 40% if the recognized collateral is of the types of financial receivables, commercial real estate, residential real estate or physical collateral (other than commercial real estate and residential real estate); and

(i) $H_{fx,i}$, for each recognized collateral i, is the haircut applicable in consequence of a currency mismatch, if any, under the standard supervisory haircuts subject to adjustment as set out in section 92(1).

Table 19A

LGD Floors by Type of Recognized Collateral

Column 1	Column 2	Column 3
Item	Recognized collateral	LGD floor
1.	Financial collateral	0%
2.	Financial receivables	10%
3.	Commercial real estate or residential real estate	10%

Column 1 Item	Column 2 Recognized collateral	Column 3 LGD floor
4.	Physical collateral (other than commercial real estate and residential real estate)	15%".

(3) After section 161(1)—

Add

"(1A) For the purposes of Formula 19A, an authorized institution must—

(a) use sections 90, 91 and 92(1) to determine H_E and $H_{fx,i}$;

(b) use sections 90, 91 and 92(1) to determine $H_{C,i}$ if the recognized collateral is a financial collateral and use 40% as $H_{C,i}$ if the recognized collateral is not a financial collateral;

(c) to avoid doubt, apply a haircut of 0% to applicable repo-style transactions that are treated as collateralized loans to the counterparty in accordance with section 92(2); and

(d) adjust the value of the recognized collateral in accordance with section 103, with all necessary modifications, if the recognized collateral in respect of an exposure of the institution has a residual maturity that is shorter than the residual maturity of the exposure.

(1B) If an authorized institution is unable to estimate an LGD for an exposure that is secured by one or more recognized financial collaterals or recognized IRB collaterals as a result of lack of sufficient data to

model the effect of the recognized collateral on recoveries, the institution may determine the LGD of the exposure in accordance with section 160(3) under Formula 18 or 19, as the case requires, with the value of LGD_U being replaced by the higher of—

(a) the LGD estimated by the institution for unsecured exposure without taking into account the presence of any collateral; or

(b) 25%.".

169. Section 162 repealed (loss given default under double default framework)

Section 162—

Repeal the section.

170. Section 163 amended (exposure at default under foundation IRB approach—on-balance sheet exposures and off-balance sheet exposures other than default risk exposures)

(1) Section 163(2)—

Repeal

"An authorized institution which"

Substitute

"Subject to subsection (2AA), an authorized institution that".

(2) Section 163(2), Table 20, after item 4—

Add

"4A.	Sale and repurchase agreements (excluding those that are repo-style transactions)	100%".

(3) Section 163(2), Table 20, item 8—

Repeal

"75%"

Substitute

"50%".

(4) Section 163(2), Table 20—

Repeal item 9

Substitute

"9.	Subject to subsection (2AA), commitments that do not fall within any of items 1, 2, 3, 4, 4A, 5, 6, 7 and 8—		
		(a) subject to paragraph (c), that may be cancelled at any time unconditionally by an authorized institution without prior notice or that provide for automatic cancellation due to a deterioration in the creditworthiness of the person to whom the commitment has been made;	10%
		(b) subject to paragraph (c), that do not fall within paragraph (a); and	40%

	(c) the drawdown of which will give rise to an off-balance sheet exposure falling within any of items 1, 2, 3, 4, 4A, 5, 6, 7 and 8 or any item specified in section 166	the lower of— (i) the CCF applicable to the commitment determined under paragraph (a) or (b), as the case requires; and (ii) the CCF applicable to the off-balance sheet exposure arising from the drawdown of the commitment concerned".

(5) Before section 163(2A)—

Add

"(2AA) An authorized institution may allocate a CCF of 0% to a commitment that falls within the IRB class of corporate exposures if the commitment satisfies all of the following conditions—

(a) the credit quality of the obligor is closely monitored by the institution on an ongoing basis;

(b) the institution receives no fees or commissions to establish or maintain the commitment;

(c) the obligor is required to apply to the institution for initial and each subsequent drawdown;

(d) the institution has full authority, regardless of the fulfilment by the obligor of the conditions set out in the facility documentation, over the execution of each drawdown;

(e) the institution's decision on the execution of each drawdown is only made after assessing the creditworthiness of the obligor immediately prior to drawdown.".

(6) Section 163(3)—

Repeal

"subsection (1)(b)"

Substitute

"this section".

(7) Section 163(3), Chinese text, definition of ***折讓***—

Repeal

"數額。"

Substitute

"數額；".

(8) Section 163(3)—

Add in alphabetical order

"***commitment*** (承諾), in relation to the determination of a CCF applicable to an off-balance sheet exposure, has the meaning given by section 2 of Schedule 6;".

171. Section 164 amended (exposure at default under advanced IRB approach—on-balance sheet exposures and off-balance sheet exposures other than default risk exposures)

(1) Section 164(1)—

Repeal

"An authorized institution which uses the advanced IRB approach shall"

Substitute

"Subject to subsection (4B), an authorized institution that uses the advanced IRB approach must".

(2) Section 164(2)—

Repeal

"An authorized institution"

Substitute

"Subject to subsection (4B) and section 163(2AA), an authorized institution".

(3) Section 164(2)(a), after "subsections (3)"—

Add

", (3A)".

(4) Section 164—

Repeal subsection (3)

Substitute

"(3) Subject to subsection (4), an authorized institution must—

(a) if the exposure is an off-balance sheet exposure specified in subsection (3A)—use its own estimate of CCF to calculate the EAD of the exposure; and

(b) in any other case—determine the EAD of the exposure in accordance with section 163(2) as if it were using the foundation IRB approach.

(3A) For the purposes of subsection (3)(a), the exposure specified is an off-balance sheet exposure that—

(a) is revolving in nature; and

(b) is not subject to a CCF of 100% in Table 20.".

(5) Section 164(4)(b)—

Repeal

"paragraph (c)"

Substitute

"paragraphs (c) and (ca)".

(6) After section 164(4)(c)—

Add

"(ca) if the estimate of the EAD is based on alternative measures of central tendency or only on the economic downturn data, the institution must ensure that the estimate does not fall below a conservative estimate of the long run default-weighted average EAD of exposures that fall within a facility type;".

(7) After section 164(4A)—

Add

"(4B) Subject to subsection (4C), the EAD applicable to a corporate exposure for inclusion into the risk-weight function specified in Formula 16 must not be less than the sum of—

(a) the EAD of the on-balance sheet exposure; and

(b) 50% of the EAD of the off-balance sheet exposure determined in accordance with section 163(2).

(4C) Subsection (4B) does not apply to the portion of a corporate exposure of an authorized institution that is covered by a recognized guarantee issued by a sovereign.".

172. Section 167 amended (maturity under foundation IRB approach)

(1) Section 167—

Renumber the section as section 167(1).

(2) Section 167(1)—

Repeal paragraph (c)

Substitute

"(c) subject to subsection (2), may calculate the M of all of its corporate, sovereign and bank exposures in accordance with section 168.".

(3) After section 167(1)—

Add

"(2) An authorized institution that uses the foundation IRB approach must give written notice to the Monetary Authority within 7 days after commencing to calculate the M of all of its corporate, sovereign and bank exposures in accordance with section 168 as if that section were applicable to those exposures.".

173. Section 168 amended (maturity under advanced IRB approach)

(1) Section 168(1)—

Repeal

"corporate, sovereign or bank"

Substitute

"corporate or sovereign".

(2) Section 168(1)(a)(ii) and (b), after "(bb)"—

Add

", (bc)".

(3) After section 168(1)(bb)—

Add

"(bc) if the exposure is an exposure to which a revolving facility relates, the M of the exposure is calculated using the maximum contractual termination date of the facility, instead of using the repayment date of the facility currently drawn;".

(4) Section 168(1), Formula 20, heading—

Repeal

"**Corporate, Sovereign and Bank**"

Substitute

"**Corporate and Sovereign**".

174. Section 169 repealed (maturity under double default framework)

Section 169—

Repeal the section.

175. Section 176 amended (calculation of risk-weighted amount of retail exposures)

(1) Section 176(3)(a), after "exposures"—

Add

"(transactor) or qualifying revolving retail exposures (revolver)".

(2) Section 176(3), Formula 22, heading, after "**Exposures**"—

Add

"**(Transactor and Revolver)**".

176. Section 177 amended (probability of default)

(1) Section 177(1)(a)—

Repeal

"(b) and (c)"

Substitute

"(ab), (b), (ba), (bb) and (c)".

(2) After section 177(1)(a)—

Add

"(ab) the estimate of the PD must be based on an observed historical average of one-year default rates;".

(3) Section 177(1)—

Repeal paragraph (b)

Substitute

"(b) subject to paragraph (bb), the estimate of the PD of a retail exposure that falls within the IRB subclass of qualifying revolving retail exposures (revolver) and is not in default is not less than 0.1%;

(ba) subject to paragraph (bb), the estimate of the PD of a retail exposure that falls within the IRB subclass of small business retail exposures, residential mortgages to individuals, residential mortgages to property-holding shell companies, qualifying revolving retail exposures (transactor) or other retail exposures to

individuals and is not in default is not less than 0.05%;

(bb) paragraphs (b) and (ba) do not apply to the portion of a retail exposure of the institution that is covered by a recognized guarantee issued by a sovereign;".

(4) Section 177(1)—

Repeal paragraph (d).

(5) Section 177(1)(e)(i)—

Repeal

"and".

(6) Section 177(1)(e)(ii)—

Repeal

", subject to section 14, covers a period of not less than 5 years."

Substitute

"covers a period of not less than 5 years; and".

(7) After section 177(1)(e)(ii)—

Add

"(iii) which includes a representative mix of good and bad years of the economic cycle relevant for the institution's retail exposures.".

(8) Section 177—

Repeal subsections (4) and (5).

177. Section 178 amended (loss given default)

(1) After section 178(1)(c)—

Add

"(ca) subject to paragraph (d), the estimate of the LGD of a retail exposure that falls within the IRB subclass of qualifying revolving retail exposures (transactor) or qualifying revolving retail exposures (revolver) is not less than 50%;

(cb) subject to paragraph (d), the estimate of the LGD of a retail exposure that—

(i) is unsecured or secured by a collateral that is not a recognized collateral; and

(ii) falls within the IRB subclass of small business retail exposures or other retail exposures to individuals,

is not less than 30%;

(cc) subject to paragraph (d), the estimate of the LGD of a retail exposure that—

(i) is a fully secured exposure secured by a recognized collateral of the types of—

(A) financial receivables; or

(B) commercial real estate or residential real estate; and

(ii) falls within the IRB subclass of small business retail exposures or other retail exposures to individuals,

is not less than 10%;

(cd) subject to paragraph (d), the estimate of the LGD of a retail exposure that—

(i) is a fully secured exposure secured by a recognized collateral of the type of physical collateral (other than commercial real estate and residential real estate); and

(ii) falls within the IRB subclass of small business retail exposures or other retail exposures to individuals,

is not less than 15%;

(ce) subject to paragraph (d), the estimate of the LGD of a retail exposure that—

(i) is a partially secured exposure or is secured by more than one recognized collateral; and

(ii) falls within the IRB subclass of small business retail exposures or other retail exposures to individuals,

is not less than the effective LGD floor calculated by the use of Formula 19A, with the value of 25% in that formula being replaced by a value of 30%;".

(2) Section 178(1)—

Repeal paragraph (d)

Substitute

"(d) paragraphs (c), (ca), (cb), (cc), (cd) and (ce) do not apply to the portion of a retail exposure of the institution that is covered by a recognized guarantee issued by a sovereign;".

(3) Section 178(1)(g)(ii)—

Repeal

", subject to section 14,".

178. Section 179 amended (exposure at default—on-balance sheet exposures)

(1) Section 179, after "Section 164(1)"—

Add

", (4B) and (4C)".

(2) Section 179—

Repeal

"corporate, sovereign and bank"

Substitute

"corporate and sovereign".

179. Section 180 amended (exposure at default—off-balance sheet exposures other than default risk exposures)

(1) Section 180—

Repeal subsection (1)

Substitute

"(1) Section 164(2), (3), (3A), (4)(a), (b), (c), (ca), (d) and (e), (4A), (4B) and (4C), with all necessary modifications, applies to an authorized institution that uses the retail IRB approach in respect of the estimation by the institution of the EAD of each pool of its off-balance sheet retail exposures as it applies to the institution's estimation of the EAD of its off-balance sheet corporate and sovereign exposures.".

(2) Section 180—

Repeal subsection (2).

(3) Section 180(3)(b)(ii)—

Repeal

", subject to section 14,".

180. Part 6, Division 7 substituted

Part 6—

Repeal Division 7

Substitute

"Division 7—Specific Requirements for CIS Exposures Constituting Deductible Holdings

183. CIS exposure constituting deductible holding

(1) This section applies in relation to an authorized institution's CIS exposure to a Level 1 CIS, or any part of the exposure, that constitutes a deductible holding if the deductible holding is not deducted from the institution's capital base under Division 4 of Part 3.

(2) The authorized institution must calculate the risk-weighted amount of the deductible holding—

(a) if the deductible holding is a significant LAC investment in a CET1 capital instrument issued by a financial sector entity—by multiplying that portion of the EAD of the deductible holding that is not subject to deduction from the institution's CET1 capital under section 43(1)(p) by a risk-weight of 250%; or

(b) if the deductible holding is an insignificant LAC investment, or a holding of non-capital LAC liabilities that falls within section 48A, that is not subject to deduction from the institution's capital base—

(i) if the deductible holding is an equity exposure—by determining the risk-weighted amount in accordance with section 65G(1)(a) or (b); or

(ii) in any other case—by regarding that portion of the EAD of the deductible

holding as if it were directly held by the institution and multiplying the corresponding risk-weight determined in accordance with this Part.

(3) To avoid doubt, this section also applies to cases where a CIS exposure to a Level 1 CIS, or any part of the exposure, constitutes a deductible holding because regulatory deductible items are held by—

(a) a Level 2 CIS to which the Level 1 CIS has a CIS exposure; or

(b) a Level n+1 CIS (where n is an integer equal to or greater than 2) to which the Level 1 CIS has an indirect CIS exposure.

(4) In this section—

indirect CIS exposure (間接CIS風險承擔) means an indirect CIS exposure within the meaning of section 226ZH;

Level 1 CIS (1級CIS) means a Level 1 CIS within the meaning of section 226ZH;

Level 2 CIS (2級CIS) means a Level 2 CIS within the meaning of section 226ZH;

Level n+1 CIS (n+1級CIS) means a Level n+1 CIS within the meaning of section 226ZH.".

181. Section 195 amended (cash items)

(1) Before section 195(2)—

Add

"(1A) Unless otherwise stated in Part 6A, cash items falling within paragraphs (g), (h), (i) and (j) of the definition of ***cash items*** in section 139(1) do not apply to repo-style transactions.".

(2) Section 195(2)—

Repeal

", unless the context otherwise requires".

182. Section 196 amended (other items)

Section 196(4)—

Repeal

", unless the context otherwise requires".

183. Section 200 amended (requirements for authorized institution using top-down approach to estimate probability of default, etc. of purchased receivables for default risk or dilution risk)

Section 200—

Repeal paragraph (d)

Substitute

"(d) in the case of default risk, have in place policies, systems and procedures to ensure compliance with paragraphs CRE36.115 to CRE36.121 in Chapter CRE36 of the consolidated Basel Framework launched by the Basel Committee as amended or supplemented from time to time.".

184. Section 202 amended (securities financing transactions)

(1) Section 202(1), (2) and (3)—

Repeal

"section 75"

Substitute

"section 68C".

(2) Section 202(4)—

Repeal

"section 75"

Substitute

"section 68C".

(3) Section 202(4)(b), after "exposures;"—

Add

"or".

(4) Section 202(4)—

Repeal paragraph (c).

(5) Section 202—

Repeal subsection (5)

Substitute

"(5) To avoid doubt, if a specified SFT (as defined by section 68C(5)) is booked in an authorized institution's trading book, an exposure of the institution to the asset underlying the specified SFT is an exposure subject to the requirements of Part 8 instead of this Part.".

185. Section 202C added

Part 6, Division 9, after section 202B—

Add

"**202C. Capital instruments issued by, and non-capital LAC liabilities of, financial sector entities**

(1) If an authorized institution has an insignificant LAC investment that is a direct holding, indirect holding or synthetic holding of a capital instrument issued by, or a non-capital LAC liability of, a financial

sector entity that does not fall within section 54A, the institution must determine the risk-weight of any amount of the insignificant LAC investment that is not deducted from the institution's capital base under sections 43(1)(o), 47(1)(c) and 48(1)(c) in accordance with this Part.

(2) If an authorized institution has a significant LAC investment that is a direct holding, indirect holding or synthetic holding of a capital instrument issued by, or a non-capital LAC liability of, a financial sector entity that does not fall within section 54A, the institution must determine the risk-weight of any amount of the significant LAC investment that is not deducted from the institution's capital base under sections 43(1)(p), 47(1)(d) and 48(1)(d) in accordance with this Part.

(3) If an authorized institution has holdings of non-capital LAC liabilities that fall within section 48A and do not fall within section 54A, the institution must determine the risk-weight of any amount of the holdings that is not deducted from the institution's capital base in accordance with this Part.".

186. Section 204 amended (recognized collateral)

Section 204(1)(b)—

Repeal

"corporate, sovereign or bank"

Substitute

"corporate or sovereign".

187. Section 205 amended (recognized financial receivables)

Section 205(1)(a)—

Repeal

"countries"

Substitute

"jurisdictions".

188. Section 206 amended (recognized commercial real estate and recognized residential real estate)

Section 206(e)—

Repeal

"countries"

Substitute

"jurisdictions".

189. Section 207 amended (other recognized IRB collateral)

(1) After section 207(a)—

Add

"(ab) the institution reassesses the condition referred to in paragraph (a) periodically and when there is information indicating material changes in the market;".

(2) After section 207(b)—

Add

"(ba) the institution demonstrates that the amount it receives when the collateral is realized does not deviate significantly from the market price;".

(3) Section 207(e)—

Repeal

"countries"

Substitute

"jurisdictions".

(4) Section 207(i)—

Repeal

"detailed specifications of the manner and frequency of revaluation of the collateral"

Substitute

"the right to examine and revalue the collateral whenever the institution considers necessary".

190. Section 209 amended (recognized netting)

(1) Section 209(3)—

Repeal

"repo-style transactions"

Substitute

"SFTs".

(2) Section 209(3)(a)—

Repeal

"or 17, as the case requires".

(3) Section 209(3)(b)—

Repeal

"corporate, sovereign or bank"

Substitute

"corporate or sovereign".

(4) Section 209(3)(b)(i)—

Repeal

"17,".

191. Section 210 amended (recognized guarantees and recognized credit derivative contracts)

(1) Section 210(1) and (2)(a)—

Repeal

", 218".

(2) Section 210(2)(b)—

Repeal

"subject to section 214(2),".

192. Section 211 amended (recognized guarantees and recognized credit derivative contracts under substitution framework for corporate, sovereign and bank exposures under foundation IRB approach and for equity exposures under PD/LGD approach)

(1) Section 211, heading—

Repeal

"**and for equity exposures under PD/LGD approach**".

(2) Section 211(1)(a)—

Repeal

"approach; and"

Substitute

"approach.".

(3) Section 211(1)—

Repeal paragraph (b).

(4) Section 211—

Repeal subsection (2)

Substitute

"(2) For the purposes of subsection (1), the references in sections 98(a) and 99(1)(b) to section 99A are taken to be references to subsections (3), (4) and (5).

(3) An entity that provides credit protection to an exposure is an eligible credit protection provider if both of the conditions set out in subsection (4) are met.

(4) The conditions are—

(a) the entity is—

(i) a sovereign;

(ii) a public sector entity;

(iii) a multilateral development bank;

(iv) an unspecified multilateral body;

(v) a bank;

(vi) a qualifying CCP;

(vii) a prudentially regulated financial institution;

(viii) an entity not listed in subparagraphs (i) to (vii) that has an ECAI issuer rating; or

(ix) a corporate to which an authorized institution has an exposure that is assessed under the institution's rating system and assigned to an obligor grade with an estimate of PD; and

(b) the attributed risk-weight of the entity is lower than the risk-weight that would be allocated to the exposure in respect of which the credit protection is provided.

(5) In this section—

prudentially regulated financial institution (受審慎監管的金融機構) has the meaning given by section 99A(3).".

193. Section 212 amended (recognized guarantees and recognized credit derivative contracts under substitution framework for corporate, sovereign and bank exposures under advanced IRB approach and for retail exposures under retail IRB approach)

(1) Section 212, heading—

Repeal

"**corporate, sovereign and bank**"

Substitute

"**corporate and sovereign**".

(2) Section 212—

Renumber the section as section 212(1).

(3) Section 212(1)(a)—

Repeal

"corporate, sovereign or bank"

Substitute

"corporate or sovereign".

(4) Section 212(1)(c)—

Repeal

"country"

Substitute

"jurisdiction".

(5) After section 212(1)(c)—

Add

"(ca) the guarantee or credit derivative contract is unconditional, and there is no clause in the contract outside the direct control of the institution that prevents the credit protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment due;

(cb) the credit derivative contract under which the protection buyer obtains credit protection for a basket of exposures is a first-to-default credit derivative contract;".

(6) Section 212(1)—

Repeal paragraph (e)

Substitute

"(e) the criteria used by the institution in recognizing a credit derivative contract under the substitution framework require that the specified obligation under the credit derivative contract on which the credit protection of that contract is based cannot be different from the underlying exposure unless the conditions specified in section 99(1)(o) are satisfied.".

(7) After section 212(1)—

Add

"(2) A guarantee or credit derivative contract that only covers the remaining loss after an authorized institution has first pursued the obligor for payment and has completed the workout process may constitute a recognized guarantee or a recognized

credit derivative contract, as the case may be, under the substitution framework if the conditions set out in subsection (1)(c), (ca), (cb), (d) and (e), as the case requires, are met.".

194. Section 213 substituted

Section 213—

Repeal the section

Substitute

"**213. Recognized internal risk transfer to trading book**

(1) Subject to subsection (3), an internal risk transfer used by an authorized institution to transfer the credit risk of one or more credit exposures (***protected credit exposure***) booked in the institution's banking book to its trading book may be recognized for the purpose of calculating the risk-weighted amount of the protected credit exposure under this Part if there is an external hedge that meets all the conditions set out in subsection (2)(a) or (b).

(2) The conditions are—

(a) the external hedge in respect of the protected credit exposure—

(i) is in the form of a credit derivative contract entered into by the institution with a third party and booked in the institution's trading book;

(ii) exactly matches the internal risk transfer; and

(iii) meets the requirements set out in section 99(1)(a), (b), (c), (l), (m), (n), (o), (p), (q) and (r); or

(b) all of the following apply—

(i) the external hedge in respect of the protected credit exposure is made up of multiple credit derivative contracts entered into by the institution with one or more third parties (***aggregate external hedge***) and booked in the institution's trading book;

(ii) each of those credit derivative contracts meets the requirements set out in section 99(1)(a), (b), (c), (l), (m), (n), (o), (p), (q) and (r);

(iii) the aggregate external hedge exactly matches the internal risk transfer;

(iv) the internal risk transfer exactly matches the aggregate external hedge.

(3) For the purposes of subsection (1), if the external hedge meets the conditions specified in subsection (2)(a) or (b) except that the credit events specified in the external hedge do not include the credit event described in section 99(1)(l)(iii)—

(a) in cases where the amount of the internal risk transfer is more than the amount of the protected credit exposure—the amount of the internal risk transfer that may be recognized for the purpose of calculating the risk-weighted amount of the protected credit exposure must not be more than 60% of the amount of the protected credit exposure; or

(b) in cases where the amount of the internal risk transfer is equal to or less than the amount of the protected credit exposure—only up to 60% of the amount of the internal risk transfer may be recognized for the purpose of calculating the risk-weighted amount of the protected credit exposure.

(4) In this section—

internal risk transfer (內部風險轉移) has the meaning given by section 99B(4).".

195. Section 214 amended (capital treatment of recognized guarantees and recognized credit derivative contracts)

(1) Section 214(1), after "contract"—

Add

"(other than an internal risk transfer recognized under section 213)".

(2) Section 214(1), after "exposure"—

Add

"(***protected exposure***)".

(3) Section 214—

Repeal subsection (2)

Substitute

"(2) Subject to section 219, an authorized institution that takes into account the credit risk mitigating effect of an internal risk transfer recognized under section 213—

(a) is not required to calculate a risk-weighted amount under this Part for the covered portion of the protected exposure if capital charges are

held by the institution for the trading book leg of the internal risk transfer and the corresponding external hedge in accordance with the requirements of Part 8; and

(b) if there is any uncovered portion, must calculate the risk-weighted amount of the unprotected amount of the protected exposure in the same manner as for any other direct exposure to the obligor.".

(4) Section 214—

Repeal subsection (3).

196. Section 215 amended (provisions supplementary to section 214(1)—substitution framework (general))

Section 215—

Repeal

"bank, retail or equity"

Substitute

"bank or retail".

197. Section 216 amended (provisions supplementary to section 214(1)—substitution framework for corporate, sovereign and bank exposures under foundation IRB approach and for equity exposures under PD/LGD approach)

(1) Section 216, heading—

Repeal

"**and for equity exposures under PD/LGD approach**".

(2) Section 216—

Repeal subsection (1)

Substitute

"(1) In relation to a corporate, sovereign or bank exposure for which an authorized institution uses the foundation IRB approach (***underlying exposure***), the institution must take into account the credit risk mitigating effect of a recognized guarantee or recognized credit derivative contract in respect of the underlying exposure in accordance with subsections (2), (3), (3AA), (3A), (3B), (4), (5), (6) and (7).".

(3) Section 216(2)—

Repeal paragraph (a)

Substitute

"(a) if the covered portion and uncovered portion of the underlying exposure are of equal seniority in terms of ranking for payment to the institution—

(i) in the case where the institution uses the IRB approach to calculate its credit risk for exposures to the guarantor or counterparty, as the case may be—the covered portion of the underlying exposure receives the treatment set out in subsections (3), (3A) and (3B) and the uncovered portion of the underlying exposure receives the treatment set out in subsection (4); or

(ii) in the case where the institution uses the STC approach to calculate its credit risk for exposures to the guarantor or counterparty, as the case may be—the covered portion of the underlying exposure receives the treatment set out in subsections (3AA), (3A) and (3B) and the uncovered portion of the underlying exposure receives the treatment set out in subsection (4);".

(4) Section 216(3)(a)—

Repeal

"subject to paragraph (b),".

(5) Section 216(3)—

Repeal paragraph (b).

(6) After section 216(3)—

Add

"(3AA) Subject to subsection (3B), an authorized institution may allocate to the covered portion of an underlying exposure a relevant risk-weight attributable to that portion of the underlying exposure under Part 4, if the guarantee or contract falls within section 98 or 99, as the case requires.".

(7) Section 216—

Repeal subsection (3A)

Substitute

"(3A) If the covered portion of an authorized institution's underlying exposure is a covered portion because of a recognized guarantee (***original guarantee***) and is the subject of a counter-guarantee given by a sovereign, the institution may, in respect of the covered portion, treat the counter-guarantee as if it were the original guarantee if—

(a) the counter-guarantee covers all credit risk elements of the underlying exposure to the extent that it relates to the covered portion;

(b) the counter-guarantee is given in such terms that it can be called if—

(i) for any reason the obligor in respect of the underlying exposure to which the original guarantee relates fails to make payments due in respect of the underlying exposure; and

(ii) the original guarantee could be called;

(c) the counter-guarantee meets all of the requirements for guarantees set out in section 98 (except that the counter-guarantee need not meet the requirements set out in section 98(b) and (c)); and

(d) the institution reasonably considers, and demonstrates to the satisfaction of the Monetary Authority, that—

(i) the cover of the counter-guarantee is adequate and effective; and

(ii) there is no evidence to suggest that the coverage of the counter-guarantee is less effective than that of a direct and explicit guarantee by the sovereign that gives the counter-guarantee.".

(8) Section 216(3B), before "exposure" (wherever appearing)—

Add

"underlying".

(9) Section 216(3B)(a)(iii)—

Repeal

"institution;"

Substitute

"institution; or".

(10) Section 216(3B)—

Repeal paragraph (b)

Substitute

"(b) a risk-weight of 4% if—

(i) the institution is a direct client of a clearing member of the qualifying CCP and all of the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)) are met; or

(ii) the institution is an indirect client within a multi-level client structure associated with the qualifying CCP and all of the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)), with all necessary modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the institution within the multi-level client structure, and the institution.".

(11) Section 216(3B)—

Repeal paragraph (c).

(12) Section 216(3B), Chinese text—

Repeal

"該承擔"

Substitute

"該相關風險承擔".

(13) Section 216—

Repeal subsection (4)

Substitute

"(4) In the case of an uncovered portion of an underlying exposure, an authorized institution must allocate a risk-weight calculated in the same manner as for any other direct exposure to the obligor in respect of the underlying exposure.".

(14) Section 216(5)—

Repeal

"value of the credit protection, with all necessary modifications, in accordance with section 100"

Substitute

"amount of the covered portion, with all necessary modifications, in accordance with section 100(4)".

(15) Section 216—

Repeal subsection (7)

Substitute

"(7) If the credit protection for an authorized institution's underlying exposure consists of a recognized credit derivative contract that provides that, on the happening of a credit event, the protection seller is not obliged to make a payment in respect of any loss or absorb any loss if the loss is below a specified amount (***materiality threshold***), the institution must, in calculating its capital adequacy ratio, allocate a risk-weight of 1 250% to the portion of the underlying exposure that is below the materiality threshold.".

198. Section 217 amended (provisions supplementary to section 214(1)—substitution framework for corporate, sovereign and bank exposures under advanced IRB approach and for retail exposures under retail IRB approach)

(1) Section 217, heading—

Repeal

"**corporate, sovereign and bank**"

Substitute

"**corporate and sovereign**".

(2) Section 217—

Repeal subsection (1)

Substitute

"(1) Subject to subsections (1A), (1B), (2) and (5), in relation to—

(a) a corporate or sovereign exposure for which an authorized institution uses the advanced IRB approach; or

(b) a retail exposure for which an authorized institution uses the retail IRB approach,

(***underlying exposure***), the institution must take into account the credit risk mitigating effect of a recognized guarantee or recognized credit derivative contract in respect of the underlying exposure by adjusting the institution's estimate of the PD or LGD of the underlying exposure.

(1A) If—

(a) a recognized guarantee is provided to an authorized institution or a recognized credit derivative contract is entered into by the institution; and

(b) the institution uses the foundation IRB approach or STC approach to calculate its credit risk for exposures to the guarantor or counterparty, as the case may be,

the institution must divide the EAD of an underlying exposure into the portion covered by the recognized guarantee or recognized credit derivative contract (***covered portion***) and the portion not covered by the recognized guarantee or recognized credit derivative contract (***uncovered portion***) in accordance with subsection (1B).

(1B) The institution must divide the EAD of an underlying exposure into a covered portion and an uncovered portion under subsection (1A) so that—

(a) in the case where the institution uses the foundation IRB approach to calculate its credit risk for exposures to the guarantor or counterparty, as the case may be—the covered portion of the underlying exposure receives the treatment set out in subsections (3A), (4) and (5) and the uncovered portion of the underlying exposure receives the treatment set out in subsection (6); and

(b) in the case where the institution uses the STC approach to calculate its credit risk for exposures to the guarantor or counterparty, as the case may be—the covered portion of the underlying exposure receives the treatment set out in subsections (3B), (4) and (5) and the uncovered portion of the underlying exposure receives the treatment set out in subsection (6).".

(3) After section 217(3)—

Add

"(3A) Subject to subsection (5), an authorized institution may allocate to the covered portion of an underlying exposure a relevant risk-weight attributable to that portion of the underlying exposure determined using the foundation IRB approach.

(3B) Subject to subsection (5), an authorized institution may allocate to the covered portion of an underlying exposure a relevant risk-weight attributable to that portion of the underlying exposure determined under Part 4, if the guarantee or contract falls within section 98 or 99, as the case requires.".

(4) Section 217—

Repeal subsection (4)

Substitute

"(4) If the covered portion of an authorized institution's underlying exposure is a covered portion because of a recognized guarantee (***original guarantee***) and is the subject of a counter-guarantee given by a sovereign, the institution may, in respect of the covered portion, treat the counter-guarantee as if it were the original guarantee if—

(a) the counter-guarantee covers all credit risk elements of the underlying exposure to the extent that it relates to the covered portion;

(b) the counter-guarantee is given in such terms that it can be called if—

(i) for any reason the obligor in respect of the underlying exposure to which the original guarantee relates fails to make payments due in respect of the underlying exposure; and

(ii) the original guarantee could be called;

(c) the counter-guarantee meets all of the requirements for guarantees set out in section 98 (except that the counter-guarantee need not meet the requirements set out in section 98(b) and (c)); and

(d) the institution reasonably considers, and demonstrates to the satisfaction of the Monetary Authority, that—

(i) the cover of the counter-guarantee is adequate and effective; and

(ii) there is no evidence to suggest that the coverage of the counter-guarantee is less effective than that of a direct and explicit guarantee by the sovereign that gives the counter-guarantee.".

(5) Section 217(5), before "exposure" (wherever appearing)—

Add

"underlying".

(6) Section 217(5)(a)(iii)—

Repeal

"institution;"

Substitute

"institution; or".

(7) Section 217(5)—

Repeal paragraph (b)

Substitute

"(b) a risk-weight of 4% if—

(i) the institution is a direct client of a clearing member of the qualifying CCP and all of the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)) are met; or

(ii) the institution is an indirect client within a multi-level client structure associated with the qualifying CCP and all of the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)), with all necessary modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the institution within the multi-level client structure, and the institution.".

(8) Section 217(5)—

Repeal paragraph (c).

(9) After section 217(5)—

Add

"(6) In the case of an uncovered portion of an underlying exposure, an authorized institution must allocate a risk-weight calculated in the same manner as for any other direct exposure to the obligor in respect of the underlying exposure.".

199. Section 218 repealed (provisions supplementary to section 214(2)—double default framework)

Section 218—

Repeal the section.

200. Section 219 amended (capital treatment of recognized guarantees and recognized credit derivative contracts in respect of purchased receivables)

(1) Section 219(1)—

Repeal

", (4), (5) and (6)"

Substitute

"and (4)".

(2) Section 219(1)(a)—

Repeal

", 217 and 218"

Substitute

"and 217".

(3) Section 219(3)—

Repeal

"Subject to subsection (6), where"

Substitute

"Where".

(4) Section 219—

Repeal subsections (5) and (6).

201. Section 220 amended (calculation of expected losses and eligible provisions for corporate, sovereign, bank and retail exposures)

(1) Section 220(5)—

Repeal

"assigns"

Substitute

"allocates".

(2) Section 220(5)—

Repeal

"assign"

Substitute

"allocate".

202. Section 222 amended (EL amount—equity exposures subject to market-based approach and CIS exposures)

(1) Section 222, heading—

Repeal

"**equity exposures subject to market-based approach and**".

(2) Section 222—

Repeal subsection (1).

203. Section 223 repealed (EL amount—equity exposures subject to PD/LGD approach)

Section 223—

Repeal the section.

204. Part 6, Divisions 12 and 13 repealed

Part 6—

Repeal Divisions 12 and 13.

205. Section 226BJ amended (calculation of haircut value of net collateral held)

(1) Section 226BJ(5)(a)(i)—

Repeal

"80(1)(a), (b) or (c)"

Substitute

"79(1) (excluding section 79(1)(o)) or 80(1)(b) or (c)".

(2) Section 226BJ(5)(a)(ii)—

Repeal

"satisfies the requirements under section 77(a), (b), (c), (d), (e), (ea) and (f)"

Substitute

"meets the criteria specified in section 77(2)".

206. Section 226BW amended (calculation of add-on for subsets in asset class of credit-related derivative contracts)

(1) Section 226BW(2)(a)(i)—

Repeal

"scale of credit quality grades in accordance with Table A in Schedule 6 (regardless of whether entity k is a sovereign or not)"

Substitute

"credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs".

(2) Section 226BW(2)(a)—

Repeal Table 23AB

Substitute

"**Table 23AB**

Column 1	Column 2	Column 3
Item	Credit quality grade	Supervisory factor (%)
1.	1, 2	0.38
2.	3	0.42
3.	4	0.54
4.	5	1.06
5.	6	1.6
6.	7	6.0".

(3) Section 226BW(2)(b)—

Repeal

"India"

Substitute

"the home jurisdiction of a Type B ECAI".

