Annex 1

Proposed Amendments to Banking (Capital) Rules for Implementation of Revised Credit Risk Framework and Output Floor

[Note: For consultation purposes, it is assumed that the rules made by the MA under section 97C of the Banking Ordinance to specify the amendments set out in this consultation document will be entitled Banking (Capital)(Amendment) Rules 2023 ("BCAR"). The BCAR are divided into 5 parts as follows—

(a) Part 1 sets out the commencement arrangements for different parts of the BCAR;

(b) Part 2 sets out amendments for implementation of the revised credit risk framework and the output floor;

(c) Part 3 sets out amendments to the credit risk framework consequential to the implementation of the revised market risk and CVA risk frameworks;

(d) Part 4 sets out the haircut floor requirements for non-centrally cleared SFTs; and

(e) Part 5 sets out amendments that are intended to come into effect on 1 January 2024, which include the new capital treatments for IPO financing.]

Part 1—Preliminary

1. Commencement

(1) Subject to subsection (2), these Rules come into operation on a day to be appointed by the Monetary Authority by notice published in the Gazette, which must not be before 1 January 2024.

(2) Parts 1 and 5 come into operation on 1 January 2024.

2. Banking (Capital) Rules amended

The Banking (Capital) Rules (Cap. 155 sub. leg. L) are amended as set out in Parts 2, 3, 4 and 5.

Part 2—Amendments related to Credit Risk and Output Floor

3. Section 2 amended (interpretation)

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

Repeal paragraph (b)

Substitute

"(b) 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 that include at least a minimum regulatory capital requirement determined by the banking supervisory authority of the jurisdiction in which it is incorporated,

except such a financial institution—

(iii) that, in the opinion of the Monetary Authority, is not adequately supervised by the relevant banking supervisory authority; or

(iv) the licence or other authorization of which to take deposits from the public of the jurisdiction in which the institution is incorporated is for the time being suspended;".

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

Repeal

"inflation); or"

Substitute

"inflation);"

(3) 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; or

(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;".

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

Add

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

(5) Section 2(1)—

Repeal the definition of *credit quality grade*

Substitute

"***credit quality grade*** ( ) 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;".

(6) Section 2(1)—

Repeal the definition of *ECAI issue specific rating*

Substitute

"***ECAI issue specific rating*** ( ), in relation to an exposure—

(a) 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 section 287, has the meaning given by section 287(11); and

(c) if the exposure is a securitization exposure, has the meaning given by section 227A;".

(7) Section 2(1)—

Repeal the definition of *ECAI issuer rating*

Substitute

"***ECAI issuer rating*** ( ), 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);".

(8) Section 2(1)—

Repeal the definition of *exposure amount*

Substitute

"***exposure amount*** ( )—

(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);".

(9) Section 2(1)—

Repeal the definition of *external credit assessment institution*

Substitute

"***external credit assessment institution*** ( ) means an institution that is on the list published on the website of the Monetary Authority under section 4B(3);".

(10) Section 2(1)—

Repeal the definition of *financial instrument*

Substitute

"***financial instrument*** ( ) 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;

(d) any combination of the documents and information referred to in paragraphs (a), (b) and (c);".

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

Repeal paragraph (b)

Substitute

"(b) the Basel Framework;".

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

Repeal

"country"

Substitute

"jurisdiction".

(13) Section 2(1)—

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

Substitute

"***long-term ECAI issue specific rating*** ( ) means an ECAI issue specific rating that is a long-term credit assessment rating;".

(14) Section 2(1)—

Repeal the definition of *non-securitization exposure*

Substitute

"***non-securitization exposure*** ( ) means an exposure that is not a securitization exposure;".

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

Repeal

"default risk exposures"

Substitute

"the amounts of the default risk exposures".

(16) Section 2(1)—

Repeal the definition of *positive current exposure*

Substitute

"***positive current exposure*** ( ), 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;".

(17) Section 2(1)—

Repeal the definition of *risk-weighted amount for credit risk*

Substitute

"***risk-weighted amount for credit risk*** ( ), in relation to an authorized institution, means the total risk-weighted amount of—

(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;

(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;".

(18) Section 2(1)—

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

Substitute

"***SA-CCR risk-weighted amount*** (　　), in relation to a netting set of an authorized institution with a counterparty that contains one or more than one derivative contract, 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;".

