# Completion Instructions

## Return of Capital Adequacy Ratio
## Part IIIe – Risk-weighted Amount for Exposures to Central Counterparties
## Form MA(BS)3(IIIe)

## Introduction

1. Form MA(BS)3(IIIe) of Part III should be completed by all authorized institutions incorporated in Hong Kong regardless of the approach adopted by the institutions for calculating their ***credit risk*** for ***non-securitization exposures***.

2. This Form captures credit exposures to ***central counterparties*** (CCPs) calculated under Division 4 of Part 6A of the Banking (Capital) Rules (BCR).

3. The Form is divided into two divisions:

   (a) Division A is for reporting the reporting institution's credit exposures to CCPs arising from ***default fund contributions***; and

   (b) Division B is for reporting the following credit exposures of the reporting institution to CCPs –

      (i) If the institution is a ***clearing member*** of a CCP –

         (A) its ***default risk exposures*** to the CCP in respect of ***derivative contracts*** (including exchange traded derivative contracts) and ***securities financing transactions*** (SFTs) entered into with the CCP for the institution's own purposes;

         (B) its credit exposures to the CCP arising from collateral posted by it with the CCP where the collateral is held by the CCP in a manner that is not bankruptcy remote from the CCP; and

         (C) its default risk exposures to the CCP arising from guarantees provided by the institution to its ***clients*** for any loss due to changes in the value of the clients' transactions in the event that the CCP defaults.

      (ii) If the institution is a client of a clearing member of a CCP and all of the conditions set out in section 226ZA(6), or all of the conditions set out in section 226ZA(6)(a)(i) and (ii), (b) and (c) of the BCR, as the case requires, are met –

         (A) its default risk exposures to the clearing member in respect of ***CCP-related transactions***;

(B) its default risk exposures to the CCP in respect of transactions under which the institution's performance is guaranteed by the clearing member; and

(C) its credit exposures to the clearing member arising from collateral posted by it and held by the CCP on the institution's behalf in a manner that is not bankruptcy remote.

4. The ***risk-weighted amount*** of the following exposures should be determined in accordance with Part 4, 5 or 6 of the BCR and reported in Form MA(BS)3(IIIa), (IIIb) or (IIIc), as the case requires –

(a) credit exposures to CCPs arising from delayed or failed settlement of –

(i) cash transactions in securities (other than ***repo-style transactions***), foreign exchange or commodities; and

(ii) cash-settled derivative contracts;

(b) where the reporting institution is a clearing member of a CCP, its default risk exposures to its clients in respect of –

(i) CCP-related transactions; and

(ii) guarantees provided by the institution to the CCP on the performance of its clients;

(c) where the reporting institution is a client of a clearing member of a CCP (regardless of whether the clearing member acts as a financial intermediary or guarantees the institution's transactions with the CCP) and any of the conditions set out in sections 226ZA(6)(a)(i) and (ii), (b) and (c) of the BCR is not met –

(i) its default risk exposures to the clearing member in respect of CCP-related transactions and transactions with the CCP guaranteed by the clearing member; and

(ii) its credit exposures to the clearing member arising from collateral posted by it and held by the CCP on the institution's behalf in a manner that is not bankruptcy remote; and

(d) where the reporting institution has posted collateral with a CCP or a clearing member and the collateral is held by a person other than the CCP in a manner that is not bankruptcy remote, the credit exposures to that person in respect of the collateral.

5. The transactions mentioned in paragraphs 4(b) and 4(c)(i) above are also subject to ***CVA capital charge***. Reporting institutions should calculate the CVA capital charge for these transactions in accordance with Division 3 of Part 6A of the BCR and report the amount in Form MA(BS)3(IIIf).

6. This Form and its completion instructions should be read in conjunction with the BCR and the relevant supervisory policy/guidance related to the revised capital adequacy framework.

**General Instructions**

7. If a CCP is no longer qualified as a ***qualifying CCP*** (QCCP), a reporting institution may, unless otherwise instructed by the Monetary Authority, within 3 months from the date the CCP lost its QCCP status, continue to calculate the risk-weighted amounts of its default fund contribution and default risk exposures to the CCP as if the CCP were a QCCP. When the 3-month period expires, the institution should calculate the risk-weighted amounts of its exposures to the CCP in accordance with the requirements applicable to a ***non-qualifying CCP*** (non-QCCP).