(4) Section 226BW(2)(b)(i)—

Repeal

"to a scale of credit quality grades in accordance with Part 2 of Table C in Schedule 6"

Substitute

"assigned by that Type B ECAI to a credit quality grade in accordance with the LT ECAI rating mapping table for Type B ECAIs".

(5) Section 226BW(2)(b)—

Repeal Table 23AC

Substitute

"**Table 23AC**

Column 1	Column 2	Column 3
Item	Credit quality grade	Supervisory factor (%)
1.	1	0.38
2.	2	0.42
3.	3	0.54
4.	4	1.06
5.	5	1.6
6.	6, 7	6.0".

(6) Section 226BW(4)—

Repeal paragraph (a)

Substitute

"(a) an index is an investment grade index where the minimum credit rating specified by the index service provider concerned for the purpose of determining whether an entity is eligible for being included in the index—

(i) if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs—would be mapped to a credit quality grade of 1, 2, 3 or 4; or

(ii) if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type B ECAIs—would be mapped to a credit quality grade of 1, 2 or 3; and".

(7) Section 226BW—

Repeal subsection (5)

Substitute

"(5) In complying with subsection (2)(a) or (b) in relation to entity k, an authorized institution must, if there is more than one ECAI issuer rating or more than one long-term ECAI issue specific rating the use of which would result in the allocation by the institution of different supervisory factors to entity k, determine the ECAI rating to be used in the same way as that set out in section 54E(2).".

207. Section 226BZC amended (calculation of adjusted notional of derivative contracts)

(1) Section 226BZC(1)(c)(i), before "if the"—

Add

"subject to subparagraph (iv),".

(2) Section 226BZC(1)(c)(ii), before "if the"—

Add

"subject to subparagraph (iv),".

(3) Section 226BZC(1)(c)(ii)—

Repeal

"or".

(4) Section 226BZC(1)(c)(iii)—

Repeal

"of the contract."

Substitute

"of the contract; or".

(5) After section 226BZC(1)(c)(iii)—

Add

"(iv) if the notional amount of the contract is a fixed amount that is expressly stated in the contract—that stated notional amount.".

208. Section 226H amended (calculation of EE)

(1) Section 226H(3)(a)—

Repeal

", (c) or (d)"

Substitute

"or (c)".

(2) Section 226H(3)(b)—

Repeal

"satisfies the requirements under section 77(a), (b), (c), (d), (e), (ea) and (f)"

Substitute

"meets the criteria specified in section 77(2)".

(3) Section 226H(3)—

Repeal

", if treated as an on-balance sheet exposure of the institution, would fall within the definition of ***re-securitization exposure*** in section 2(1)"

Substitute

"are re-securitization exposures".

209. Section 226MD amended (calculation of potential future exposure of derivative contract)

(1) Section 226MD(3)—

Repeal paragraph (a)

Substitute

"(a) an index is an investment grade index where the minimum credit rating specified by the index service provider concerned for the purpose of determining whether an entity is eligible for being included in the index—

(i) if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs—would be mapped to a credit quality grade of 1, 2, 3 or 4; or

(ii) if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type B ECAIs—would be mapped to a credit quality grade of 1, 2 or 3; and".

(2) Section 226MD(4)—

Repeal

"scale of credit quality grades"

Substitute

"credit quality grade".

(3) Section 226MD(4)(a)—

Repeal

"Table A in Schedule 6 (regardless of whether the entity or issuer of the credit instrument is a sovereign or not)"

Substitute

"the LT ECAI rating mapping table for Type A ECAIs".

(4) Section 226MD(4)—

Repeal paragraph (b)

Substitute

"(b) if the entity is a corporate incorporated in the home jurisdiction of a Type B ECAI (***relevant Type B ECAI***) or the credit instrument is issued by such a corporate—

(i) the LT ECAI rating mapping table for Type A ECAIs in cases where the rating is issued by a Type A ECAI; or

(ii) the LT ECAI rating mapping table for Type B ECAIs in cases where the rating is issued by the relevant Type B ECAI.".

(5) Section 226MD(5)—

Repeal paragraphs (a), (b) and (c)

Substitute

"(a) a single entity, or a single-name credit instrument, has a category 1 credit quality grade if the ECAI rating concerned is mapped to—

(i) a credit quality grade of 1, 2, 3 or 4 under subsection (4)(a) or (b)(i); or

(ii) a credit quality grade of 1, 2 or 3 under subsection (4)(b)(ii);

(b) a single entity, or a single-name credit instrument, has a category 2 credit quality grade if the ECAI rating concerned is mapped to—

(i) a credit quality grade of 5 or 6 under subsection (4)(a) or (b)(i); or

(ii) a credit quality grade of 4 or 5 under subsection (4)(b)(ii); or

(c) a single entity, or a single-name credit instrument, has a category 3 credit quality grade if the ECAI rating concerned is mapped to—

(i) a credit quality grade of 7 under subsection (4)(a) or (b)(i); or

(ii) a credit quality grade of 6 or 7 under subsection (4)(b)(ii).".

210. Section 226MI substituted

Section 226MI—

Repeal the section

Substitute

"**226MI. Calculation of default risk exposures in respect of SFTs: general**

(1) An authorized institution that uses the IRB approach to calculate its credit risk for non-securitization exposures to counterparties in respect of its SFTs must, for any of those SFTs (whether booked in its banking book or trading book) that are not subject to the IMM(CCR) approach, calculate the amount of the default risk exposure in respect of the SFTs in accordance with sections 226MJ, 226MK and 226ML.

(2) An authorized institution that uses the STC approach to calculate its credit risk for non-securitization exposures to counterparties in respect of its SFTs must, for any of those SFTs (whether booked in its banking book or trading book) that are not subject to the IMM(CCR) approach—

(a) calculate the amount of the default risk exposure in respect of the SFTs in accordance with sections 226MJ and 226MK if the institution uses the comprehensive approach in

its treatment of recognized collateral for any exposures that are not defaulted exposures; or

(b) calculate the amount of the default risk exposure in respect of the SFTs in accordance with section 226MJ if the institution uses the simple approach in its treatment of recognized collateral for any exposures that are not defaulted exposures.

(3) An authorized institution that uses the BSC approach to calculate its credit risk for non-securitization exposures—

(a) must, for its SFTs (whether booked in its banking book or trading book) that are not subject to the IMM(CCR) approach, calculate the amount of the default risk exposure in respect of the SFTs in accordance with section 226MJ; and

(b) must not take into account the effect of any recognized netting in such calculation.

(4) If, immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023, an authorized institution that uses the STC approach or BSC approach to calculate its credit risk for non-securitization exposures had an approval granted under section 226ML(3) as in force immediately before that date to use a VaR model as an alternative to the use of Formula 23EB as in force immediately before that date for the purpose of calculating the amount of the default risk exposure in respect of nettable repo-style transactions, the approval is revoked on that date.

(5) In this section—

defaulted exposure (違責風險承擔) has the meaning given by section 51(1).".

211. Section 226MJ amended (calculation of default risk exposure in respect of repo-style transactions that are not nettable and margin lending transactions)

(1) Section 226MJ, heading—

Repeal

"**repo-style transactions that are not nettable and margin lending transactions**"

Substitute

"**SFTs that are not nettable**".

(2) Section 226MJ—

Repeal subsection (1)

Substitute

"(1) An authorized institution must calculate the amount of the default risk exposure in respect of each of the following SFTs in accordance with this section—

(a) an SFT that is not nettable;

(b) a nettable SFT for which—

(i) the institution is not permitted to use the comprehensive approach to take into account the effect of recognized netting because the institution falls within section 226MI(2)(b) or (3); or

(ii) the institution has chosen not to take into account the effect of recognized netting in the calculation of the amount of the default risk exposure in respect of the SFT.".

212. Section 226MK amended (calculation of default risk exposure in respect of nettable repo-style transactions)

(1) Section 226MK, heading—

Repeal

"**repo-style transactions**"

Substitute

"**SFTs**".

(2) Section 226MK(1)—

Repeal

"default risk exposure in respect of its nettable repo-style transactions"

Substitute

"amount of the default risk exposure in respect of its nettable SFTs".

(3) Section 226MK(2)—

Repeal

"repo-style transactions in the calculation of the default risk exposure in respect of the transactions"

Substitute

"SFTs in the calculation of the amount of the default risk exposure in respect of the SFTs".

(4) Section 226MK—

Repeal subsections (3) (including Formula 23EB) and (4)

Substitute

"(3) An authorized institution must calculate the amount of the default risk exposure in respect of nettable SFTs in a netting set entered into by the institution with a counterparty by using Formula 23EB.

Formula 23EB

Calculation of Amount of Default Risk Exposure in respect of Nettable SFTs in Netting Set

$$E^{*} = \max\left\{0;\ \sum_{i} E_i - \sum_{j} C_j + 0.4 \cdot A_{Net} + 0.6 \cdot \frac{A_{Gross}}{\sqrt{N}} + \sum_{fx} (E_{fx} \cdot H_{fx})\right\}$$

$$A_{Net} = \left|\sum_{s} E_s H_s\right|$$

$$A_{Gross} = \sum_{s} E_s |H_s|$$

where—

(a) E^{*} is the amount of the default risk exposure after taking into account recognized netting;

(b) E_i is the current market value of cash i or security i lent or sold to the counterparty under the SFTs or otherwise posted to the counterparty under the valid bilateral netting agreement entered into with the counterparty;

(c) C_j is the current market value of cash j or security j borrowed or purchased from the counterparty under the SFTs or otherwise held by the institution under the valid bilateral netting agreement;

(d) E_s is the absolute value of the net current market value of security s in the netting set;

(e) H_s is the standard supervisory haircut appropriate to E_s (subject to subsection (4) and adjustment set out in section 3 of Schedule 7), which has—

(i) a positive sign if the security is lent, sold or posted by the institution; or

(ii) a negative sign if the security is borrowed, purchased or held by the institution;

(f) N is the number of groups of the same securities contained in the netting set, but those groups whose E_s is less than one-tenth of the largest E_s in the netting set are not counted;

(g) E_{fx} is the absolute value of the net position in each currency fx different from the settlement currency; and

(h) H_{fx} is the standard supervisory haircut applicable in consequence of a mismatch, if any, between currency fx and the settlement currency (subject to subsection (4) and adjustment set out in section 3 of Schedule 7).

(4) For the purposes of subsection (3)—

(a) in determining the values of H_s and H_{fx} in Formula 23EB, the minimum holding period applicable to the SFTs is determined in the same way as that set out in section 91(1), (2) and (3);

(b) if an authorized institution's nettable SFTs in a netting set entered into with a counterparty contain one or more than one repo-style transaction that meets all of the criteria specified in section 82(4) (***qualifying transaction***), the institution may set H_s in Formula 23EB appropriate to E_s at zero, where E_s in such case must be construed as the absolute value of the net current market value of security s underlying the qualifying transaction; and

(c) paragraph (b) does not apply to an authorized institution's nettable SFTs in a netting set if—

(i) the institution uses the IRB approach to calculate the credit risk for its non-securitization exposures to the counterparty concerned; and

(ii) at least one of the nettable SFTs in the netting set is a repo-style transaction that is not a qualifying transaction.".

(5) Section 226MK(5)(a)—

Repeal

"repo-style transactions booked in its banking book separately from netting its nettable repo-style transactions"

Substitute

"SFTs booked in its banking book separately from netting its nettable SFTs".

(6) Section 226MK(5)—

Repeal paragraph (b)

Substitute

"(b) may net SFTs booked in its banking book with SFTs booked in its trading book in respect of the same counterparty if—

(i) all those SFTs are marked-to-market daily; and

(ii) all the securities received by the institution under all those SFTs are recognized collateral (within the meaning of section 51(1)) falling within section 79(1) (excluding section 79(1)(o)) or 80(1)(b) or (c).".

213. Section 226ML amended (use of value-at-risk model instead of Formula 23EB in section 226MK)

Section 226ML—

Repeal subsection (1)

Substitute

"(1) This section applies to an authorized institution that—

(a) uses the IRB approach to calculate the risk-weighted amounts of its nettable repo-style transactions; and

(b) is granted an approval under section 18(2)(a) by the Monetary Authority to use the IMM approach to calculate its market risk.".

214. Section 226MM substituted

Section 226MM—

Repeal the section

Substitute

"**226MM. Supplementary provisions to sections 226MK and 226ML**

For the purposes of sections 226MK and 226ML, securities received by an authorized institution under SFTs may be included in the calculation under either of those sections only if—

(a) for SFTs booked in the institution's banking book—the securities are recognized collateral (within the meaning of section 51(1)) falling within section 79(1) (excluding section 79(1)(o)) or 80(1)(b) or (c); and

(b) for SFTs booked in the institution's trading book—the securities are eligible for being included in the trading book and the securities are provided to the institution under arrangements that meet all the criteria specified in section 77(2) and (4)(b).".

215. Section 226S amended (standardized CVA method)

(1) Section 226S(1), Formula 23J—

Repeal paragraph (b)

Substitute

"(b) w_i is the weight applicable to counterparty "*i*", which is determined by mapping the credit quality grade applicable to the counterparty determined in accordance with subsection (2) to one of the 6 weights in Table 23A or 23B, whichever is applicable;".

(2) Section 226S(1), Formula 23J, paragraph (f)—

Repeal

"7"

Substitute

"6".

(3) Section 226S(1)—

Repeal Tables 23A and 23B

Substitute

"**Table 23A**

Weights for All Counterparties

Column 1	Column 2	Column 3
Item	Credit quality grade in LT ECAI rating mapping table for Type A ECAIs	Weight
1.	1, 2	0.7%
2.	3	0.8%
3.	4	1.0%
4.	5	2.0%
5.	6	3.0%
6.	7	10.0%

Table 23B

Weights for Counterparties that are Corporates Incorporated in Home Jurisdiction of Type B ECAI

Column 1 Item	Column 2 Credit quality grade in LT ECAI rating mapping table for Type B ECAIs	Column 3 Weight
1.	1	0.7%
2.	2, 3	0.8%
3.	4	1.0%
4.	5	2.0%
5.	6	3.0%
6.	7	10.0%".

(4) Section 226S—

Repeal subsection (2)

Substitute

"(2) For the purposes of paragraph (b) in Formula 23J—

(a) an authorized institution must determine the credit quality grade applicable to counterparty "*i*" by mapping the ECAI issuer rating of the counterparty to a credit quality grade in accordance with—

(i) if the rating is issued by a Type A ECAI—the LT ECAI rating mapping table for Type A ECAIs; or

(ii) if counterparty "*i*" is a corporate incorporated in the home jurisdiction of a Type B ECAI and the rating is issued by

that Type B ECAI—the LT ECAI rating mapping table for Type B ECAIs;

(b) if counterparty "*i*" has more than one ECAI issuer rating the use of which would result in the allocation of different weights to the counterparty under either or both of Tables 23A and 23B, an authorized institution must determine the rating to be used in accordance with section 54E(2); and

(c) if counterparty "*i*" does not have an ECAI issuer rating—

(i) subject to subparagraph (iii), an authorized institution that uses the IRB approach to calculate its credit risk for non-securitization exposures to the counterparty must map the internal rating of the counterparty to one of the ECAI issuer ratings in the LT ECAI rating mapping table for Type A ECAIs based on a mapping scheme approved in writing by the Monetary Authority in order to determine the weight applicable to the counterparty;

(ii) an authorized institution that uses the STC approach or BSC approach to calculate its credit risk for non-securitization exposures to the counterparty must allocate a weight of 1% to the counterparty; and

(iii) the Monetary Authority may, by written notice given to an authorized institution that uses the IRB approach to calculate its credit risk for non-securitization exposures to a counterparty but has not obtained the

approval referred to in subparagraph (i), specify a transitional period during which the institution is permitted to apply subparagraph (ii) to the counterparty or is required to allocate a weight specified in the notice to the counterparty.

(2AA) An authorized institution must comply with a notice given to it under subsection (2)(c)(iii).".

(5) Section 226S(2A)—

Repeal

"applying Formula 19 and in accordance with section 160(3), and take the resulting net credit exposure (E*)"

Substitute

"calculating an E_U for each of the SFTs in the way specified in Formula 18 or 19, and take the E_U so calculated".

216. Section 226T amended (eligible CVA hedges)

Section 226T(1)(ba)—

Repeal

"fall within section 99(1)(b)(i), (ii), (iii), (iv), (v) or (vi)"

Substitute

"are eligible credit protection providers described in section 99A".

217. Section 226U amended (application of Division 4)

Section 226U(2)—

Repeal

"Part 4, 5 or 6"

Substitute

"one or more of Parts 4, 5 and 6".

218. Section 226V amended (interpretation of Division 4)

Section 226V(1), definition of ***Basel CCR Rules***—

Repeal

"consolidated Basel Framework published by the Basel Committee in December 2019, as amended or supplemented from time to time"

Substitute

"current Basel Framework".

219. Section 226X amended (exposures of clearing members to qualifying CCPs)

(1) Section 226X—

Repeal subsection (2A)

Substitute

"(2A) For the purposes of subsections (1) and (2), if an authorized institution uses the IRB approach to calculate its credit risk for certain non-securitization exposures, the institution must, in calculating the risk-weighted amounts of its default risk exposures to qualifying CCPs, take into account any credit risk mitigating effect in the calculation in accordance with Part 4.".

(2) Section 226X(4), Formula 23K, paragraph (a)—

Repeal

"assigned"

Substitute

"allocated".

(3) Section 226X(9)—

Repeal

"assign"

Substitute

"allocate".

220. Section 226Z amended (exposures of clearing members to direct clients)

Section 226Z(1)—

Repeal

"Part 4, 5 or 6"

Substitute

"one or more of Parts 4, 5 and 6".

221. Section 226ZD amended (exposures of clearing members to non-qualifying CCPs)

Section 226ZD(5)—

Repeal

"assign"

Substitute

"allocate".

222. Section 226ZG amended (interpretation of Part 6B)

(1) Section 226ZG—

Repeal the definition of *exempted IRB AI*

Substitute

"***exempted IRB AI*** (豁免IRB AI) means an authorized institution that uses the IRB approach to calculate its credit risk for some of its non-securitization exposures but uses the STC approach to calculate the risk-weighted amounts of its CIS exposures;".

(2) Section 226ZG—

Repeal the definition of *simple risk-weight method*.

223. Section 226ZN amended (TPA conditions)

(1) Section 226ZN(1)(d)—

Repeal

"or (3)".

(2) Section 226ZN(2)—

Repeal

"If the institution is an STC AI, a BSC AI, or an exempted IRB AI, the"

Substitute

"The".

(3) Section 226ZN(2)(a)—

Repeal

"66(1)(a) and (2)(b), 68A, 70AAC"

Substitute

"65H, 65I, 70A".

(4) Section 226ZN(2)(b)(ii)—

Repeal

"section 66(1)(a) and (2), in so far as it relates to regulatory deductible items, and sections 68A and 70AAC"

Substitute

"sections 65H, 65I and 70A".

(5) Section 226ZN—

Repeal subsection (3).

224. Section 226ZO amended (look-through approach: calculation of risk-weighted amount of underlying exposures)

(1) Section 226ZO(3)(a)—

Repeal

"68A"

Substitute

"65H".

(2) Section 226ZO(3)(b)—

Repeal

"117A"

Substitute

"115F".

(3) Section 226ZO(3)(c)—

Repeal

"Part 6"

Substitute

"Part 4 or 6, as the case requires,".

(4) Section 226ZO(3)(c)—

Repeal

"183(5) and (6)"

Substitute

"65H".

(5) Section 226ZO(4)(a)(i), before "the default"—

Add

"the amount of".

(6) Section 226ZO(4)(b)(i)(A)—

Repeal

", or sections 88 and 93"

Substitute

"or 86".

(7) Section 226ZO(7), after "requires,"—

Add

"or the IRB AI is not granted an approval to use the IRB approach,".

(8) Section 226ZO(7)—

Repeal paragraph (a).

(9) Section 226ZO(7)(c)—

Repeal

"(a) or".

225. Section 226ZQ amended (mandate-based approach: general requirements)

(1) Section 226ZQ(4)(a)(i), after "STC AI"—

Add

", an IRB AI".

(2) Section 226ZQ(4)(a)(i), after the semicolon—

Add

"or".

(3) Section 226ZQ(4)(a)(ii)—

Repeal

"; or"

Substitute a comma.

(4) Section 226ZQ(4)(a)—

Repeal subparagraph (iii).

226. Section 226ZR amended (mandate-based approach: calculation of risk-weighted amounts of underlying exposures)

(1) Section 226ZR(3)(a), after "STC AI"—

Add

", an IRB AI".

(2) Section 226ZR(3)(a)—

Repeal

"68A did not exist;"

Substitute

"65H did not exist; or".

(3) Section 226ZR(3)(b)—

Repeal

"117A did not exist; or"

Substitute

"115F did not exist.".

(4) Section 226ZR(3)—

Repeal paragraph (c).

(5) Section 226ZR(4)(a)(i), before "the default"—

Add

"the amount of".

(6) Section 226ZR(4)(b)(i)(A), after "STC AI"—

Add

", an IRB AI".

(7) Section 226ZR(4)(b)(i)(A)—

Repeal

", or sections 88 and 93, as the case requires;"

Substitute

"or 86, as the case requires; or".

(8) Section 226ZR(4)(b)(i)(B)—

Repeal

"or"

Substitute

"and".

(9) Section 226ZR(4)(b)(i)—

Repeal sub-subparagraph (C).

(10) Section 226ZR(6)(c)—

Repeal subparagraph (i).

(11) Section 226ZR(6)(c)(iii)—

Repeal

"(i) or".

227. Section 226ZT amended (certain regulatory deductible items held by Level 1 CIS may be excluded from underlying exposures)

Section 226ZT(1)(c)(ii) and (iii)—

Repeal

"70AAC(3), 117AD(3) or 183(1) or (7)"

Substitute

"70A(3), 117F(3) or 183".

228. Section 226ZX amended (calculation of risk-weighted amounts of CIS exposures held by Level 1 CIS onwards: certain regulatory deductible items may be excluded)

Section 226ZX(1)(c)(ii) and (iii)—

Repeal

"70AAC(3), 117AD(3) or 183(1) or (7)"

Substitute

"70A(3), 117F(3) or 183".

229. Section 227 amended (interpretation of Part 7)

(1) Section 227(1)—

Repeal

", unless the context otherwise requires".

(2) Section 227(1), definition of ***rated***, paragraph (a)—

Repeal

"section 267(1)(a)"

Substitute

"this Part in accordance with section 4C".

230. Section 227A amended (meaning of *ECAI issue specific rating*)

(1) Section 227A(1)(a)—

Repeal

"an ECAI (within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of ***external credit assessment institution*** in section 2(1))"

Substitute

"a Type A ECAI".

(2) Section 227A(2)(a)—

Repeal

"by an ECAI"

Substitute

"by a Type A ECAI".

231. Section 230 amended (treatment of underlying exposures of eligible securitization transactions: general)

(1) Section 230(1)—

Repeal

"of its credit exposures under Part 4, 5 or 6 or this Part, as the case requires"

Substitute

"for credit risk".

(2) Section 230(2)(a)—

Repeal

"Part 4, 5 or 6 or"

Substitute

"one or more of Parts 4, 5 and 6 and".

(3) Section 230(2)(b)(ii)(A)—

Repeal

"if the calculation mentioned in paragraph (a)"

Substitute

"for any part of the calculation mentioned in paragraph (a) (which may be the whole calculation) that".

(4) Section 230(2)(b)(ii)(C)—

Repeal

"if the calculation mentioned in paragraph (a)"

Substitute

"for any part of the calculation mentioned in paragraph (a) (which may be the whole calculation) that".

232. Section 233 amended (treatment of underlying exposures of non-eligible securitization transactions)

Section 233(1)(a) and (2)(a)—

Repeal

"Part 4, 5 or 6 or"

Substitute

"one or more of Parts 4, 5 and 6 and".

233. Section 235 amended (determination of exposure amount of securitization exposure)

Section 235(2)(c)(i), after "commitment"—

Add

"(within the meaning of section 2 of Schedule 6)".

234. Section 241 amended (caps on risk-weights for exposures in senior tranches determined by using SEC-IRBA, SEC-ERBA or SEC-SA)

(1) Section 241(2)—

Repeal

"assign"

Substitute

"allocate".

(2) Section 241(3)—

Repeal paragraph (a)

Substitute

"(a) the risk-weights of the underlying exposures in the IRB pool determined under Part 6; and".

235. Section 243 amended (credit risk mitigation recognized for purpose of calculating the risk-weighted amounts of securitization exposures)

(1) Section 243(2)—

Repeal paragraphs (c) and (d)

Substitute

"(c) a guarantee provided by a person (other than an SPE) falling within section 99A(2)(a)(i), (ii), (iii), (iv), (v), (vi) or (vii), or an entity (other than an SPE) specified in subsection (3), that meets the requirements set out in section 98(b), (c), (ca), (d), (e), (f), (g), (h), (i) and (j); and

(d) a credit derivative contract provided by a person (other than an SPE) falling within section 99A(2)(a)(i), (ii), (iii), (iv), (v), (vi) or (vii), or an entity (other than an SPE) specified in subsection (3),

that meets the requirements set out in section 99(1)(a) and (c) to (r) and, if applicable, section 99(2), (3) or (4).".

(2) Section 243—

Repeal subsection (3)

Substitute

"(3) The entity is one that does not fall within any of section 99A(2)(a)(i), (ii), (iii), (iv), (v), (vi) and (vii) and—

(a) if it is not a corporate incorporated in the home jurisdiction of any of the Type B ECAIs—

(i) has an ECAI issuer rating that, if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs, would result in the entity being assigned a credit quality grade of 1, 2, 3 or 4; and

(ii) had an ECAI issuer rating at the time the credit protection was given that, if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs, would result in the entity being assigned a credit quality grade of 1, 2 or 3; or

(b) if it is a corporate incorporated in the home jurisdiction of a Type B ECAI (***relevant Type B ECAI***)—

(i) has an ECAI issuer rating assigned by a Type A ECAI or the relevant Type B ECAI that, if mapped to a credit quality grade in accordance with the LT ECAI

rating mapping table for Type A ECAIs or the LT ECAI rating mapping table for Type B ECAIs, as the case requires, would result in the corporate being assigned a credit quality grade of 1, 2, 3 or 4; and

(ii) had an ECAI issuer rating assigned by a Type A ECAI or the relevant Type B ECAI at the time the credit protection was given that, if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table for Type A ECAIs or the LT ECAI rating mapping table for Type B ECAIs, as the case requires, would result in the corporate being assigned a credit quality grade of 1, 2 or 3.".

236. Section 244 amended (treatment of Part 7 credit risk mitigation—full or proportional credit protection)

(1) Section 244(3)(a) and (4)(a), after "for"—

Add

"all or part of its".

(2) Section 244(5), after "credit risk for"—

Add

"all of its".

(3) Section 244—

Repeal subsection (7)

Substitute

"(7) In applying the treatment under subsection (3) in respect of any recognized collateral, the institution must, instead of taking into account the credit risk mitigating effect of the collateral through the determination of the LGD of the securitization exposure, take into account the effect by applying one of the 2 formulas set out in section 160(3) for calculating the unsecured portion of an exposure (E_U), as applicable, with the following modifications—

(a) the component E of that formula is to be taken to be a reference to the exposure amount of the securitization exposure determined in accordance with section 235 (after the adjustments set out in section 236(3) if applicable); and

(b) the E_U calculated for the securitization exposure under that formula is to be taken as the exposure amount of the securitization exposure for the purposes of section 236(1).".

237. Section 249 amended (supplementary provisions to sections 236 and 245 in relation to tranched credit protection)

Section 249(3)(a)—

Repeal

"assign"

Substitute

"allocate".

238. Section 251 amended (determination of risk-weights of securitization exposures)

Section 251(2)—

Repeal

"assign"

Substitute

"allocate".

239. Section 255 amended (calculation of IRB capital charge for underlying exposures in IRB pool)

Section 255(1)(a)(i)—

Repeal

"(after applying the scaling factor of 1.06)".

240. Section 259 amended (treatment of default risk of underlying exposures in calculation of K_{IRB})

(1) Section 259(3)(b)—

Repeal

"document referred"

Substitute

"paragraphs referred".

(2) Section 259(3)(b)(i)—

Repeal

"the first bullet point of paragraph 496 of the document"

Substitute

"paragraph CRE36.118(1)".

241. Section 265 amended (determination of risk-weights of securitization exposures with long-term ratings)

(1) Section 265(1)(a)—

Repeal

"scale of credit quality grades specified in Table A in Schedule 11"

Substitute

"credit quality grade in accordance with the LT ECAI rating mapping table for securitization exposures".

(2) Section 265(4), Table 25, heading—

Repeal

"**Risk-weights for Long-term Credit Quality Grades**"

Substitute

"**Risk-weights for Credit Quality Grades**".

(3) Section 265(4), Table 25—

Repeal

"Long-term credit quality grade"

Substitute

"Credit quality grade".

242. Section 266 amended (determination of risk-weights of securitization exposures with short-term ratings)

(1) Section 266(a)—

Repeal

"scale of credit quality grades specified in Table B in Schedule 11"

Substitute

"credit quality grade in accordance with the ST ECAI rating mapping table for securitization exposures".

(2) Section 266(b), Table 26, heading—

Repeal

"**Risk-weights for Short-term Credit Quality Grades**"

Substitute

"**Risk-weights for Credit Quality Grades**".

(3) Section 266(b), Table 26—

Repeal

"Short-term credit quality grade"

Substitute

"Credit quality grade".

243. Section 267 amended (use of ECAI issue specific ratings or internal credit ratings for determination of risk-weights)

(1) Section 267(1)—

Repeal paragraph (a)

Substitute

"(a) ensure that it has nominated the ECAI for the purposes of this Part in accordance with section 4C; and".

(2) Section 267(1)(b)—

Repeal

"69(2)(b)"

Substitute

"54E(2)(b) and (c)".

(3) Section 267(2)(a) and (b)—

Repeal

"98(a) or 99(1)(b)"

Substitute

"99A(2)(a)".

244. Section 268 amended (inferred ratings)

Section 268(f)—

Repeal

"section 267(1)(a)"

Substitute

"this Part in accordance with section 4C".

245. Part 7, Division 11 added

Part 7, after Division 10—

Add

"Division 11—Non-performing Loan Securitization Transactions

280B. Interpretation of Division 11

(1) In this Division—

non-performing loan securitization transaction (不履約貸款證券化交易)—

(a) means a traditional securitization transaction where its pool of underlying exposures—

(i) has a delinquency ratio (within the meaning of paragraph (a) of the definition of ***delinquency ratio*** in section 273(3)) equal to or higher than 90%—

(A) at the origination cut-off date; and

(B) at any subsequent date on which assets are added to or removed from the pool due to replenishment, restructuring or any other relevant reason;

(ii) only comprises—

(A) loans;

(B) loan-equivalent financial instruments, such as bonds not listed on a trading venue; or

(C) tradable instruments used for the sole purpose of loan sub-participation in relation to securitization of assets; and

(iii) does not contain any securitization exposures; and

(b) does not include a transaction specified by the Monetary Authority under subsection (2);

NPL securitization exposure (NPL證券化類別風險承擔) means a securitization exposure to an NPL securitization transaction;

NPL securitization transaction (NPL證券化交易) means a non-performing loan securitization transaction.

(2) The Monetary Authority may, by written notice given to a locally incorporated authorized institution, specify that a securitization transaction originated by the institution is not an NPL securitization transaction, if the Monetary Authority is of the opinion that the transaction was executed with the sole or main purpose of regulatory capital arbitrage (within the meaning of section 4).

(3) An authorized institution must comply with a notice given to it under subsection (2).

280C. Capital treatment of NPL securitization exposures

(1) Subject to subsection (2), an authorized institution must—

(a) determine the approach to be used to determine the risk-weight of an NPL securitization exposure in accordance with Division 4 of Part 2; and

(b) calculate the risk-weighted amount of the NPL securitization exposure in accordance with Divisions 1 to 10, subject to the requirements set out in sections 280D and 280E.

(2) If an authorized institution would use the foundation IRB approach to calculate the capital charge of the underlying exposures of the NPL securitization transaction concerned if the underlying exposures were held by the institution directly, the institution must not use the SEC-IRBA to determine the risk-weight of the NPL securitization exposure.

280D. Risk-weights of NPL securitization exposures under SEC-IRBA and SEC-SA

(1) Subject to subsection (2), if according to section 280C an authorized institution must use the SEC-IRBA or the SEC-SA to determine the risk-weight of an NPL securitization exposure, the institution must allocate to the NPL securitization exposure a risk-weight that is the higher of the following—

(a) 100%;

(b) the risk-weight applicable to the NPL securitization exposure determined under the SEC-IRBA, the SEC-SA or section 241, as the case requires.

(2) Where according to section 280C an authorized institution must use the SEC-IRBA or the SEC-SA to determine the risk-weight of an NPL securitization exposure to an NPL securitization transaction, the institution may allocate a risk-weight of 100% to the senior tranche of the transaction if—

(a) the transaction is a traditional securitization transaction; and

(b) the sum of the non-refundable purchase price discounts is equal to or higher than 50% of the outstanding balance of the pool of underlying exposures of the transaction.

(3) For the purposes of subsection (2), non-refundable purchase price discount (***NRPPD***), in relation to an NPL securitization transaction—

(a) subject to paragraph (b), is the amount arrived at by subtracting the amount referred to in subparagraph (ii) from the amount referred to in subparagraph (i)—

(i) the outstanding balance of the underlying exposures of the transaction at the time those exposures were sold by the originator to the SPE in the transaction;

(ii) the price at which those exposures were sold by the originator to the SPE; and

(b) does not include any amount that is refundable to either the originator or the original lender.

(4) If an originator underwrites tranches of an NPL securitization transaction for subsequent sale, the NRPPD may include the differences between—

(a) the nominal amount of the tranches; and

(b) the price at which the tranches are first sold by the originator to unrelated third parties.

(5) To avoid doubt, in the determination of NRPPD, for any given piece of a securitization tranche—

(a) only its initial sale from the originator to investors is taken into account; and

(b) the purchase prices of subsequent resales are not considered.

280E. Caps on capital requirements for NPL securitization exposures

If an authorized institution is the originator of an NPL securitization transaction, the institution may apply the cap specified in section 242 to the aggregated capital requirement for its NPL securitization exposures to the NPL securitization transaction.".

246. Section 281 amended (interpretation of Part 8)

(1) Section 281, definition of ***investment grade***, paragraphs (a) and (b), after "Schedule 6"—

Add

"(as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023)".

(2) Section 281, definition of ***investment grade***, paragraph (c), after "139(1)"—

Add

"(as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023)".

(3) Section 281, definition of ***investment grade***, paragraph (c), after "Schedule 6"—

Add

"(as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023)".

(4) Section 281, definition of ***investment grade***, paragraph (d), after "139(1)"—

Add

"(as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023)".

(5) Section 281, definition of ***investment grade***, paragraph (d), after "Schedule 6"—

Add

"(as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023)".

247. Section 287 amended (calculation of market risk capital charge for specific risk for interest rate exposures that fall within section 286(a)(i) or (iv))

(1) Section 287(3)(a), after "Schedule 6"—

Add

"(as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023)".

(2) Section 287(6) and (7), after "section 69(2)"—

Add

"(as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023)".

(3) Section 287(11), definitions of ***ECAI issue specific rating*** and ***ECAI issuer rating***, paragraph (a), after "section 2(1)"—

Add

"(as in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023)".