(19) Section 2(1)—

Repeal the definition of *securities firm*

Substitute

"***securities firm*** (　　)—

(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 of Hong Kong; 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 of Hong Kong to provide credit rating services;".

(20) Section 2(1), definition of ***standard supervisory haircut***—

Repeal

"Table"

Substitute

"Tables".

(21) Section 2(1)—

Repeal the definition of *trade-related contingency*

Substitute

"***trade-related contingency*** ( ), 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 one 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;".

(22) Section 2(1)—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Repeal the definitions.

(23) Section 2(1)—

Add in alphabetical order

"***Basel Framework*** ( ) 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;

current Basel Framework ( ) 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;

covered bond ( ), in relation to the calculation of the risk-weighted amount for credit risk, means a bond issued by a bank or mortgage corporation—

(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;

eligible covered bond ( ), 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 ( ), 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 ( ) means a class of exposures specified in Table 1AB in section 11(1);

LT ECAI rating mapping table ( ) 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 ( ) means an entity (other than a bank)—

(a) that is a licensed corporation licensed and supervised by the Securities and Futures Commission of Hong Kong (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 purposes of complying with the capital standards;

revolving ( )—

(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 ( ) 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 ( )—

(a) in relation to a revolving facility (such as a credit card or charge card) that has scheduled repayment dates, 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 a revolving facility (such as an overdraft) 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 ( ) means an ECAI other than a Type B ECAI;

Type B 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 than one restriction published by the Monetary Authority under section 4B(3);

unspecified multilateral body ( ) 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;".

4. Section 4 amended (interpretation of Part 2)

(1) Section 4—

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

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

Repeal the definitions.

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

Repeal the semi-colon

Substitute a full stop.

5. 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 and 10".

6. Sections 4B to 4E added

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 if—

(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.

[Note: Please see Annex 2 for the information mentioned in subsection (3)(a), (b) and (c) to be uploaded to the HKMA's website.]

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 than one ECAI 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 than one ECAI the credit assessment 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 credit assessment ratings that—

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

(b) if the credit assessment 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 credit assessment 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 ( )—

(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 under section 4C(2), including a nomination amended under this section.

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

4E. Transitional provision in relation to nominations

(1) Unless an authorized institution makes a nomination under section 4C(2), 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 as in force immediately before the repeal of that section or, in the case of securitization exposures, made in accordance with section 267(1)(a) as in force immediately before the repeal of that section, for the following ECAI ratings based portfolios or securitization exposures remains in effect as if it were a nomination under section 4C(2) or an amendment 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 under section 70 in respect of the following ECAI ratings based portfolios ceases to have effect on the repeal of that section—

(a) securities firm exposures;

(b) corporate exposures.".

7. 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".

8. 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).

9. 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).

10. 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 than one IRB adoption class".

(2) Section 8(4), after "approach" (where first appearing)—

Add

"for one or more than one IRB adoption class".

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

Add

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

11. 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)(a) and (b)(i), before "non-securitization"—

Add

"all of its".

(2) Section 10(1), before "non-securitization exposures instead"—

Add

"all of its".

(3) Section 10(2)—

Repeal

"non-securitization exposures in respect of".

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

Add

"and".

(5) Section 10(5)—

Repeal paragraph (d).

(6) Section 10(6)—

Repeal

", (d)".

12. 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) An approval that was in force under subsection (2)(a) immediately before the commencement of Part 2 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 commencement.".

13. 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 than one IRB adoption class set out in Table 1AB for which the institution applies to use the IRB approach to calculate its credit risk for non-securitization exposures.

Table 1AB

IRB Adoption Classes

Column 1	Column 2	Column 3	Column 4

Item	IRB adoption class	IRB class covered	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) (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
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) (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	(a) CIS exposures
9.	Others	Other exposures	(a) Cash items (b) Other items

(2) An authorized institution must not choose the IRB adoption class of "Others" to apply only 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 terms have the respective meanings given to them by section 139(1)—***cash items***, ***corporate***, ***financial institution treated as corporate*** and ***specialized lending***.".

14. 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

"; or"

Substitute a full stop.

(5) Section 12(3)—

Repeal paragraph (b).

(6) Section 12—

Repeal subsection (4).

(7) Section 12(5)(b)—

Repeal

"or (4)".

15. 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)".

16. Section 14 repealed (transitional arrangements)

Section 14—

Repeal the section.

17. 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".

18. 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.".