8. "Principal Amount" in Division B –

   (a) in the case of derivative contracts, means the ***notional amount*** of the contracts;

   (b) in the case of SFTs, means the ***principal amount*** of the securities or money sold or lent, or the money paid or lent, or the securities or money provided as collateral, as the case requires, under the SFTs concerned; and

   (c) in the case of collateral posted, means the ***fair value*** of the collateral.

9. "**Non-IMM(CCR)** Default Risk Exposure" in Division B –

   (a) in the case of derivative contracts that are not subject to ***valid bilateral netting agreements***, means the ***credit equivalent amount*** of the contracts calculated by using the ***current exposure method***;

   (b) in the case of derivative contracts that are subject to valid bilateral netting agreements, means the net credit exposure mentioned in section 95 or 131, or the ***EAD*** mentioned in section 209(2), of the BCR calculated by using the current exposure method;

   (c) in the case of SFTs that are not subject to valid bilateral netting agreements, means the amount reported in the column "Principal Amount" mentioned in paragraph 8(b) above; and

   (d) in the case of SFTs that are subject to valid bilateral netting agreements, means the net credit exposure calculated under section 96, 97 or 209(3) of the BCR, as the case requires.

10. "**IMM(CCR)** Default Risk Exposure" in Division B means the default risk exposure calculated by using the ***IMM(CCR) approach*** in accordance with Division 2 of Part 6A of the BCR.

11. ***Variation margin*** held by a CCP which is due to the reporting institution as a clearing member of the CCP but not yet received by the institution should be regarded as a default risk exposure to the CCP. The amount of the variation margin should be reported in the column "Principal Amount" and either in the column "**Non-IMM(CCR)** Default Risk Exposure" or the column "**IMM(CCR)** Default Risk Exposure", as the case requires. The same reporting treatment applies to ***initial margin*** posted by the institution and held by the CCP.

12. "**Collateral posted** Principal Amount" in Division B captures credit exposures mentioned in paragraphs 3(b)(i)(B) and (ii)(C) above, but does not cover items mentioned in paragraph 11.

13. "Total Exposure After CRM" in Division B means the total of the exposures reported in the columns "**Non-IMM(CCR)** Default Risk Exposure", "**IMM(CCR)** Default Risk Exposure" and "**Collateral posted** Principal Amount" after taking into account the credit risk mitigating effect of any ***recognized credit risk mitigation*** (CRM) afforded to the exposures concerned, except any ***recognized collateral*** or ***recognized netting*** that has already been taken into account in the default risk exposure calculations mentioned in paragraphs 9 and 10.

14. "Risk-weighted Amount" in Division B means the amount calculated by multiplying the amount reported in "Total Exposure After CRM" by the risk-weight applicable to the amount concerned.

## Specific Instructions

### Division A: Default Fund Contribution

15. Reporting institutions that are clearing members of CCPs should report their credit exposures to the CCPs arising from default fund contributions in item *1* and item *2* as follows.

| Item | Nature of Item |
|---|---|
| *1*. | Qualifying CCPs |
| | Report in the column "Default fund contribution" of item *1a* or *1b*, as the case requires, the total amount of funded default fund contributions made by the reporting institution to QCCPs' mutualized loss-sharing arrangements.<br><br>Reporting institutions that have chosen to apply a risk-weight of 1250% to their funded default fund contributions under section 226X(4) of the BCR should fill in item *1a*.<br><br>Reporting institutions that have chosen to use Formula 23K to calculate the capital charge for their default fund contributions |

under section 226X(4) of the BCR should fill in item *1b*.

*1a.* Report in the column "Risk-weighted Amount" the risk-weighted amount of the funded default fund contributions to QCCPs calculated by multiplying the amount reported in column "Default fund contribution" by the risk-weight of 1250%.