248. Part 9 substituted

Part 9—

Repeal the Part

Substitute

"Part 9

Calculation of Operational Risk

Division 1—General

323. Interpretation of Part 9

(1) In this Part—

BI means business indicator;

BIC means business indicator component;

bucket 1 AI (組別1 AI) means an authorized institution that is classified into bucket 1 under section 331;

bucket 2 AI (組別2 AI) means an authorized institution that is classified into bucket 2 under section 331;

bucket 3 AI (組別3 AI) means an authorized institution that is classified into bucket 3 under section 331;

business indicator (業務指標), in relation to an authorized institution's calculation of its capital charge for operational risk, means the amount calculated by the institution under section 325(1)(a);

business indicator component (業務指標組成部分), in relation to an authorized institution's calculation of its capital charge for operational risk, means the amount calculated by the institution under Division 4;

dividend income (股息收入) means income of a type specified by the Monetary Authority under subsection (2)(a);

fee and commission expenses (費用及佣金開支) means expenses of a type specified by the Monetary Authority under subsection (2)(b);

fee and commission income (費用及佣金收入) means income of a type specified by the Monetary Authority under subsection (2)(c);

financial component (金融組成部分), in relation to an authorized institution, means the amount calculated by the institution under section 325(2);

first year (第一年度), in relation to the last n years, means the last calendar quarter of those years and the 3 immediately preceding calendar quarters;

formula approach (公式計算法), in relation to an authorized institution's calculation of its ILM, means the approach set out in section 334;

high quality operational loss data (高質業務操作虧損數據) means data that meets the standards specified by the Monetary Authority under subsection (3);

ILM means internal loss multiplier;

interest earning assets (有息資產) means assets of a type specified by the Monetary Authority under subsection (2)(f);

interest expenses (利息開支) means expenses of a type specified by the Monetary Authority under subsection (2)(g);

interest income (利息收入) means income of a type specified by the Monetary Authority under subsection (2)(h);

interest, leases and dividend component (利息、租賃及股息組成部分), in relation to an authorized institution, means the amount calculated by the institution under section 325(3);

internal loss multiplier (內部損失倍率), in relation to an authorized institution's calculation of its capital charge for operational risk, means the multiplier calculated by the institution under Division 5;

last n years (最近n個年度)—

(a) in relation to the calculation of BI, means the last 3 years ending on a calendar quarter end date; and

(b) in relation to the calculation of LC, means the last 5, 6, 7, 8, 9 or 10 years ending on a calendar quarter end date (as the case requires);

LC means loss component;

loss component (損失組成部分), in relation to an authorized institution, means the amount calculated by the institution under section 335;

net interest income (淨利息收入), in relation to an authorized institution, means its interest income after deducting its interest expenses;

net P&L on banking book (銀行帳淨損益), in relation to an authorized institution, means the gains minus losses arising from assets and liabilities booked in the institution's banking book as specified by the Monetary Authority under subsection (2)(d);

net P&L on trading book (交易帳淨損益), in relation to an authorized institution, means the gains minus losses arising from assets and liabilities booked in the institution's trading book as specified by the Monetary Authority under subsection (2)(e);

operational loss event (業務操作虧損事件) means an event specified by the Monetary Authority under subsection (4);

other operating expenses (其他營運開支) means expenses of a type specified by the Monetary Authority under subsection (2)(i);

other operating income (其他營運收入) means income of a type specified by the Monetary Authority under subsection (2)(j);

second year (第二年度), in relation to the last n years, means the year immediately preceding the first year;

services component (服務組成部分), in relation to an authorized institution, means the amount calculated by the institution under section 325(4);

third year (第三年度), in relation to the last n years, means the year immediately preceding the second year;

year (年度) means a period of 4 consecutive calendar quarters.

(2) For the purpose of calculating the BI of an authorized institution, the Monetary Authority may, having regard to Chapter OPE10 of the current Basel Framework, specify the following types of income statement or balance sheet items—

(a) dividend income;

(b) fee and commission expenses;

(c) fee and commission income;

(d) gains minus losses arising from assets and liabilities booked in the banking book;

(e) gains minus losses arising from assets and liabilities booked in the trading book;

(f) interest earning assets;

(g) interest expenses;

(h) interest income;

(i) other operating expenses;

(j) other operating income.

(3) For the purposes of this Part, the Monetary Authority may, having regard to the minimum standards for the use of loss data under the standardized approach set out in Chapter OPE25 of the current Basel Framework, specify standards in relation to the identification, collection, treatment, validation, review, scope and content of data on operational loss.

(4) For the purposes of this Part, the Monetary Authority may, having regard to Table 2 in Chapter OPE25 of the current Basel Framework, specify events the classification of an operational loss into which forms part of the requirements that the data of an authorized institution must meet for the data to be high quality operational loss data.

Division 2—Calculation of Capital Charge and Risk-weighted Amount for Operational Risk

324. Calculation of capital charge and risk-weighted amount for operational risk

(1) Subject to subsection (3), an authorized institution must calculate its capital charge for operational risk by multiplying its BIC by its ILM.

(2) An authorized institution must calculate its risk-weighted amount for operational risk by multiplying its capital charge for operational risk by 12.5.

(3) An authorized institution that has been in operation for less than 18 months on any calendar quarter end date after this section comes into operation must obtain the prior consent of the Monetary Authority to calculate its capital charge for operational risk—

(a) by the method specified in subsection (1); or

(b) by an alternative method.

Division 3—Calculation of BI

325. Calculation of BI

(1) An authorized institution must—

(a) after each calendar quarter end date, calculate its BI as the sum of—

(i) the financial component;

(ii) the interest, leases and dividend component; and

(iii) the services component; and

(b) in calculating each component, include the data of any acquired business and merged activities over the period prior to the acquisition or merger that is relevant to the calculation.

(2) An authorized institution must calculate the financial component as the sum of—

(a) the arithmetic mean of the absolute value of its net P&L on banking book for the last 3 years; and

(b) the arithmetic mean of the absolute value of its net P&L on trading book for the last 3 years.

(3) An authorized institution must calculate the interest, leases and dividend component as the sum of—

(a) the lower of—

(i) the arithmetic mean of the absolute value of its net interest income for the last 3 years; and

(ii) 2.25% of the arithmetic mean of its interest earning assets for the last 3 years; and

(b) the arithmetic mean of its dividend income for the last 3 years.

(4) An authorized institution must calculate the services component as the sum of—

(a) the higher of—

(i) the arithmetic mean of its fee and commission expenses for the last 3 years; and

(ii) the arithmetic mean of its fee and commission income for the last 3 years; and

(b) the higher of—

(i) the arithmetic mean of its other operating expenses for the last 3 years; and

(ii) the arithmetic mean of its other operating income for the last 3 years.

326. Supplementary provisions for calculation of BI

(1) Subject to section 327, an authorized institution must calculate the arithmetic mean of the absolute value of each of its net P&L on banking book and net P&L on trading book under section 325(2) and its net interest income under section 325(3)(a)(i) for the last 3 years by—

(a) calculating the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution in the first year;

(b) calculating the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution in the second year;

(c) calculating the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution in the third year; and

(d) for each of the net P&L on banking book, net P&L on trading book and net interest income, dividing the sum of the respective absolute values calculated under paragraphs (a), (b) and (c) by 3.

(2) Subject to section 327, an authorized institution must calculate the arithmetic mean of its interest earning assets under section 325(3)(a)(ii) for the last 3 years by—

(a) calculating the arithmetic mean of the interest earning assets as at each of the 4 calendar quarter end dates of the first year;

(b) calculating the arithmetic mean of the interest earning assets as at each of the 4 calendar quarter end dates of the second year;

(c) calculating the arithmetic mean of the interest earning assets as at each of the 4 calendar quarter end dates of the third year; and

(d) dividing the sum of the arithmetic means calculated under paragraphs (a), (b) and (c) by 3.

(3) Subject to section 327, an authorized institution must calculate the arithmetic mean of each of its dividend income under section 325(3)(b) and its fee and commission expenses, fee and commission income, other operating expenses and other operating income under section 325(4) for the last 3 years by, for each of the dividend income, fee and commission

expenses, fee and commission income, other operating expenses and other operating income—

(a) aggregating the respective values for the last 3 years; and

(b) dividing the respective aggregate amount by 3.

327. Calculation of BI for authorized institutions operating for 18 months or more but less than 3 years

(1) If, on any calendar quarter end date after this section comes into operation, an authorized institution has been in operation for 18 months or more but less than 3 years, the institution must, for the purpose of calculating any arithmetic mean in accordance with section 326—

(a) treat any partial year of operation of 6 months or more as a full year; and

(b) treat any partial year of operation of less than 6 months as zero.

(2) Without prejudice to subsection (1), if, on any calendar quarter end date after this section comes into operation, an authorized institution has been in operation for 2 years and 6 months or more but less than 3 years, the institution must—

(a) calculate the arithmetic mean of the absolute value of each of its net P&L on banking book and net P&L on trading book under section 325(2) and its net interest income under section 325(3)(a)(i) for the last 3 years by—

(i) calculating the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution in the first year;

(ii) calculating the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution in the second year;

(iii) annualizing the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution for the partial year; and

(iv) for each of the net P&L on banking book, net P&L on trading book and net interest income, dividing the sum of the respective absolute values calculated under subparagraphs (i), (ii) and (iii) by 3;

(b) calculate the arithmetic mean of its interest earning assets under section 325(3)(a)(ii) for the last 3 years by—

(i) calculating the arithmetic mean of the interest earning assets as at each of the 4 calendar quarter end dates of the first year;

(ii) calculating the arithmetic mean of the interest earning assets as at each of the 4 calendar quarter end dates of the second year;

(iii) calculating the arithmetic mean of the interest earning assets as at the end of each full calendar quarter within the partial year; and

(iv) dividing the sum of the arithmetic means calculated under subparagraphs (i), (ii) and (iii) by 3; and

(c) calculate the arithmetic mean of each of its dividend income under section 325(3)(b) and its fee and commission expenses, fee and commission income, other operating expenses and other operating income under section 325(4) for the last 3 years by, for each of the dividend income, fee and commission expenses, fee and commission income, other operating expenses and other operating income—

(i) aggregating the respective values for the first year and the second year;

(ii) annualizing the respective values for the partial year; and

(iii) dividing the sum of the respective amounts under subparagraphs (i) and (ii) by 3.

(3) Without prejudice to subsection (1), if, on any calendar quarter end date after this section comes into operation, an authorized institution has been in operation for 2 years or more but less than 2 years and 6 months, the institution must—

(a) calculate the arithmetic mean of the absolute value of each of its net P&L on banking book and net P&L on trading book under section 325(2) and its net interest income under section 325(3)(a)(i) for the last 3 years by—

(i) calculating the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution in the first year;

(ii) calculating the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution in the second year; and

(iii) for each of the net P&L on banking book, net P&L on trading book and net interest income, dividing the sum of the respective absolute values calculated under subparagraphs (i) and (ii) by 2;

(b) calculate the arithmetic mean of its interest earning assets under section 325(3)(a)(ii) for the last 3 years by—

(i) calculating the arithmetic mean of the interest earning assets as at each of the 4 calendar quarter end dates of the first year;

(ii) calculating the arithmetic mean of the interest earning assets as at each of the 4 calendar quarter end dates of the second year; and

(iii) dividing the sum of the arithmetic means calculated under subparagraphs (i) and (ii) by 2; and

(c) calculate the arithmetic mean of each of its dividend income under section 325(3)(b) and its fee and commission expenses, fee and commission income, other operating expenses

and other operating income under section 325(4) for the last 3 years by, for each of the dividend income, fee and commission expenses, fee and commission income, other operating expenses and other operating income—

(i) aggregating the respective values for the first year and the second year; and

(ii) dividing the respective aggregate amount by 2.

(4) Without prejudice to subsection (1), if, on any calendar quarter end date after this section comes into operation, an authorized institution has been in operation for 18 months or more but less than 2 years, the institution must—

(a) calculate the arithmetic mean of the absolute value of each of its net P&L on banking book and net P&L on trading book under section 325(2) and its net interest income under section 325(3)(a)(i) for the last 3 years by—

(i) calculating the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution in the first year;

(ii) annualizing the absolute value of each of the net P&L on banking book, net P&L on trading book and net interest income recognized by the institution for the partial year; and

(iii) for each of the net P&L on banking book, net P&L on trading book and net interest income, dividing the sum of the respective absolute values calculated under subparagraphs (i) and (ii) by 2;

(b) calculate the arithmetic mean of its interest earning assets under section 325(3)(a)(ii) for the last 3 years by—

(i) calculating the arithmetic mean of the interest earning assets as at each of the 4 calendar quarter end dates of the first year;

(ii) calculating the arithmetic mean of the interest earning assets as at the end of each full calendar quarter within the partial year; and

(iii) dividing the sum of the arithmetic means calculated under subparagraphs (i) and (ii) by 2; and

(c) calculate the arithmetic mean of each of its dividend income under section 325(3)(b) and its fee and commission expenses, fee and commission income, other operating expenses and other operating income under section 325(4) for the last 3 years by, for each of the dividend income, fee and commission expenses, fee and commission income, other operating expenses and other operating income—

(i) calculating the respective values for the first year;

(ii) annualizing the respective values for the partial year; and

(iii) dividing the sum of the respective amounts under subparagraphs (i) and (ii) by 2.

328. Exclusions from BI

(1) An authorized institution must not take into account any of the following in calculating its BI—

(a) expenses or income arising from the institution's insurance or reinsurance underwriting businesses;

(b) premiums paid, or reimbursements or other payments received, in relation to insurance or reinsurance policies purchased;

(c) expenses of an administrative nature, including—

(i) staff expenses;

(ii) outsourcing fees paid for the supply of non-financial services (for example, logistical, information technology or human resources); and

(iii) other administrative expenses;

(d) recovery of administrative expenses, including recovery of payments on behalf of customers;

(e) expenses of premises and fixed assets, other than expenses that result from operational loss events;

(f) depreciation or amortization of tangible and intangible assets, other than depreciation arising from operating lease assets which must be included in interest expenses;

(g) provisions or reversal of provisions (for example, on pensions, commitments and guarantees given) other than provisions arising from operational loss events;

(h) expenses due to share capital repayable on demand;

(i) impairment or reversal of impairment (for example, on financial assets, non-financial assets, investments in subsidiaries, joint ventures and associates);

(j) changes in goodwill recognized in profit and loss accounts;

(k) corporate income tax (being tax based on profits, including current tax and deferred tax).

(2) The Monetary Authority may give approval for an authorized institution to exclude data related to its divested businesses and activities from the calculation of its BI if the institution demonstrates to the satisfaction of the Monetary Authority that the divested businesses and activities are no longer relevant to the institution's risk profile.

Division 4—Calculation of BIC

329. Calculation of BIC

An authorized institution must, after each calendar quarter end date, calculate its BIC by—

(a) separating its BI into 3 portions in accordance with Table 33;

(b) multiplying each portion with the marginal coefficient applicable to that portion as set out in that Table; and

(c) aggregating the 3 products.

Table 33

Calculation of BIC

Column 1	Column 2	Column 3
Item	Portion of BI ($ Billion)	Marginal coefficient
1.	10 or less	12%
2.	More than 10 but not more than 300	15%
3.	More than 300	18%

Division 5—Calculation of ILM

330. Calculation of ILM: General

An authorized institution must calculate its ILM in accordance with this Division.

331. Classification of authorized institution for purpose of calculating ILM

For the purpose of calculating its ILM, an authorized institution is classified into one of the buckets set out in Table 33A based on the size of its BI as set out in that Table.

Table 33A

Buckets for Calculating ILM

Column 1 Item	Column 2 Bucket	Column 3 Authorized institution's BI ($ Billion)
1.	1	10 or less
2.	2	More than 10 but not more than 300
3.	3	More than 300

332. ILM for bucket 1 AI

(1) Subject to subsection (2), a bucket 1 AI has an ILM of 1.

(2) A bucket 1 AI may calculate its ILM using the formula approach if—

(a) the bucket 1 AI—

(i) is a subsidiary of a bank; and

(ii) has notified the Monetary Authority, at least 3 months before the bucket 1 AI intends calculating its ILM using the formula approach, that the following conditions have been met—

(A) the bucket 1 AI has maintained high quality operational loss data for at least the last 5 years;

(B) the bucket 1 AI's parent company calculates its ILM on a consolidated basis under the capital rules applicable to the parent company; and

(C) the bucket 1 AI's operational loss data are either included in the calculation of its parent company's ILM or would be included in that calculation were it not for justifiable considerations such as the materiality of the bucket 1 AI in relation to the banking group; or

(b) the bucket 1 AI has obtained the prior consent of the Monetary Authority.

333. ILM for bucket 2 AI and bucket 3 AI

(1) A bucket 2 AI or bucket 3 AI that has maintained high quality operational loss data for at least the last 5 years must calculate its ILM using the formula approach.

(2) Subject to subsections (3), (4) and (5), a bucket 2 AI or bucket 3 AI that has not maintained high quality operational loss data for at least the last 5 years has an ILM of 1.25.

(3) A newly established bucket 2 AI or bucket 3 AI that has been in operation for less than 5 years has an ILM of 1, unless otherwise required by the Monetary Authority.

(4) An authorized institution, on first becoming a bucket 2 AI or bucket 3 AI, may initially have an ILM of 1 for a transitional period of no longer than 9 months, or the longer period agreed with the Monetary Authority.

(5) If a bucket 2 AI or bucket 3 AI is required to calculate its capital adequacy ratio on both a solo basis and a consolidated basis under section 3C and

has only maintained high quality operational loss data for at least the last 5 years on a solo basis, it has the following ILM on a consolidated basis—

(a) 1.25, if its ILM calculated on a solo basis using the formula approach is less than or equal to 1;

(b) the higher of 1.25 or its ILM calculated on a solo basis using the formula approach, if the latter is higher than 1.

(6) If a bucket 2 AI or bucket 3 AI has been granted approval under section 28(2)(a) to calculate its capital adequacy ratio on a solo-consolidated basis, a reference in subsection (5) to the institution calculating its capital adequacy ratio on a solo basis is a reference to the institution calculating it on a solo-consolidated basis.

334. Formula approach for calculating ILM

The formula approach for an authorized institution to calculate its ILM is set out in Formula 29.

Formula 29

$$\mathrm{ILM}=\ln\left[\exp(1)-1+\left(\frac{\mathrm{LC}}{\mathrm{BIC}}\right)^{0.8}\right]$$

335. Calculation of LC

(1) An authorized institution must calculate its LC by using only high quality operational loss data.

(2) An authorized institution must calculate its LC by multiplying the arithmetic mean of its annual operational risk losses incurred over the following period by 15—

(a) the last 10 years, if the institution has maintained high quality operational loss data for the last 10 years or more;

(b) the number of years for which the institution has maintained high quality operational loss data, if the institution has maintained high quality operational loss data for the last 5 years or more but less than the last 10 years.

(3) For the purposes of subsection (2), an authorized institution must calculate the arithmetic mean of its annual operational risk losses incurred over a period of years by—

(a) calculating the amounts of its operational risk losses for the first year and each year preceding the first year in the period;

(b) aggregating the amounts of its operational risk losses for each year in the period; and

(c) dividing the aggregate amount by the number of years in the period.

(4) For the purposes of subsection (3), if, on any calendar quarter end date after this section comes into operation, the number of years in the period is between 5 and 10, an authorized institution must treat any partial year of operational loss data maintained of 6 months or more as a full year and any partial year of operational loss data maintained of less than 6 months as zero.

(5) For the purposes of this section, an authorized institution's operational risk losses incurred in a year is the sum of the gross loss amounts of any operational loss events recognized by the institution in the year less the recovery amounts of any

operational loss events received by the institution in the year.

336. Exclusions from LC

(1) For the purpose of calculating its LC, an authorized institution must exclude the losses arising from an operational loss event under any of the following situations—

(a) where the cumulative losses after deduction of recoveries arising from the event over the period for which the LC is calculated is less than the threshold specified by the Monetary Authority under subsection (2);

(b) where the losses have been accounted for in the risk-weighted amount for credit risk;

(c) where the Monetary Authority has approved the institution to exclude the losses arising from the event from the calculation of its LC.

(2) For the purposes of subsection (1)(a), the Monetary Authority may specify a threshold, having regard to OPE25.18 of the current Basel Framework.

(3) The Monetary Authority may grant approval under subsection (1)(c) if the Monetary Authority considers it prudent to do so, having regard to the risk profile of the authorized institution.".

249. Section 342 amended (interpretation of Part 10)

(1) Section 342(1)—

Repeal the definition of *specified sovereign exposure*

Substitute

"***specified sovereign exposure*** (指明官方實體風險承擔)—see section 342A.".

(2) Section 342(1)—

(a) definition of ***investment structure***;

(b) definition of ***non-section 350 specified sovereign exposure***;

(c) definition of ***section 350 specified sovereign exposure***—

Repeal the definitions.

(3) Section 342(2)—

Repeal

"country"

Substitute

"jurisdiction".

250. Section 342A added

Part 10, Division 2, before section 343—

Add

"**342A. Calculation of specified sovereign exposure to specified sovereign entity**

(1) An authorized institution must calculate the amount of its specified sovereign exposure to a specified sovereign entity as the sum of—

(a) the institution's ASC exposure to that specified sovereign entity determined in accordance with Part 7 of the Exposure Limits Rules as if rule 48(1)(c) of those Rules were not applicable;

(b) if, in relation to that specified sovereign entity, the institution makes a deduction of exposure in accordance with rule 57(1)(c) of the Exposure Limits Rules in determining the institution's ASC exposure to another counterparty of the institution for Part 7 of those Rules—the amount of the exposure deducted; and

(c) if, in relation to that specified sovereign entity, the institution makes a deduction of exposure in accordance with rule 57(1)(c) of the Exposure Limits Rules in determining the institution's ASC exposure to another specified sovereign entity for this Part—the amount of the exposure deducted.

(2) In this section—

ASC exposure (ASC風險承擔) has the meaning given by rule 39(1) of the Exposure Limits Rules.".

251. Section 343 amended (specified sovereign exposure to country and concentrated sovereign exposure)

(1) Section 343, heading—

Repeal

"**country**"

Substitute

"**jurisdiction**".

(2) Section 343(1)—

Repeal

"country by aggregating the amounts of its specified sovereign exposures to the specified sovereign entities of the country, each exposure valued in accordance with Division 3"

Substitute

"jurisdiction by aggregating the amounts of its specified sovereign exposures to the specified sovereign entities of the jurisdiction, each exposure calculated in accordance with section 342A".

(3) Section 343(2)—

Repeal

"country"

Substitute

"jurisdiction".

252. Section 344 amended (calculation of risk-weighted amount of concentrated sovereign exposure to country)

(1) Section 344, heading—

Repeal

"**country**"

Substitute

"**jurisdiction**".

(2) Section 344—

Repeal

"country" (wherever appearing)

Substitute

"jurisdiction".

(3) Section 344, Table 34, heading—

Repeal

"**Country**"

Substitute

"**Jurisdiction**".

253. Section 345 amended (calculation of risk-weighted amount for sovereign concentration risk)

Section 345—

Repeal

"countries"

Substitute

"jurisdictions".

254. Part 10, Divisions 3 and 4 repealed

Part 10—

Repeal Divisions 3 and 4.

255. Part 11 added

After Part 10—

Add

"Part 11

Output Floor

354. Application of Part 11

This Part applies to an authorized institution that uses a model-based approach to calculate its credit risk or market risk or both.

355. Interpretation of Part 11

In this Part—

model-based approach (模式基準計算法) means any of the following—

(a) IRB approach;

(b) SEC-IRBA;

(c) internal assessment approach;

(d) IMM(CCR) approach;

(e) value-at-risk model as set out in section 226ML;

(f) IMA;

output floor (出項下限), in relation to an authorized institution, means its floor risk-weighted amount for credit risk, market risk, CVA risk and operational risk calculated under section 356.

356. Calculation of output floor

(1) Subject to subsection (9), an authorized institution must calculate its floor risk-weighted amount for credit risk, market risk, CVA risk and operational risk by multiplying the amount determined under subsection (2) by the corresponding output floor level specified in Table 36.

(2) An authorized institution must arrive at the relevant amount for the purposes of subsection (1) by—

(a) calculating its risk-weighted amount for credit risk by using—

(i) subject to subsections (3), (4), (5) and (6), the STC approach for non-securitization exposures; and

(ii) the SEC-ERBA (except the use of internal assessment approach), SEC-SA or SEC-FBA for securitization exposures;

(b) calculating its risk-weighted amount for market risk and CVA risk respectively by using—

(i) subject to subsection (7), the STM approach; and

(ii) the calculation approach used by the institution for CVA risk;

(c) calculating its risk-weighted amount for operational risk by using the calculation approach used by the institution for operational risk; and

(d) aggregating the amounts calculated under paragraphs (a), (b)(i) and (ii) and (c).

(3) For the purposes of subsection (2)(a)(i), an authorized institution must use—

(a) subject to subsection (6)(b), the SA-CCR approach to calculate its default risk exposures in respect of derivative contracts; and

(b) the methods set out in Division 2B of Part 6A (except the use of value-at-risk model set out in section 226ML) to calculate its default risk exposures in respect of SFTs.

(4) For the purposes of subsection (2)(a)(i), an authorized institution may, subject to subsection (5) and section 61(3) and (4), allocate to all of its general corporate exposures that are unrated exposures that fall under section 61(2)(a) (***concerned exposures***) risk-weights specified in Table 35 according to the loan classification category of the exposure in compliance with the Guideline on Loan Classification System (***loan classification method***).

Table 35

Risk-weights for Concerned Exposures

Column 1	Column 2	Column 3
Item	Loan classification category of concerned exposures	Risk-weight
1.	Pass	85%
2.	Special Mention	125%
3.	Substandard	150%
4.	Doubtful	150%
5.	Loss	150%

(5) If an authorized institution chooses to allocate the risk-weights to its concerned exposures in accordance with the loan classification method set out in subsection (4), the institution must apply the method consistently over time and must not change the method without the prior consent of the Monetary Authority.

(6) An authorized institution that uses the BSC approach to calculate its credit risk for all its non-securitization exposures may choose to use—

(a) the BSC approach for the purposes of subsection (2)(a)(i); and

(b) the current exposure approach to calculate its default risk exposures in respect of derivative contracts unless, under section 10A(2B), the Monetary Authority has required the institution to use the SA-CCR approach to calculate its default risk exposures.

(7) For the purposes of subsection (2)(b)(i), an authorized institution must apply the SEC-ERBA (except the use of internal assessment approach), SEC-SA or SEC-FBA to determine the market risk capital charge for securitization exposures in its trading book.

(8) Subject to subsection (9), an authorized institution must use the corresponding output floor level specified in Table 36.

Table 36

Output Floor Levels

Column 1 Item	Column 2 Applicable dates for output floor level	Column 3 Output floor level
1.	On and after the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023 (***commencement date***) but not after 31 December of the year within which the commencement date falls (***year of commencement***)	50%
2.	Any date within the first year after the year of commencement	55%

Column 1 Item	Column 2 Applicable dates for output floor level	Column 3 Output floor level
3.	Any date within the second year after the year of commencement	60%
4.	Any date within the third year after the year of commencement	65%
5.	Any date within the fourth year after the year of commencement	70%
6.	On and after 1 January of the fifth year after the year of commencement	72.5%

(9) The Monetary Authority may, by written notice given to one or more authorized institutions, require the institution to apply an output floor level specified in the notice to the calculation of its output floor if the Monetary Authority considers that—

(a) a rating system or an internal model used by the institution to calculate its credit risk or market risk or both causes, or could reasonably be construed as potentially causing, whether by itself or in conjunction with any other event, adverse impacts on the financial soundness of the institution; or

(b) a prudential concern causes or could reasonably be construed as potentially causing, whether by itself or in conjunction with any other event, the financial soundness of the institution or the

stability of the financial system in Hong Kong to be put at risk in prevailing, or likely prevailing, economic and market conditions.

(10) An authorized institution must comply with the requirements of a notice given to it under subsection (9).

(11) In this section—

Doubtful (呆滯), ***Loss*** (虧損), ***Pass*** (合格), ***Special Mention*** (需要關注) and ***Substandard*** (次級) mean the category of that name into which an exposure can be classified under the Guideline on Loan Classification System;

general corporate exposure (一般法團風險承擔) has the meaning given by section 51(1);

Guideline on Loan Classification System (《貸款分類制度指引》) means the guideline set out in Appendix 2 to the Completion Instructions of return "Quarterly Analysis of Loans and Advances and Provisions" as amended from time to time, published on the Monetary Authority's website;

unrated exposure (無評級風險承擔) has the meaning given by section 51(1).

357. Calculation of actual risk-weighted amount

An authorized institution must calculate its actual risk-weighted amount for credit risk, market risk, CVA risk and operational risk by—

(a) calculating its risk-weighted amount for credit risk by using the calculation approach used by the institution for credit risk;

(b) calculating its risk-weighted amount for market risk by using the calculation approach used by the institution for market risk;

(c) calculating its risk-weighted amount for CVA risk by using the calculation approach used by the institution for CVA risk;

(d) calculating its risk-weighted amount for operational risk by using the calculation approach used by the institution for operational risk; and

(e) aggregating the amounts calculated under paragraphs (a), (b), (c) and (d).

358. Adjustment of capital adequacy ratio if output floor is larger than actual risk-weighted amount

An authorized institution—

(a) must calculate the difference between—

(i) its output floor; and

(ii) its actual risk-weighted amount for credit risk, market risk, CVA risk and operational risk calculated under section 357; and

(b) if the output floor is larger than the actual risk-weighted amount referred to in paragraph (a)(ii)—must add the difference to the total risk-weighted amount for credit risk, market risk, CVA risk and operational risk for the calculation of its capital adequacy ratio.

359. Transitional provisions

(1) For the purposes of section 358, during the transitional period, an authorized institution must exclude the risk-weighted amount for market risk and CVA risk from both the amounts referred to in section 358(a)(i) and (ii).

(2) During the transitional period, a reference in this Part to the risk-weighted amount for CVA risk is a reference to the CVA risk-weighted amount.

(3) In this section—

transitional period (過渡期) means the period beginning on the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023 and ending immediately before the commencement date of Part 5 of those Rules.".

256. Schedule 1 amended (specifications for purposes of certain definitions in these Rules)

Schedule 1—

Repeal

"73, 120, 157A, 166, 182 & 226MD]"

Substitute

"139, 166, 182 & 226MD & Sch. 6]".

257. Schedule 2 amended (minimum requirements to be satisfied for approval under section 8 of these Rules to use IRB approach)

(1) Schedule 2—

Repeal

"[ss. 7, 8, 9, 10, 186"

Substitute

"[ss. 8, 9, 10".

(2) Schedule 2, section 1(b)(vi)(B), after the semicolon—

Add

"and".

(3) Schedule 2, section 1(b)—

Repeal subparagraph (vii).

258. Schedule 4 repealed (minimum requirements to be satisfied for approval under section 25 of these Rules to use STO approach or ASA approach)

Schedule 4—

Repeal the Schedule.

259. Schedule 4B amended (qualifying criteria to be met to be Additional Tier 1 capital)

Schedule 4B—

Repeal

"Schs. 4D & 4H]"

Substitute

"Sch. 4D]".

260. Schedule 4C amended (qualifying criteria to be met to be Tier 2 capital)

Schedule 4C—

Repeal

"Schs. 4D & 4H]"

Substitute

"Sch. 4D]".

261. Schedule 4F amended (deduction of holdings where authorized institution has insignificant LAC investments in financial sector entities that are outside scope of consolidation under section 3C requirement)

(1) Schedule 4F—

Repeal

"70AAC & 117AD]"

Substitute

"70A & 117F]".

(2) Schedule 4F, sections 4(2) and 5(1)—

Repeal

"the applicable risk-weight under Part 4, 5, 6 or 8"

Substitute

"one or more of Parts 4, 5, 6 and 8".

262. Schedule 4G amended (deduction of holdings where authorized institution has significant LAC investments in financial sector entities that are outside scope of consolidation under section 3C requirement)

(1) Schedule 4G—

Repeal

"70AAC & 117AD]"

Substitute

"70A & 117F]".

(2) Schedule 4G, section 1(5)—

Repeal

"the applicable risk-weight under Part 4, 5, 6 or 8"

Substitute

"one or more of Parts 4, 5, 6 and 8".

263. Schedule 4H repealed (transitional arrangements in relation to Banking (Capital) (Amendment) Rules 2012 (L.N. 156 of 2012))

Schedule 4H—

Repeal the Schedule.

264. Schedule 6 substituted

Schedule 6—

Repeal the Schedule

Substitute

"Schedule 6

[ss. 2, 51, 64, 71, 105, 118, 163 & 235]

Credit Conversion Factors

1. The CCF applicable to an off-balance sheet exposure specified in column 2 of the Table is specified in column 3 of the Table opposite the exposure.

Table

Column 1	Column 2	Column 3
Item	Off-balance sheet exposure	CCF
1.	Direct credit substitutes	100%

Column 1 Item	Column 2 Off-balance sheet exposure	Column 3 CCF
2.	Asset sales with recourse	100%
3.	Sale and repurchase agreements (excluding those that are repo-style transactions)	100%
4.	Forward asset purchases	100%
5.	Forward forward deposits placed	100%
6.	Partly paid-up shares and securities	100%
7.	Note issuance and revolving underwriting facilities	50%
8.	Transaction-related contingencies	50%
9.	Trade-related contingencies	20%
10.	Exempt commitments	0%
11.	Commitments that do not fall within any of items 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 and that— (a) may be cancelled at any time unconditionally by the authorized institution concerned without prior notice; or	10%

Column 1 Item	Column 2 Off-balance sheet exposure	Column 3 CCF
	(b) provide for automatic cancellation due to deterioration in the creditworthiness of the person to whom the institution has made the commitment	
12.	Commitments that do not fall within any of items 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11	40%
13.	Off-balance sheet exposures that do not fall within— (a) for the purposes of the STC approach—any other item in this Schedule and sections 68C and 71(2) and (5); or (b) for the purposes of the BSC approach—any other item in this Schedule and sections 117C and 118(2) and (3)	The CCF specified in Part 2 of Schedule 1 applicable to the exposures or 100% if no such CCF is specified

2. In the Table in section 1 of this Schedule—

commitment (承諾) means any contractual arrangement that has been offered by an authorized institution and accepted by its customer to extend credit, purchase assets or issue credit substitutes, including such an arrangement—

(a) that is in the form of a general banking facility consisting of 2 or more credit lines;

(b) that can be unconditionally cancelled by the institution at any time without prior notice to the customer; or

(c) that can be cancelled by the institution if the customer fails to meet conditions set out in the facility documentation, including conditions that must be met by the customer prior to any initial or subsequent drawdown under the arrangement;

exempt commitment (獲豁免承諾), in relation to an authorized institution, means a commitment that satisfies all of the following conditions—

(a) the person to whom the institution has made the commitment is a corporate (within the meaning of section 51(1) or 105, as the case requires);

(b) the credit quality of the person is closely monitored by the institution on an ongoing basis;

(c) the institution receives no fees or commissions to establish or maintain the commitment;

(d) the person is required to apply to the institution for the initial and each subsequent drawdown;

(e) the institution has full authority, regardless of the fulfilment by the person of the conditions set out in the facility documentation, over the execution of each drawdown;

(f) the institution's decision on the execution of each drawdown is only made after assessing the creditworthiness of the person immediately prior to drawdown.".

265. Schedule 7 amended (standard supervisory haircuts)

(1) Schedule 7—

Repeal

"[ss. 2, 51, 86"

Substitute

"[ss. 2".

(2) Schedule 7—

Repeal section 1 (including the Table)

Substitute

"1. The standard supervisory haircuts for taking into account the volatilities of the values of exposures (including exposures in the form of unsegregated collateral posted) and collateral are set out in Tables A, B and C.

