

Proposed amendments to the Banking (Capital) Rules (“BCR”)

1. This set of proposed amendments relates to—
 - Part 1 of the BCR that contain definitions requiring consequential updates as a result of bullet 2; and
 - Part 10 of the BCR, which deals with revisions to the calculation of specified sovereign exposure consequential to a concurrent exercise to amend the Banking (Exposure Limits) Rules (“BELR”).
2. Unless otherwise stated—
 - tables, formulas, sections, subdivisions, divisions, parts and schedules mentioned in this document are those of the BCR; and
 - item numbers mentioned in this document are those item numbers contained in this document.

I. AMENDMENTS TO PART 1 (PRELIMINARY)

Item 1. Amend section 2 (Interpretation)

Amendments to be made	Remarks (including references)
(1) To repeal “, except in section 348,” in the definition of “tranche” in <u>section 2(1)</u> .	This is consequential to the amendments proposed under Item 5.

II. AMENDMENTS TO PART 10 (CALCULATION OF SOVEREIGN CONCENTRATION RISK)

Item 2. Amend section 342 (Interpretation of Part 10)

Amendments to be made	Remarks (including references)
(1) To repeal the following definitions in <u>section 342(1)</u> — (a) investment structure; (b) non-section 350 specified sovereign exposure; and (c) section 350 specified sovereign exposure.	These amendments are consequential to Item 5 below, in which Divisions 3 and 4 of Part 10 are proposed to be repealed, rendering these defined terms superfluous.

Amendments to be made	Remarks (including references)
(2) To amend the definition of “specified sovereign exposure” in <u>section 342(1)</u> so that it directly refers to the [new section] proposed in Item 3].	This is in support of the amendments proposed under Item 3.

Item 3. Add a new [section 342A (before section 343) under Division 2] with the proposed heading “Calculation of specified sovereign exposure”

Matters to be provided	Remarks (including references)
(1) An AI shall determine the amount of its specified sovereign exposure to a specified sovereign entity¹ as the sum of the following— (a) its aggregate single counterparty exposure to that specified sovereign entity calculated in accordance with Part 7 of the BELR as if the AI’s exposures to that specified sovereign entity were not disregarded pursuant to rule 48(1)(c) of the	Divisions 3 and 4 of Part 10 of the BCR together prescribe how specified sovereign exposures are to be measured by “importing” a somewhat short-hand version of the methodologies for determining the “aggregate single counterparty exposure” (also known as “ASC exposure”) (both terms as defined in rule 39(1) of the BELR) specified in Divisions 3 to 6 of Part 7 of the BELR. This design engenders the necessity to make consequential parallel updates to Part 10 of the BCR whenever the relevant exposure

¹ See section 2(1) of the BCR for the definition of “specified sovereign entity”.

Matters to be provided	Remarks (including references)
BELR; (b) where, in relation to that specified sovereign entity, the AI makes a deduction of exposure in accordance with rule 57(1)(c) of the BELR in determining the AI’s aggregate single counterparty exposure to another counterparty of the AI for the purposes of Part 7 of the BELR—the amount of the exposure so deducted; and (c) where, in relation to that specified sovereign entity, the AI makes a deduction of exposure in accordance with rule 57(1)(c) of the BELR in determining the AI’s aggregate single counterparty exposure to another specified sovereign entity for the purposes of Part 10 of the BCR—the amount of the exposure so deducted. (2) In this section, the term “aggregate single counterparty exposure” has the meaning given to it in rule 39(1) of the BELR.	measurement methodologies in Part 7 of the BELR are amended. The MA considers it beneficial to eliminate the need for such consequential parallel updates in the future and, at the same time, simplify significantly the structure and language of Part 10 of the BCR. Therefore, we propose to repeal the prescribed calculation methodologies in Divisions 3 and 4 of Part 10 of the BCR (see Item 5), and instead adopt a simpler calculation approach by cross-referencing directly to the definition of “aggregate single counterparty exposure” in Part 7 of the BELR. In particular: • <u>Paragraph (1)(a) of this item</u>—This provision requires an AI to calculate the ASC exposure to a specified sovereign entity (say, Sovereign A) by adopting the methodologies prescribed under Part 7 of the BELR except rule 48(1)(c) (which carves out sovereign exposures from Part 7 of the BELR); • <u>Paragraph (1)(b) of this item</u>—This provision requires the AI to include its indirect exposure (which derives from calculations under Part 7 of the BELR) to the specified sovereign entity (i.e. Sovereign A). For example, if Sovereign A has provided credit protection in respect of the AI’s exposure to another counterparty (e.g. Sovereign A

Matters to be provided	Remarks (including references)
	has issued a \$10m guarantee in respect of the AI's exposure to Corporate B), and the AI deducts the \$10m from its exposure to Corporate B pursuant to rule 57(1)(c) of the BELR when it calculates its ASC exposure to Corporate B under Part 7 of the BELR, then this paragraph is intended to operate to require the AI to add the \$10m as an indirect exposure to Sovereign A; • <u>Paragraph (1)(c) of this item</u>—This provision requires the AI to include its indirect exposure (which derives from calculations under Part 10 of the BCR) to the specified sovereign entity (i.e. Sovereign A). For example, if Sovereign A has provided credit protection in respect of the AI's exposure to another specified sovereign entity (e.g. Sovereign A has issued a \$20m guarantee in respect of the AI's exposure to Sovereign B), and the AI deducts the \$20m from its exposure to Sovereign B pursuant to rule 57(1)(c) of the BELR when it calculates its ASC exposure to Sovereign B as required by Part 10 of the BCR, then this paragraph is intended to operate to require the AI to add the \$20m as an indirect exposure to Sovereign A; and • <u>Paragraph (2) of this item</u>—This provision makes a direct reference to the definition of “aggregate single counterparty exposure” in Part 7

Matters to be provided	Remarks (including references)
	of the BELR.

Item 4. Amend section 343 (Specified sovereign exposure to country and concentrated sovereign exposure)

Amendments to be made	Remarks (including references)
To repeal “valued in accordance with Division 3” in <u>section 343(1)</u> and substitute with “calculated in accordance with [the new section proposed in Item 3]”.	This is consequential to the proposed amendments under Item 5.

Item 5. Repeal Divisions 3 and 4

Amendments to be made	Remarks (including references)
To repeal the following divisions under Part 10— (1) <u>Division 3</u> (Valuation of Specified Sovereign Exposures); and	As explained in Item 3, it is proposed to repeal the provisions on valuation of specified sovereign exposures as set out in Divisions 3 and 4 of Part 10 of the BCR, and instead to make a direct reference to the

Amendments to be made	Remarks (including references)
(2) <u>Division 4</u> (Offsetting and Deduction).	definition of “aggregate single counterparty exposure” in Part 7 of the BELR (see Item 3).