Report in the column "Adjusted Risk-weighted Amount" the $RWA_i$ for $QCCP_i$ calculated as follows:

$$RWA_i = \text{Min}\{(2\%*TE_i + 1250\%*DF_i); 20\%*TE_i\} - 2\%*TE_i$$

where—

$TE_i$ = the total default risk exposure of the reporting institution to $QCCP_i$

$DF_i$ = funded default fund contribution made by the reporting institution to $QCCP_i$

*1b.* Report in the column "Capital Charge" the aggregate regulatory capital for the institution's default fund contributions to QCCPs calculated in accordance with sections 226X(4) and 226Y of the BCR.

Report in the column "Adjusted Risk-weighted Amount" the risk-weighted amount of the institution's default fund contributions to QCCPs calculated by multiplying the amount reported in the column "Capital Charge" by 12.5.

*2.* Non-qualifying CCPs

Report in the column "Default fund contribution" the total amount of funded default fund contribution made by the reporting institution, and the unfunded default fund contribution that the reporting institution is liable to pay, to non-QCCPs' mutualized loss-sharing arrangements.

Report in the column "Adjusted Risk-weighted Amount" the risk-weighted amount of the default fund contributions to non-QCCPs calculated by multiplying the amount reported in the column "Default fund contribution" by the risk-weight of 1250%.

**Division B: Default Risk Exposures**

16. Reporting institutions that are clearing members of CCPs should report their credit exposures to the CCPs in items *1a* to *2h*. Item *1* is for the institutions' credit exposures to QCCPs while items *2a* to *2h* are for the institutions' credit exposures to non-QCCPs.

| Item | Nature of Item |
|---|---|
| *1.* | Qualifying CCPs |
| *1a.* | Risk-weight 0% |

This item is for the reporting of credit exposures to QCCPs that are covered by recognized CRM of which the applicable risk-weight is 0% (see detailed reporting arrangements in paragraphs 19 and 20 below).

*1b.* Risk-weight 2%

Report in the column "**Derivative Contracts and SFTs** Principal Amount" the total principal amount of the institution's derivative contracts and SFTs with QCCPs. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11.

Report in the column "**Non-IMM(CCR)** Default Risk Exposure" the default risk exposures in respect of transactions or contracts for which the reporting institution does not have an ***IMM(CCR) approval*** or for which the reporting institution is permitted under section 10B(5) or (7) of the BCR not to use the IMM(CCR) approach. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11 in connection with the transactions or contracts reported in this column.

Report in the column "**IMM(CCR)** Default Risk Exposure" the default risk exposures in respect of transactions or contracts for which the reporting institution has an IMM(CCR) approval to use the IMM(CCR) approach. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11 in connection with the transactions or contracts reported in this column.

Also, include in the column "**Non-IMM(CCR)** Default Risk Exposure" or "**IMM(CCR)** Default Risk Exposure", as the case requires, the default risk exposures to the QCCPs arising from guarantees provided by the institution to its clients for any loss due to changes in the value of the clients' transactions in the event that the CCPs default.

The reporting institution should fill in the column "Total Exposure After CRM" in accordance with the reporting arrangements set out in paragraphs 19 and 20 below.

Report in the column "Risk-weighted Amount" the total risk-

weighted amount, which is the product of "Total Exposures after CRM" and the risk-weight of 2%.

*1c.* Other risk-weights not specified above

This item is for the reporting of credit exposures to QCCPs -

- that are covered by recognized CRM of which the applicable risk-weight is lower than 2% but greater than 0% (see detailed reporting arrangements in paragraphs 19 and 20 below); or
- that are risk-weighted in accordance with Part 4, 5 or 6 of the BCR (e.g. excess margin and collateral other than those mentioned in paragraph 11 posted with and held by a QCCP).

The institution should report the corresponding risk-weight in the column "Risk-weight %".

*2a. to 2h.* Non-qualifying CCPs

Report the total principal amount of the institution's derivative contracts and SFTs with a non-QCCP in the column "**Derivative Contracts and SFTs** Principal Amount" and in the row for the risk-weight applicable to the CCP under the ***STC approach***. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11.