19. Section 33 amended (exceptions to section 27)

Section 33(1)(b), (2)(a) and (3)—

Repeal

"country" (wherever appearing)

Substitute

"jurisdiction".

20. 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".

21. 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) Unless the context otherwise requires, 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.".

22. Section 51 amended (interpretation of Part 4)

(1) Section 51(1)—

Repeal the definition of *attributed risk-weight*

Substitute

"***attributed risk-weight*** ( )—

(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 Subdivision 3 of Division 3, 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 0% risk-weight;

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

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

(2) Section 51(1)—

Repeal the definition of *corporate*

Substitute

"***corporate*** ( ) 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;

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

Repeal

"or 73".

(4) Section 51(1)—

Repeal the definition of *credit protection covered portion*

Substitute

"***credit protection covered portion*** ( ), 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;".

(5) Section 51(1)—

Repeal the definition of *credit protection uncovered portion*

Substitute

"***credit protection uncovered portion*** ( ), 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 51(1), definition of ***principal amount***, paragraph (b)(i) and (ii)—

Repeal

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

Substitute

"Schedule 6".

(7) Section 51(1)—

Repeal the definition of *recognized credit derivative contract*

Substitute

"***recognized credit derivative contract*** ( ) 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);".

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

Repeal the full stop

Substitute a semicolon.

(9) 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.

(10) Section 51(1)—

Add in alphabetical order

"***3 months' bank exposure*** ( ) 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 Macau); 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 ( ) 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 Macau); 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;

ADC exposure ( ) means land acquisition, development and construction exposure;

commitment ( ), 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 ( ) 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 ( ) 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 ( )—

(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 ( ) means an exposure that falls within section 54A;

exposure amount ( )—

(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);

(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 ( ) means any exposure to a bank or qualifying non-bank financial institution that is not a short-term bank exposure;

general corporate exposure ( ) 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 (other than an equity exposure);

(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 ( )—

(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 ( ) 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 ( ) 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 ( ) 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 ( )—see section 65(1);

regulatory retail exposure ( )—see section 64(2);

short-term bank exposure ( ) means—

(a) a 3 months' bank exposure; or

(b) a 6 months' bank exposure;

significant capital investment in a commercial entity ( ) 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 ( ) 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 ( ) 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 ( ) includes partial write-offs;

subordinated debt ( ), 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 ( ) has the meaning given by section 51A;

unrated exposure ( ) 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 than one ECAI issuer rating;

(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.".

(9) Section 51—

Repeal subsection (2).

23. Section 51A added

After section 51—

Add

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

(1) For the purposes of this Part, an ***unhedged credit exposure*** (.....) is an exposure falling within section 64 or 65B if—

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

(i) for an exposure falling within section 64—an individual;

(ii) for an exposure falling 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 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) For the purposes of subsection (1)(d), the ***relevant amount*** (.....)—

(a) in relation to an exposure falling within subsection (1)(b)(i), is each of the scheduled repayment amounts; and

(b) in relation to an exposure falling within subsection (1)(b)(ii), is the whole outstanding loan amount.

(3) If an authorized institution does not have readily available or sufficient information to determine whether an exposure falls within subsection (1)(c), the institution—

(a) may regard the exposure as not falling within subsection (1)(c) if the exposure is to a non-revolving loan granted by the institution before the commencement of Part 2 of the Banking (Capital)(Amendment) Rules 2023; or

(b) if paragraph (a) does not apply, must regard the exposure as falling within subsection (1)(c) if the exposure is denominated in a currency that differs from the currency of the place of residence of the obligor or guarantor.".

24. Part 4, Divisions 2 and 3 substituted

Part 4—

Repeal Divisions 2 and 3

Substitute

"**Division 2—Calculation of Credit Risk under STC Approach, Exposures to be Covered in Calculation and Classification of Exposures**

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 the institution 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 under 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) to (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 section 10B(5) or (7) 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 mitigation 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 ( ), 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 ( ), 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 ( ) means the Banking (Disclosure) Rules (Cap. 155 sub. leg. M);

SFT risk-weighted amount ( ), 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 purposes 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 227(1)) 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 Division 3.

(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 Division 3.

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

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

54A. Provisions supplementary to section 54—equity exposures

(1) If an exposure to an instrument issued by an entity (the ***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; or

(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 subsidiary of the institution specified in an approval granted under section 28(2)(a); 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 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).