Table A

Standard Supervisory Haircuts for Debt Securities other than Securitization Issues

Part 1

Debt Securities Issued by Sovereigns or Sovereign Issuers

Column 1	Column 2	Column 3	Column 4
Item	Type of exposure or recognized collateral	Residual maturity of debt security	Standard supervisory haircuts
1.	(a) A debt security— (i) issued by a sovereign or sovereign issuer; and (ii) having an ECAI issue specific rating mapped to a credit quality grade of	(a) not more than one year	0.5%
		(b) more than one year but not more than 5 years	2%
		(c) more than 5 years	4%

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Residual maturity of debt security	Column 4 Standard supervisory haircuts
	1 or 2 in the LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 1 in the ST ECAI rating mapping table for Type A ECAIs		
	(b) A debt security that—		
	(i) does not have an ECAI issue specific rating; and		

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Residual maturity of debt security	Column 4 Standard supervisory haircuts
	(ii) is issued by a sovereign having an ECAI issuer rating mapped to a credit quality grade of 1 or 2 in the LT ECAI rating mapping table for Type A ECAIs		
2.	(a) A debt security— (i) issued by a sovereign or sovereign issuer; and (ii) having an	(a) not more than one year (b) more than one year but not more than 5 years (c) more than 5 years	1% 3% 6%

Column 1	Column 2	Column 3	Column 4
Item	Type of exposure or recognized collateral	Residual maturity of debt security	Standard supervisory haircuts
	ECAI issue specific rating mapped to a credit quality grade of 3 or 4 in the LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 2 or 3 in the ST ECAI rating mapping table for Type A ECAIs		

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Residual maturity of debt security	Column 4 Standard supervisory haircuts
	(b) A debt security that—		
	(i) does not have an ECAI issue specific rating; and		
	(ii) is issued by a sovereign having an ECAI issuer rating mapped to a credit quality grade of 3 or 4 in the LT ECAI rating mapping table for Type A ECAIs		

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Residual maturity of debt security	Column 4 Standard supervisory haircuts
3.	(a) A debt security— (i) issued by a sovereign or sovereign issuer; and (ii) having an ECAI issue specific rating mapped to a credit quality grade of 5 in the LT ECAI rating mapping table for Type A ECAIs	all	15%

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Residual maturity of debt security	Column 4 Standard supervisory haircuts
	(b) A debt security that—		
	(i) does not have an ECAI issue specific rating; and		
	(ii) is issued by a sovereign having an ECAI issuer rating mapped to a credit quality grade of 5 in the LT ECAI rating mapping table for Type A ECAIs		

Part 2

Debt Securities Issued by Issuers other than Sovereigns and Sovereign Issuers

Column 1	Column 2	Column 3	Column 4
Item	Type of exposure or recognized collateral	Residual maturity of debt security	Standard supervisory haircuts
1.	A debt security having an ECAI issue specific rating mapped to one of the following credit quality grades— (a) 1 or 2 in the LT ECAI rating mapping table for Type A ECAIs; (b) 1 in the ST ECAI rating mapping table for Type A ECAIs; (c) 1 or 2 in the LT ECAI rating	(a) not more than one year	1%
		(b) more than one year but not more than 3 years	3%
		(c) more than 3 years but not more than 5 years	4%
		(d) more than 5 years but not more than 10 years	6%
		(e) more than 10 years	12%

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Residual maturity of debt security	Column 4 Standard supervisory haircuts
	mapping table or ST ECAI rating mapping table for Type B ECAIs		
2.	A debt security having an ECAI issue specific rating mapped to one of the following credit quality grades— (a) 3 or 4 in the LT ECAI rating mapping table for Type A ECAIs; (b) 2 or 3 in the ST ECAI rating mapping table for Type A ECAIs;	(a) not more than one year	2%
		(b) more than one year but not more than 3 years	4%
		(c) more than 3 years but not more than 5 years	6%
		(d) more than 5 years but not more than 10 years	12%
		(e) more than 10 years	20%

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Residual maturity of debt security	Column 4 Standard supervisory haircuts
	(c) 3 or 4 in the LT ECAI rating mapping table or ST ECAI rating mapping table for Type B ECAIs		
3.	A debt security issued by a bank that—	(a) not more than one year	2%
	(a) does not have an ECAI issue specific rating; and	(b) more than one year but not more than 3 years	4%
	(b) meets the criteria set out in section 79(1)(l)	(c) more than 3 years but not more than 5 years	6%

Column 1	Column 2	Column 3	Column 4
Item	Type of exposure or recognized collateral	Residual maturity of debt security	Standard supervisory haircuts
		(d) more than 5 years but not more than 10 years	12%
		(e) more than 10 years	20%

Table B

Standard Supervisory Haircuts for Securitization Issues other than Re-securitization Exposures

Column 1	Column 2	Column 3	Column 4
Item	Type of exposure or recognized collateral	Residual maturity of securitization issue	Standard supervisory haircuts
1.	Securitization issue having an ECAI issue	(a) not more than one year	2%

Column 1	Column 2	Column 3	Column 4
Item	Type of exposure or recognized collateral	Residual maturity of securitization issue	Standard supervisory haircuts
	specific rating mapped to—	(b) more than one year but not more than 5 years	8%
	(a) a credit quality grade of 1, 2, 3 or 4 in the LT ECAI rating mapping table for securitization exposures; or	(c) more than 5 years	16%

Column 1	Column 2	Column 3	Column 4
Item	Type of exposure or recognized collateral	Residual maturity of securitization issue	Standard supervisory haircuts
	(b) a credit quality grade of 1 in the ST ECAI rating mapping table for securitization exposures		
2.	Securitization issue having an ECAI issue specific rating mapped to—	(a) not more than one year	4%
		(b) more than one year but not more than 5 years	12%
	(a) a credit quality grade of 5, 6, 7, 8, 9 or 10 in the LT ECAI rating mapping table for securitization exposures; or	(c) more than 5 years	24%

Column 1	Column 2	Column 3	Column 4
Item	Type of exposure or recognized collateral	Residual maturity of securitization issue	Standard supervisory haircuts
	(b) a credit quality grade of 2 or 3 in the ST ECAI rating mapping table for securitization exposures		

Table C

Standard Supervisory Haircuts for Exposures and Collateral not Falling within Table A or B in this Section

Column 1	Column 2	Column 3
Item	Type of exposure or recognized collateral	Standard supervisory haircuts
1.	Exposures in the form of cash	0%
2.	Recognized collaterals that fall within section 79(1)(a), (b) or (c)	0%
3.	Exposures arising from currency mismatch	8%

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Standard supervisory haircuts
4.	Equities (including convertible bonds) included in main indices	20%
5.	Gold bullion	20%
6.	Equities (including convertible bonds) listed on recognized exchanges that do not fall within item 4	30%
7.	Units or shares in collective investment schemes	(a) the highest haircut applicable to any financial instruments in which the scheme can invest; or (b) if the authorized institution concerned is able to use

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Standard supervisory haircuts
		the look-through approach (within the meaning of section 226ZG) to determine the risk-weighted amount of the underlying exposures of the scheme—the weighted average haircut applicable to the financial instruments held by the scheme

Column 1 Item	Column 2 Type of exposure or recognized collateral	Column 3 Standard supervisory haircuts
8.	Exposures arising from financial instruments sold, lent, or posted as collateral under securities financing transactions where the financial instruments do not fall within Table A or B in this section or item 4, 6 or 7	30%
9.	Securities received under repo-style transactions booked in trading book where the securities— (a) do not fall within Table A or B in this section or item 4, 6 or 7; and (b) are eligible for being included in trading book	30%
10.	Exposures not specified in this Table	30%".

(3) Schedule 7, section 2—

Repeal

"the Table"

Substitute

"the Tables".

(4) Schedule 7, section 2—

Repeal paragraph (b)

Substitute

"(b) ***sovereign issuer*** (官方實體發行人) means—

(i) a sovereign foreign public sector entity; or

(ii) a multilateral development bank where an exposure to it would be eligible for a risk-weight of 0% under section 58;".

(5) Schedule 7, section 2—

Repeal paragraphs (c) and (ca).

(6) Schedule 7, section 2(e)(ii)—

Repeal

"226H(3);"

Substitute

"226H(3).".

(7) Schedule 7, section 2—

Repeal paragraphs (f), (g) and (h).

266. Schedule 8 repealed (credit quality grades for specialized lending)

Schedule 8—

Repeal the Schedule.

267. Schedule 10 amended (requirements to be satisfied for synthetic securitization transaction to be eligible synthetic securitization transaction)

(1) Schedule 10, section 2(a)(i)—

Repeal

"section 80(1)(a), (b) and (c)"

Substitute

"sections 79(1) (excluding section 79(1)(o)) and 80(1)(b) and (c)".

(2) Schedule 10, section 2(a)(iv)—

Repeal

"satisfy the requirements under section 77(a), (b), (c), (d), (e), (ea) and (f)"

Substitute

"meet the criteria specified in section 77(2)".

(3) Schedule 10, section 2—

Repeal paragraph (b)

Substitute

"(b) if the underlying exposures concerned consist of securitization exposures, the reference to "an entity not listed in subparagraphs (i) to (vii) that has an ECAI issuer rating" in section 99A(2)(a)(viii) is taken to be a reference to an entity specified in section 243(3).".

268. Schedules 11 and 15 repealed

Schedules 11 and 15—

Repeal the Schedules.

Part 4

Amendments in relation to Haircut Floors for SFTs

269. Part 6A, Division 5 added

Part 6A, after Division 4—

Add

"Division 5—Haircut Floors for SFTs

226ZEA. Interpretation of Division 5

In this Division—

collateral upgrade transaction (抵押品升級交易) means a transaction under which an authorized institution lends a security to its counterparty and the counterparty provides a lower quality security as collateral so as to enable the counterparty to exchange a lower quality security for a higher quality security;

in-scope counterparty (範圍內對手方), in relation to an SFT entered into by an authorized institution, means a counterparty to the SFT other than—

(a) a bank;

(b) a qualifying CCP; and

(c) a prudentially regulated financial institution (within the meaning of paragraph (a) or (b) of the definition of ***prudentially regulated financial institution*** in section 99A(3));

in-scope securities (範圍內證券), in relation to SFTs, means any securities (including equities, securitization issues and shares in collective investment schemes) except those issued by—

(a) sovereigns;

(b) sovereign foreign public sector entities; and

(c) multilateral development banks that are eligible for a risk-weight of 0% under Part 4, 5 or 6;

in-scope SFT (範圍內SFT) means an SFT falling within section 226ZEB.

226ZEB. In-scope SFTs

(1) For the purposes of this Division, the following SFTs of an authorized institution are in-scope SFTs unless they fall within subsection (2)—

(a) non-centrally cleared SFTs in which financing is provided by the institution to in-scope counterparties by lending cash to the counterparties against in-scope securities, including cash-collateralized securities lending transactions in which in-scope securities are lent to the institution; and

(b) non-centrally cleared SFTs that are collateral upgrade transactions with in-scope counterparties.

(2) For the purposes of this Division, the following SFTs of an authorized institution are not in-scope SFTs—

(a) SFTs with the central bank of a jurisdiction, the Monetary Authority, or an authority of a jurisdiction that performs in the jurisdiction

functions similar to the functions performed by central banks;

(b) SFTs that are cash-collateralized securities lending transactions where—

(i) securities are lent to the institution at long maturities and the lender of the securities reinvests or employs the cash collateral at the same or shorter maturity, therefore not giving rise to material maturity or liquidity mismatch; or

(ii) securities are lent to the institution at call or at short maturities, giving rise to liquidity risk, and the lender of the securities reinvests the cash collateral into a reinvestment fund or account subject to regulations or regulatory guidance meeting the minimum standards for reinvestment of cash collateral by securities lenders set out in Section 3.1 of the Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos issued by the Financial Stability Board in August 2013; and

(c) SFTs that are collateral upgrade transactions where—

(i) the institution borrows or lends securities; and

(ii) the recipient of the securities delivered as collateral or lent by the institution—

(A) is unable to re-use the securities; or

(B) provides representations to the institution that it does not and will not re-use the securities.

(3) For the purposes of this section, an authorized institution may rely on representations by securities lenders that their reinvestment of cash collateral meets the minimum standards referred to in subsection (2)(b)(ii).

226ZEC. Haircut floors applicable to in-scope securities

The haircut floors for in-scope securities are as set out in Table 23C.

Table 23C

Column 1	Column 2	Column 3	
		Haircut floors	
Item	Type of in-scope securities	In-scope securities other than securitization issues	Securitization issues
1.	Floating rate notes (***FRN***)	0.5%	1%
2.	Debt securities (other than FRN) with residual maturity of not more than one year	0.5%	1%

Column 1	Column 2	Column 3	
		Haircut floors	
Item	Type of in-scope securities	In-scope securities other than securitization issues	Securitization issues
3.	Debt securities (other than FRN) with residual maturity of more than one year and not more than 5 years	1.5%	4%
4.	Debt securities (other than FRN) with residual maturity of more than 5 years and not more than 10 years	3%	6%
5.	Debt securities (other than FRN) with residual maturity of more than 10 years	4%	7%

Column 1	Column 2	Column 3	
		Haircut floors	
Item	Type of in-scope securities	In-scope securities other than securitization issues	Securitization issues
6.	Equities included in a main index	6%	6%
7.	Other assets	10%	10%

226ZED. Capital treatment of single in-scope SFT

(1) This section applies to a single in-scope SFT that is not covered by a valid bilateral netting agreement.

(2) The haircut floor requirement is met in respect of a single in-scope SFT if H is equal to or larger than f, where H and f are calculated in accordance with subsections (4) and (5) or subsection (6), as the case requires.

(3) An authorized institution must calculate the risk-weighted amount of a single in-scope SFT that does not meet the haircut floor requirement in a manner as if no collateral were received by the institution under the SFT.

(4) For a single cash-lent-for-collateral SFT of an authorized institution, the institution must—

(a) determine H as the actual amount of the collateral received by the institution under the SFT; and

(b) determine f as the amount of the collateral that would be received by the institution under the SFT in accordance with the haircut floor applicable to the collateral as set out in Table 23C.

(5) For the purposes of subsection (4)(a), collateral that is called by either the authorized institution or its counterparty may be taken into account in determining the value of H from the moment that the collateral is called.

(6) For a single collateral-for-collateral SFT of an authorized institution, the institution must—

(a) calculate the actual effective haircut of the SFT by using Formula 23KA; and

Formula 23KA

$$H = \frac{C_B}{C_A} - 1$$

where—

(a) H is the actual effective haircut of the SFT;

(b) C_A is the actual amount of collateral lent by the institution under the SFT; and

(c) C_B is the actual amount of collateral received by the institution under the SFT.

(b) calculate the effective haircut floor applicable to the SFT by using Formula 23KB.

Formula 23KB

$$f = \frac{1 + f_B}{1 + f_A} - 1$$

where—

(a) f is the effective haircut floor applicable to the SFT;

(b) f_A is the haircut floor applicable to the collateral lent by the institution under the SFT as set out in Table 23C; and

(c) f_B is the haircut floor applicable to the collateral received by the institution under the SFT as set out in Table 23C.

226ZEE. Capital treatment of portfolio of SFTs

(1) This section applies to a netting set of SFTs that are covered by a valid bilateral netting agreement.

(2) For a netting set of SFTs of an authorized institution, the institution must calculate the effective haircut floor applicable to the netting set of SFTs by using Formulas 23KC, 23KD and 23KE and in accordance with subsection (3).

Formula 23KC

$$f_p = \frac{E}{C} - 1$$

Formula 23KD

$$E = \frac{\sum_s \left(\frac{E_s}{1 + f_s}\right)}{\sum_s E_s}$$

Formula 23KE

$$C = \frac{\sum_t \left(\frac{C_t}{1 + f_t}\right)}{\sum_t C_t}$$

where—

(a) f_p is the effective haircut floor applicable to the netting set;

(b) E_s is the net position in asset s that is net lent by the institution;

(c) C_t is the net position in asset t that is net borrowed by the institution;

(d) f_s is the haircut floor applicable to asset s as set out in Table 23C or in accordance with subsection (3)(a), as the case requires; and

(e) f_t is the haircut floor applicable to asset t as set out in Table 23C or in accordance with subsection (3)(b), as the case requires.

(3) When calculating f_p—

(a) f_s is zero for any asset lent by the authorized institution that is—

(i) cash; or

(ii) a security issued by a sovereign, a sovereign foreign public sector entity, or a multilateral development bank that is eligible for a risk-weight of 0% under Part 4, 5 or 6; and

(b) f_t is zero for any asset borrowed by the authorized institution that is—

(i) cash; or

(ii) a security issued by a sovereign, a sovereign foreign public sector entity, or a multilateral development bank that is eligible for a risk-weight of 0% under Part 4, 5 or 6.

(4) The haircut floor requirement is met in respect of a netting set of SFTs if Formula 23KF applies.

Formula 23KF

$$\frac{\sum C_t - \sum E_s}{\sum E_s} \geq f_p$$

(5) Collateral that is called by either the authorized institution or its counterparty may be taken into account in the calculations under subsections (2), (3) and (4) from the moment that the collateral is called.

(6) If a netting set of SFTs of an authorized institution does not meet the haircut floor requirement, the institution must calculate the risk-weighted amount of the netting set in a manner as if no collateral were received by the institution under each of the in-scope SFTs within the netting set that falls within both of the following descriptions—

(a) the asset received by the institution under the in-scope SFT is an in-scope security;

(b) within the netting set, the institution is a net receiver in that security.".

Part 5

Amendments in relation to Market Risk and CVA Risk

270. Section 2 amended (interpretation)

(1) Section 2(1)—

Repeal the definition of *banking book*

Substitute

"***banking book*** (銀行帳), in relation to an authorized institution, means the book consisting of—

(a) the institution's exposures in each of the instruments assigned to that book under section 281A(1) or 281B(4) or (8); and

(b) all of the institution's other on-balance sheet exposures and off-balance sheet exposures that are not assigned to the institution's trading book;".

(2) Section 2(1), definition of ***commodity***—

Repeal paragraph (b)

Substitute

"(b) in relation to the calculation of market risk capital charge and CVA risk capital charge, means—

(i) except in relation to the SSTM approach—any energy, freight, precious metal (including gold), non-precious metal, gaseous combustible, agricultural product or other physical product; or

(ii) in relation to the SSTM approach—any energy, freight, precious metal (other than gold), non-precious metal, gaseous combustible, agricultural product or other physical product; and".

(3) Section 2(1), definition of ***commodity-related derivative contract***, after "market risk"—

Add

"capital charge".

(4) Section 2(1), definition of ***Common Equity Tier 1 capital ratio***, after "risk-weighted amount for market risk,"—

Add

"risk-weighted amount for CVA risk,".

(5) Section 2(1)—

Repeal the definition of *counterparty credit risk*

Substitute

"***counterparty credit risk*** (對手方信用風險), in relation to a derivative contract or SFT entered into by an authorized institution with a counterparty, means the risk that the counterparty could default before the final settlement of the cash flows of the contract or transaction;".

(6) Section 2(1)—

Repeal the definition of *credit quality grade*

Substitute

"***credit quality grade*** (信用質素等級) means a grade represented by a numeral to which an ECAI rating is mapped in accordance with an LT ECAI rating mapping table or an ST ECAI rating mapping table;".

(7) Section 2(1)—

Repeal the definition of *credit valuation adjustment*

Substitute

"***credit valuation adjustment*** (信用估值調整), in relation to the calculation by an authorized institution of CVA risk in respect of a counterparty, means an adjustment made by the institution to the default risk-free prices of OTC derivative transactions and SFTs to reflect the potential default of that counterparty;".

(8) Section 2(1)—

Repeal the definition of *CVA risk*

Substitute

"***CVA risk*** (CVA風險) means the risk of mark-to-market losses arising from changes in CVA values in response to changes in credit spreads of counterparties and market risk factors that drive the price of OTC derivative transactions and SFTs;".

(9) Section 2(1), definition of ***default risk exposure***—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

(10) Section 2(1)—

Repeal the definition of *eligible CVA hedge*

Substitute

"***eligible CVA hedge*** (合資格CVA對沖) means a hedge that falls within section 322U(1);".

(11) Section 2(1), definition of ***internal models approach***—

Repeal

"set out in Divisions 11 and 12"

Substitute

"capital charge set out in Division 13".

(12) Section 2(1)—

Repeal the definition of *market risk*

Substitute

"***market risk*** (市場風險), in relation to an authorized institution, means—

(a) interest rate risk, credit spread risk, equity risk, commodity risk, foreign exchange risk and default risk for trading book instruments; and

(b) commodity risk and foreign exchange risk for banking book instruments;".

(13) Section 2(1), definition of ***relevant risk***, after "market risk,"—

Add

"CVA risk,".

(14) Section 2(1), definition of ***risk-weighted amount***, after paragraph (c)—

Add

"(ca) in relation to the calculation of the CVA risk of an authorized institution, means the amount of the institution's exposure to CVA risk calculated in accordance with Part 8A;".

(15) Section 2(1), definition of ***risk-weighted amount for credit risk***, paragraph (a), after "requires;"—

Add

"and".

(16) Section 2(1), definition of ***risk-weighted amount for credit risk***, paragraph (b)—

Repeal

"and".

(17) Section 2(1), definition of ***risk-weighted amount for credit risk***—

Repeal paragraph (c).

(18) Section 2(1), definition of ***standardized (market risk) approach***—

Repeal

"set out in Divisions 2 to 10"

Substitute

"capital charge set out in Divisions 1A, 1B, 1C and 1D".

(19) Section 2(1), definition of ***Tier 1 capital ratio***, after "risk-weighted amount for market risk,"—

Add

"risk-weighted amount for CVA risk,".

(20) Section 2(1), definition of ***Total capital ratio***, after "risk-weighted amount for market risk,"—

Add

"risk-weighted amount for CVA risk,".

(21) Section 2(1)—

Repeal the definition of *trading book*

Substitute

"***trading book*** (交易帳), in relation to an authorized institution, means the book consisting of the institution's exposures in each of the instruments assigned to it under section 281A(4) or 281B(1);".

(22) Section 2(1), definition of ***value-at-risk***—

Repeal

"within a given confidence interval"

Substitute

"at a given confidence level".

(23) Section 2(1)—

(a) definition of ***advanced CVA method***;

(b) definition of ***comprehensive risk charge***;

(c) definition of ***confidence interval***;

(d) definition of ***counterparty default risk***;

(e) definition of ***credit valuation adjustment capital charge***;

(f) definition of ***CVA capital charge***;

(g) definition of ***CVA risk-weighted amount***;

(h) definition of ***IMM approach***;

(i) definition of ***incremental risk charge***;

(j) definition of ***incremental risks***;

(k) definition of ***investing institution***;

(l) definition of ***standardized CVA method***;

(m) definition of ***stressed VaR***—

Repeal the definitions.

(24) Section 2(1)—

Add in alphabetical order

"***approved trading desk*** (經批准交易桌), in relation to the IMA, means a trading desk referred to in section 322A(2)(b);

credit valuation adjustment risk capital charge (信用估值調整風險資本要求), in relation to the calculation by an authorized institution of CVA risk, means the amount of regulatory capital that the institution is required to hold for the CVA risk;

CTP has the meaning given by section 281;

CVA risk capital charge (CVA風險資本要求) means a credit valuation adjustment risk capital charge;

full basic CVA approach (完整基本CVA計算法) means the method of calculating an authorized institution's CVA risk capital charge set out in Division 3 of Part 8A;

IMA means the internal models approach;

profit and loss attribution test (損益歸屬測試), in relation to the IMA, means a process comparing the daily changes in the value of a portfolio of exposures held by an approved trading desk for the most recent 250 trading days calculated by the internal models used for determining market risk capital charges and the front office systems, based on the following statistical metrics—

(a) the Spearman correlation metric;

(b) the Kolmogorov-Smirnov distribution test metric;

reduced basic CVA approach (簡化基本CVA計算法) means the method of calculating an authorized institution's CVA risk capital charge set out in Division 2 of Part 8A;

risk class (風險類別)—

(a) in relation to the STM approach, means any of the following classes of risk to which an authorized institution's market risk exposures can be allocated—

(i) general interest rate risk;

(ii) credit spread risk (non-securitization);

(iii) credit spread risk (securitization: non-CTP);

(iv) credit spread risk (securitization: CTP);

(v) equity risk;

(vi) commodity risk;

(vii) foreign exchange risk;

(b) in relation to the IMA, means any of the following classes of risk to which an authorized institution's market risk exposures can be allocated—

(i) general interest rate risk;

(ii) credit spread risk;

(iii) equity risk;

(iv) commodity risk;

(v) foreign exchange risk; and

(c) in relation to the standardized CVA approach, means any of the following classes of risk to which an authorized institution's CVA risk exposures can be allocated—

(i) interest rate risk;

(ii) counterparty credit spread risk;

(iii) reference credit spread risk;

(iv) equity risk;

(v) commodity risk;

(vi) foreign exchange risk;

risk-weighted amount for CVA risk (CVA風險的風險加權數額), in relation to an authorized institution, means—

(a) if the institution uses the approach set out in section 23C(1)(d)—the amount calculated by the institution under that approach; or

(b) in any other case—the amount calculated by the institution by multiplying the CVA risk capital charge by 12.5;

SA-DRC has the meaning given by section 281;

simplified standardized approach (簡化標準計算法) means the method of calculating an authorized institution's market risk capital charge set out in Divisions 2, 3, 4, 5, 6, 7, 8, 9 and 10 of Part 8;

SSTM approach (SSTM計算法) means the simplified standardized approach;

standardized CVA approach (標準CVA計算法) means the method of calculating an authorized institution's CVA risk capital charge set out in Division 4 of Part 8A;

trading desk (交易桌), in relation to the calculation of an authorized institution's market risk capital charge, means a group of traders or trading accounts—

(a) set up by the institution to manage a portfolio of trading book positions in accordance with a well-defined business strategy; and

(b) operating within a clear risk management structure;".

271. Section 3N amended (interpretation of Division 4)

(1) Section 3N, definition of ***JCCyB ratio***, paragraph (a)—

Repeal

"document entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" published by the Basel Committee in December 2010 (revised in June 2011)"

Substitute

"current Basel Framework".

(2) Section 3N, definition of ***private sector credit exposures***, paragraph (a), after "Part 6A"—

Add

", as the case requires".

(3) Section 3N, definition of ***private sector credit exposures***—

Repeal paragraph (c)

Substitute

"(c) exposures for which the institution calculates a market risk capital charge in accordance with Part 8 for—

(i) SA-DRC under the STM approach;

(ii) default risk charge under the IMA; or

(iii) specific risk under the SSTM approach,".

272. Section 3O amended (CCyB ratio)

(1) Section 3O(1), Formula 1A—

Repeal

"with—

(i) Part 4, 5 or 6, or Division 4 of Part 6A; and

(ii) Part 7; and"

Substitute

"with—

(i) Part 4, 5 or 6 or Division 4 of Part 6A; and

(ii) Part 7,

as the case requires; and".

(2) Section 3O(1), Formula 1A—

Repeal

"for specific risk for the exposures calculated in accordance with Part 8 (Note: if the institution is exempted by the Monetary Authority under section 22(1) from calculating its market risk under section 17, this paragraph is to be disregarded);"

Substitute

"calculated in accordance with Part 8 for—

(i) SA-DRC under the STM approach;

(ii) default risk charge under the IMA; or

(iii) specific risk under the SSTM approach,

as the case requires, but if the institution is exempted by the Monetary Authority under section 22(1) from calculating its market risk capital charge under section 17, this paragraph is to be disregarded;".

273. Section 10A amended (authorized institution must only use SA-CCR approach etc. to calculate its counterparty credit risk)

(1) Section 10A(1)—

Repeal

", (4)".

(2) Section 10A(1)(a), after "contracts;"—

Add

"and".

(3) Section 10A(1)(b)—

Repeal

"SFTs; and"

Substitute

"SFTs.".

(4) Section 10A(1)—

Repeal paragraph (c).

(5) Section 10A(2B)—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

(6) Section 10A—

Repeal subsections (3), (4) and (6).

(7) Section 10A(7)—

Repeal

"or (6)".

(8) Section 10A(8)—

Repeal

"(3), (4), (5), (6)"

Substitute

"(5)".

274. Section 10C repealed (provisions supplementary to prescribed methods for calculation of CVA capital charge)

Section 10C—

Repeal the section.

275. Section 10D amended (measures that may be taken by Monetary Authority if authorized institution using IMM(CCR) approach no longer satisfies specified requirements)

(1) Section 10D(2)(a)—

Repeal

"; and"

Substitute a comma.

(2) Section 10D(2)—

Repeal paragraph (b).

276. Part 2, Division 5 heading amended (prescribed approaches to calculation of market risk)

Part 2, Division 5, heading, after "**Market Risk**"—

Add

"**Capital Charge**".

277. Section 17 substituted

Section 17—

Repeal the section

Substitute

"**17. Authorized institution must use STM approach, SSTM approach or IMA to calculate its market risk capital charge**

(1) An authorized institution (other than an authorized institution exempted under section 22(1))—

(a) subject to paragraphs (b) and (c), must use the STM approach to calculate its market risk capital charge;

(b) may use the SSTM approach to calculate its market risk capital charge if it has approval to do so under section 17A; and

(c) subject to sections 18(7), 19 and 19A, may use the IMA to calculate its market risk capital charge in respect of any trading desk for which it has an approval under section 18(2)(a).

(2) Subsection (1) does not prevent an authorized institution from using a combination of the STM approach and the IMA to calculate its market risk capital charge in accordance with another provision of these Rules that expressly permits that combination.

(3) An authorized institution must not use either of the following to calculate its market risk capital charge—

(a) a combination of the STM approach and the SSTM approach;

(b) a combination of the SSTM approach and the IMA.".

278. Sections 17A and 17B added

After section 17—

Add

"**17A. Approval for authorized institution to use SSTM approach to calculate its market risk capital charge**

(1) An authorized institution may apply to the Monetary Authority for approval to use the SSTM approach to calculate its market risk capital charge.

(2) Subject to subsections (3) and (4), the Monetary Authority must determine an application from an authorized institution under subsection (1) by—

(a) granting approval to the institution to use the SSTM approach to calculate its market risk capital charge; or

(b) refusing to grant the approval.

(3) Subject to subsection (4), the Monetary Authority may grant approval to an authorized institution to use the SSTM approach to calculate its market risk capital charge if the institution demonstrates to the satisfaction of the Monetary Authority that—

(a) the institution's risk-weighted amount for market risk under the SSTM approach—

(i) does not exceed $1 billion on a permanent basis; and

(ii) does not exceed 2% of its total risk-weighted assets on a permanent basis;

(b) the aggregate notional amount of non-centrally cleared derivatives (including both banking book and trading book positions) does not exceed $6 trillion on a permanent basis;

(c) the institution is not a G-SIB, a D-SIB or a subsidiary of a G-SIB; and

(d) the institution does not hold a CTP.

(4) The Monetary Authority may refuse to grant approval to an authorized institution that meets the criteria set out in subsection (3) if the Monetary Authority considers that it is prudent to do so, having regard to the complexity and size of the risks in any of the institution's risk classes.

(5) The Monetary Authority must specify in an approval under this section the date on which the approval takes effect.

(6) If an approval under this section for an authorized institution is in effect, the institution must give written notice to the Monetary Authority if the institution—

(a) no longer on a permanent basis fulfils all of the criteria set out in subsection (3); or

(b) expects that any of those criteria will not be fulfilled.

(7) In this section—

D-SIB has the meaning given by section 3E(1);

G-SIB has the meaning given by section 3E(1).

17B. Revocation of approval for authorized institution to use SSTM approach to calculate its market risk capital charge

The Monetary Authority may, by written notice given to an authorized institution, revoke an approval granted to the institution under section 17A if—

(a) the Monetary Authority is satisfied that, if the approval were not in effect and the institution were to make a fresh application under section 17A(1), that application would be refused; or

(b) the institution has given the Monetary Authority a notice under section 17A(6).".

279. Section 18 substituted

Section 18—

Repeal the section

Substitute

"**18. Approval for authorized institution to use IMA to calculate its market risk capital charge in respect of trading desks**

(1) An authorized institution may apply to the Monetary Authority for approval to use the IMA to calculate its market risk capital charge in respect of any one or more trading desks.

(2) Subject to subsections (3), (4) and (5), the Monetary Authority must determine an application from an authorized institution under subsection (1) by—

(a) granting approval to the institution to use the IMA to calculate its market risk capital charge in respect of any one or more trading desks specified in the approval; or

(b) refusing to grant the approval.

(3) The Monetary Authority may grant approval to an authorized institution if, following the approval, at least 10% of its aggregate market risk capital charges will be based on positions held on trading desks referred to in the approval.

(4) The Monetary Authority must refuse to grant approval in respect of a trading desk that holds—

(a) securitization exposures; or

(b) equity investments in a collective investment scheme that cannot be looked through but are assigned to the trading book.

(5) The Monetary Authority must refuse to grant approval to an authorized institution if any one or more of the requirements in Schedule 3 applicable to the institution are not satisfied.

(6) The Monetary Authority must specify in an approval the date on which, or an event on the occurrence of which, the approval takes effect.

(7) An authorized institution that uses the IMA to calculate its market risk capital charge in respect of any one or more trading desks—

(a) must not, without the prior consent of the Monetary Authority, make any change to the core model documentation that is the subject of the approval granted to the institution;

(b) must also calculate its market risk capital charge using the STM approach in respect of each trading desk for which it uses the IMA; and

(c) must also calculate its market risk capital charge using the STM approach across all trading desks.

(8) In this section—

approval (批准) means an approval under subsection (2)(a);

core model documentation (核心模式文件) means the core model documentation referred to in section 1(1)(d)(i) of Schedule 3.".

280. Section 18A repealed (transitional provisions applicable to approvals granted under section 18 as in force immediately before commencement date of Banking (Capital) (Amendment) Rules 2011 (L.N. 137 of 2011))

Section 18A—

Repeal the section.

281. Section 19 amended (measures which may be taken by Monetary Authority if authorized institution using IMM approach no longer satisfies specified requirements)

(1) Section 19, heading—

Repeal

"**IMM approach**"

Substitute

"**IMA**".

(2) Section 19—

Repeal subsection (1)

Substitute

"(1) The Monetary Authority may take one or more of the measures set out in subsection (2) in relation to an authorized institution that uses the IMA to calculate its market risk capital charge in respect of one or more trading desks if the Monetary Authority is satisfied that—

(a) if the approval under section 18(2)(a) were not in effect and the institution were to make a fresh application under section 18(1)—the application would be refused because of section 18(5);

(b) the institution has contravened a condition attached under section 33A(1) or (2) to its approval under section 18(2)(a); or

(c) an internal model falls into the back-testing red zone referred to in item 7 of Table 32A.".

(3) Section 19(2)—

Repeal paragraph (a)

Substitute

"(a) the Monetary Authority may, by written notice given to the institution, require the institution to use the STM approach instead of the IMA to calculate its market risk capital charge in respect of the trading desks specified in the notice beginning on a date, or on the occurrence of an event, as specified in the notice;".

(4) Section 19(2)(b)(i)—

Repeal

"subsection (1)(b)"

Substitute

"subsection (1)(a), (b) or (c)".

(5) Section 19(2)(d)—

Repeal

"section 319(3)"

Substitute

"section 322E(3)".

(6) Section 19(2)(e)—

Repeal

"subsection (1)(b)"

Substitute

"subsection (1)(a), (b) or (c)".

(7) Section 19(4)—

Repeal paragraph (a)

Substitute

"(a) the requirements specified in Schedule 3 are also applicable to and in relation to an authorized institution using the IMA to calculate its market risk capital charge in respect of the use by the institution of an internal model to which a change of the core model documentation referred to in section 18(7)(a) relates (whether or not the institution has, in respect of that change, been given the prior consent required by that section), and subsection (1) and the other provisions of this section apply to the institution accordingly; and".

282. Section 19A added

After section 19—

Add

"**19A. Authorized institution that has approval to use IMA must use STM approach in certain circumstances**

(1) This section applies if a trading desk in respect of which an authorized institution has an approval under section 18(2)(a)—

(a) no longer fulfils the back-testing requirements under section 322G(1); or

(b) at any time on or after the first anniversary of the day on which section 322G comes into operation, is assigned to the red zone in the profit and loss attribution test under section 322G(3).

(2) The institution must use the STM approach to calculate its market risk capital charge in respect of the trading desk until the trading desk—

(a) has satisfied the back-testing requirements over the past 12 months; and

(b) has been reassigned to the green zone in the profit and loss attribution test.

(3) An authorized institution must give written notice to the Monetary Authority if the institution because of this section—

(a) switches from using the IMA to using the STM approach; or

(b) switches back from using the STM approach to using the IMA.

(4) Despite subsection (2), the Monetary Authority may permit an authorized institution to continue using the IMA to calculate its market risk capital charge in respect of a trading desk to which subsection (1) applies if the Monetary Authority is satisfied that there are the most extraordinary circumstances with systemic relevance.

(5) If the Monetary Authority permits under subsection (4) an authorized institution to continue using the IMA in respect of a trading desk, the institution must, as quickly as it is able, update its internal models to take into account the regime shift or

significant market stress resulting from the circumstances referred to in that subsection.".

283. Sections 23A and 23B repealed

Sections 23A and 23B—

Repeal the sections.

284. Part 2, Division 5A added

Part 2, after Division 5—

Add

"Division 5A—Prescribed Approaches to Calculation of CVA Risk Capital Charge

23C. Approaches authorized institution must use to calculate its CVA risk capital charge

(1) An authorized institution—

(a) subject to paragraphs (c) and (d), must use the full basic CVA approach to calculate its CVA risk capital charge if the institution includes any eligible CVA hedge in the calculation of that charge;

(b) subject to paragraphs (c) and (d), may use the reduced basic CVA approach to calculate its CVA risk capital charge if the institution does not include any eligible CVA hedge in the calculation of that charge;

(c) may use the standardized CVA approach to calculate its CVA risk capital charge in respect of one or more transactions if the institution has approval to do so under section 23D; and

(d) subject to subsection (5), in the circumstances specified in subsection (2), may calculate its risk-weighted amount for CVA risk as the aggregate of—

(i) the IMM(CCR) risk-weighted amount of the transactions or contracts concerned that are covered by the IMM(CCR) approval;

(ii) the SA-CCR risk-weighted amount or CEM risk-weighted amount of the transactions or contracts concerned that are not covered by the IMM(CCR) approval;

(iii) the SA-CCR risk-weighted amount of the transactions or contracts concerned that fall within section 10B(5) or (7); and

(iv) the SFT risk-weighted amount of the SFTs that are not covered by the IMM(CCR) approval or that fall within section 10B(5) or (7).