Report in the column "**Non-IMM(CCR)** Default Risk Exposure" and in the same row the default risk exposures in respect of transactions or contracts with the non-QCCP for which the reporting institution does not have an IMM(CCR) approval or for which the reporting institution is permitted under section 10B(5) or (7) of the BCR not to use the IMM(CCR) approach. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11 in connection with the transactions or contracts reported in this column.

Report in the column "**IMM(CCR)** Default Risk Exposure" and in the same row the default risk exposures in respect of transactions or contracts with the non-QCCP for which the reporting institution has an IMM(CCR) approval to use the IMM(CCR) approach. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11 in connection with the transactions or contracts reported in this column.

Also, include in the column "**Non-IMM(CCR)** Default Risk Exposure" or "**IMM(CCR)** Default Risk Exposure", as the case requires, the default risk exposures to the non-QCCP arising

from guarantees provided by the institution to its clients for any loss due to changes in the value of the clients' transactions in the event that the CCP defaults.

Fill in the column "Total Exposure After CRM" in accordance with the reporting arrangements set out in paragraphs 19 and 20 below.

Report in the column "Risk-weighted Amount" the total risk-weighted amount for each row by multiplying the "Total Exposures after CRM" of that row by the risk-weight allocated to that row.

If the risk-weight applicable to an exposure after CRM is other than those specified in items *2a* to *2g*, the institution should report the exposure in item *2h* and specify the risk-weight of that item in the column "Risk-weight %".

17. Reporting institutions that are clients of clearing members of CCPs should report in items *3a to 4h* exposures to the clearing members as if they were exposures to the CCPs if all or certain conditions specified in section 226ZA(6) of the BCR are met.

| Item | Nature of Item |
|---|---|
| *3.* | Qualifying CCPs |
| *3a.* | Risk-weight of 0% |

This item is for the reporting of credit exposures to clearing members that are covered by recognized CRM of which the applicable risk-weight is 0% (see detailed reporting arrangements in paragraphs 19 and 20 below).

*3b.* Risk-weight 2%

This item captures exposures in respect of which all the conditions set out in section 226ZA(6) of the BCR are met.

Report in the column "**Derivative Contracts and SFTs** Principal Amount" the total principal amount of CCP-related transactions with the clearing members, total principal amount of transactions with QCCPs that are guaranteed by the clearing members. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11.

Report in the column "**Non-IMM(CCR)** Default Risk Exposure" the default risk exposures and ***outstanding default risk exposures*** in respect of transactions or contracts for which the reporting institution does not have an IMM(CCR) approval or for

which the reporting institution is permitted under section 10B(5) or (7) of the BCR not to use the IMM(CCR) approach. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11 in connection with the transactions or contracts reported in this column.

Report in the column "**IMM(CCR)** Default Risk Exposure" the default risk exposures and outstanding default risk exposures in respect of transactions or contracts for which the reporting institution has an IMM(CCR) approval to use the IMM(CCR) approach. Also report in this column the aggregate amount of initial margin and variation margin mentioned in paragraph 11 in connection with the transactions or contracts reported in this column.

Report in the column "**Collateral posted** Principal Amount" the fair value of the collateral posted by the institution (other than those that has already been reported in other columns) where the collateral is held by a QCCP on the institution's behalf in a manner that is not bankruptcy remote.

Fill in the column "Total Exposure After CRM" in accordance with the reporting arrangements set out in paragraphs 19 and 20 below.

*3c.* Risk-weight of 4%

Report in this item exposures in respect of which all the conditions set out in section 226ZA(6), except section 226ZA(6)(a)(iii), of the BCR are met.

The detailed reporting arrangements for each of the columns are the same as those for item *3b*.

*3d.* Other risk-weights not specified above

This item is for the reporting of credit exposures to QCCPs -

- that are covered by recognized CRM of which the applicable risk-weight is lower than 4% but is not equal to 2% or 0% (see detailed reporting arrangements in paragraphs 19 and 20 below); or
- that are risk-weighted in accordance with Part 4, 5 or 6 of the BCR (e.g. excess margin and collateral other than those mentioned in paragraph 11 posted with and held by a QCCP).