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 an authorized institution's on-balance sheet exposures, and off-balance sheet exposures, that are not CIS exposures.

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 conducted by it on an exposure, allocate to the exposure a risk-weight that is lower than the 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 than one authorized institution, 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 ( )—

(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 in section 58;

(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 in section 59;

(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 in section 59D; 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 in section 61.

Subdivision 3—ECAI Ratings Based Portfolios

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 0% risk-weight, 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 scale of credit quality grades 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 scale of credit quality grades 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 scale of credit quality grades 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 issues the rating.

(5) If—

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

(b) there is no long-term ECAI issue specific rating assigned to the exposure by a 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 scale of credit quality grades 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 a 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 scale of credit quality grades 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 an 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 scale of credit quality grades in accordance with the LT ECAI rating mapping table applicable to the ECAI that issues 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 scale of credit quality grades 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 scale of credit quality grades 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 one 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 section 54D 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 section 54D, 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 in respect of payment or repayment to, the reference exposure;

(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 in respect of payment or repayment to, the reference exposure.

(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 one 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 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 than one long-term ECAI issue specific rating; and

(ii) one or more than one ECAI issuer rating; 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;

(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 section 54D, 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 purposes 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—

exposure A ( )—see subsection (1);

high quality rating ( ), 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 ( ), 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 ( ), 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 than one long-term ECAI issue specific rating assigned to it;

relevant section ( ), 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 incorporated 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 of this section for the purposes of determining the risk-weights attributable to bank exposures.

(3) In this section—

implicit government support ( ), 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.

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 must 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 must 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 must 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), the 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), the 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%

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 one 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 that is the higher of—

(c) 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

(d) 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.

(4) For the purposes of subsection (3), if the 2 risk-weights referred to in subsection (3)(c) and (d) are the same, any one of those risk-weights may be allocated to the subject exposure.

(5) In this section—

reference exposure ( ), 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) The 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 subparagraph (i) or (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) In this section—

home jurisdiction ( ), in relation to a bank, means the jurisdiction in which the bank is incorporated;

published minimum regulatory requirements ( )—

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

3.	C	150%	150%

(2) Despite subsection (1), 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 (the ***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 ( ), 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;

(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 (　)—see section 59B(6);

relevant supervisor (　)—see section 59B(6).

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	Column 2	Column 3
Item	Attributed risk-weight of issuer	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 purpose 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.

[Note: The technical standards to be developed will be in line with the conditions set out in Basel Framework CRE20.34 to CRE20.37.]

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 that are—

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

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

excluding—

(c) liquidity standards; and

(d) institution-specific minimum regulatory requirements—

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

(ii) 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 assign 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%
5.	5	100%	100%	Not applicable	150%
6.	6, 7	150%	150%	Not applicable	Not applicable

(2) Subject to subsections (3) and (4), an authorized institution must allocate to a general corporate exposure that is an unrated exposure—

(a) a risk-weight of 100% if the corporate concerned is not a small business; or

(b) a risk-weight of 85% if the corporate concerned is a small business.

(3) Despite subsection (1) or (2), 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 one 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 ( ), 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.

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 in section 61(1).

(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) during the preoperational phase—130%;

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

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

(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 that is a central government, public sector entity or a corporate with an attributed risk-weight of 80% or lower;

(f) the contractual provisions governing the exposure to the entity 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 its default.

(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 ( ), 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 ( ), in relation to a project finance, means the phase before the operational phase.

Subdivision 4—Retail Exposures

64. Retail exposures[1]

(1) Subject to subsection (6), an authorized institution must allocate—

(a) a risk-weight of 75% to a regulatory retail exposure to an obligor that is not a transactor;

(b) to a regulatory retail exposure to a transactor—

(i) a risk-weight of 45% if the exposure arises from a revolving credit facility granted to the transactor;

[1] There is no section 63 in order to retain the existing number where replacing a current section. Section numbering is still subject to change.

(ii) in any other case, a risk-weight of 75%; 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 to the obligor 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, section 65K or section 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) first, identify the full set of exposures to individuals and small businesses;

(b) secondly, 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) thirdly, regard the subset of exposures identified under paragraph (b) as the overall regulatory retail portfolio of the institution.