(2) For the purposes of subsection (1)(d), the circumstances are that the total notional amount of the institution's OTC derivative transactions that are not cleared with a CCP does not exceed $1 trillion on a permanent basis.

(3) Subsection (1) does not prevent an authorized institution from using a combination of the reduced basic CVA approach and the standardized CVA approach, or a combination of the full basic CVA approach and the standardized CVA approach, to calculate its CVA risk capital charge for—

(a) different counterparties;

(b) different netting sets with the same counterparty; and

(c) different transactions within the same netting set, if—

(i) the netting set is split into 2 synthetic netting sets, where one is subject to the standardized CVA approach and the other is subject to the reduced basic CVA approach or the full basic CVA approach; and

(ii) the split—

(A) is consistent with the treatment of the legal netting set used by the institution for accounting purposes; or

(B) results from the fact that the approval under section 23D does not cover all transactions within the netting set.

(4) An authorized institution must not use any of the following to calculate its CVA risk capital charge or risk-weighted amount for CVA risk—

(a) a combination of the reduced basic CVA approach and the approach set out in subsection (1)(d);

(b) a combination of the full basic CVA approach and the approach set out in subsection (1)(d);

(c) a combination of the standardized CVA approach and the approach set out in subsection (1)(d).

(5) The Monetary Authority may, by written notice given to an authorized institution, prohibit the institution from using the approach set out in subsection (1)(d) to calculate its risk-weighted amount for CVA risk if the Monetary Authority considers that the CVA risk of the institution materially contributes to the overall risk of the institution.

(6) An authorized institution must comply with a notice given to it under subsection (5).

(7) In this section—

CEM risk-weighted amount (CEM風險加權數額) has the meaning given by section 106(7);

SFT risk-weighted amount (SFT風險加權數額) has the meaning given by section 52(9) or 106(7), as the case requires.

23D. Approval for authorized institution to use standardized CVA approach to calculate its CVA risk capital charge

(1) An authorized institution may apply to the Monetary Authority for approval to use the standardized CVA approach to calculate its CVA risk capital charge in respect of the types of transactions specified in the application.

(2) Subject to subsection (3), the Monetary Authority must determine an application from an authorized institution under subsection (1) by—

(a) granting approval to the institution to use the standardized CVA approach to calculate its CVA risk capital charge in respect of the transactions specified in the approval; or

(b) refusing to grant the approval.

(3) The Monetary Authority may only grant approval to an authorized institution if the institution demonstrates to the satisfaction of the Monetary Authority that the institution meets the requirements specified in Schedule 1B that are applicable to it.

(4) The Monetary Authority must specify in an approval the date on which, or the event on the occurrence of which, the approval takes effect.

(5) If an approval for an authorized institution under this section is in effect, the institution must give written notice to the Monetary Authority if the institution—

(a) no longer meets all of the requirements specified in Schedule 1B that are applicable to it; or

(b) expects that any of those requirements will not be met.

23E. Revocation of approval under section 23D

(1) The Monetary Authority may, by written notice given to an authorized institution, revoke an approval granted under section 23D, and require the institution, on and after the date specified in the notice or the occurrence of an event specified in the notice, to use another approach instead of the standardized CVA approach to calculate its CVA risk capital charge in respect of the transactions specified in the approval if—

(a) the Monetary Authority is satisfied that—

(i) if the approval were not in effect and the institution were to make a fresh application under section 23D(1), that application would be refused; or

(ii) the institution has contravened a condition attached under section 33A(1) or (2) to the approval; or

(b) the institution has given the Monetary Authority a notice under section 23D(5).

(2) An authorized institution must comply with a notice given to it under subsection (1).".

285. Section 29 amended (solo basis for calculation of capital adequacy ratio)

After section 29(1)(a)(i)—

Add

"(ia) CVA risk;".

286. Section 30 amended (solo-consolidated basis for calculation of capital adequacy ratio)

After section 30(1)(a)(i)—

Add

"(ia) CVA risk;".

287. Section 31 amended (consolidated basis for calculation of capital adequacy ratio)

After section 31(1)(a)(i)—

Add

"(ia) CVA risk;".

288. Section 139 amended (interpretation of Part 6)

(1) Section 139(1), English text, definition of ***eligible provisions***, paragraph (b)—

Repeal the comma

Substitute a semicolon.

(2) Section 139(1), definition of ***eligible provisions***—

Repeal

"exclusive of any CVA and CVA loss;".

289. Section 156 amended (calculation of risk-weighted amount of corporate, sovereign and bank exposures)

Section 156—

Repeal subsections (9) and (10).

290. Section 160 amended (loss given default under foundation IRB approach)

Section 160(1)(d)—

Repeal subparagraphs (i) and (ii)

Substitute

"(i) the institution calculates its market risk capital charge by using the STM approach or the IMA; and

(ii) the determination of the default risk exposures under that section has used existing calculations for SA-DRC (as defined by section 281) or default risk charge (as defined by section 281), as the case requires, that already contain an LGD assumption.".

291. Section 226A amended (interpretation of Part 6A)

(1) Section 226A, Chinese text, definition of ***變動保證金***—

Repeal

"品；"

Substitute

"品。".

(2) Section 226A—

(a) definition of ***CVA risk***;

(b) definition of ***eligible CVA hedge***;

(c) definition of ***single-name contingent credit default swap***;

(d) definition of ***spread gamma***—

Repeal the definitions.

292. Section 226ML substituted

Section 226ML—

Repeal the section

Substitute

"**226ML. Use of value-at-risk model instead of section 226MJ and Formula 23EB**

(1) An authorized institution may use an internal model based on VaR (***VaR model***) as an alternative to the use of section 226MJ and Formula 23EB for the purpose of calculating the amount of its default risk exposure to a counterparty in respect of single SFTs or nettable SFTs if—

(a) the authorized institution uses the IRB approach to calculate the risk-weighted amounts of the SFTs;

(b) the authorized institution is either—

(i) granted an approval under section 18(2)(a) by the Monetary Authority to use the IMA to calculate its market risk capital charge

in respect of any one or more trading desks; or

(ii) granted an approval under subsection (4)(a) by the Monetary Authority; and

(c) all the requirements in subsection (2) are met.

(2) The requirements are that—

(a) the VaR model approved under subsection (1)(b)(i) or (ii), as the case may be, captures risk sufficient to—

(i) fulfil the back-testing requirements under section 322G(1); and

(ii) be assigned to the green zone in the profit and loss attribution test under section 322G(2);

(b) none of the collateral posted or received by the institution in respect of the SFTs is a securitization exposure; and

(c) the collateral is revalued on a daily basis.

(3) An authorized institution that does not have the approval referred to in subsection (1)(b)(i) may apply to the Monetary Authority for an approval to use a VaR model as an alternative to—

(a) the use of section 226MJ for the purpose of calculating the amount of default risk exposure to a counterparty in respect of single SFTs; and

(b) the use of Formula 23EB for the purpose of calculating the amount of default risk exposure to a counterparty in respect of nettable SFTs.

(4) Subject to subsection (5), the Monetary Authority must—

(a) determine the application made by an authorized institution under subsection (3) by granting or refusing to grant the approval; and

(b) give a written notice of the decision to the authorized institution.

(5) The Monetary Authority must refuse to grant the approval under subsection (4)(a) unless the authorized institution satisfies the Monetary Authority that the institution and the VaR model in respect of which the approval is sought satisfy the requirements specified in Schedule 3 with the following exceptions and modifications—

(a) instead of an expected shortfall at a 97.5% confidence level, the model must calculate the VaR at a 99%, one-tailed confidence level;

(b) the model does not need to satisfy the requirements specified in section 2 of that Schedule in relation to default risk charge; and

(c) instead of the minimum liquidity horizon of 10 days specified in Table A in section 1(1) of that Schedule, the model assumes—

(i) a minimum holding period of 5 business days for margined repo-style transactions;

(ii) a minimum holding period of 10 business days for SFTs other than margined repo-style transactions; and

(iii) a longer minimum holding period than the one specified in subparagraph (i) or (ii) when this is appropriate given the liquidity of the market instruments concerned.

(6) An authorized institution must not, without the prior written consent of the Monetary Authority, make any significant change to the VaR model that is the subject of the approval granted to the institution under subsection (4)(a).

(7) An authorized institution that is permitted under subsection (1) to use the VaR model must calculate the amount of default risk exposure in respect of SFTs by using Formula 23EC.

Formula 23EC

$$E^{*} = \max\left\{0, \left[\left(\sum (E) - \sum (C)\right) + \text{VaR output}\right]\right\}$$

where—

(a) E* is the amount of default risk exposure;

(b) E is the current market value of all money and securities provided by the institution under the SFTs;

(c) C is the current market value of all money and securities received by the institution under the SFTs; and

(d) VaR output is the VaR number generated by the VaR model in respect of the previous business day.

(8) If the authorized institution mentioned in subsection (7) has an approval referred to in subsection (1)(b)(i), the VaR output in Formula 23EC must be calculated—

(a) at a 99%, one-tailed confidence level; and

(b) based on—

(i) a minimum holding period of 5 business days for margined repo-style transactions;

(ii) a minimum holding period of 10 business days for SFTs other than margined repo-style transactions; and

(iii) a longer minimum holding period than the one specified in subparagraph (i) or (ii) when this is appropriate given the liquidity of the market instruments concerned.".

293. Part 6A, Division 3 repealed (calculation of CVA capital charge)

Part 6A—

Repeal Division 3.

294. Section 226W amended (calculation of credit risk exposures)

(1) Section 226W(5), definition of ***20-business day supervisory floor***, paragraph (b), after "226BZE(3);"—

Add

"or".

(2) Section 226W(5), definition of ***20-business day supervisory floor***, paragraph (c)—

Repeal

"226M(2); or"

Substitute

"226M(2);".

(3) Section 226W(5), definition of ***20-business day supervisory floor***—

Repeal paragraph (d).

(4) Section 226W(6)—

Repeal

"or 226ML".

295. Section 226Z amended (exposures of clearing members to direct clients)

(1) Section 226Z(1)(a) and (b)—

Repeal

"CVA risk-weighted amount"

Substitute

"risk-weighted amount for CVA risk".

(2) Section 226Z(1)—

Repeal

"Division 3"

Substitute

"Part 8A".

(3) Section 226Z(2) and (3)—

Repeal

"CVA risk-weighted amount"

Substitute

"risk-weighted amount for CVA risk".

296. Section 226ZA amended (exposures of direct clients to clearing members)

(1) Section 226ZA(1)—

Repeal

"CVA risk-weighted amount"

Substitute

"risk-weighted amount for CVA risk".

(2) Section 226ZA(1)—

Repeal

"Division 3"

Substitute

"Part 8A".

(3) Section 226ZA(2)—

Repeal

"CVA risk-weighted amount"

Substitute

"risk-weighted amount for CVA risk".

297. Section 226ZB amended (exposures of direct clients to CCPs)

(1) Section 226ZB(1)—

Repeal

"CVA risk-weighted amount"

Substitute

"risk-weighted amount for CVA risk".

(2) Section 226ZB(1)—

Repeal

"Division 3"

Substitute

"Part 8A".

298. Section 226ZBA amended (exposure of authorized institution to higher level client or lower level client within multi-level client structure)

(1) Section 226ZBA(1)—

Repeal

"CVA risk-weighted amount"

Substitute

"risk-weighted amount for CVA risk".

(2) Section 226ZBA(1)—

Repeal

"Division 3 and Part 4, 5 or 6, as the case requires"

Substitute

"Part 4, 5 or 6, as the case requires, and Part 8A".

(3) Section 226ZBA(2)—

Repeal

"CVA risk-weighted amount"

Substitute

"risk-weighted amount for CVA risk".

299. Section 226ZO amended (look-through approach: calculation of risk-weighted amount of underlying exposures)

Section 226ZO(4)—

Repeal

"Division 3 of Part 6A"

Substitute

"Part 8A".

300. Section 226ZR amended (mandate-based approach: calculation of risk-weighted amounts of underlying exposures)

Section 226ZR(4)—

Repeal

"Division 3 of Part 6A"

Substitute

"Part 8A".

301. Section 227 amended (interpretation of Part 7)

Section 227(1), definition of ***exposure amount***, paragraph (c)—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

302. Section 239 amended (treatment of overlapping securitization exposures)

(1) Section 239(4)—

Repeal

"total market risk capital charge for specific risk"

Substitute

"market risk capital charge".

(2) Section 239(5)—

Repeal the definition of *regulatory capital*

Substitute

"***regulatory capital*** (監管資本), in relation to a securitization exposure booked in the trading book or an overlapping portion that has been attributed to the exposure, means—

(a) the SBM capital charge, RRAO and SA-DRC in relation to securitization exposures calculated by using the STM approach; or

(b) the market risk capital charge for specific risk in relation to securitization exposures calculated by using the SSTM approach.".

303. Part 8 heading amended (calculation of market risk)

Part 8, heading, after "**Risk**"—

Add

"**Capital Charge**".

304. Section 281 amended (interpretation of Part 8)

(1) Section 281, heading, after "**Part 8**"—

Add

"**and Schedule 3**".

(2) Section 281—

Repeal

", unless the context otherwise requires"

Substitute

"and Schedule 3".

(3) Section 281, definition of ***delta***—

Repeal

"an option contract"

Substitute

"the calculation of an authorized institution's market risk capital charge for an option contract under the SSTM approach".

(4) Section 281, definition of ***gamma***—

Repeal

"an option contract"

Substitute

"the calculation of an authorized institution's market risk capital charge for an option contract under the SSTM approach".

(5) Section 281—

Repeal the definition of *investment grade*

Substitute

"***investment grade*** (投資等級) means—

(a) a credit quality grade of 1, 2, 3 or 4 derived from mapping the ECAI issuer rating assigned to an issuer, being a sovereign, of any debt security to a credit quality grade in the LT ECAI rating mapping table for Type A ECAIs;

(b) a credit quality grade of 1, 2, 3 or 4 derived from mapping the ECAI issue specific rating assigned to any debt security issued by a bank or securities firm to a credit quality grade in the LT ECAI rating mapping table, or ST ECAI rating mapping table, for Type A ECAIs;

(c) a credit quality grade of 1, 2, 3 or 4 derived from mapping the ECAI issue specific rating assigned to any debt security issued by a corporate (within the meaning of section 51(1)

or 139(1), as the case requires) to a credit quality grade in the LT ECAI rating mapping table, or ST ECAI rating mapping table, for Type A ECAIs; or

(d) a credit quality grade of 1, 2, 3 or 4 derived from mapping the ECAI issue specific rating assigned to any debt security issued by a corporate (within the meaning of section 51(1) or 139(1), as the case requires) incorporated in India to a credit quality grade in the LT ECAI rating mapping table, or ST ECAI rating mapping table, for Type B ECAIs;".

(6) Section 281, definition of ***special purpose entity***—

Repeal

"correlation trading portfolio"

Substitute

"CTP".

(7) Section 281, definition of ***vega***—

Repeal

"an option contract"

Substitute

"the calculation of an authorized institution's market risk capital charge for an option contract under the SSTM approach".

(8) Section 281, Chinese text, definition of ***n^{th}違責者信用衍生工具合約***, paragraph (b)—

Repeal

"約。"

Substitute

"約；".

(9) Section 281—

(a) definition of ***comprehensive risk charge***;

(b) definition of ***incremental risk charge***;

(c) definition of ***incremental risks***;

(d) definition of ***stressed VaR***;

(e) definition of ***stressed VaR relevant period***—

Repeal the definitions.

(10) Section 281—

Add in alphabetical order

"***covered bond*** (資產覆蓋債券) has the meaning given by rule 17 of the Banking (Liquidity) Rules (Cap. 155 sub. leg. Q);

CTP means a correlation trading portfolio;

current ES (現行ES), in relation to a portfolio of exposures held by an authorized institution, means an ES calculated by the institution under the IMA with model inputs calibrated to historical data from the most recent 12-month period;

default risk charge (違責風險資本要求), in relation to the IMA, means the greater of the following—

(a) the most recent market risk capital charge calculated by an authorized institution's internal models to capture the risk of direct loss due to a default event as well as the potential for indirect loss that may arise from a default event in respect of its trading book positions in credit instruments and equity instruments;

(b) the average of all such market risk capital charges calculated by the institution's internal models over the previous 12-week period;

eligible internal risk transfer (合資格內部風險轉移), in relation to the calculation of an authorized institution's market risk capital charge, means an internal risk transfer that is recognized under section 281D;

ES means expected shortfall;

expected shortfall (預期損失值), in relation to a portfolio of exposures, means the average of all potential losses exceeding the VaR over a period of time at a given confidence level;

GIRR means general interest rate risk;

gross jump-to-default risk amount (突發違責風險總額), in relation to the SA-DRC, means the estimated loss or gain on an individual exposure as a result of the default of an obligor;

idiosyncratic credit spread NMRF (獨特信用利差NMRF), in relation to the IMA, means a credit spread NMRF that is associated with a particular issuance, including default provisions, maturity and seniority;

idiosyncratic equity NMRF (獨特股權NMRF), in relation to the IMA, means an equity NMRF that is associated with a particular equity;

internal risk transfer (內部風險轉移), in relation to the calculation of an authorized institution's market risk capital charge, means a transfer of risk, confirmed by an internal written record—

(a) within the institution's banking book;

(b) between the institution's banking book and trading book; or

(c) between different desks within the institution's trading book;

look-through approach (透視計算法) means the decomposition of an instrument into its underlying exposures or its individual components that, in the case of a collective investment scheme, is based on sufficient and frequent information verified by an independent third party;

modellable risk factor (可模式化風險因素), in relation to the IMA, means a risk factor that passes the risk factor eligibility test under an authorized institution's internal models;

net jump-to-default risk amount (突發違責風險淨額), in relation to the SA-DRC, means the estimated loss or gain for an authorized institution as a result of the default of an obligor after offsetting gross jump-to-default risk amounts with respect to that obligor;

NMRF means a non-modellable risk factor;

non-modellable risk factor (不可模式化的風險因素), in relation to the IMA, means a risk factor that is not a modellable risk factor;

qualifying covered bond (合資格資產覆蓋債券) means a covered bond that meets all the conditions in rule 70(3) of the Banking (Exposure Limits) Rules (Cap. 155 sub. leg. S) at the inception of the covered bond and throughout its remaining maturity;

real price observation (真實價格觀察), for an authorized institution in relation to a risk factor under the IMA, means—

(a) a price at which the institution has conducted a transaction;

(b) a verifiable price for an actual transaction between other arms-length parties;

(c) a price obtained from a committed quote made by the institution itself or another party that has been collected and verified through a third-party vendor, a trading platform or an exchange; or

(d) a price obtained from a third-party vendor if—

(i) the transaction or committed quote has been processed through the vendor;

(ii) the vendor agrees to provide evidence of the transaction or committed quote to the Monetary Authority at the request of the institution; and

(iii) the price meets any of the criteria in paragraph (a), (b) or (c);

reduced set of modellable risk factors (可模式化風險因素的簡化組合), for an authorized institution in relation to the IMA, means a set of modellable risk factors approved for the institution by the Monetary Authority under section 322D(5)(a);

residual risk add-on (剩餘風險附加額) means a component of the STM approach under Division 1C to capture any additional risks beyond the main risk factors already captured in the SBM and the SA-DRC;

risk factor (風險因素) means a variable that affects the value of an instrument;

risk factor eligibility test (風險因素合資格測試), in relation to the IMA, means a test to check whether

there are a sufficient number of real price observations that are representative of a risk factor;

RRAO means the residual risk add-on;

SA-DRC means the standardized default risk charge;

SA-DRC (non-securitization) (SA-DRC(非證券化)) means the SA-DRC for the exposures set out in section 281T(1);

SA-DRC (securitization: CTP) (SA-DRC(證券化：CTP)) means the SA-DRC for the exposures to instruments set out in section 281W(1);

SA-DRC (securitization: non-CTP) (SA-DRC(證券化：非CTP)) means the SA-DRC for the exposures set out in section 281V(1);

SBM means the sensitivities-based method;

SBM curvature (SBM曲率) means a sensitivity to capture the changes in the value of an authorized institution's position due to movements in its non-volatility risk factors not captured by the SBM delta;

SBM curvature risk (SBM曲率風險) means the risk of changes in the value of an authorized institution's position due to movements in its non-volatility risk factors captured by SBM curvature;

SBM delta (SBM得爾塔) means a first order sensitivity to capture the changes in the value of an authorized institution's position due to movements in its non-volatility risk factors;

SBM delta risk (SBM得爾塔風險) means the risk of changes in the value of an authorized institution's position due to movements in its non-volatility risk factors captured by SBM delta;

SBM vega (SBM維加) means a first order sensitivity to capture the changes in the value of an authorized institution's position due to movements in its volatility risk factors;

SBM vega risk (SBM維加風險) means the risk of changes in the value of an authorized institution's position due to movements in its volatility risk factors captured by SBM vega;

sensitivities-based method (敏感度基準方法) means a component of the STM approach to capture SBM delta risks, SMB vega risks and SBM curvature risks, within a particular risk class under Division 1B;

standardized default risk charge (標準違責風險資本要求) means a component of the STM approach to capture jump-to-default risk for credit instruments and equity instruments under Division 1D;

stress scenario capital charge (壓力情況資本要求), in relation to an authorized institution, means the market risk capital charge for an NMRF calculated by the institution under the IMA with model inputs calibrated to a relevant continuous 12-month period of significant financial stress;

stressed ES (受壓ES), in relation to a portfolio of exposures held by an authorized institution, means an ES calculated by the institution under the IMA with model inputs calibrated to historical data from a stressed ES relevant period;

stressed ES relevant period (受壓ES有關期間), in relation to a portfolio of exposures held by an authorized institution, means a continuous 12-month period of significant financial stress for which the portfolio experienced the largest loss since at least 2007;".

305. Sections 281A to 281E added

Part 8, Division 1, after section 281—

Add

"**281A. Banking book**

(1) Subject to subsections (2) and (4), an authorized institution must assign the following instruments to its banking book—

(a) unlisted equities;

(b) instruments designated for securitization warehousing;

(c) direct holdings of real estate and derivatives on direct holdings of real estate;

(d) retail and small or medium-sized enterprise credit;

(e) equity investments in a collective investment scheme;

(f) hedge funds;

(g) derivative contracts and collective investment schemes that have instruments of a kind referred to in paragraph (a), (b), (c), (d), (e) or (f) as underlying assets;

(h) instruments held for the purpose of hedging a particular risk of a position in instruments of a kind referred to in paragraph (a), (b), (c), (d), (e), (f) or (g).

(2) Subsection (1)(e) does not apply to a collective investment scheme if—

(a) the institution is able to apply the look-through approach to the scheme; or

(b) the institution obtains daily price quotes for the scheme and has access to the information contained in the scheme's mandate or in the relevant regulations governing the scheme.

(3) The Monetary Authority may, by written notice, require an authorized institution to provide to the Monetary Authority, within the period specified in the notice, evidence that an instrument (other than an instrument of a kind referred to in subsection (1)) assigned to the institution's banking book is not held for a purpose referred to in section 281B(1).

(4) If—

(a) the institution does not, within the period specified in a notice under subsection (3), provide sufficient evidence to satisfy the Monetary Authority that the instrument is not held for a purpose referred to in section 281B(1); or

(b) the Monetary Authority is satisfied that the instrument customarily belongs to the trading book,

the Monetary Authority may, by written notice, require the institution to assign the instrument to the institution's trading book within the period specified in the notice.

281B. Trading book

(1) Subject to subsection (6)(a) and section 281A, an authorized institution must assign to its trading book, on the initial recognition on its books, an instrument that is held for one or more of the following purposes—

(a) short-term resale;

(b) profiting from short-term price movements;

(c) locking in arbitrage profits;

(d) hedging risks that arise from an instrument held for one or more purposes referred to in paragraphs (a), (b) and (c).

(2) Subject to subsection (6)(a) and section 281A, and without limiting subsection (1), the following instruments are taken to be held for a purpose referred to in subsection (1) and must be assigned to the trading book—

(a) instruments in the institution's CTP;

(b) instruments that would give rise to a net short credit or equity position in the institution's banking book;

(c) instruments resulting from securities underwriting commitments relating only to securities that are expected to be actually purchased by the institution on the settlement date.

(3) Subject to subsections (4) and (6)(a) and section 281A, and without limiting subsection (1), the following instruments are taken to be held for a purpose referred to in subsection (1) and must be assigned to the trading book—

(a) instruments held as accounting trading assets or liabilities;

(b) instruments resulting from market making activities;

(c) equity investments in a collective investment scheme to which section 281A(1)(e) does not apply because of section 281A(2);

(d) listed equities;

(e) trading-related repo-style transactions;

(f) options (including embedded derivatives from instruments that the institution issued out of its banking book and that relate to credit risk or equity risk),

unless the Monetary Authority gives written approval under subsection (4) for the institution to assign the instrument to its banking book.

(4) An authorized institution may assign an instrument referred to in subsection (3) to its banking book if—

(a) the institution submits a written request to the Monetary Authority and provides evidence that the instrument is not held for a purpose referred to in subsection (1); and

(b) the Monetary Authority gives written approval to the institution to assign the instrument to its banking book.

(5) The institution must keep a record of an approval under subsection (4)(b) and document all the evidence referred to in subsection (4)(a).

(6) An authorized institution—

(a) must not assign an instrument to its trading book if there is any legal impediment to selling or fully hedging it; and

(b) must fair value daily each instrument assigned to its trading book and recognize any valuation change in its profit and loss account.

(7) The Monetary Authority may, by written notice, require an authorized institution to provide to the Monetary Authority, within the period specified in the notice, evidence that an instrument (other than an instrument of a kind referred to in subsection (2)) assigned to the institution's trading book is held for a purpose referred to in subsection (1).

(8) If—

(a) the institution does not, within the period specified in a notice under subsection (7), provide sufficient evidence to satisfy the Monetary Authority that the instrument is held for a purpose referred to in subsection (1); or

(b) the Monetary Authority is satisfied that the instrument customarily belongs to the banking book,

the Monetary Authority may, by written notice, require the institution to assign the instrument to the institution's banking book within the period specified in the notice.

(9) An authorized institution—

(a) must have clearly defined policies, procedures and documented practices for determining which instruments are to be included in or excluded from its trading book;

(b) must have effective internal controls to ensure that all instruments are properly assigned initially to its trading book or banking book;

(c) must keep comprehensive records to demonstrate its compliance with the policies and procedures referred to in paragraph (a); and

(d) must conduct by its internal auditors, at least annually, an independent review or audit of its compliance with the policies and procedures referred to in paragraph (a).

(10) In this section—

embedded derivative (嵌入式衍生工具) means an instrument referred to in paragraph (b) of the definition of ***derivative contract*** in section 2(1).

281C. Restriction on moving instruments between books

(1) Subject to sections 281A and 281B, an authorized institution must not move an instrument between its banking book and trading book after its initial assignment unless—

(a) the instrument is reclassified as an accounting trading asset or liability (in which case there is a presumption that the instrument is in the trading book, as required by section 281B(3)(a)); or

(b) the Monetary Authority, on the application of the institution, gives written approval for the instrument to be moved.

(2) The Monetary Authority may give approval under subsection (1)(b) only if satisfied that there are extraordinary circumstances.

(3) If an authorized institution moves an instrument between its banking book and trading book in accordance with this section, it must, after the move—

(a) determine whether the total capital charge across its banking book and trading book is reduced by the move; and

(b) if so, impose the reduced amount as a fixed market risk capital surcharge, to run off in a manner agreed with the Monetary Authority as the position matures or expires.

(4) An authorized institution—

(a) must have policies in place in relation to the moving of instruments between its banking book and trading book;

(b) must review and, if necessary, based on an analysis of all extraordinary circumstances referred to in subsection (2), update those policies annually; and

(c) must give written notice to the Monetary Authority of any changes to those policies.

281D. Treatment of internal risk transfers

(1) An authorized institution may recognize an internal risk transfer in any of the circumstances set out in this section for the purpose of calculating its market risk capital charge.

(2) The institution may recognize an internal risk transfer from its banking book to its trading book that aims to hedge a credit risk exposure in the banking book if it fulfils the requirements of section 99B or 213, as the case requires.

(3) The institution may recognize an internal risk transfer from its banking book to its trading book that aims to hedge a GIRR exposure in the banking book if—

(a) the institution documents the internal risk transfer with respect to the interest rate risk being hedged and the sources of the risk;

(b) the institution conducts the internal risk transfer with a dedicated trading desk that obtains the approval of the Monetary Authority and—

(i) obtains an external hedge directly from an external counterparty; or

(ii) obtains an external hedge from the market via a separate non-internal risk transfer trading desk acting as an agent and that transfer exactly matches an external hedge obtained from an external counterparty; and

(c) the institution calculates the market risk capital charge for the dedicated trading desk on a standalone basis.

281E. Positions to be used to calculate market risk capital charge

(1) Subject to subsections (2) and (3), an authorized institution must calculate its market risk capital charge for—

(a) the institution's trading book positions; and

(b) the foreign exchange risk, and commodity risk, of the institution's banking book positions.

(2) An authorized institution must not include a position in the calculation of its market risk capital charge if the position is—

(a) the banking book leg of an eligible internal risk transfer;

(b) an exposure that, under Division 4 of Part 3, is required to be deducted from any of the institution's CET1 capital, Additional Tier 1 capital or Tier 2 capital; or

(c) an eligible CVA hedge obtained from an external counterparty or the CVA leg of an eligible CVA hedge obtained from its trading book internally.

(3) An authorized institution may exclude a foreign exchange risk position from the calculation of its market risk capital charge for its foreign exchange risk if—

(a) the position is taken or maintained by the institution for the purpose of hedging partially or totally against any adverse effect of exchange rate movements on its capital adequacy ratio;

(b) the position is of a structural (that is, non-dealing) nature;

(c) the institution's risk management policy for structural foreign exchange positions is approved by the Monetary Authority;

(d) the establishment of, and any changes to, the position follow the policy referred to in paragraph (c);

(e) the exclusion is limited to the amount of the position that neutralizes the sensitivity of the capital adequacy ratio to movements in exchange rates;

(f) the exclusion is made for at least 6 months;

(g) the institution applies the exclusion consistently, with the exclusion treatment of the hedge remaining in place for the life of the assets or other items to which the position relates; and

(h) the institution keeps comprehensive records of the position and the amount excluded from the market risk capital charge.

(4) If a position of an authorized institution does not fall within subsection (1) because of subsection (2)(a) or (b), the institution must apply Part 4, 5, 6 or 7, as the case requires, to calculate the credit risk for that position.".

306. Part 8, Divisions 1A to 1D added

Part 8, after Division 1—

Add

"Division 1A—Calculation of Market Risk Capital Charge under STM Approach: General

281F. Application of Divisions 1A to 1D

(1) Divisions 1A, 1B, 1C and 1D apply to an authorized institution that uses the STM approach to calculate its market risk capital charge.

(2) A reference to an authorized institution in Divisions 1A, 1B, 1C and 1D is a reference to an authorized institution that uses the STM approach to calculate its market risk capital charge.

281G. Calculation of market risk capital charge and risk-weighted amount for market risk

(1) An authorized institution must calculate its market risk capital charge as the sum of—

(a) the ultimate SBM capital charge under section 281H(2);

(b) the RRAO under section 281R; and

(c) the SA-DRC under section 281S.

(2) An authorized institution must calculate its risk-weighted amount for market risk by multiplying the market risk capital charge as calculated under subsection (1) by 12.5.

Division 1B—Calculation of Market Risk Capital Charge under STM Approach: SBM Capital Charge

281H. Calculation of SBM capital charge

(1) An authorized institution must calculate its SBM capital charge for each of the 3 correlation scenarios set out in section 281L as the sum of the following capital charges for each risk class—

(a) the SBM delta risk capital charge under section 281I;

(b) the SBM vega risk capital charge under section 281J;

(c) the SBM curvature risk capital charge under section 281K.

(2) An authorized institution's ultimate SBM capital charge is the SBM capital charge that is the largest of the SBM capital charges calculated under subsection (1) for the 3 correlation scenarios.

(3) An authorized institution must calculate the SBM delta risk capital charge for all instruments in the respective portfolios included in the calculation except for any position for which the value at any point in time is purely driven by an exotic underlying and that is subject to the RRAO in accordance with section 281R(1)(a).

(4) An authorized institution must calculate the SBM vega risk capital charge for—

(a) any instrument with optionality; and

(b) any instrument the cashflows of which cannot be written as a linear function of the underlying notional amount,

except for any position for which the value at any point in time is purely driven by an exotic underlying and that is subject to the RRAO in accordance with section 281R(1)(a).

(5) An authorized institution must calculate the SBM curvature risk capital charge consistently over time—

(a) for—

(i) any instrument with optionality; and

(ii) any instrument the cashflows of which cannot be written as a linear function of the underlying notional amount,

except for any position for which the value at any point in time is purely driven by an exotic underlying and that is subject to the RRAO in accordance with section 281R(1)(a); or

(b) for all instruments subject to SBM delta risk capital charge except for any position—

(i) for which the value at any point in time is purely driven by an exotic underlying; and

(ii) that is subject to the RRAO in accordance with section 281R(1)(a).

(6) In this section—

instrument with optionality (包含選擇權的工具) means an option contract or an instrument that includes an option component.

281I. Calculation of SBM delta risk capital charge

(1) An authorized institution must calculate its SBM delta risk capital charge separately for each risk class in accordance with this section.

(2) For each risk class, the institution must—

(a) subject to subsection (3), calculate an SBM delta sensitivity $delta_{k,i}$ for each instrument i subject to each SBM delta risk factor k (as defined under section 281M(2)(a)) in accordance with Formula 27M;

Formula 27M

Calculation of SBM Delta Sensitivity

$$delta_{k,i} = \frac{V_i(k + 0.0001) - V_i(k)}{0.0001}$$

for GIRR, credit spread risk (non-securitization), credit spread risk (securitization: non-CTP), credit spread risk (securitization: CTP) and equity repo rate risk factors; or

$$\text{delta}_{k,i} = \frac{V_i(1.01k) - V_i(k)}{0.01}$$

for equity price risk, commodity risk and foreign exchange risk factors,

where—

(i) $\text{delta}_{k,i}$ is the SBM delta sensitivity for instrument i with respect to SBM delta risk factor k; and

(ii) $V_i(k)$ is the value of instrument i as a function of SBM delta risk factor k.

(b) calculate the net sensitivity s_k for each SBM delta risk factor by netting all SBM delta sensitivities across all instruments in the risk class in accordance with Formula 27N;

Formula 27N

Calculation of Net Sensitivity

$$s_k = \sum_i \text{delta}_{k,i}$$

where—

(i) $\text{delta}_{k,i}$ is the SBM delta sensitivity for instrument i with respect to SBM delta risk factor k; and

(ii) s_k is the net sensitivity across all instruments for SBM delta risk factor k.

(c) calculate the risk-weighted sensitivity WS_k as the product of the net sensitivity s_k and the risk-weight RW_k (as allocated under section 281O(1));

(d) calculate the capital charge for each SBM delta bucket b, K_b, by aggregating the risk-weighted sensitivities in the same bucket, using the correlation parameters ρ_{kl} depending on the correlation scenarios set out in section 281L, in accordance with Formula 27O; and

Formula 27O

Calculation of Capital Charge for SBM Delta Bucket

$$K_b = \sqrt{\max\left(\sum_k WS_k^2 + \sum_k \sum_{l \neq k} \rho_{kl} WS_k WS_l , 0\right)}$$

where—

(i) K_b is the capital charge for SBM delta bucket b;

(ii) k and l are SBM delta risk factors;

(iii) ρ_{kl} is the correlation parameter for SBM delta risk factors k and l referred to in section 281O(2)(a); and

(iv) WS_k and WS_l are the risk-weighted sensitivities calculated under paragraph (c).

(e) subject to subsection (4), calculate the SBM delta risk capital charge by aggregating the capital charges calculated under paragraph (d) for each of the SBM delta buckets in the risk class, using the correlation parameters γ_{bc} depending on the correlation scenarios set out in section 281L, in accordance with Formula 27P.

Formula 27P

Calculation of SBM Delta Risk Capital Charge

$$\text{SBM delta risk capital charge} = \sqrt{\sum_{b} K_b^2 + \sum_{b} \sum_{c \neq b} \gamma_{bc} S_b S_c}$$

where—

(i) $S_b = \sum_k WS_k$ for all SBM delta risk factors in SBM delta bucket b;

(ii) $S_c = \sum_k WS_k$ for all SBM delta risk factors in SBM delta bucket c;

(iii) K_b is the capital charge for SBM delta bucket b;

(iv) γ_{bc} is the correlation parameter for SBM delta buckets b and c referred to in section 281O(2)(b); and

(v) WS_k is the risk-weighted sensitivity calculated under paragraph (c).