*4a. to 4h.* Non-qualifying CCPs

Report in these items exposures in respect of which all the

conditions set out in section 226ZA(6), except section 226ZA(6)(a)(iii), of the BCR are met.

The detailed reporting arrangements for each of the columns are the same as those for items *2a* to *2h*.

CRM Treatments

18. In paragraphs 19 and 20, recognized CRM refers to recognized CRM –

(a) that is afforded to credit exposures that fall within the scope of this Form; and

(b) the credit risk mitigating effect of which has not been taken into account in the default risk exposure calculation of the transactions or contracts concerned.

19. The reporting institution should take into account the recognized CRM in a manner permitted under Division 4 of Part 6A of the BCR. In other words –

(a) in the case of exposures to non-qualifying CCPs, the institution, regardless of the approach adopted by it for the calculation of credit risk for non-securitization exposures, should take into account the CRM effect of recognized CRM in accordance with Part 4 of the BCR;

(b) in the case of exposures to qualifying CCPs –

(i) AIs using the ***BSC approach*** should take into account the CRM effect of recognized CRM in accordance with Part 5 of the BCR;

(ii) AIs using the STC approach should take into account the CRM effect of recognized CRM in accordance with Part 4 of the BCR;

(iii) AIs using the ***IRB approach*** should take into account the CRM effect of recognized CRM in the following manner:

(A) in relation to recognized collateral, AIs should apply Formula 19 and in accordance with section 160(3) of the BCR, and take the resulting net credit exposure (E*) as the basis for determining the risk-weighted amount of the exposures to qualifying CCPs, and paragraph 20(b) below for the reporting of these exposures in this Form with all necessary modifications; and

(B) in relation to recognized guarantees and recognized credit derivative contracts –

(1) subject to paragraph (2) below, AIs should apply Part 4 of the BCR for recognition of the CRM effect in determining the risk-weighted amount of the exposures to qualifying CCPs, and paragraph 20(a) below for the reporting of these

exposures in this Form;

(2) if –

- an exposure to a qualifying CCP is fully covered by a recognized guarantee or recognized credit derivative contract; and

- the institution uses the IRB approach to calculate its credit risk for the exposure to the guarantor of the guarantee concerned or the counterparty to the credit derivative contract concerned, as the case may be,

AIs must apply Part 6 of the BCR for recognition of the CRM effect in determining the risk-weighted amount of the exposure to the CCP (i.e. by allocating the risk-weight attributable to the credit protection provider as determined under the IRB approach to the CCP exposure), and paragraph 20(a) below for the reporting of the exposure in this Form with all necessary modifications.

20. The reporting institution should report the exposure amount (after taking into account recognized CRM) in the following manner –

(a) CRM treatment by substitution of risk-weights (applicable to ***recognized guarantees***, ***recognized credit derivative contracts*** and recognized collateral (i.e. the BSC approach and the ***simple approach*** under the STC approach)):

(i) First, divide the default risk exposure (or the principal amount in the case of collateral posted) into two portions: the ***credit protection covered portion*** and the ***credit protection uncovered portion***;

(ii) Second, report the credit protection covered portion in the column "Total Exposure After CRM" and in the row for the risk-weight applicable to the ***credit protection provider*** or the recognized collateral; and

(iii) Lastly, report the credit protection uncovered portion in the column "Total Exposure After CRM" and in the row for the risk-weight applicable to the CCP determined in accordance with Division 4 of Part 6A of the BCR.

(b) CRM treatment by reduction of principal amount of exposures (applicable to recognized collateral (i.e. the ***comprehensive approach*** under the STC approach)):

(i) Subtract the value of the recognized collateral (after applying appropriate ***standard supervisory haircuts*** to the collateral) from the default risk exposure (or the principal amount in the case of collateral

posted) in accordance with Formula 4 of section 89 of the BCR (in the case of derivative contracts) or Formula 3 of section 88 of the BCR (in the case of SFTs and collateral posted); and

(ii) Report the net credit exposure in the column "Total Exposure After CRM" and in the row for the risk-weight applicable to the CCP determined in accordance with Division 4 of Part 6A of the BCR.

Hong Kong Monetary Authority
June 2013