(5) If—

(a) an authorized institution has any branch or subsidiary in a jurisdiction outside Hong Kong; and

(b) the branch or subsidiary has exposures to individuals or small businesses (***relevant exposures***) in that jurisdiction,

the institution must include in the aggregate exposure referred to in subsection (3) and the full set of exposures referred to in subsection (4)(a)—

(c) for the purpose of calculating its capital adequacy ratio on a solo basis—the relevant exposures of its overseas branches;

(d) 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,

unless transfer of any information on the relevant exposures necessary for the inclusion outside the jurisdiction is prohibited by law.

(6) 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%.

64A. Exposures arising from IPO financing

(1) This section applies to a credit facility granted by an authorized institution to a qualifying non-bank financial institution, 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 the Hong Kong Securities Clearing 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.

[Note: The HKMA will consider that subsection (1)(c) has been met if—

(a) the subscription application of the borrower financed by the loan is—

(i) made on behalf of the borrower in the name of a HKSCC participant that is the AI itself or its wholly-owned subsidiary; and

(ii) submitted to the HKSCC via FINI;

(b) the cash for fulfilling the pre-funding requirement in respect of the subscription application is locked at a nominee bank account that is—

(i) set up by the AI in the capacity of the HKSCC participant's designated bank; and

(ii) in the name of the AI or a nominee company controlled by the AI;

(c) the cash locked at the nominee bank account is legally owned by the AI; and

(d) the AI's underwriting policies and risk controls with respect to the loan are consistent with the supervisory guidance on share margin financing issued or updated by the MA from time to time.

The above also applies to all other sections on IPO financing.]

(2) The institution must assign 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.

Subdivision 5—Real Estate Exposures

65. What is a *regulatory real estate exposure*

(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 required at loan origination and for monitoring purposes is properly documented, including information on the ability of the obligor to repay and on the valuation of the mortgaged property.

(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 of Part 2 of the Banking (Capital)(Amendment) Rules 2023;

(b) the exposure was eligible for a risk-weight of 35% under section 65(1) as in force immediately before that commencement; and

(c) there has been no material change to the loan terms and conditions since that commencement.

(4) For the purposes of sections 65B, 65C and 65D—

(a) subject to paragraphs (b), (c) and (d), a real estate exposure is materially dependent 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) despite paragraph (a), an authorized institution may treat a regulatory real estate exposure as not materially dependent on the cash flows generated by the mortgaged property 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) despite paragraph (a), an authorized institution may treat a regulatory real estate exposure that does not fall within paragraph (b) as not materially dependent on the cash flows generated by the mortgaged property if the property is a residential property and both 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 of Part 2 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 an exposure not materially dependent on the cash flows generated by the mortgaged property.

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 than one immovable property (***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 than one immovable property (***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 granted by an authorized institution is secured by one or more than one immovable property ***(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;

(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 that—

(i) 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) 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; and

(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 is secured by one or more than one residential property (***subject security***) and an updated valuation of the subject security as at the commencement of Part 2 of the Banking (Capital)(Amendment) Rules 2023 is available, the institution may treat that updated valuation as the valuation at origination of the subject security if—

(a) the exposure was originated before that commencement; and

(b) the exposure was eligible for a risk-weight of 35% under section 65(1) as in force immediately before that commencement.

(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 collateral 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 use the resultant adjusted value in the LTV ratio calculation under subsection (1), (2) or (3) if the resultant adjusted value is not higher than the value at origination of the subject security;

(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);

(d) modifications are made to an immovable property included in a subject security that unequivocally increase the value of the property, an authorized institution may take into account that increase in value in the LTV ratio calculation under subsection (1), (2) or (3) if an updated valuation is obtained that confirms the increase in value.

(8) In this section—

value at origination (　)—

(a) in relation to a regulatory real estate exposure of an authorized institution secured by one or more than one immovable property, 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 than one immovable property, means the valuation of the property or properties obtained by the institution at the time of origination of the pool.

65B. 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 not materially dependent on cash flows generated by the residential property securing the 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 Not Materially Dependent on Cash Flows from Secured Property

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 materially dependent on cash flows generated by the residential property securing the 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 Materially Dependent on Cash Flows from Secured Property

Column 1	Column 2	Column 3
Item	LTV ratio	Risk-weight
1.	Not more than 50%	30%
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. 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 property other than residential property.

(2) If the exposure is not materially dependent on cash flows generated by the property securing the 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 Not Materially Dependent on Cash Flows from Secured Property

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 materially dependent on cash flows generated by the property securing the 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 Materially Dependent on Cash Flows from Secured Property

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. 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 is not materially dependent 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) Subject to section 65E, if the exposure is materially dependent on the cash flows generated by the property securing the exposure, the institution must allocate a risk-weight of 150% to the exposure.