(3) The institution may determine an SBM delta sensitivity by another formulation if the institution demonstrates to the satisfaction of the Monetary Authority that the other formulation is conceptually sound and yields results very close to Formula 27M.

(4) If the values of S_b and S_c calculated under subsection (2)(e) produce a negative number for the overall sum of $\sum_b K_b^2+\sum_b \sum_{c\neq b} \gamma_{bc} S_b S_c$, the institution must calculate the SBM delta risk capital charge using an alternative specification in which—

(a) $S_b = \max[\min (\sum_k WS_k , K_b), -K_b]$ for all SBM delta risk factors in SBM delta bucket b; and

(b) $S_c = \max[\min (\sum_k WS_k , K_c), -K_c]$ for all SBM delta risk factors in SBM delta bucket c.

281J. Calculation of SBM vega risk capital charge

(1) An authorized institution must calculate its SBM vega risk capital charge separately for each risk class in accordance with this section.

(2) For each risk class, the institution must—

(a) subject to subsection (3), determine an SBM vega sensitivity $vega_{k,i}$ for each instrument i subject to each SBM vega risk factor k (as defined under section 281M(2)(b)) in accordance with Formula 27Q;

Formula 27Q

Calculation of SBM Vega Sensitivity

$$vega_{k,i} = \frac{\partial V_i}{\partial k} \times k$$

where—

(i) $vega_{k,i}$ is the SBM vega sensitivity for instrument i with respect to SBM vega risk factor k; and

(ii) $\frac{\partial V_i}{\partial k}$ is the change in value V_i of instrument i as a result of a small amount of change to k.

(b) calculate the net sensitivity s_k for each SBM vega risk factor by netting all SBM vega sensitivities across all instruments in the risk class in accordance with Formula 27R;

Formula 27R

Calculation of Net Sensitivity

$$s_k = \sum_i vega_{k,i}$$

where—

(i) s_k is the net sensitivity across all instruments for SBM vega risk factor k; and

(ii) $vega_{k,i}$ is the SBM vega sensitivity for instrument i with respect to SBM vega risk factor k.

(c) calculate the risk-weighted sensitivity WS_k as the product of the net sensitivity s_k and the risk-weight RW_k (as allocated under section 281P(1));

(d) calculate the capital charge for each SBM vega bucket b, K_b, by aggregating the risk-weighted

sensitivities in the same bucket, using the correlation parameters ρ_{kl} depending on the correlation scenarios set out in section 281L, in accordance with Formula 27S; and

Formula 27S

Calculation of Capital Charge for SBM Vega Bucket

$$K_b = \sqrt{\max\left(\sum_k WS_k^2 + \sum_k \sum_{l \neq k} \rho_{kl} WS_k \, WS_l \, , 0\right)}$$

where—

(i) K_b is the capital charge for SBM vega bucket b;

(ii) k and l are SBM vega risk factors;

(iii) ρ_{kl} is the correlation parameter for SBM vega risk factors k and l referred to in section 281P(2)(a); and

(iv) WS_k and WS_l are the risk-weighted sensitivities calculated under paragraph (c).

(e) subject to subsection (4), calculate the SBM vega risk capital charge by aggregating the capital charges calculated under paragraph (d) for each of the SBM vega buckets in the risk class, using the correlation parameters γ_{bc} depending on the correlation scenarios set out in section 281L, in accordance with Formula 27T.

Formula 27T

Calculation of SBM Vega Risk Capital Charge

$$\text{SBM vega risk capital charge} = \sqrt{\sum_{b} K_b^2 + \sum_{b} \sum_{c \neq b} \gamma_{bc} S_b S_c}$$

where—

(i) $S_b = \sum_k WS_k$ for all SBM vega risk factors in SBM vega bucket b;

(ii) $S_c = \sum_k WS_k$ for all SBM vega risk factors in SBM vega bucket c;

(iii) K_b is the capital charge for SBM vega bucket b;

(iv) γ_{bc} is the correlation parameter for SBM vega buckets b and c referred to in section 281P(2)(b); and

(v) WS_k is the risk-weighted sensitivity calculated under paragraph (c).

(3) The institution may determine an SBM vega sensitivity by another formulation if the institution demonstrates to the satisfaction of the Monetary Authority that the other formulation is conceptually sound and yields results very close to Formula 27Q.

(4) If the values of S_b and S_c calculated under subsection (2)(e) produce a negative number for the overall sum of $\sum_b K_b^2 + \sum_b \sum_{c \neq b} \gamma_{bc} S_b S_c$, the institution must calculate the SBM vega risk capital charge using an alternative specification in which—

(a) $S_b = \max[\min(\sum_k WS_k, K_b), -K_b]$ for all SBM vega risk factors in SBM vega bucket b; and

(b) $S_c = \max[\min(\sum_k WS_k, K_c), -K_c]$ for all SBM vega risk factors in SBM vega bucket c.

281K. Calculation of SBM curvature risk capital charge

(1) An authorized institution must calculate its SBM curvature risk capital charge separately for each risk class in accordance with this section.

(2) For each risk class, the institution must—

(a) subject to subsection (3), apply an upward shock to calculate CVR_k^+ and apply a downward shock to calculate CVR_k^- to each instrument i subject to the SBM curvature risk associated with each SBM curvature risk factor k (as defined under section 281M(2)(c)) in accordance with Formula 27U;

Formula 27U

Calculation of CVR_k^+ and CVR_k^-

$$CVR_k^+ = -\sum_i \left\{ \begin{matrix} V_i\left(x_k^{RW(Curvature)^+}\right) - \\ V_i(x_k) - RW_k^{Curvature} \cdot s_{ik} \end{matrix} \right\}$$

$$CVR_k^- = -\sum_i \left\{ \begin{matrix} V_i\left(x_k^{RW(Curvature)^-}\right) - \\ V_i(x_k) + RW_k^{Curvature} \cdot s_{ik} \end{matrix} \right\}$$

where—

(i) CVR_k^+ is the incremental loss beyond the SBM delta risk capital charge across all instruments by applying an upward shock to the SBM curvature risk factor k;

(ii) CVR_k^- is the incremental loss beyond the SBM delta risk capital charge across all instruments by applying a downward shock to the SBM curvature risk factor k;

(iii) $RW_k^{Curvature}$ is the risk-weight for SBM curvature risk factor k as allocated under section 281Q(1);

(iv) s_{ik} is—

(A) for equity risk and foreign exchange risk—the SBM delta sensitivity of instrument i with respect to the SBM delta risk factor that corresponds to SBM curvature risk factor k; or

(B) for any other risk class—the sum of SBM delta sensitivities to all tenors of the relevant curve or curves of instrument i with respect to SBM curvature risk factor k;

(v) $V_i(x_k)$ is the value of instrument i depending on x_k;

(vi) $V_i(x_k^{RW(Curvature)^+})$ is the value of instrument i after x_k is shocked upward;

(vii) $V_i(x_k^{RW(Curvature)^-})$ is the value of instrument i after x_k is shocked downward; and

(viii) x_k is the current level of SBM curvature risk factor k.

(b) calculate the capital charge for each SBM curvature bucket b, K_b, using the correlation parameters ρ_{kl} depending on the correlation scenarios set out in section 281L, in accordance with Formula 27V; and

Formula 27V

Calculation of Capital Charge for SBM Curvature Bucket

$$K_b = \max(K_b^+, K_b^-)$$

where

$$\begin{cases} K_b^+ = \sqrt{\max\left(0, \sum_k \max\left(CVR_k^+, 0\right)^2 + \sum_k \sum_{l \neq k} \rho_{kl} CVR_k^+ CVR_l^+ \psi\left(CVR_k^+, CVR_l^+\right)\right)} \\ K_b^- = \sqrt{\max\left(0, \sum_k \max\left(CVR_k^-, 0\right)^2 + \sum_k \sum_{l \neq k} \rho_{kl} CVR_k^- CVR_l^- \psi\left(CVR_k^-, CVR_l^-\right)\right)} \end{cases}$$

where—

(i) K_b is the capital charge for SBM curvature bucket b and is determined as the greater of K_b^+ and K_b^-, where—

(A) the upward scenario is selected if $K_b = K_b^+$;

(B) the downward scenario is selected if $K_b = K_b^-$; and

(C) if $K_b^+ = K_b^-$, the upward scenario is selected if $\sum_k CVR_k^+$ is greater than $\sum_k CVR_k^-$, otherwise the downward scenario is selected;

(ii) CVR_k^+ and CVR_l^+ are the incremental loss beyond the SBM delta risk capital charge across all instruments by applying an upward shock to the SBM curvature risk factors k and l respectively;

(iii) CVR_k^- and CVR_l^- are the incremental loss beyond the SBM delta risk capital charge across all instruments by applying a downward shock to the SBM curvature risk factors k and l respectively;

(iv) K_b^+ is the capital charge for SBM curvature bucket b under the upward scenario;

(v) K_b^- is the capital charge for SBM curvature bucket b under the downward scenario;

(vi) ρ_{kl} is the correlation parameter for SBM curvature risk factors k and l referred to in section 281Q(2)(a);

(vii) $\psi(CVR_k^+, CVR_l^+)$ is—

(A) zero, if both CVR_k^+ and CVR_l^+ have negative signs; or

(B) one, in any other case; and

(viii) $\psi(CVR_k^-, CVR_l^-)$ is—

(A) zero, if both CVR_k^- and CVR_l^- have negative signs; or

(B) one, in any other case.

(c) calculate the SBM curvature risk capital charge by aggregating the capital charges calculated under paragraph (b) for each of the SBM curvature buckets in the risk class, using the correlation parameters γ_{bc} depending on the correlation scenarios set out in section 281L, in accordance with Formula 27W.

Formula 27W

Calculation of SBM Curvature Risk Capital Charge

SBM curvature risk capital charge =

$$\sqrt{\max\left(0, \sum_b K_b^2 + \sum_b \sum_{c \neq b} \gamma_{bc} S_b S_c \psi(S_b, S_c)\right)}$$

where—

(i) S_b =

(A) $\sum_k CVR_k^+$ for all SBM curvature risk factors in SBM curvature bucket b if the upward scenario has been selected for SBM curvature bucket b; or

(B) $\sum_k CVR_k^-$ for all SBM curvature risk factors in SBM curvature bucket b otherwise;

(ii) S_c =

(A) $\sum_k CVR_k^+$ for all SBM curvature risk factors in SBM curvature bucket c if the upward scenario has been selected for SBM curvature bucket c; or

(B) $\sum_k CVR_k^-$ for all SBM curvature risk factors in SBM curvature bucket c otherwise;

(iii) K_b is the capital charge for SBM curvature bucket b;

(iv) γ_{bc} is the correlation parameter for SBM curvature buckets b and c referred to in section 281Q(2)(b); and

(v) $\psi(S_b, S_c)$ is—

(A) zero, if both S_b and S_c have negative signs; or

(B) one, in any other case.

(3) For the purposes of subsection (2)—

(a) the institution may divide CVR_k^+ and CVR_k^- under foreign exchange risk by 1.5 for any exchange rate-related option contract that does not reference the Hong Kong dollar or the institution's base currency as an underlying; or

(b) with the approval of the Monetary Authority, the institution may divide CVR_k^+ and CVR_k^- under foreign exchange risk by 1.5 for all foreign exchange instruments if the SBM curvature sensitivities are calculated for all currencies, including sensitivities determined by shocking—

(i) the Hong Kong dollar relative to all other currencies; or

(ii) the institution's base currency relative to all other currencies.

281L. Correlation scenarios

For the purposes of this Division, the correlation scenarios are—

(a) the medium scenario, in which the correlation parameters ρ_{kl} and γ_{bc} are as referred to in sections 281O(2), 281P(2) and 281Q(2);

(b) the high scenario, in which the correlation parameters ρ_{kl}^{high} and γ_{bc}^{high} are determined by multiplying ρ_{kl} and γ_{bc} under the medium scenario by 1.25, subject to a cap of 100%; and

(c) the low scenario, in which the correlation parameters ρ_{kl}^{low} and γ_{bc}^{low} are determined in accordance with Formula 27X.

Formula 27X

Calculation of Low Scenario Correlation Parameters

$$\rho_{kl}^{low} = \max(2 \cdot \rho_{kl} - 100\%, 75\% \cdot \rho_{kl})$$

$$\gamma_{kl}^{low} = \max(2 \cdot \gamma_{bc} - 100\%, 75\% \cdot \gamma_{bc})$$

where—

(i) ρ_{kl} is the correlation parameter ρ_{kl} under the medium scenario; and

(ii) γ_{bc} is the correlation parameter γ_{bc} under the medium scenario.

281M. SBM risk factors

(1) An authorized institution must, in respect of a risk class—

(a) determine buckets as specified by the Monetary Authority for the risk class that appropriately distinguish the risk characteristics of risk factors across different buckets; and

(b) allocate each risk-weighted sensitivity calculated under section 281I(2)(c) and 281J(2)(c) and each CVR_k^+ and CVR_k^- calculated under section 281K(2)(a) to an appropriate bucket.

(2) Depending on the positions held, an authorized institution must—

(a) define the SBM delta risk factors, at a level of granularity specified by the Monetary Authority, as—

(i) risk-free interest rates, market-implied inflation rates and cross-currency basis for GIRR;

(ii) credit spreads for credit spread risk (non-securitization), credit spread risk (securitization: non-CTP) and credit spread risk (securitization: CTP);

(iii) equity prices and equity repo rates for equity risk;

(iv) commodity prices for commodity risk; and

(v) foreign exchange rates between the Hong Kong dollar and each foreign currency or, with the approval of the Monetary Authority, the exchange rates between a base currency other than the Hong Kong dollar and each foreign currency;

(b) define the SBM vega risk factors, at a level of granularity specified by the Monetary Authority, as implied volatilities of the underlying exposure; and

(c) define the SBM curvature risk factors, at a level of granularity specified by the Monetary Authority, as—

(i) risk-free interest rates for GIRR;

(ii) credit spreads for credit spread risk (non-securitization), credit spread risk (securitization: non-CTP) and credit spread risk (securitization: CTP);

(iii) equity prices for equity risk;

(iv) commodity prices for commodity risk; and

(v) foreign exchange rates between the Hong Kong dollar and each foreign currency or, with the approval of the Monetary Authority, the exchange rates between a base currency other than the Hong Kong dollar and each foreign currency.

281N. Instruments with multiple constituents

(1) Subject to subsections (2), (4), (5) and (7), an authorized institution must apply the look-through approach to calculate the SBM delta risk capital charge and the SBM curvature risk capital charge for any—

(a) index instruments;

(b) multi-underlying options; and

(c) equity investments in a collective investment scheme.

(2) Subject to subsection (7), an authorized institution may opt not to apply the look-through approach under subsection (1), but instead may calculate a single sensitivity for SBM delta and SBM curvature with respect to each index that an instrument references or a collective investment scheme tracks, for any—

(a) index instrument that references a qualified index;

(b) index instrument referred to in paragraph (a) that is held by a collective investment scheme in respect of which the institution can apply the look-through approach; or

(c) collective investment scheme that can be looked through and tracks a qualified index if—

(i) the scheme has an absolute value of a tracking difference (ignoring fees and commissions) of less than 1%; and

(ii) the tracking difference is checked at least annually.

(3) If an authorized institution opts to calculate a single sensitivity for a qualified index under subsection (2), the institution must assign the sensitivity to—

(a) an appropriate sector-specific bucket if more than 75% of the constituents in the qualified index (taking into account their weightings in that index) would be mapped to a specific sector; or

(b) an appropriate non-sector-specific index bucket otherwise.

(4) An authorized institution must not break an index CTP instrument down into its constituents but must consider the index CTP a risk factor as a whole.

(5) An authorized institution may opt not to apply the look-through approach under subsection (1) for an equity investment in a collective investment scheme that cannot be looked through and for which the institution has access to daily price quotes and the information contained in the mandate of the scheme or in the relevant regulations governing the scheme, but instead—

(a) may assume that the scheme is a position in a tracked index and assign the sensitivity for the tracked index to relevant sector-specific buckets or non-sector-specific index buckets as set out in subsection (3), if—

(i) the scheme tracks a qualified index;

(ii) the scheme has an absolute value of a tracking difference (ignoring fees and commissions) of less than 1%; and

(iii) the tracking difference is checked at least annually;

(b) with the approval of the Monetary Authority, may calculate on a standalone basis the capital charge of a hypothetical portfolio in which the scheme invests, to the maximum possible extent allowed under its mandate, in assets attracting the highest risk-weight and then progressively in other assets attracting a lower risk-weight; or

(c) subject to sections 281R(4) and 281S(5), may treat the scheme as an unrated equity exposure and assign it to "other sectors" under the sector classification.

(6) An authorized institution must exclude any net short position in a collective investment scheme from other positions subject to the market risk capital charge and subject the net short position to a 100% capital charge if—

(a) the scheme cannot be looked through; and

(b) the institution cannot access daily price quotes and the information contained in the mandate of the scheme or in the relevant regulations governing the scheme.

(7) If an authorized institution has applied the look-through approach under subsection (1) to instruments with an identical underlying, the institution must not opt to use the approach referred to in subsection (2) in relation to the instruments except with the approval of the Monetary Authority.

(8) An authorized institution may determine the SBM vega risk factor for a multi-underlying option as the implied volatility of the option rather than the implied volatility of its underlying constituents and, if so, must assign the SBM vega sensitivity to—

(a) an appropriate sector-specific bucket if more than 75% of the constituents (taking into account their weightings in the option) would be mapped to a specific sector; or

(b) an appropriate non-sector-specific index bucket otherwise.

(9) In this section—

qualified index (合資格指數), in relation to the calculation of the market risk capital charge for instruments with multiple constituents, means an exchange-traded and widely recognized and accepted equity or credit index where—

(a) the constituents of the index and their respective weightings are known;

(b) the index contains at least 20 constituents;

(c) no single constituent represents more than 25% of the total index;

(d) the largest 10% of the constituents represents less than 60% of the total index; and

(e) the total market capitalization of all the constituents is no less than $312 billion;

tracking difference (追縱差異), in relation to a collective investment scheme, means the annualized return difference between the scheme and its tracked benchmark over the last 12 months of available data (or a shorter period in the absence of a full 12 months of data).

281O. SBM delta risk-weights and correlation parameters

(1) An authorized institution must allocate a risk-weight to each SBM delta risk factor at a level specified by the Monetary Authority that sufficiently represents stressed market conditions.

(2) An authorized institution—

(a) for the purpose of aggregating SBM delta risk-weighted sensitivities within the same bucket, must use the correlation parameters ρ_{kl} specified by the Monetary Authority that appropriately recognize a degree of diversification benefit within the bucket; and

(b) for the purpose of aggregating SBM delta risk capital charges across buckets within the same risk class, must use the correlation parameters γ_{bc} specified by the Monetary Authority that appropriately recognize a degree of diversification benefit across the buckets.

281P. SBM vega risk-weights and correlation parameters

(1) An authorized institution must allocate a risk-weight to each SBM vega risk factor at a level specified by the Monetary Authority that sufficiently represents stressed market conditions.

(2) An authorized institution—

(a) for the purpose of aggregating SBM vega risk-weighted sensitivities within the same bucket, must use the correlation parameters ρ_{kl} specified by the Monetary Authority that appropriately recognize a degree of diversification benefit within the bucket; and

(b) for the purpose of aggregating SBM vega risk capital charges across buckets within the same risk class, must use the correlation parameters γ_{bc} specified by the Monetary Authority that appropriately recognize a degree of diversification benefit across the buckets.

281Q. SBM curvature risk-weights and correlation parameters

(1) An authorized institution must allocate a risk-weight to each SBM curvature risk factor at a level specified by the Monetary Authority that sufficiently represents stressed market conditions.

(2) An authorized institution—

(a) for the purpose of aggregating SBM curvature risk-weighted sensitivities within the same bucket, must use the correlation parameters ρ_{kl} specified by the Monetary Authority that appropriately recognize a degree of diversification benefit within the bucket; and

(b) for the purpose of aggregating SBM curvature risk capital charges across buckets within the same risk class, must use the correlation parameters γ_{bc} specified by the Monetary Authority that appropriately recognize a degree of diversification benefit across the buckets.

Division 1C—Calculation of Market Risk Capital Charge under STM Approach: RRAO

281R. Calculation of RRAO

(1) Subject to subsections (2) and (3), an authorized institution must calculate the RRAO for any instrument in its trading book—

(a) with an exotic underlying, if the risk profile of the underlying exposure of the instrument is not captured by the SBM or SA-DRC; or

(b) bearing other residual risks, if—

(i) the instrument is subject to SBM vega risk capital charges or SBM curvature risk capital charges in the trading book and with pay-offs that cannot be written or perfectly replicated as a finite linear combination of vanilla options with a single underlying equity price, commodity price, exchange rate, bond price, credit default swap price or interest rate swap; or

(ii) the instrument is in the institution's CTP and is not recognized as an eligible hedge of risks within the CTP.

(2) The institution is not required to calculate the RRAO for an instrument that is a back-to-back transaction that exactly matches with a third-party transaction in the trading book and, in that case, both the back-to-back transaction and the third-party transaction may be excluded from the institution's RRAO.

(3) The institution is not required to calculate the RRAO for an instrument that bears other residual risks as referred to in subsection (1)(b), if the instrument—

(a) is listed on an exchange; or

(b) is eligible for central clearing.

(4) If, under section 281N(5)(c), the institution treats an equity investment in a collective investment scheme as an unrated equity exposure and assigns it to "other sectors" under the sector classification, the institution must assume that the scheme is exposed to exotic underlying exposures, and to other residual risks, to the maximum possible extent allowed under the scheme's mandate.

(5) The institution must calculate the RRAO as the sum of the gross (long plus short) notional amounts of the instruments bearing residual risks multiplied by the following risk-weights—

(a) 1.0% for instruments with an exotic underlying;

(b) 0.1% for instruments bearing other residual risks.

Division 1D—Calculation of Market Risk Capital Charge under STM Approach: SA-DRC

281S. Calculation of SA-DRC generally

(1) An authorized institution must calculate the SA-DRC for instruments in its trading book as the sum of—

(a) the SA-DRC (non-securitization) under section 281T;

(b) the SA-DRC (securitization: non-CTP) under section 281V; and

(c) the SA-DRC (securitization: CTP) under section 281W.

(2) For the purpose of calculating the SA-DRC—

(a) a long exposure is an exposure for which a default of the underlying obligor results in a loss to the institution; and

(b) a short exposure is an exposure for which a default of the underlying obligor results in a gain to the institution.

(3) For the purpose of calculating the SA-DRC—

(a) the notional amount of a long exposure is to be recorded as a positive value; and

(b) the notional amount of a short exposure is to be recorded as a negative value.

(4) For the purpose of calculating the SA-DRC, the institution must allocate a default risk-weight of 0% to any exposure of the institution to sovereigns, public sector entities and multilateral development banks that would be allocated a 0% risk-weight under the standardized (credit risk) approach set out in sections 55, 56, 57 and 58.

(5) If, under section 281N(5)(c), the institution treats an equity investment in a collective investment scheme as an unrated equity exposure and assigns it to "other sectors" under the sector classification—

(a) the institution—

(i) must treat the equity investment in the scheme as an unrated equity exposure; or

(ii) if the scheme's mandate allows the scheme to invest primarily in names of certain credit qualities, must apply the maximum default risk-weight as referred to in section 281T(8) that is achievable under the

scheme's mandate and must not offset or aggregate, with correlation, the generated exposure with other exposures; and

(b) the institution must reasonably consider whether, given the scheme's mandate, that default risk-weight is sufficiently prudent.

281T. Calculation of SA-DRC (non-securitization)

(1) Subject to subsection (2), an authorized institution must calculate the SA-DRC (non-securitization) for any non-securitization exposure in its trading book subject to default risk that is a credit instrument or equity instrument.

(2) The institution must exclude from the calculation of the SA-DRC (non-securitization) any non-securitization exposure—

(a) that hedges a CTP instrument; or

(b) that is held for the purpose of offsetting and hedging any non-CTP securitization exposure if that non-securitization exposure together with other exposures is decomposed proportionately into the equivalent replicating tranches that span the entire tranche structure.

(3) The institution must—

(a) include any exposure referred to in subsection (2)(a) in SA-DRC (securitization: CTP); and

(b) include any exposure referred to in subsection (2)(b) in SA-DRC (securitization: non-CTP).

(4) For the purpose of calculating the SA-DRC (non-securitization), the institution must—

(a) calculate the gross jump-to-default risk amount in accordance with section 281U for each instrument referred to in subsection (1);

(b) subject to subsection (5), calculate the net jump-to-default risk amount with respect to each obligor by offsetting the gross jump-to-default risk amounts of long and short exposures with respect to the same obligor;

(c) calculate the risk-weighted net jump-to-default risk amount with respect to an obligor as the product of—

(i) the net jump-to-default risk amount calculated under paragraph (b); and

(ii) the default risk-weights referred to in subsection (8);

(d) allocate the risk-weighted net jump-to-default risk amount to the following buckets according to the nature of the obligor—

(i) corporates;

(ii) sovereigns;

(iii) local governments and municipalities;

(e) calculate the bucket level SA-DRC in accordance with subsection (9); and

(f) calculate the SA-DRC (non-securitization) as the sum of the bucket level SA-DRC for each bucket.

(5) The institution must offset the gross jump-to-default risk amounts of long and short exposures with respect to the same obligor if—

(a) the short exposure has the same or lower seniority relative to the long exposure; and

(b) any of the following applies—

(i) the maturity of both exposures is equal to or longer than one year;

(ii) the maturity of either or both exposures is shorter than one year.

(6) If the maturity of either or both exposures referred to in subsection (5) is shorter than one year, the institution must scale down the gross jump-to-default risk amounts of those exposures in accordance with section 281U(1)(b) or (2)(b), as the case requires.

(7) The institution may consistently assign to cash equity positions a maturity of either—

(a) more than one year; or

(b) 3 months.

(8) Subject to section 281S(4)—

(a) subject to paragraph (b), the institution must calculate the default risk-weight in accordance with the credit quality of the obligor as set out in Table 27C or, if the obligor is a corporate incorporated in the home jurisdiction of a Type B ECAI, Table 27D; and

(b) if the institution uses the IRB approach to calculate its credit risk for non-securitization exposures, the institution may map the internal rating of an obligor without an ECAI issuer rating to one of the ECAI issuer ratings based on a mapping scheme approved in writing by the Monetary Authority to determine the credit quality for the purpose of calculating the

default risk-weight of the obligor under Table 27C or 27D, as the case requires.

Table 27C

Default Risk-Weights Applicable to All Obligors

Column 1	Column 2	Column 3
Item	Credit quality	Default risk-weight
1.	Credit quality grade 1 in the LT ECAI rating mapping table for Type A ECAIs	0.5%
2.	Credit quality grade 2 in the LT ECAI rating mapping table for Type A ECAIs	2%
3.	Credit quality grade 3 in the LT ECAI rating mapping table for Type A ECAIs	3%
4.	Credit quality grade 4 in the LT ECAI rating mapping table for Type A ECAIs	6%
5.	Credit quality grade 5 in the LT ECAI rating mapping table for Type A ECAIs	15%

Column 1	Column 2	Column 3
Item	Credit quality	Default risk-weight
6.	Credit quality grade 6 in the LT ECAI rating mapping table for Type A ECAIs	30%
7.	Credit quality grade 7 in the LT ECAI rating mapping table for Type A ECAIs	50%
8.	Unrated	15%
9.	Defaulted	100%

Table 27D

Default Risk-Weights Applicable to Obligors that are Corporates Incorporated in Home Jurisdiction of Type B ECAI

Column 1	Column 2	Column 3
Item	Credit quality	Default risk-weight
1.	Credit quality grade 1 in the LT ECAI rating mapping table for Type B ECAIs	0.5%
2.	Credit quality grade 2 in the LT ECAI rating mapping table for Type B ECAIs	2%

Column 1	Column 2	Column 3
Item	Credit quality	Default risk-weight
3.	Credit quality grade 3 in the LT ECAI rating mapping table for Type B ECAIs	3%
4.	Credit quality grade 4 in the LT ECAI rating mapping table for Type B ECAIs	6%
5.	Credit quality grade 5 in the LT ECAI rating mapping table for Type B ECAIs	15%
6.	Credit quality grade 6 in the LT ECAI rating mapping table for Type B ECAIs	30%
7.	Credit quality grade 7 in the LT ECAI rating mapping table for Type B ECAIs	50%
8.	Unrated	15%
9.	Defaulted	100%

(9) The institution must calculate the bucket level SA-DRC in accordance with Formulas 27Y and 27Z.

Formula 27Y

Calculation of Bucket Level SA-DRC

$$\text{SA-DRC}_b = \max\left[\left(\sum_{i \in \text{Long}} \text{RW}_i \cdot \text{net JTD}_i\right) - \text{HBR} \cdot \left(\sum_{i \in \text{Short}} \text{RW}_i \cdot |\text{net JTD}_i|\right), 0\right]$$

where—

(a) SA-DRC_b is the SA-DRC for bucket b;

(b) i is the obligor belonging to bucket b;

(c) HBR is the hedge benefit ratio determined in accordance with Formula 27Z;

(d) net JTD_i is the net jump-to-default risk amount with respect to the obligor i; and

(e) RW_i is the default risk-weight of the obligor i.

Formula 27Z

Determination of Hedge Benefit Ratio

$$\text{HBR} = \frac{\sum \text{net JTD}_{\text{long}}}{\sum \text{net JTD}_{\text{long}} + \sum |\text{net JTD}_{\text{short}}|}$$

where—

(a) HBR is the hedge benefit ratio for the purposes of Formula 27Y;

(b) Σ net JTD_{long} is the sum of all net long jump-to-default risk amounts within bucket b; and

(c) $\Sigma|$net $JTD_{short}|$ is the sum of all net short jump-to-default risk amounts in absolute value within bucket b.

281U. Calculation of gross jump-to-default risk amount for SA-DRC (non-securitization)

(1) Subject to subsections (3), (4) and (5), an authorized institution must calculate the gross jump-to-default risk amount of a long exposure as—

(a) if the exposure has a maturity that is equal to or longer than one year, the greater of zero and the sum of—

(i) the product of—

(A) subject to subsection (6), the notional amount of the instrument recorded as a positive value; and

(B) the LGD as set out in subsection (7) if the price of the instrument is linked to the recovery rate of the defaulter or 1 otherwise; and

(ii) the cumulative mark-to-market gain or loss over the face value already taken on the exposure, with a gain being recorded as a positive value and a loss being recorded as a negative value; or

(b) if the exposure has a maturity that is shorter than one year, the product of—

(i) the amount that would be calculated under paragraph (a) if the exposure had a maturity equal to or longer than one year; and

(ii) a scaling factor that is equal to the greater of 0.25 and the ratio of its maturity relative to one year.

(2) Subject to subsections (3), (4) and (5), an authorized institution must calculate the gross jump-to-default risk amount of a short exposure as—

(a) if the exposure has a maturity that is equal to or longer than one year, the lesser of zero and the sum of—

(i) the product of—

(A) subject to subsection (6), the notional amount of the instrument recorded as a negative value; and

(B) the LGD as set out in subsection (7) if the price of the instrument is linked to the recovery rate of the defaulter or 1 otherwise; and

(ii) the cumulative mark-to-market gain or loss over the face value already taken on the exposure, with a gain being recorded as a positive value and a loss being recorded as a negative value; or

(b) if the exposure has a maturity that is shorter than one year, the product of—

(i) the amount that would be calculated under paragraph (a) if the exposure had a maturity equal to or longer than one year; and

(ii) a scaling factor that is equal to the greater of 0.25 and the ratio of its maturity relative to one year.

(3) The institution must treat the gross jump-to-default risk amount of an instrument as zero if the instrument could be unwound with no exposure to default risk.

(4) The institution must treat the gross jump-to-default risk amount of a cash-equity position as the market value of the position.

(5) The institution must decompose an instrument with multiple constituents into exposures in the individual constituents to calculate the gross jump-to-default risk amount of each individual constituent.

(6) The institution must set the notional amount of an instrument as zero if the payoffs of the instrument are not related to its notional amount in the event of default.

(7) The institution must apply the LGD in Table 27E to calculate the gross jump-to-default risk amount.

Table 27E

LGD for Calculating Gross Jump-to-default Risk Amount

Column 1 Item	Column 2 Underlying instrument	Column 3 LGD
1.	Equity	100%
2.	Non-senior debt security	100%
3.	Senior debt security	75%
4.	Qualifying covered bond	25%

281V. Calculation of SA-DRC (securitization: non-CTP)

(1) An authorized institution must calculate the SA-DRC (securitization: non-CTP) for any—

(a) non-CTP securitization exposure in its trading book; and

(b) non-securitization exposure in its trading book that is held for the purpose of offsetting and hedging any exposure referred to in paragraph (a) if that non-securitization exposure together with other exposures is decomposed proportionately into the equivalent replicating tranches that span the entire tranche structure.

(2) For the purpose of calculating the SA-DRC (securitization: non-CTP), the institution must—

(a) calculate the gross jump-to-default risk amount in accordance with subsection (3) for each exposure referred to in subsection (1);

(b) calculate the net jump-to-default risk amount by offsetting the gross jump-to-default risk

amounts of long and short exposures if any of the conditions referred to in section 281T(5)(b) applies and—

(i) the long and short exposures arise from the same underlying asset pool and the same tranche; or

(ii) the exposures are perfect replications in the opposite direction of the exposures to be offset through decomposition by a collection of non-securitization positions, securitization exposures with different securitized portfolios, or both;

(c) calculate the risk-weighted net jump-to-default risk amount as the product of—

(i) the net jump-to-default risk amount calculated under paragraph (b); and

(ii) the default risk-weight allocated in accordance with subsection (4);

(d) allocate the risk-weighted net jump-to-default risk amount to buckets in accordance with subsection (6);

(e) calculate the bucket level SA-DRC in accordance with section 281T(9); and

(f) calculate the SA-DRC (securitization: non-CTP) as the sum of the bucket level SA-DRC for each bucket.

(3) Subject to section 281U(3) and (4) and, for exposures with a maturity of less than one year, applying the scaling factor referred to in section 281U(1)(b)(ii) or (2)(b)(ii), the institution must calculate the gross

jump-to-default risk amount for each non-CTP securitization exposure as—

(a) for a long exposure, the greater of zero and the sum of—

(i) the notional amount of the instrument recorded as a positive value; and

(ii) the cumulative mark-to-market gain or loss over the principal already taken on the exposure, with a gain being recorded as a positive value and a loss being recorded as a negative value; or

(b) for a short exposure, the lesser of zero and the sum of—

(i) the notional amount of the instrument recorded as a negative value; and

(ii) the cumulative mark-to-market gain or loss over the principal already taken on the exposure, with a gain being recorded as a positive value and a loss being recorded as a negative value.

(4) Subject to section 281S(4), the institution must allocate to each non-CTP securitization tranche a default risk-weight that is equal to the product of—

(a) 8%; and

(b) the applicable risk-weight of the credit risk for the securitization exposure as set out in Part 7.

(5) For the purposes of subsection (4)(b)—

(a) the institution must apply the prescribed approach required under section 15 to determine the risk-weight based on the pool of underlying exposures;

(b) a maturity of one year is assumed for each securitization exposure under the SEC-IRBA, SEC-ERBA and SEC-SA; and

(c) the total market risk capital charge for an individual cash securitization exposure is capped at the fair value of the exposure.

(6) The institution must allocate the risk-weighted net jump-to-default risk amount to the following buckets—

(a) a unique bucket for all corporates (excluding small-and-medium sized corporates), regardless of their region; and

(b) another 44 buckets consisting of each of the 11 asset classes specified in subsection (7) in each of the 4 regions specified in subsection (8).

(7) The asset classes are—

(a) asset-backed commercial paper (ABCP);

(b) auto loans or leases;

(c) residential mortgage-backed securities (RMBS);

(d) credit cards;

(e) commercial mortgage-backed securities (CMBS);

(f) collateralized loan obligations;

(g) collateralized debt obligations (CDO) squared;

(h) small-and-medium sized corporates;

(i) student loans;

(j) other retail; and

(k) other wholesale.

(8) The regions are—

(a) Asia;

(b) Europe;

(c) North America; and

(d) other.

281W. Calculation of SA-DRC (securitization: CTP)

(1) An authorized institution must calculate the SA-DRC (securitization: CTP) for any—

(a) CTP instrument in its trading book; and

(b) non-securitization instrument in its trading book that hedges a CTP instrument referred to in paragraph (a).