65E. 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 all 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 than one residential property 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.

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 ( ) 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 its capital base as reported in its capital adequacy ratio return as at the immediately preceding calendar quarter end date, the institution must—

(a) subject to section 43(1)(n), allocate a risk-weight of 1250% 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 its 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.

Subdivision 7—Exposures not falling within Subdivision 3, 4, 5 or 6

65K. Cash and gold

(1) An authorized institution must allocate a risk-weight of 0% to the following—

(a) legal tender notes or other notes, and coins, representing the lawful currency of a country owned and 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 the person who holds the gold bullion.

(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 fourth business day after the settlement date;

(b) 100% if the transaction remains outstanding from 5 to 15 business days (both days inclusive);

(c) 625% if the transaction remains outstanding from 16 to 30 business days (both days inclusive);

(d) 937.5% if the transaction remains outstanding from 31 to 45 business days (both days inclusive); and

(e) 1,250% if the transaction remains outstanding for 46 or more business days.

(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 unsettled up to and including the fourth 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 unsettled 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.

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.

Subdivision 8—Defaulted Exposures

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 where repayments do not materially depend on 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) Subject to subsection (3), 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 account-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 retail exposure that is a defaulted exposure; and

(ii) these other outstanding retail exposures do not fall within paragraph (a)(i), (ii), (iii) or (iv),

the institution may choose whether to treat these 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 account-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 ( ) 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 ( ), 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.

Subdivision 9—Miscellaneous Provisions

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 scale of credit quality grades 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 Subdivision 3 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 two 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 nth-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 section 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.

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 1250%.

(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 1250%.

(3) If a subject exposure referred to in section 68A(3) arises from any other nth-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 nth-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 SFT as an on-balance sheet exposure of the institution as if the institution had never entered into the 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 ( ), 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.".

25. Part 4, Division 3A added

Part 4, after Division 3—

Add

"**Division 3A—CIS Exposures**

69. Interpretation of Division 3A

In this Division—

indirect CIS exposure ( ) means an indirect CIS exposure within the meaning of section 226ZH;

Level 1 CIS ( ) means a Level 1 CIS within the meaning of section 226ZH;

Level 2 CIS ( ) means a Level 2 CIS within the meaning of section 226ZH;

Level n+1 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.

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 of deductible holding 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.”.

26. 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**".

27. 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) and 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).

28. Sections repealed

Sections 72, 73, 75, 76 and 76A

Repeal the sections.

29. Section 77 substituted

Section 77—

Repeal the section

Substitute

"**77. Recognized collateral**

(1) Collateral is recognized for the purposes 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 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 purposes 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.".

30. 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.".

31. 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 the 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 the scale of credit quality grades in 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 the scale of credit quality grades in 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 assigned 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 the scale of credit quality grades in 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 the scale of credit quality grades in 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 the scale of credit quality grades in 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 the scale of credit quality grades in 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 the scale of credit quality grades in 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 the scale of credit quality grades in 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 an assignment of a credit quality grade of 5, 6 or 7 in the LT ECAI rating mapping table for Type A ECAIs (or, in the case of short-term ECAI issue specific ratings, a credit quality grade of 4 in the ST ECAI rating mapping table for Type

A ECAIs) would be justified in respect of the debt securities;

(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);

(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.".

32. Section 80 substituted

Section 80—

Repeal the section

Substitute

"**80. Collateral which may be recognized under the 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;

(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 those items listed in section 79(1) (except in section 79(1)(o)) and the equities referred to in paragraph (b).

(2) Collateral referred to in subsection (1) does not include debt securities that are re-securitization exposures.".

33. 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 mitigation 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 the 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) securities issued by a sovereign, or a sovereign foreign public sector entity, that would be allocated a risk-weight of 0% under the use of the STC approach;

(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 upon 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 under section 55 or 57, as the case may be, be allocated a risk-weight of 0%; and

(B) the current market value of which has been reduced by a haircut of 20%.

(6) In this section—

cash ( )—

(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.".

34. 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".

35. 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;".

36. Section 86 substituted

Section 86—

Repeal the section

Substitute

"**86. Calculation of risk-weighted amount of exposures taking into account credit risk mitigation 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.".

37. Section 87 amended (calculation of net credit expenditure 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".

38. Section 88 amended (calculation of net credit expenditure 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.".

39. 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".

40. 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.".

41. 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 the standard supervisory haircuts specified in Schedule 7 and subsection (1), 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).".

42. Section 93 repealed (calculation of risk-weighted amount of collateralized transactions under comprehensive approach)

Section 93—

Repeal the section.

43. Section 94 amended (on-balance sheet netting)

Section 94(3)—

Repeal

"attributed risk-weight of the obligor"

Substitute

"risk-weight attributable, in accordance with Division 3, to the net credit exposure to the obligor".

44. 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

purposes of mitigating the credit risk of the guaranteed exposure;".

45. Sections 99 and 100 substituted

Sections 99 and 100—

Repeal the sections

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 purposes 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 purposes 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 country 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 upon 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 purposes 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; and

(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 purposes 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 purposes 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 purposes 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 ( ), 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 nth-to-default credit derivative contract;

specified obligation ( ), 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 purposes of determining whether a credit event has occurred; and

(b) may or may not include the exposure of the institution.

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 ( ) 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 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 purposes 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 referred to in subsection (1) are—

(a) the external hedge—

(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) in respect of the protected credit exposure; or

(b) all of the following apply—

(i) the external hedge is made up of multiple credit derivative contracts entered into by the institution with one or more than one third party (***aggregated 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) in respect of the protected credit exposure;

(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 purposes 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 purposes of calculating the risk-weighted amount of the protected credit exposure.

(4) In this section—

internal risk transfer ( ) means an internal written record of a transfer of credit risk from an authorized institution's banking book to its trading book.

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 Division 3.

(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,

the 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.".

46. Section 101 amended (provisions supplementary to section 100)

(1) Section 101(1)—

Repeal

"Where"

Substitute

"Subject to section 99(2), (3) and (4) and subsection (9), 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

"; and"

Substitute a full stop.

(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.".

47. Section 102 amended (multiple recognized credit risk mitigation)

Section 102(1) and (3)—

Repeal

"these Rules"

Substitute

"this Part".

48. 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 section 80(1)(b) or (c)".

49. Section 105 amended (interpretation of Part 5)

(1) Section 105—

Repeal the definition of *attributed risk-weight*

Substitute

"***attributed risk-weight*** ( )—

(a) in relation to a person (however described), subject to paragraphs (b), (c) and (d), 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) the unsecured exposure is a loan granted to the person;

(ii) the residual maturity of the loan is not less than one year; and

(iii) the loan is not a domestic currency exposure;

(b) in section 132 and in relation to a guarantor under a guarantee given to an exposure, means the risk-weight that would be attributable, in accordance with Division 3, to the exposure as if the guarantor were the obligor in respect of the exposure;

(c) in section 133 and in relation to a protection seller under a credit derivative contract entered into in respect of an exposure, means the risk-weight that would be attributable, in accordance with Division 3, to the exposure as if the protection seller were the obligor in respect of the exposure; and

(d) in section 134 and in relation to a credit protection provider under a guarantee given to, or a credit derivative contract entered into in respect of, an 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;".

(2) Section 105, definition of ***credit equivalent amount***—

Repeal

"or 120".

(3) Section 105—

Repeal the definition of *credit protection covered portion*

Substitute

"***credit protection covered portion*** ( ), 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;".

(4) Section 105—

Repeal the definition of *credit protection uncovered portion*

Substitute

"***credit protection uncovered portion*** ( ), 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;".

(5) Section 105, definition of ***principal amount***, paragraph (b)(i) and (ii)—

Repeal

"Table 14 or to which section 120(2) applies"

Substitute

"Schedule 6".

(6) Section 105—

Repeal the definition of *recognized credit derivative contract*

Substitute

"***recognized credit derivative contract*** ( ) 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);".

(7) Section 105—

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

(b) definition of ***SFT risk-weighted amount***—

Repeal the definitions.

(8) Section 105—

Add in alphabetical order

"***ADC exposure*** ( ) has the meaning given by section 51(1);

commitment ( ), 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 ( ) 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 ( ) means an exposure that falls within section 54A;

exposure amount ( )—

(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); and

(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 ( ) has the meaning given by section 51(1);

regulatory residential real estate exposure (　　)—see section 115(1);

specific provisions (　　) has the meaning given by section 51(1);

subordinated debt (　　), 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;".