(2) For the purpose of calculating the SA-DRC (securitization: CTP), the institution must treat an n^{th}-to-default credit derivative contract as a tranche in a CTP securitization transaction with the value of—

(a) attachment point calculated as (n–1)/N; and

(b) detachment point calculated as n/N,

where N is the total number of names in the underlying basket or pool.

(3) For the purpose of calculating the SA-DRC (securitization: CTP), the institution must—

(a) subject to applying the scaling factor referred to in section 281U(1)(b)(ii) or (2)(b)(ii), for exposures with a maturity of less than one year, calculate the gross jump-to-default risk amount—

(i) for each instrument referred to in subsection (1)(a), in accordance with section 281V(3) as if it were a non-CTP securitization exposure; and

(ii) for each instrument referred to in subsection (1)(b), as its market value;

(b) subject to subsections (4) and (5), calculate the net jump-to-default risk amount by offsetting the gross jump-to-default risk amounts of long and short exposures if—

(i) the long and short exposures—

(A) where the underlying is a credit index, must arise from the same index, the same series and the same tranche; or

(B) otherwise, must arise from the same underlying basket or pool and the same tranche; and

(ii) the exposures are perfect replications in the opposite direction of the exposures to be offset through decomposition by a collection of non-securitization positions, securitization tranches or index tranches, but the decomposed exposures are not re-securitization exposures;

(c) calculate the risk-weighted net jump-to-default risk amount as the product of—

(i) the net jump-to-default risk amount calculated under paragraph (b); and

(ii) the default risk-weight allocated in accordance with subsection (6);

(d) allocate the risk-weighted net jump-to-default risk amount to buckets in accordance with subsection (7);

(e) calculate the bucket level SA-DRC in accordance with subsection (8); and

(f) calculate the SA-DRC (securitization: CTP) in accordance with subsection (9).

(4) The institution—

(a) must offset the gross jump-to-default risk amounts of long and short exposures; and

(b) if the maturity of any one or more of those exposures is less than one year, must apply the scaling factor referred to in section 281U(1)(b)(ii) or (2)(b)(ii) to each such exposure.

(5) If—

(a) a perfect replication referred to in subsection (3)(b)(ii) is not possible; and

(b) the long and short securitization exposures are otherwise equivalent except for a residual component,

the institution may offset the exposures and reflect the net jump-to-default risk amount for the residual exposure.

(6) The institution must allocate a default risk-weight—

(a) in accordance with section 281V(4) for net jump-to-default risk amounts resulting from exposures referred to in subsection (1)(a) as if they were non-CTP securitization exposures; and

(b) in accordance with section 281T(8) for net jump-to-default risk amounts resulting from exposures referred to in subsection (1)(b).

(7) The institution must allocate the risk-weighted net jump-to-default risk amounts to buckets that correspond to a credit index or an underlying basket.

(8) The institution must calculate the bucket level SA-DRC in accordance with Formulas 27ZA and 27ZB.

Formula 27ZA

Calculation of Bucket Level SA-DRC

$$\text{SA-DRC}_b = \left(\sum_{i \in \text{Long}} \text{RW}_i \cdot \text{net JTD}_i\right) - \text{HBR} \cdot \left(\sum_{i \in \text{Short}} \text{RW}_i \cdot |\text{net JTD}_i|\right)$$

where—

(a) SA-DRC_b is the SA-DRC for bucket b;

(b) i is an exposure belonging to bucket b;

(c) HBR is the hedge benefit ratio determined in accordance with Formula 27ZB;

(d) net JTD_i is the net jump-to-default risk amount with respect to the exposure i; and

(e) RW_i is the default risk-weight of the exposure i.

Formula 27ZB

Determination of Hedge Benefit Ratio

$$HBR = \frac{\sum \text{net JTD}_{long}}{\sum \text{net JTD}_{long} + \sum|\text{net JTD}_{short}|}$$

where—

(a) HBR is the hedge benefit ratio for the purposes of Formula 27ZA;

(b) $\sum$ net JTD_{long} is the sum of all net long jump-to-default risk amounts across all buckets; and

(c) $\sum|\text{net JTD}_{short}|$ is the sum of all net short jump-to-default risk amounts in absolute value across all buckets.

(9) The institution must calculate the SA-DRC (securitization: CTP) in accordance with Formula 27ZC.

Formula 27ZC

Calculation of SA-DRC (Securitization: CTP)

$$\text{SA-DRC (securitization: CTP)} =$$

$$\max\left\{\sum_{b}\left(\max(\text{SA-DRC}_b, 0) + 0.5 \cdot \min(\text{SA-DRC}_b, 0)\right), 0\right\}$$

where SA-DRC_b is the bucket-level SA-DRC calculated under subsection (8).".

307. Part 8, Division 2 heading amended (calculation of market risk under STM approach: general)

Part 8, Division 2, heading—

Repeal

"**under STM**"

Substitute

"**Capital Charge under SSTM**".

308. Section 282 amended (application of Divisions 2 to 10)

(1) Section 282(1)—

Repeal

"which uses the STM approach to calculate its market risk"

Substitute

"that uses the SSTM approach to calculate its market risk capital charge".

(2) Section 282(2)—

Repeal

"Unless the context otherwise requires, a"

Substitute

"A".

(3) Section 282(2)—

Repeal

"which uses the STM approach to calculate its market risk"

Substitute

"that uses the SSTM approach to calculate its market risk capital charge".

309. Section 283 repealed (positions to be used to calculate market risk)

Section 283—

Repeal the section.

310. Section 284 amended (calculation of market risk capital charge for each risk category)

Section 284—

Repeal subsection (1)

Substitute

"(1) An authorized institution must calculate the market risk capital charge for its exposures falling into each risk category by multiplying the capital charge calculated in accordance with Divisions 2, 3, 4, 5, 6, 7, 8, 9 and 10 with a scaling factor of—

(a) 1.3 for interest rate exposures;

(b) 3.5 for equity exposures;

(c) 1.2 for foreign exchange exposures; and

(d) 1.9 for commodity exposures.".

311. Section 286 amended (calculation of market risk capital charge)

(1) Section 286(a)(i)—

Repeal

"(iii) or (iv)"

Substitute

"(iv) or a CTP".

(2) Section 286(a)(ii)—

Repeal

"subparagraph (iii);"

Substitute

"a CTP; or".

(3) Section 286(a)—

Repeal subparagraph (iii).

(4) Section 286(a)(iv)—

Repeal

"or (iii);"

Substitute

"or a CTP;".

312. Section 287 amended (calculation of market risk capital charge for specific risk for interest rate exposures that fall within section 286(a)(i) or (iv))

(1) Section 287(1)—

Repeal Table 28

Substitute

"**Table 28**

Market Risk Capital Charge Factors for Specific Risk

Class	Credit quality grade	Market risk capital charge factor for specific risk
sovereign	1 or 2	0%
	3 or 4	0.25% (residual maturity of not more than 6 months)
		1.00% (residual maturity of more than 6 months but not more than 24 months)

Class	Credit quality grade	Market risk capital charge factor for specific risk
		1.60% (residual maturity of more than 24 months)
	5 or 6	8.00%
	7	12.00%
	unrated	8.00%
qualifying		0.25% (residual maturity of not more than 6 months)
		1.00% (residual maturity of more than 6 months but not more than 24 months)
		1.60% (residual maturity of more than 24 months)
non-qualifying	5	8.00%
	6	12.00%
	unrated	8.00%".

(2) Section 287(3)—

Repeal paragraph (a)

Substitute

"(a) if—

(i) the issuer of any debt securities referred to in that subsection or, in the case of debt-related derivative contracts referred to in that subsection, the issuer of any underlying debt securities, has an ECAI issuer rating; or

(ii) any debt securities referred to in that subsection or, in the case of debt-related derivative contracts referred to in that subsection, any underlying debt securities, have an ECAI issue specific rating,

an authorized institution must, subject to paragraphs (b), (c) and (d), map the ECAI issuer rating or the ECAI issue specific rating, as the case may be, to a credit quality grade in the LT ECAI rating mapping table and ST ECAI rating mapping table;".

(3) Section 287(3)(f)(i) and (ii)—

Repeal

"2 or 3"

Substitute

"3 or 4".

(4) Section 287(4)(aa)(i)—

Repeal

"2 or 3"

Substitute

"3 or 4".

(5) Section 287(5)(c)—

Repeal

"5"

Substitute

"6".

(6) Section 287(5)(c)—

Repeal

"assigned a credit quality grade of 6"

Substitute

"assigned a credit quality grade of 7".

(7) Section 287—

Repeal subsections (6) and (7)

Substitute

"(6) If the issuer of any debt securities referred to in this section or, in the case of any debt-related derivative contracts referred to in this section, the issuer of any underlying debt securities, has more than one ECAI issuer rating assigned to the issuer, an authorized institution must, for the purposes of this section, apply section 54E(2), with all necessary modifications, to the ECAI issuer ratings concerned (as if the references to ECAI issue specific ratings in that subsection were references to ECAI issuer ratings) to ascertain which one of them must be used for those purposes.

(7) If any debt securities referred to in this section or, in the case of any debt-related derivative contracts referred to in this section, any underlying debt securities, have more than one ECAI issue specific rating assigned to them, an authorized institution must, for the purposes of this section, apply section 54E(2), with all necessary modifications, to the ECAI issue specific ratings concerned to ascertain which one of them must be used for those purposes.".

(8) Section 287(11)—

Repeal the definition of *ECAI issue specific rating*

Substitute

"***ECAI issue specific rating*** (ECAI特定債項評級), in relation to a debt security or, in the case of a debt-related derivative contract, the underlying debt security, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the debt security or underlying debt security, as the case may be, by a Type A ECAI or a Type B ECAI;".

(9) Section 287(11)—

Repeal the definition of *ECAI issuer rating*

Substitute

"***ECAI issuer rating*** (ECAI發債人評級), in relation to the issuer of a debt security or, in the case of a debt-related derivative contract, the underlying debt security, means a long-term credit assessment rating that is assigned to the issuer by a Type A ECAI or a Type B ECAI;".

313. Section 287A substituted

Section 287A—

Repeal the section

Substitute

"**287A. Calculation of market risk capital charge for specific risk for interest rate exposures that fall within section 286(a)(ii)**

An authorized institution must calculate the market risk capital charge for specific risk arising from each of its net positions in securitization exposures held in the trading book that fall within section 286(a)(ii) by multiplying each of those net positions by a market risk capital charge factor that is equal to the risk-weight, determined as if the

net position were held in the banking book in accordance with Part 7, divided by 12.5.".

314. Section 287B repealed (calculation of market risk capital charge for specific risk for interest rate exposures that fall within section 286(a)(iii))

Section 287B—

Repeal the section.

315. Section 288 amended (calculation of market risk capital charge for general market risk)

Section 288(3)(d)—

Repeal subparagraphs (i) and (ii)

Substitute

"(i) if the total net risk-weighted positions of zone 1 and zone 2 are netted, treat any full or partial position that cannot be offset as remaining in its zone; and

(ii) if the total net risk-weighted positions of zone 2, after taking into account the offsetting referred to in subparagraph (i), and those of zone 3 are netted, treat any full or partial position that cannot be offset as remaining in its zone.".

316. Section 295 amended (preliminary steps to calculating market risk capital charge)

(1) Section 295(1)—

Repeal

"Subject to subsection (2), an"

Substitute

"An".

(2) Section 295—

Repeal subsections (2) and (3).

317. Section 307 amended (specific risk)

Section 307(5)(b)—

Repeal

everything after "protection seller,"

Substitute

"apply section 287A as if that contract were a securitization exposure.".

318. Sections 313 and 314 repealed

Sections 313 and 314—

Repeal the sections.

319. Part 8, Divisions 11 and 12 repealed

Part 8—

Repeal Divisions 11 and 12.

320. Part 8, Division 13 added

At the end of Part 8—

Add

"Division 13—Calculation of Market Risk Capital Charge under IMA

322A. Application of Division 13

(1) This Division applies to an authorized institution that uses the IMA to calculate its market risk capital charge.

(2) In this Division—

(a) a reference to an authorized institution is a reference to an authorized institution that uses the IMA to calculate its market risk capital charge; and

(b) a reference to an approved trading desk is a reference to a trading desk specified in an approval under section 18(2)(a).

322B. Calculation of risk-weighted amount for market risk before first anniversary of commencement of profit and loss attribution test

(1) This section applies at any time before the first anniversary of the day on which section 322G comes into operation.

(2) An authorized institution must calculate its risk-weighted amount for market risk as the sum of—

(a) the product of 12.5 and the market risk capital charge calculated under section 322D for all approved trading desks that fulfil the back-testing requirements in section 322G(1), independent of the zone they are assigned to in the profit and loss attribution test; and

(b) the risk-weighted amount for market risk calculated under the STM approach for—

(i) approved trading desks to which section 19A applies; and

(ii) trading desks that are not approved trading desks.

322C. Calculation of risk-weighted amount for market risk on and after first anniversary of commencement of profit and loss attribution test

(1) This section applies at any time on or after the first anniversary of the day on which section 322G comes into operation.

(2) If none of the approved trading desks of an authorized institution is assigned to the yellow zone in the profit and loss attribution test under section 322G(4), the institution must calculate its risk-weighted amount for market risk as the sum of—

(a) the product of 12.5 and the market risk capital charge calculated under section 322D for all approved trading desks that fulfil the back-testing requirements in section 322G(1) and are assigned to the green zone in the profit and loss attribution test; and

(b) the risk-weighted amount for market risk calculated under the STM approach for—

(i) approved trading desks to which section 19A applies; and

(ii) trading desks that are not approved trading desks.

(3) If at least one approved trading desk of an authorized institution is assigned to the yellow zone in the profit and loss attribution test under section 322G(4), the institution must calculate its risk-weighted amount for market risk in accordance with Formula 28A.

Formula 28A

Calculation of Risk-weighted Amount with at least One Approved Trading Desk in Yellow Zone

$$\text{RWA} = 12.5 \cdot \left[\min\left(\text{IMA}_{\text{G,Y}} + \text{Capital surcharge} + \text{C}_{\text{u}}\ ,\ \text{SA}_{\text{all desks}}\right) + \max\left(0, \text{IMA}_{\text{G,Y}} - \text{SA}_{\text{G,Y}}\right)\right]$$

where—

(a) RWA is the risk-weighted amount;

(b) Capital surcharge is the surcharge calculated in accordance with section 322H;

(c) C_{u} is the market risk capital charge calculated under the STM approach for approved trading desks to which section 19A applies and trading desks that are not approved trading desks;

(d) $\text{IMA}_{\text{G,Y}}$ is the market risk capital charge calculated under section 322D for all approved trading desks that fulfil the back-testing requirements in section 322G(1) and are assigned to the green or yellow zone in the profit and loss attribution test;

(e) $\text{SA}_{\text{all desks}}$ is the market risk capital charge for all trading desks calculated under the STM approach; and

(f) $SA_{G,Y}$ is the market risk capital charge calculated under the STM approach for all approved trading desks that fulfil the back-testing requirements in section 322G(1) and are assigned to the green or yellow zone in the profit and loss attribution test.

322D. Calculation of market risk capital charge for approved trading desks under IMA

(1) This section applies to the calculation of an authorized institution's market risk capital charge for approved trading desks that fulfil the back-testing requirements in section 322G(1) and are assigned to the green or yellow zone in the profit and loss attribution test.

(2) The institution must calculate the market risk capital charge by using its internal models as the sum of—

(a) the greater of the following—

(i) the sum of—

(A) the institution's latest available market risk capital charge for modellable risk factors, calculated in accordance with subsection (3); and

(B) the institution's latest available market risk capital charge for NMRFs, calculated in accordance with subsection (4);

(ii) the sum of—

(A) the average market risk capital charge for modellable risk factors, calculated in accordance with subsection (3), for

the last 60 trading days, multiplied by a multiplication factor m_c determined under section 322E(1); and

(B) the average market risk capital charge for NMRFs, calculated in accordance with subsection (4), for the last 60 trading days; and

(b) the default risk charge.

(3) The institution must calculate the market risk capital charge for modellable risk factors by using its internal models in accordance with Formula 28B.

Formula 28B

Calculation of Market Risk Capital Charge for Modellable Risk Factors

$$IMCC = 0.5 \cdot (IMCC(C)) + 0.5 \cdot \left(\sum_{i=1}^{5} IMCC(C_i) \right)$$

where—

(a) IMCC is the market risk capital charge for modellable risk factors;

(b) IMCC(C) is the unconstrained ES capital charge at the portfolio-wide level, with no constraint on cross-risk class correlations, calculated in accordance with Formula 28C; and

Formula 28C

Calculation of Unconstrained ES Capital Charge

$$\mathrm{IMCC(C)} = \mathrm{ES_{R,S}} \cdot \max\left(\frac{\mathrm{ES_{F,C}}}{\mathrm{ES_{R,C}}}, 1\right)$$

where—

(i) IMCC(C) is the unconstrained ES capital charge at the portfolio-wide level;

(ii) $\mathrm{ES_{F,C}}$ is the current ES calculated under subsection (7) with the full set of modellable risk factors across all 5 risk classes;

(iii) $\mathrm{ES_{R,C}}$ is the current ES calculated under subsection (7) with the reduced set of modellable risk factors across all 5 risk classes; and

(iv) $\mathrm{ES_{R,S}}$ is the stressed ES calculated under subsection (7) with the reduced set of modellable risk factors across all 5 risk classes.

(c) IMCC(C_i) is the constrained ES capital charge at the risk class level calculated in accordance with Formula 28D.

Formula 28D

Calculation of Constrained ES Capital Charge

$$IMCC(C_i) = ES_{R,S,i} \cdot \max\left(\frac{ES_{F,C,i}}{ES_{R,C,i}}, 1\right)$$

where—

(i) $IMCC(C_i)$ is the constrained ES capital charge at the risk class level;

(ii) $ES_{F,C,i}$ is the current ES calculated under subsection (7) with the full set of modellable risk factors within risk class i;

(iii) $ES_{R,C,i}$ is the current ES calculated under subsection (7) with the reduced set of modellable risk factors within risk class i; and

(iv) $ES_{R,S,i}$ is the stressed ES calculated under subsection (7) with the reduced set of modellable risk factors within risk class i.

(4) The institution must calculate the market risk capital charge for NMRFs by using its internal models in accordance with Formula 28E.

Formula 28E

Calculation of Market Risk Capital Charge for NMRFs

$$SES = \sqrt{\sum_{i=1}^{I} ISES_{NM,i}^2} + \sqrt{\sum_{j=1}^{J} ISES_{NM,j}^2} + \sqrt{\left(0.6 \cdot \sum_{k=1}^{K} SES_{NM,k}\right)^2 + 0.64 \cdot \sum_{k=1}^{K} SES_{NM,k}^2}$$

where—

(a) SES is the market risk capital charge for NMRFs;

(b) $ISES_{NM,i}$ is the stress scenario capital charge for the idiosyncratic credit spread NMRF i from the I risk factors where the institution has demonstrated to the satisfaction of the Monetary Authority that it is appropriate to aggregate all I idiosyncratic credit spread NMRFs with a zero correlation assumption;

(c) $ISES_{NM,j}$ is the stress scenario capital charge for the idiosyncratic equity NMRF j from the J risk factors where the institution has demonstrated to the satisfaction of the Monetary Authority that it is appropriate to aggregate all J idiosyncratic equity NMRFs with a zero correlation assumption; and

(d) $SES_{NM,k}$ is the stress scenario capital charge for the NMRF k other than the I idiosyncratic credit spread NMRFs and the J idiosyncratic equity NMRFs.

(5) For the purposes of calculating the current ES and stressed ES for the purposes of subsection (3), the institution must—

(a) obtain the approval of the Monetary Authority to use a reduced set of modellable risk factors and for any update of the set;

(b) regularly review, and update if necessary, the reduced set of modellable risk factors on at least a quarterly basis or whenever there is an update on the stressed ES relevant period under paragraph (c); and

(c) regularly review, and update if necessary, the stressed ES relevant period on at least a quarterly basis or whenever there are material changes in the composition of the portfolio or in the time series of the relevant risk factors in the portfolio.

(6) The Monetary Authority may grant an approval to an authorized institution under subsection (5)(a) if the Monetary Authority is satisfied that—

(a) the reduced set of modellable risk factors are relevant for the institution's portfolio of exposures;

(b) there is a sufficiently long history of observations for the reduced set of modellable risk factors; and

(c) the ES of the reduced set of modellable risk factors is able to explain at least 75% of the variation of the fully specified ES based on all modellable risk factors on average measured over the preceding 12-week period.

(7) The institution must calculate the current ES and stressed ES in accordance with Formula 28F.

Formula 28F

Calculation of Current ES and Stressed ES

$$ES = \sqrt{ES_T(P)^2 + \sum_{j \geq 2} \left(ES_T(P, j) \cdot \sqrt{\frac{(LH_j - LH_{j-1})}{T}} \right)^2}$$

where—

(a) ES is current ES or stressed ES (as the case requires);

(b) P are positions that are exposed to a set of modellable risk factors;

(c) T is the length of the base liquidity horizon of 10 days;

(d) $ES_T(P)$ is the ES at horizon T of a portfolio with positions P with respect to shocks to the modellable risk factors to which positions P are exposed;

(e) $ES_T(P,j)$ is the ES at horizon T of a portfolio with positions P with respect to shocks to a subset of modellable risk factors with a liquidity horizon that is equal to or longer than LH_j to which positions P are exposed, with other modellable risk factors held constant; and

(f) LH_j is the liquidity horizon where j ranges from 1 to 5 as follows—

(i) LH_1 is 10 days;

(ii) LH_2 is 20 days;

(iii) LH_3 is 40 days;

(iv) LH_4 is 60 days; and

(v) LH_5 is 120 days.

322E. Multiplication factor

(1) The multiplication factor m_c to be used by an authorized institution for the purposes of section 322D(2)(a)(ii)(A) is the sum of—

(a) 1.5;

(b) a back-testing add-on specified for the number of back-testing exceptions in Table 32A for the most recent 250 trading days, determined on the basis of—

(i) all the positions of all approved trading desks using the IMA; and

(ii) the VaR calibrated at a one-tailed 99% confidence level; and

(c) any additional back-testing add-on assigned to the institution under subsection (3).

Table 32A

Add-on Factor for Back-testing Exceptions

Column 1	Column 2	Column 3	Column 4
Item	Zone	Number of back-testing exceptions	Add-on factor
1.	Green	4 or less	0.00
2.	Yellow	5	0.20
3.	Yellow	6	0.26
4.	Yellow	7	0.33
5.	Yellow	8	0.38
6.	Yellow	9	0.42
7.	Red	10 or more	0.50

(2) For the purpose of calculating the number of back-testing exceptions under subsection (1)(b), the institution may exclude any back-testing exception if the institution demonstrates to the satisfaction of the Monetary Authority that—

(a) the back-testing exception relates to an NMRF the market risk capital charge for which exceeds the actual or the hypothetical loss for the day on which the exception occurs; or

(b) the back-testing exception does not result from deficiencies of the relevant internal models.

(3) The Monetary Authority may, by written notice given to an authorized institution, assign an additional back-testing add-on to the institution if the Monetary Authority is satisfied that—

(a) the institution has ceased to satisfy any of the requirements specified in Schedule 3 applicable to or in relation to the institution; or

(b) the institution satisfies all the requirements specified in Schedule 3 applicable to or in relation to the institution but there is a minor imperfection in the relevant internal models due to an assumption or approximation underlying the models.

322F. Calculation of stress scenario capital charge

(1) For the purpose of calculating its stress scenario capital charge, an authorized institution must—

(a) determine a common stress scenario across all idiosyncratic credit spread NMRFs;

(b) determine a common stress scenario across all idiosyncratic equity NMRFs;

(c) determine a common stress scenario across all NMRFs within the same risk class that are not idiosyncratic credit spread NMRFs or idiosyncratic equity NMRFs; or

(d) with the approval of the Monetary Authority, determine a common stress scenario across the NMRFs that belong to the same bucket within a curve, surface or cube.

(2) For the purposes of subsection (1), the model inputs must be calibrated to a 12-month period of significant financial stress to which the institution

experiences the largest loss within the set of NMRFs referred to in subsection (1)(a), (b), (c) or (d).

322G. Back-testing requirements and profit and loss attribution test for approved trading desks

(1) Subject to subsection (5), an approved trading desk fulfils the back-testing requirements if—

(a) there are no more than 12 back-testing exceptions against the VaR calibrated at a one-tailed 99% confidence level for the most recent 250 trading days; and

(b) there are no more than 30 back-testing exceptions against the VaR calibrated at a one-tailed 97.5% confidence level for the most recent 250 trading days.

(2) An approved trading desk is assigned to the green zone in the profit and loss attribution test if—

(a) the Spearman correlation metric is higher than 0.80; and

(b) the Kolmogorov-Smirnov distribution test metric is lower than 0.09.

(3) An approved trading desk is assigned to the red zone in the profit and loss attribution test if—

(a) the Spearman correlation metric is lower than 0.70; or

(b) the Kolmogorov-Smirnov distribution test metric is higher than 0.12.

(4) An approved trading desk is assigned to the yellow zone in the profit and loss attribution test if it is not assigned to the green zone under subsection (2) or the red zone under subsection (3).

(5) For the purpose of calculating the number of back-testing exceptions under subsection (1), an authorized institution may exclude any back-testing exception if the institution demonstrates to the satisfaction of the Monetary Authority that the back-testing exception relates to an NMRF the market risk capital charge for which exceeds the actual or the hypothetical loss for the day on which the exception occurs.

322H. Calculation of capital surcharge for approved trading desks assigned to yellow zone

At any time on or after the first anniversary of the day on which section 322G comes into operation, the capital surcharge for an approved trading desk that fulfils the back-testing requirements in section 322G(1) and is assigned to the yellow zone in the profit and loss attribution test under section 322G(4) is calculated as the product of—

(a) the market risk capital charge calculated under the STM approach for trading desks that are assigned to the green or yellow zone in the profit and loss attribution test minus the market risk capital charge calculated under the IMA for those trading desks, subject to a floor of zero;

(b) the ratio $\frac{\sum_{i \in Y} SA_i}{\sum_{i \in G,Y} SA_i}$, where—

(i) $\sum_{i \in Y} SA_i$ is the market risk capital charge calculated under the STM approach for approved trading desks that fulfil the back-testing requirements and are assigned to the yellow zone in the profit and loss attribution test; and

(ii) $\sum_{i \in G,Y} SA_i$ is the market risk capital charge calculated under the STM approach for approved trading desks that fulfil the back-testing requirements and are assigned to the green or yellow zone in the profit and loss attribution test; and

(c) 0.5.".

321. Part 8A added

Before Part 9—

Add

"Part 8A

Calculation of CVA Risk Capital Charge

Division 1—General

322I. Interpretation of Part 8A

In this Part—

CVA delta (CVA得爾塔) means a first order sensitivity to capture the changes in CVA values of an authorized institution's covered transactions and contracts set out in section 322J due to movements in its non-volatility risk factors;

CVA delta risk (CVA得爾塔風險) means the risk of changes in CVA values of an authorized institution's covered transactions and contracts set out in section 322J due to movements in its non-volatility risk factors captured by CVA delta;

CVA vega (CVA維加) means a first order sensitivity to capture the changes in CVA values of an authorized institution's covered transactions and contracts set out in section 322J due to movements in its volatility risk factors;

CVA vega risk (CVA維加風險) means the risk of changes in CVA values of an authorized institution's covered transactions and contracts set out in section 322J due to movements in its volatility risk factors captured by CVA vega;

risk factor (風險因素) has the meaning given by section 281;

RRAO has the meaning given by section 281;

SBM curvature risk (SBM曲率風險) has the meaning given by section 281.

322J. Transactions and contracts to be covered

(1) An authorized institution must calculate the CVA risk capital charge for the following transactions and contracts in both its trading book and its banking book—

(a) its OTC derivative transactions;

(b) if required by the Monetary Authority under subsection (2)—its SFTs that are fair-valued for accounting purposes;

(c) hedges falling within paragraph (a) or (b) that are entered into by it with external counterparties, whether or not those hedges are eligible CVA hedges,

other than any transactions and contracts specified in Schedule 1A.

(2) If the Monetary Authority determines an authorized institution's CVA risk arising from SFTs that are fair-valued for accounting purposes is material, the Monetary Authority may, by written notice given to the institution, require the institution to calculate the CVA risk capital charge for those SFTs.

(3) An authorized institution must include a hedge referred to in subsection (1)(c) in the CVA risk capital charge with respect to the counterparty providing the hedge.

Division 2—Reduced Basic CVA Approach

322K. Application of Division 2

(1) This Division applies to an authorized institution that uses the reduced basic CVA approach to calculate its CVA risk capital charge.

(2) A reference to an authorized institution in this Division is a reference to an authorized institution that uses the reduced basic CVA approach to calculate its CVA risk capital charge.

322L. Calculation of CVA risk capital charge

(1) An authorized institution must calculate its CVA risk capital charge for a portfolio of counterparties by using Formula 28G.

Formula 28G

Calculation of CVA Risk Capital Charge for Portfolio of Counterparties under Reduced Basic CVA Approach

$$\mathrm{BA\_CVA_{reduced}} = 0.65 \cdot \sqrt{\left(0.5 \cdot \sum_{c} \mathrm{SCVA_c}\right)^2 + 0.75 \cdot \sum_{c} \mathrm{SCVA_c^2}}$$

where—

(a) $\mathrm{BA\_CVA_{reduced}}$ is the CVA risk capital charge under the reduced basic CVA approach; and

(b) $\mathrm{SCVA_C}$ is the standalone CVA risk capital charge applicable to counterparty c calculated under subsection (2).

(2) The institution must calculate its standalone CVA risk capital charge for each counterparty by using Formula 28H.

Formula 28H

Calculation of CVA Risk Capital Charge for Each Counterparty under Reduced Basic CVA Approach

$$\mathrm{SCVA_c} = \frac{1}{1.4} \cdot \mathrm{RW_c} \cdot \sum_{N} \mathrm{M_N} \cdot \mathrm{EAD_N} \cdot \mathrm{DF_N}$$

where—

(a) $SCVA_C$ is the standalone CVA risk capital charge applicable to counterparty c;

(b) RW_C is the risk-weight applicable to counterparty c determined under subsection (3);

(c) M_N is the effective maturity of a netting set N with counterparty c determined under subsection (5);

(d) EAD_N is the default risk exposure of a netting set N with counterparty c calculated in a manner permitted under the IMM(CCR) approach or SA-CCR approach or the current exposure method or any of the methods set out in Division 2B of Part 6A, as the case may be; and

(e) DF_N is a supervisory discount factor of a netting set N with counterparty c, being—

(i) if the institution calculates the default risk exposure of the netting set by using the IMM(CCR) approach—a factor of 1; or

(ii) if the institution does not have an approval to use the IMM(CCR) approach to calculate the default risk exposure of the netting set—a factor equal to $\frac{1-e^{-0.05\ M_N}}{0.05\ M_N}$.

(3) For the purposes of paragraph (b) of Formula 28H, the institution must determine the risk-weight applicable to a counterparty—

(a) if the counterparty has an ECAI issuer rating—by mapping the sector and credit quality of the counterparty based on its ECAI issuer rating to the risk-weights in Table 32B; or

(b) if the counterparty does not have an ECAI issuer rating—

(i) where the institution uses the IRB approach to calculate its credit risk for non-securitization exposures to the counterparty—by mapping the internal rating of the counterparty to one of the ECAI issuer ratings based on a mapping scheme approved in writing by the Monetary Authority; or

(ii) where the institution uses the STC approach or BSC approach to calculate its credit risk for non-securitization exposures to the counterparty—by considering the counterparty as unrated and allocating a risk-weight to the counterparty as such under Table 32B.

Table 32B

Risk-weights of Counterparties under Reduced Basic CVA Approach

Column 1	Column 2	Column 3	Column 4
		Risk-weight	
Item	Sector	Investment credit quality grade	Non-investment credit quality grade or unrated
1.	Sovereigns including central banks and multilateral development banks	0.5%	2.0%
2.	Local government, government-backed non-financials, education and public administration	1.0%	4.0%
3.	Financials including government-backed financials	5.0%	12.0%

Column 1	Column 2	Column 3	Column 4
		Risk-weight	
Item	Sector	Investment credit quality grade	Non-investment credit quality grade or unrated
4.	Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying	3.0%	7.0%
5.	Consumer goods and services, transportation and storage, and administrative and support service activities	3.0%	8.5%
6.	Technology and telecommunications	2.0%	5.5%
7.	Health care, utilities, and professional and technical activities	1.5%	5.0%
8.	Other sector	5.0%	12.0%

(4) For the purposes of paragraph (b) of Formula 28H and subsection (3)—

(a) if a counterparty has 2 ECAI issuer ratings the use of which would result in the allocation of different risk-weights to the counterparty under Table 32B, the institution must use the higher risk-weight; and

(b) if a counterparty has 3 or more ECAI issuer ratings the use of which would result in the allocation of different risk-weights to the counterparty under Table 32B—

(i) if the 2 lowest risk-weights are the same—the institution must use that risk-weight; or

(ii) if the 2 lowest risk-weights are different—the institution must use the higher risk-weight.

(5) For the purposes of paragraph (c) of Formula 28H, the institution must determine the effective maturity of a netting set as M calculated in accordance with section 168 without having regard to section 168(2), as the case requires.

(6) An approval of a mapping scheme by the Monetary Authority under paragraph (b)(i) of Formula 23J that was in force immediately before the commencement date of Part 3 of the Banking (Capital) (Amendment) Rules 2023 is taken, on and after that date, to be an approval of a mapping scheme by the Monetary Authority under subsection (3)(b)(i) if the mapping scheme is used to map the internal rating of the counterparty to one of the ECAI issuer ratings.

Division 3—Full Basic CVA Approach

322M. Application of Division 3

(1) This Division applies to an authorized institution that uses the full basic CVA approach to calculate its CVA risk capital charge.

(2) A reference to an authorized institution in this Division is a reference to an authorized institution that uses the full basic CVA approach to calculate its CVA risk capital charge.

322N. Calculation of CVA risk capital charge

(1) An authorized institution must calculate its CVA risk capital charge for a portfolio of counterparties by using Formula 28I.

Formula 28I

Calculation of CVA Risk Capital Charge for Portfolio of Counterparties under Full Basic CVA Approach

$$\text{BA\_CVA}_{\text{full}} = 0.25 \cdot \text{BA\_CVA}_{\text{reduced}} + 0.75 \cdot \text{BA\_CVA}_{\text{hedged}}$$

where—

(a) $\text{BA\_CVA}_{\text{full}}$ is the CVA risk capital charge under the full basic CVA approach;

(b) $\text{BA\_CVA}_{\text{reduced}}$ is the CVA risk capital charge under the reduced basic CVA approach calculated in accordance with section 322L; and

(c) BA_CVA_{hedged} is the amount calculated under subsection (2).

(2) For the purposes of paragraph (c) of Formula 28I, the institution must calculate BA_CVA_{hedged} by using Formula 28J.

Formula 28J

Calculation of BA_CVA_{hedged}

$$BA\_CVA_{hedged}=0.65\cdot\sqrt{\left(0.5\cdot\sum_{c}(SCVA_c-SNH_c)-IH\right)^2+0.75\cdot\sum_{c}(SCVA_c-SNH_c)^2+\sum_{c}HMA_c}$$

where—

(a) $SCVA_c$ is the standalone CVA risk capital charge applicable to counterparty c calculated under section 322L(2);

(b) SNH_c is a quantity that gives recognition to the reduction in CVA risk of counterparty c arising from a single-name eligible CVA hedge, calculated under subsection (3);

(c) IH is a quantity that gives recognition to the reduction in CVA risk across the portfolio of counterparties arising from index eligible CVA hedges, calculated under subsection (4); and

(d) HMA_c is a quantity that characterizes the hedging misalignment of indirect eligible CVA hedges if the hedges do not directly reference counterparty c, calculated under subsection (5).

(3) For the purposes of paragraph (b) of Formula 28J, the institution must calculate SNH_c by using Formula 28K.

Formula 28K

Calculation of SNH_c

$$SNH_c = \sum_{h \in c} r_{hc} \cdot RW_h \cdot M_h^{SN} \cdot B_h^{SN} \cdot DF_h^{SN}$$

where—

(a) r_{hc} is set at—

(i) 100% if the single-name eligible CVA hedge h directly references counterparty c;

(ii) 80% if the single-name eligible CVA hedge h has a legal relationship with counterparty c; or

(iii) 50% if the single-name eligible CVA hedge h shares the same sector and region as counterparty c;

(b) RW_h is the risk-weight applicable to the reference name under a single-name eligible CVA hedge h, determined in the same manner as the risk-weight applicable to counterparty c is determined under section 322L(3);

(c) M_h^{SN} is the remaining maturity of the single-name eligible CVA hedge h expressed in years;

(d) B_h^{SN} is—

(i) subject to subparagraph (ii), the notional amount of the single-name eligible CVA hedge h; or

(ii) if the hedge is a single-name contingent credit default swap, the current market value of the reference obligation specified in the contract; and

(e) DF_h^{SN} is a supervisory discount factor equal to $\frac{1-e^{-0.05 \cdot M_h^{SN}}}{0.05 \cdot M_h^{SN}}$.

(4) For the purposes of paragraph (c) of Formula 28J, the institution must calculate IH by using Formula 28L.

Formula 28L

Calculation of IH

$$IH = \sum_i RW_i \cdot M_i^{ind} \cdot B_i^{ind} \cdot DF_i^{ind}$$

where—

(a) RW_i is the risk-weight applicable to index eligible CVA hedge i, determined by—

(i) if all the index constituents belong to the same sector and are of the same credit quality—calculating the risk-weight in the same manner as calculating the risk-weight applicable to counterparty c under section 322L(3) and multiplying the result by 0.7; or

(ii) if the index spans multiple sectors or has a mixture of investment grade constituents or non-investment grade or unrated constituents—calculating the weighted average of the risk-weights attributable to each constituent calculated in the same manner as the risk-weight applicable to counterparty c under section 322L(3) and multiplying the result by 0.7;

(b) M_i^{ind} is the remaining maturity of index eligible CVA hedge i expressed in years;

(c) B_i^{ind} is the notional amount of index eligible CVA hedge i; and

(d) DF_i^{ind} is a supervisory discount factor equal to $\frac{1-e^{-0.05 \cdot M_i^{ind}}}{0.05 \cdot M_i^{ind}}$.

(5) For the purposes of paragraph (d) of Formula 28J, the institution must calculate HMA_c by using Formula 28M.

Formula 28M

Calculation of HMA_c

$$HMA_c = \sum_{h \in c} \left(1 - r_{hc}^2\right) \cdot \left(RW_h \cdot M_h^{SN} \cdot B_h^{SN} \cdot DF_h^{SN}\right)^2$$

where—

(a) r_{hc} has the same meaning as in paragraph (a) of Formula 28K;

(b) RW_h has the same meaning as in paragraph (b) of Formula 28K;

(c) M_h^{SN} has the same meaning as in paragraph (c) of Formula 28K;

(d) B_h^{SN} has the same meaning as in paragraph (d) of Formula 28K; and

(e) DF_h^{SN} has the same meaning as in paragraph (e) of Formula 28K.

Division 4—Standardized CVA Approach

322O. Application of Division 4

(1) This Division applies to an authorized institution that uses the standardized CVA approach to calculate its CVA risk capital charge.

(2) A reference to an authorized institution in this Division is a reference to an authorized institution that uses the standardized CVA approach to calculate its CVA risk capital charge.

322P. Calculation of CVA risk capital charge

An authorized institution must calculate its CVA risk capital charge as the sum of—

(a) its CVA delta risk capital charge under section 322Q for all risk classes; and

(b) its CVA vega risk capital charge under section 322R for all risk classes except the counterparty credit spread risk class.

322Q. Calculation of CVA delta risk capital charge

(1) An authorized institution must calculate its CVA delta risk capital charge separately for each risk class in accordance with this section.

(2) For each risk class, the institution must—

(a) subject to subsection (3), determine a CVA delta sensitivity, delta_k^{CVA}, for each CVA delta risk factor k (as defined under section 322S(2)(a)) in accordance with Formula 28N;

Formula 28N

Determination of CVA Delta Sensitivity

$$\text{delta}_k^{CVA} = \frac{\text{CVA}(k + 0.0001) - \text{CVA}(k)}{0.0001}$$

for interest rate, counterparty credit spread and reference credit spread risk factors; or

$$\text{delta}_{k}^{CVA} = \frac{CVA(1.01k) - CVA(k)}{0.01}$$

for equity, commodity and foreign exchange risk factors,

where CVA(k) is the aggregate CVA as a function of the CVA delta risk factor k.

(b) subject to subsection (4), in relation to all eligible CVA hedges, determine a fair value delta sensitivity, delta_{k}^{Hdg}, for each CVA delta risk factor k (as defined under section 322S(2)(a)) in accordance with Formula 28O;

Formula 28O

Determination of Fair Value Delta Sensitivity in relation to Eligible CVA Hedges

$$\text{delta}_{k}^{Hdg} = \frac{V(k + 0.0001) - V(k)}{0.0001}$$

for interest rate, counterparty credit spread and reference credit spread risk factors; or

$$\text{delta}_{k}^{Hdg} = \frac{V(1.01k) - V(k)}{0.01}$$

for equity, commodity and foreign exchange risk factors,

where V(k) is the market value of all eligible CVA hedges as a function of the CVA delta risk factor k.

(c) calculate the risk-weighted CVA delta sensitivity, $WS\_delta_k^{CVA}$, for each CVA delta risk factor k as the product of $delta_k^{CVA}$ and the risk-weight determined under section 322T;

(d) calculate the risk-weighted fair value delta sensitivity, $WS\_delta_k^{Hdg}$, for each CVA delta risk factor k as the product of $delta_k^{Hdg}$ and the risk-weight determined under section 322T;

(e) calculate the net risk-weighted CVA delta sensitivity, WS_delta_k, for each CVA delta risk factor k by subtracting the $WS\_delta_k^{Hdg}$ from the $WS\_delta_k^{CVA}$;

(f) calculate the capital charges for each CVA delta bucket b, K_{b_delta}, by aggregating the net risk-weighted CVA delta sensitivities within the same bucket in accordance with Formula 28P; and

Formula 28P

Calculation of Capital Charges for Each CVA Delta Bucket

$$K_{b\_delta} = \sqrt{\sum_{k \in b} WS\_delta_k^2 + \sum_{k \in b} \sum_{l \in b, l \neq k} \rho_{kl} \cdot WS\_delta_k \cdot WS\_delta_l + 0.01 \cdot \sum_{k \in b} \left(WS\_delta_k^{Hdg}\right)^2}$$

where ρ_{kl} is the correlation parameter between 2 net risk-weighted CVA delta sensitivities within the same bucket that is specified by the Monetary Authority so that it appropriately captures the extent to which the 2 CVA delta risk factors are related.

(g) calculate the CVA delta risk capital charge by aggregating the CVA delta buckets within the risk class in accordance with Formula 28Q.

Formula 28Q

Calculation of CVA Delta Risk Capital Charge

$$K_{CVA\_delta} = m_{CVA} \cdot \sqrt{\sum_{b} K_{b\_delta}^2 + \sum_{b} \sum_{c \neq b} \gamma_{bc} \cdot S_{b\_delta} \cdot S_{c\_delta}}$$

where—

(i) K_{CVA_delta} is the CVA delta risk capital charge;

(ii) m_{CVA} is 1 or the larger number that is assigned by the Monetary Authority by written notice given to the institution, taking into account the level of model risk for the calculation of the CVA sensitivities;

(iii) γ_{bc} is the correlation parameter between 2 CVA delta buckets that is specified by the Monetary Authority so that it appropriately captures the extent to which the 2 CVA delta buckets are related;

(iv) $S_{b\_delta} = \max[-K_{b\_delta}, \min(\sum_k WS\_delta_k, K_{b\_delta})]$ for all CVA delta risk factors in bucket b; and

(v) $S_{c\_delta} = \max[-K_{c\_delta}, \min(\sum_k WS\_delta_k, K_{c\_delta})]$ for all CVA delta risk factors in bucket c.

(3) For the purposes of subsection (2)(a), the institution may determine a CVA delta sensitivity by another formulation if the institution demonstrates to the satisfaction of the Monetary Authority that the other formulation is conceptually sound and yields results very close to Formula 28N.

(4) For the purposes of subsection (2)(b), the institution may determine a fair value delta sensitivity by another formulation if the institution demonstrates to the satisfaction of the Monetary Authority that the other formulation is conceptually sound and yields results very close to Formula 28O.

322R. Calculation of CVA vega risk capital charge

(1) An authorized institution must calculate its CVA vega risk capital charge separately for each risk class except the counterparty credit spread risk class, in accordance with this section.

(2) For each risk class except the counterparty credit spread risk class, the institution must—

(a) subject to subsection (3), determine a CVA vega sensitivity, $vega_k^{CVA}$, for each CVA vega risk factor k (as defined under section 322S(2)(b)) in accordance with Formula 28R;

Formula 28R

Determination of CVA Vega Sensitivity

$$\text{vega}_k^{CVA} = \frac{\text{CVA}(1.01\text{k}) - \text{CVA}(\text{k})}{0.01}$$

where CVA(k) is the aggregate CVA as a function of the CVA vega risk factor k.

(b) subject to subsection (4), in relation to all eligible CVA hedges, determine a fair value vega sensitivity, vega_k^{Hdg}, for each CVA vega risk factor k (as defined under section 322S(2)(b)) in accordance with Formula 28S;

Formula 28S

Determination of Fair Value Vega Sensitivity in relation to Eligible CVA Hedges

$$\text{vega}_k^{Hdg} = \frac{\text{V}(1.01\text{k}) - \text{V}(\text{k})}{0.01}$$

where V(k) is the market value of all eligible CVA hedges as a function of the CVA vega risk factor k.

(c) calculate the risk-weighted CVA vega sensitivity, WS_vega_k^{CVA}, for each CVA vega risk factor k as the product of vega_k^{CVA} and the risk-weight determined under section 322T;

(d) calculate the risk-weighted fair value vega sensitivity, WS_vega_k^{Hdg}, for each CVA vega risk factor k as the product of vega_k^{Hdg} and the risk-weight determined under section 322T;

(e) calculate the net risk-weighted CVA vega sensitivity, WS_vega_k, for each CVA vega risk factor k by subtracting the $WS\_vega_k^{Hdg}$ from the $WS\_vega_k^{CVA}$;

(f) calculate the capital charges for each CVA vega bucket b, K_{b_vega}, by aggregating the net risk-weighted CVA vega sensitivities within the same bucket in accordance with Formula 28T; and

Formula 28T

Calculation of Capital Charges for Each CVA Vega Bucket

$$K_{b\_vega} = \sqrt{\sum_{k\in b} WS\_vega_k^2 + \sum_{k\in b}\sum_{l\neq k} \rho_{kl} \cdot WS\_vega_k \cdot WS\_vega_l + 0.01 \cdot \sum_{k\in b}\left(WS\_vega_k^{Hdg}\right)^2}$$

where ρ_{kl} is the correlation parameter between 2 net risk-weighted CVA vega sensitivities within the same bucket that is specified by the Monetary Authority so that it appropriately captures the extent to which the 2 CVA vega risk factors are related.

(g) calculate the CVA vega risk capital charge by aggregating the CVA vega buckets within the risk class in accordance with Formula 28U.

Formula 28U

Calculation of CVA Vega Risk Capital Charge

$$K_{CVA\_vega} = m_{CVA} \cdot \sqrt{\sum_{b} K_{b\_vega}^2 + \sum_{b} \sum_{c \neq b} \gamma_{bc} \cdot S_{b\_vega} \cdot S_{c\_vega}}$$

where—

(i) K_{CVA_vega} is the CVA vega risk capital charge;

(ii) m_{CVA} is 1 or the larger number that is assigned by the Monetary Authority by written notice given to the institution, taking into account the level of model risk for the calculation of the CVA sensitivities;

(iii) γ_{bc} is the correlation parameter between 2 CVA vega buckets that is specified by the Monetary Authority so that it appropriately captures the extent to which the 2 CVA vega buckets are related;

(iv) $S_{b\_vega} = \max[-K_{b\_vega}, \min(\sum_k WS\_vega_k, K_{b\_vega})]$ for all CVA vega risk factors in bucket b; and

(v) $S_{c\_vega} = \max[-K_{c\_vega}, \min(\sum_k WS\_vega_k, K_{c\_vega})]$ for all CVA vega risk factors in bucket c.

(3) For the purposes of subsection (2)(a), the institution may determine a CVA vega sensitivity by another

formulation if the institution demonstrates to the satisfaction of the Monetary Authority that the other formulation is conceptually sound and yields results very close to Formula 28R.

(4) For the purposes of subsection (2)(b), the institution may determine a fair value vega sensitivity by another formulation if the institution demonstrates to the satisfaction of the Monetary Authority that the other formulation is conceptually sound and yields results very close to Formula 28S.

322S. CVA risk factors

(1) An authorized institution must, in respect of a risk class—

(a) determine buckets as specified by the Monetary Authority for the risk class that appropriately distinguish the risk characteristics of risk factors across different buckets; and

(b) allocate each risk-weighted sensitivity calculated under section 322Q(2)(e) and 322R(2)(e) to an appropriate bucket.

(2) An authorized institution must, in respect of a risk class—

(a) define the CVA delta risk factors for its portfolio, at a level of granularity specified by the Monetary Authority, as—

(i) risk-free yields and inflation rates for interest rate risk;

(ii) credit spreads for counterparty credit spread risk and reference credit spread risk;

(iii) equity prices for equity risk;

(iv) commodity prices for commodity risk; and

(v) foreign exchange rates between the Hong Kong dollar and each foreign currency for foreign exchange risk; and

(b) define the CVA vega risk factors for its portfolio, at a level of granularity specified by the Monetary Authority, as the simultaneous relative change of all relevant volatilities of the underlying exposure.

322T. CVA risk-weights

An authorized institution must allocate a risk-weight to each CVA delta risk factor and each CVA vega risk factor at a level specified by the Monetary Authority that sufficiently represents stressed market conditions.

Division 5—Eligible CVA Hedges

322U. Eligible CVA hedges

(1) A hedge is eligible to be taken into account in the calculation of an authorized institution's CVA risk capital charge only if—

(a) the hedge is entered into with an external counterparty or, subject to subsection (2), entered into internally with the trading book;

(b) where the institution uses the full basic CVA approach to calculate its CVA risk capital charge, the hedge is used and managed for the purpose of mitigating the counterparty credit spread component of CVA risk and the hedging instrument used in the hedge is—

(i) subject to subsection (3), a single-name credit default swap;

(ii) subject to subsection (3), a single-name contingent credit default swap; or

(iii) an index credit default swap; and

(c) where the institution uses the standardized CVA approach to calculate its CVA risk capital charge, the hedge is used and managed for the purpose of mitigating the CVA risk and the hedging instrument—

(i) is not split into several effective transactions;

(ii) hedges either the counterparty credit spread component or the exposure component of the CVA risk;

(iii) in relation to the credit spread delta risk, is assigned entirely to the counterparty credit spread risk class or the reference credit spread risk class; and

(iv) is not a securitization exposure or a collective investment scheme that cannot be looked through but is assigned to the trading book.

(2) If the institution enters into an internal CVA hedge with its trading book and the hedge involves an instrument that is subject to the SBM curvature risk, SA-DRC or RRAO under the STM approach, the hedge is eligible only if the trading book additionally enters into a hedge with an external counterparty that exactly offsets the trading book leg of the internal CVA hedge.

(3) If the institution uses the full basic CVA approach to calculate its CVA risk capital charge, the institution may include a single-name credit default swap or single-name contingent credit default swap as an eligible credit default swap only if the swap references—

(a) the counterparty concerned directly;

(b) an entity legally related to the counterparty concerned; or

(c) an entity that belongs to the same sector and region as the counterparty concerned.

(4) For the purposes of subsection (3)(b), a reference entity and a counterparty are legally related if they are—

(a) a holding company and its subsidiary; or

(b) subsidiaries of a common holding company.

(5) If the institution has included in its CVA risk capital charge calculation—

(a) an eligible CVA hedge obtained from an external counterparty, the institution must exclude the hedge from its market risk capital charge calculation; and

(b) the CVA leg of an eligible hedge obtained from its trading book internally, the institution must include the trading book leg of the hedge in its market risk capital charge calculation.

(6) The institution must include all ineligible CVA hedges in the trading book, irrespective of whether the CVA hedge is obtained from an external counterparty or from its trading book and, for an ineligible CVA hedge obtained from its trading book,

both the CVA leg and the trading book leg must be included in the trading book.".

322. Section 356 amended (calculation of output floor)

Section 356(2)(b)(i), after "STM approach"—

Add

"or, with the Monetary Authority's approval under section 17A, the SSTM approach".

323. Schedule 1A amended (transactions and contracts not subject to CVA capital charge)

(1) Schedule 1A, heading, after "**CVA**"—

Add

"**Risk**".

(2) Schedule 1A—

Repeal

"[s. 226N]"

Substitute

"[s. 322J]".

(3) Schedule 1A, section 1—

Repeal

"section 226N"

Substitute

"section 322J(1)".

(4) Schedule 1A, section 1(d)(i)(A)—

Repeal

"CVA capital charge in respect of its SFTs under section 10A(6)"

Substitute

"CVA risk capital charge in respect of its SFTs under section 322J(2)".

324. Schedule 1B added

After Schedule 1A—

Add

"Schedule 1B

[s. 23D]

Minimum Requirements to be Satisfied for Approval under Section 23D(2) of these Rules to Use Standardized CVA Approach

1. General requirements

An authorized institution that makes an application under section 23D(1) of these Rules to use the standardized CVA approach must demonstrate to the satisfaction of the Monetary Authority that—

(a) the senior management of the institution is actively involved in the CVA risk control process with sufficient resources to be allocated for the purpose of the institution's CVA risk control;

(b) the institution uses the exposure models used in the calculation of its CVA risk capital charge (***exposure models***) for its CVA risk management framework that includes the identification, measurement, management, approval and internal reporting of the institution's CVA risk;

(c) the institution has a CVA desk (or a similar dedicated function) that is responsible for the risk management and hedging of CVA;

(d) the institution has a risk control unit that—

(i) is functionally independent of the institution's business credit and trading units (including the CVA desk);

(ii) reports directly to the institution's senior management; and

(iii) has a sufficient number of staff who are qualified and trained to conduct the testing, validation and implementation of the institution's exposure models used for the calculation of CVA;

(e) the institution—

(i) clearly documents the exposure models and the internal policies, controls and procedures relating to the operation of the exposure models, including—

(A) the calculation of the exposures generated by the models with sufficient details for a third party to understand the operation, limitations and key assumptions, and to re-create the analysis;

(B) the model validation process, including frequency and methodologies of validation and analyses used; and

(C) criteria and process to analyse the performance of the exposure models including the model inputs and process to remedy any unacceptable performance; and

(ii) has a system for monitoring and ensuring compliance with those internal policies, controls and procedures;

(f) an independent review of the soundness and adequacy of the institution's CVA risk management process and the institution's compliance with internal policies, controls and procedures, including the requirements specified in this Schedule, is conducted regularly by the institution's internal auditors; and

(g) the review or audit referred to in paragraph (f) includes the activities of the CVA desk and the independent risk control unit.

2. Specific requirements relating to principles in determining CVA for each counterparty

For the purpose of determining the CVA for each counterparty and without limiting section 1 of this Schedule, an authorized institution must adhere to, and demonstrate to the satisfaction of the Monetary Authority that it adheres to, the following principles—

(a) the institution calculates the CVA for each counterparty with at least one covered transaction as specified in section 322J of these Rules as the expectation of future losses resulting from the default of the counterparty under the assumption that the institution itself is free from default risk;

(b) the institution calculates the CVA based on sets of inputs that include at a minimum—

(i) the term structure of market implied probability of default, which is determined based on the credit spread of market instruments of the counterparty but, if no market instrument of the counterparty is available—

(A) a proxy credit spread is determined based on credit spreads of market instruments of the liquid peers of the counterparty via an algorithm that discriminates on variables that include at a minimum the credit quality, industry and region of the counterparty;

(B) a proxy credit spread may be determined based on a single liquid reference name with proper justification; or

(C) if no credit spreads of any liquid peers of the counterparty are available because of the specific type of the counterparty, a fundamental analysis of credit risk may be conducted to proxy the credit spread of the counterparty on condition that the resulting proxy credit spread relates to credit markets;

(ii) market-consensus expected loss given default values that are consistent with the ones used to calculate the probability of

default in subparagraph (i) and take into account the seniority of the exposure; and

(iii) simulated paths of discounted future exposures that are calculated by pricing all exposures with the counterparty along simulated paths of relevant market risk factors and discounting the prices back to the reporting date using risk-free rates along the path;

(c) in relation to the calculation of the simulated paths of discounted future exposures set out in paragraph (b)(iii), the exposure models—

(i) capture and accurately reflect, on a continuing basis, all material market risk factors affecting the pricing of the exposures, and those factors are simulated as stochastic processes appropriately;

(ii) take into account any significant level of dependence between an exposure and the credit quality of the counterparty;

(iii) are consistent with the exposure models used in the calculation of front office or accounting CVA (including the netting recognition), with adjustments if needed, to fulfil other requirements specified in this Schedule;

(iv) account for the possible non-normality of the distribution of exposures in the distribution of risk factors being modelled;

(v) capture transaction-specific information in order to aggregate exposures at netting set level; and

(vi) reflect transaction terms and specifications in a timely, complete and conservative manner;

(d) the exposure models have a proven track record of acceptable accuracy in measuring the CVA and CVA sensitivity to the market risk factors;

(e) the option pricing models embedded in the exposure models account for the non-linearity of option value with respect to market risk factors;

(f) the exposure models use current and historical data acquired in a timely and complete manner, and independently of the business lines and are compliant with the relevant financial reporting standards; and

(g) the use of any proxy market data provides a conservative representation of the underlying risk factor under adverse market conditions.

3. Additional requirements relating to exposure models

Without limiting section 1 or 2 of this Schedule, an authorized institution must demonstrate to the satisfaction of the Monetary Authority that, if the exposure models used by the institution capture the effects of margin agreements when estimating the simulated paths of discounted future exposure—

(a) the institution has a collateral management unit as required by section 1(e) of Schedule 2A;

(b) all documentation used in collateralized transactions are binding on all parties and legally enforceable in all relevant jurisdictions; and

(c) the exposure models—

(i) include transaction-specific information in order to capture the effects of margining along each exposure path; and

(ii) account for the nature of margin agreements (including whether the agreement concerned is unilateral or bilateral), the frequency of margin calls, the type of collateral, the margin thresholds, the independent amounts, the initial margins, the minimum transfer amounts and the margin period of risk.".

325. Schedule 2A amended (minimum requirements to be satisfied for approval under section 10B(2)(a) of these Rules to use IMM(CCR) approach)

(1) Schedule 2A—

Repeal

", 226D & 226Q]"

Substitute

"& 226D & Sch. 1B]".

(2) Schedule 2A, sections 2(a), (b), (d) and (e), 3(d)(ii) and 5(a)(ii), (b)(i)(B) and (iii)(C) and (E) and (d)(iii)—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

326. Schedule 3 substituted

Schedule 3—

Repeal the Schedule

Substitute

"Schedule 3

[ss. 18, 19, 226ML, 281 & 322E]

Minimum Requirements to be Satisfied for Approval under Section 18 of these Rules to Use IMA

1. General requirements

(1) An authorized institution that applies under section 18 of these Rules to use the IMA must demonstrate to the satisfaction of the Monetary Authority that—

(a) the institution's market risk management system is conceptually sound and implemented with integrity;

(b) the institution has a sufficient number of staff who are qualified and trained to use the institution's internal models to which the application relates (***relevant models***) in the institution's business, risk control, audit and back office functions;

(c) the relevant models have a proven track record of reasonable accuracy in measuring market risk and demonstrate that accuracy during a period of initial monitoring and live testing of

the relevant models at the request of the Monetary Authority;

(d) the institution clearly documents the relevant models with—

(i) the core model documentation, which covers all key components of the relevant models; and

(ii) the non-core model documentation, which covers a comprehensive range of detailed aspects of the relevant models;

(e) the institution has an appropriate organizational infrastructure (including the definition and structure of trading desks) and its firm-wide internal models meet the qualitative evaluation criteria specified by the Monetary Authority;

(f) the institution has a comprehensive stress-testing programme conducted regularly and has a robust system for validating the accuracy and consistency of the relevant models;

(g) the relevant models capture and accurately reflect, on a continuing basis, all material risk factors affecting market risk inherent in the institution's market risk exposures and determine whether each risk factor is modellable through identifying a sufficient number of real price observations in the risk factor eligibility test;

(h) in respect of the relevant models for modellable risk factors—

(i) $ES_{F,C}$, $ES_{R,C}$ and $ES_{R,S}$, as referred to in Formula 28C of these Rules, are calculated on a daily basis for each approved trading desk and across all approved trading desks;

(ii) subject to subsection (3), $ES_{F,C,i}$, $ES_{R,C,i}$ and $ES_{R,S,i}$, as referred to in Formula 28D of these Rules, are calculated at least on a weekly basis for each approved trading desk and across all approved trading desks on the basis that the weekly calculation does not lead to a systematic underestimation of risks relative to a daily calculation;

(iii) a 97.5% confidence level is used in calculating ES;

(iv) the length of the base liquidity horizon used by the relevant models is 10 days;

(v) an appropriate liquidity horizon applicable to individual risk factors or sets of risk factors, that—

(A) is capped at the maturity of the related instrument; and

(B) is set in accordance with Table A or, with the approval of the Monetary Authority, at a higher level than that in Table A, where the increased liquidity horizon must be in the value of 20, 40, 60 or 120 days,

is properly documented and reflected in the relevant models;

(vi) subject to subparagraph (vii), the historical observation period for calculating current ES and stressed ES under these Rules is a 12-month period;

(vii) the institution is able to use a historical observation period for calculating current ES that is shorter than 12 months but not shorter than 6 months, if the Monetary Authority requests it to do so, being of the opinion that there has been a significant increase in volatility in the price of the institution's portfolio of exposures;

(viii) data sets used for calculating current ES are updated at least once every 3 months and are reassessed whenever market prices are subject to material change, and the updating process is flexible enough to allow for more frequent updates as necessary; and

(ix) the relevant models only recognize empirical correlations of risk factors as permitted in Formula 28B of these Rules; and

(i) in respect of the relevant models for NMRFs—

(i) the stress scenario capital charge for all NMRFs is calculated on a daily basis for each approved trading desk and across all approved trading desks;

(ii) the stress scenario capital charge for an NMRF is calibrated to be at least as prudent as the stressed ES for a modellable risk factor;

(iii) an appropriate liquidity horizon applicable to individual risk factors or sets of risk factors, that—

(A) is capped at the maturity of the related instrument and floored at 20 days; and

(B) is set in accordance with Table A or at a higher level required by the Monetary Authority,

is properly documented and reflected in the relevant models; and

(iv) the relevant models only recognize the prescribed correlations of NMRFs as permitted in Formula 28E of these Rules.

Table A

Liquidity Horizon of Risk Factors

Column 1	Column 2	Column 3	Column 4
Item	Risk class	Type of risk factors	Liquidity horizon (in days)
1.	GIRR	Interest rate in relation to HKD, AUD, CAD, EUR, GBP, JPY, SEK and USD	10

Column 1 Item	Column 2 Risk class	Column 3 Type of risk factors	Column 4 Liquidity horizon (in days)
		Interest rate in relation to currencies other than HKD, AUD, CAD, EUR, GBP, JPY, SEK and USD	20
		Interest rate volatility	60
		Other types	60
2.	Credit spread risk	Credit spread in relation to investment grade sovereign	20
		Credit spread in relation to non-investment grade sovereign	40
		Credit spread in relation to investment grade corporate	40
		Credit spread in relation to non-investment grade corporate	60

Column 1 Item	Column 2 Risk class	Column 3 Type of risk factors	Column 4 Liquidity horizon (in days)
		Credit spread volatility	120
		Other types	120
3.	Equity risk	Equity price in relation to equity with market capitalization, based on the sum of market values of all the outstanding shares issued by the same legal entity across all stock exchanges—	
		(a) of $15.6 billion or above;	10
		(b) lower than $15.6 billion	20

Column 1 Item	Column 2 Risk class	Column 3 Type of risk factors	Column 4 Liquidity horizon (in days)
		Equity volatility in relation to equity with market capitalization, based on the sum of market values of all the outstanding shares issued by the same legal entity across all stock exchanges—	
		(a) of $15.6 billion or above;	20
		(b) lower than $15.6 billion	60
		Other types	60

Column 1	Column 2	Column 3	Column 4
Item	Risk class	Type of risk factors	Liquidity horizon (in days)
4.	Foreign exchange risk	Foreign exchange rate in relation to USD/AUD, USD/BRL, USD/CAD, USD/CHF, USD/CNY, USD/EUR, USD/GBP, USD/HKD, USD/INR, USD/JPY, USD/KRW, USD/MXN, USD/NOK, USD/NZD,	10

Column 1 Item	Column 2 Risk class	Column 3 Type of risk factors	Column 4 Liquidity horizon (in days)
		USD/RUB, USD/SEK, USD/SGD, USD/TRY, USD/ZAR and their first-order cross-currency pairs between each other	
		Foreign exchange rate in relation to currency pairs other than USD/AUD, USD/BRL, USD/CAD, USD/CHF, USD/CNY, USD/EUR,	20

Column 1 Item	Column 2 Risk class	Column 3 Type of risk factors	Column 4 Liquidity horizon (in days)
		USD/GBP, USD/HKD, USD/INR, USD/JPY, USD/KRW, USD/MXN, USD/NOK, USD/NZD, USD/RUB, USD/SEK, USD/SGD, USD/TRY, USD/ZAR and their first-order cross-currency pairs between each other	
		Foreign exchange volatility	40
		Other types	40

Column 1 Item	Column 2 Risk class	Column 3 Type of risk factors	Column 4 Liquidity horizon (in days)
5.	Commodity risk	Energy and carbon emissions trading prices	20
		Precious metals and non-ferrous metals price	20
		Other commodity price	60
		Energy and carbon emissions and trading volatility	60
		Precious metals and non-ferrous metals volatility	60
		Other commodity volatility	120
		Other types	120

(2) For the purposes of subsection (1)(d), the institution must—

(a) obtain the approval of the Monetary Authority for any model changes that affect the institution's core model documentation; and

(b) promptly notify the Monetary Authority of any update of the institution's non-core model documentation.

(3) If the Monetary Authority considers that a weekly calculation of $ES_{F,C,i}$, $ES_{R,C,i}$ and $ES_{R,S,i}$, as referred to in Formula 28D of these Rules, leads to a systematic underestimation of risks relative to a daily calculation, the Monetary Authority may require the institution to calculate $ES_{F,C,i}$, $ES_{R,C,i}$ and $ES_{R,S,i}$ on a daily basis.

2. Additional requirements relating to use of relevant models to calculate default risk charge

(1) In addition to section 1 of this Schedule, an authorized institution must demonstrate to the satisfaction of the Monetary Authority that, if the institution uses the relevant models to calculate the default risk charge—

(a) the relevant models capture and adequately reflect, on a continuing basis, the default risk inherent in the institution's relevant positions as specified in paragraph (a) of the definition of ***default risk charge*** in section 281 of these Rules;

(b) the default risk charge is measured as a VaR at a 99.9% confidence level over a one-year liquidity horizon;

(c) except for the equity positions referred to in paragraph (d), the default risk charge must be based on the assumption of constant positions over a one-year horizon;

(d) the liquidity horizon for designated sets of equity positions may be set with a floor of 60 days instead of the one-year liquidity horizon and, consistently and across all designated sets of equity positions, the default risk charge must

be based on the assumption of constant positions over the liquidity horizon;

(e) the relevant models simulate the default event for each obligor, taking into account—

(i) 2 types of systematic risk factors; and

(ii) the economic cycle, including the dependence of the recovery on the systematic risk factors referred to in subparagraph (i);

(f) where the institution uses the IRB approach, the relevant models apply a probability of default, subject to a floor of 0.03%, and the loss given default, estimated under the IRB approach;

(g) where the institution uses the IRB approach and the estimates referred to in paragraph (f) do not exist, or where the institution does not use the IRB approach, the relevant models apply—

(i) a probability of default for each obligor, subject to a floor of 0.03%, and the relevant models must—

(A) estimate the probability of default based on historical data of both formal default events and price declines equivalent to default losses over a one-year period, where that data is based on publicly traded securities over a complete economic cycle with a minimum historical observation period of 5 years; or

(B) use the probability of default provided by external sources that are relevant to the institution's portfolio; and

(ii) the loss given default that reflects the type and seniority of the position, and the relevant models must—

(A) estimate the loss given default based on historical data that is sufficient to derive robust and accurate estimates; or

(B) use the loss given default provided by external sources that are relevant to the institution's portfolio;

(h) the relevant models incorporate correlation effects between defaults among obligors, including the effect on correlations of periods of stress, that—

(i) are based on objective data of credit spreads and listed equity prices;

(ii) are calibrated with data covering a period of at least 10 years that includes the stressed ES relevant period and are measured over a one-year liquidity horizon; and

(iii) the institution must reflect all significant basis risks in recognizing the correlations;

(i) the relevant models reflect netting of long and short exposures to the same obligor and that netting accounts for different losses in different instruments with exposures to the same obligor (for example, differences in seniority);

(j) the relevant models capture explicitly the basis risk between long and short exposures to different obligors;

(k) the relevant models capture explicitly any material mismatch between a position and its hedge as well as any maturity mismatch between a long and a short position with a maturity of less than one year;

(l) the relevant models reflect—

(i) issuer and market concentration; and

(ii) concentrations that may arise within and across product classes under stressed conditions;

(m) the relevant models reflect the nonlinear impact of options and other positions with material nonlinear behaviour with respect to default, taking account of model risk inherent in the valuation and estimation of price risks associated with those positions; and

(n) the default risk charge is computed at least once a week.

(2) For the purposes of subsection (1)(j), the potential for offsetting default risk among long and short exposures across different obligors must be included through the modelling of defaults.

(3) To avoid doubt, an authorized institution must not pre-net positions before input into its internal model other than as specified in subsection (1)(i).".

327. Schedule 4D amended (requirements to be met for minority interests and capital instruments issued by consolidated bank subsidiaries and held by third parties to be included in authorized institution's capital base)

Schedule 4D, sections 3(1A)(a) and (b) and (1B), 4(1A)(a) and (b) and (1B) and 5(1A)(a) and (b) and (1B), after "risk-weighted amount for market risk,"—

Add

"risk-weighted amount for CVA risk,".

328. Schedule 16 amended (transitional provisions for Banking (Capital) (Amendment) Rules 2020)

Schedule 16, section 1(2)(c) and (4)(b)—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

Eddie YUE
Monetary Authority

18 December 2023

Explanatory Note

These Rules amend the Banking (Capital) Rules (Cap. 155 sub. leg. L) (***principal Rules***).

2. The main purpose of these Rules is to provide for the revised capital standards contained in the Basel III final reform package, which are set out in the following documents published by the Basel Committee on Banking Supervision—

(a) "Basel III: Finalising post-crisis reforms" of December 2017;

(b) "Minimum capital requirements for market risk" of January 2019 (and revised in February 2019);

(c) "Targeted revisions to the credit valuation adjustment risk framework" of July 2020.

3. The revised capital standards are methodologies for determining the capital requirements of banks in relation to their exposures to credit risk, operational risk, market risk and credit valuation adjustment (***CVA***) risk, as well as a prudential safeguard (***output floor***) for banks determining their capital requirements using methodologies based on internal models. These are mainly incorporated in the following Parts of the principal Rules—

(a) prescribed approaches to calculation—Part 2;

(b) credit risk—Parts 4, 6, 6A and 7;

(c) market risk—Part 8;

(d) CVA risk—new Part 8A;

(e) operational risk—Part 9;

(f) output floor—new Part 11.

4. These Rules also seek to—

(a) introduce the option of a positive neutral countercyclical capital buffer in the principal Rules;

(b) include the Hong Kong Housing Society and the West Kowloon Cultural District Authority as domestic public sector entities under the principal Rules; and

(c) introduce other miscellaneous amendments to—

(i) remove obsolete provisions;

(ii) incorporate alignment changes in some provisions as a result of the implementation of the Basel III final reform package under the principle Rules and concurrent amendments to the Banking (Exposure Limits) Rules (Cap. 155 sub. leg. S); and

(iii) improve the clarity and enhance certain provisions of the principal Rules.

5. These Rules come into operation on—

(a) in respect of the provisions not related to the Basel III final reform package, which are set out in Part 2 of these Rules, 1 April 2024; and

(b) in respect of the provisions related to the Basel III final reform package, which are set out in Parts 3, 4 and 5 of these Rules, a day to be appointed by the Monetary Authority by notice published in the Gazette.