50. Part 5, Divisions 2 and 3 substituted

Part 5—

Repeal Divisions 2 and 3

Substitute

"**Division 2—Calculation of Credit Risk under BSC Approach, Exposures to be Covered in Calculation and Classification of Exposures**

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 the institution 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 section 10B(5) or (7) 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 mitigation 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 ( ), 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 ( ), 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 ( ) 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 ( ) means the Banking (Disclosure) Rules (Cap. 155 sub. leg. M);

SFT risk-weighted amount ( ) 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 purposes 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; 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 227(1)) 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 113B;

(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.

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

Subdivision 1—Application of Division 3

108A. Application of Division 3

This Division applies to the determination of risk-weights applicable to an authorized institution's on-balance sheet exposures, and off-balance sheet exposures, that are not CIS exposures.

Subdivision 2—Exposures other than those falling within Subdivisions 3, 4 and 5

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 the definition of ***bank*** in section 2(1) 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 the definition of ***bank*** in section 2(1) 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 the definition of ***bank*** in section 2(1) 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.

113A. 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 purpose 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.

113B. 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 the Hong Kong Securities Clearing 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 must assign 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.

114. Cash and gold

(1) An authorized institution must allocate a risk-weight of 0% to the following—

(a) legal tender notes or other notes, and coins, representing the lawful currency of a country owned and 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 the person who holds the gold bullion.

(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 fourth business day after the settlement date;

(b) 100% if the transaction remains outstanding from 5 to 15 business days (both days inclusive);

(c) 625% if the transaction remains outstanding from 16 to 30 business days (both days inclusive);

(d) 937.5% if the transaction remains outstanding from 31 to 45 business days (both days inclusive); and

(e) 1,250% if the transaction remains outstanding for 46 or more business days.

(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 unsettled up to and including the fourth 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 unsettled 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.

Subdivision 3—Real Estate Exposures

115. What is a *regulatory residential real estate exposure*

(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 required at loan origination and for monitoring purposes is properly documented, including information on the ability of the obligor to repay and on the valuation of the mortgaged property.

(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 of Part 2 of the Banking (Capital)(Amendment) Rules 2023;

(b) the exposure was eligible for a risk-weight of 50% under section 115(1) as in force immediately before that commencement; and

(c) there has been no material change to the loan terms and conditions since that commencement.

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 than one residential property (***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 than one residential property (***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 granted by an authorized institution is secured by one or more than one residential property ***(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;

(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 that—

(i) 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) 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; and

(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 is secured by one or more than one residential property (***subject security***) and an updated valuation of the subject security as at the commencement of Part 2 of the Banking (Capital)(Amendment) Rules 2023 is available, the institution may treat that updated valuation as the valuation at origination of the subject security if—

(a) the exposure was originated before that commencement; and

(b) the exposure was eligible for a risk-weight of 50% under section 115(1) as in force immediately before that commencement.

(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 collateral 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 use the resultant adjusted value in the LTV ratio calculation under subsection (1), (2) or (3) if the resultant adjusted value is not higher than the value at origination of the subject security;

(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);

(d) modifications are made to a residential property included in a subject security that unequivocally increase the value of the property, an authorized institution may take into account that increase in value in the LTV ratio calculation under subsection (1), (2) or (3) if an updated valuation is obtained that confirms the increase in value.

(8) In this section—

value at origination (　)—

(a) in relation to a regulatory residential real estate exposure of an authorized institution secured by one or more than one residential property, 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 than one residential property, 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 not materially dependent on cash flows generated by the residential property securing the 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 Not Materially Dependent on Cash Flows from Secured Property

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 materially dependent on cash flows generated by the residential property securing the 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 Materially Dependent on Cash Flows from Secured Property

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 materially dependent on cash flows generated by the residential property securing the 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, rather than on the income, revenue and net worth of the obligor in respect of the exposure generated from other sources;

(b) despite paragraph (a), the institution may treat the exposure as not materially dependent on the cash flows generated by the residential property securing the 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 of Part 2 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 an exposure not materially dependent on cash flows generated by the residential property securing the 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.

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 ( ) 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 its capital base as reported in its capital adequacy ratio return as at the immediately preceding calendar quarter end date, the institution must—

(a) subject to section 43(1)(n), allocate a risk-weight of 1250% 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 ( ) 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 its 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.

Subdivision 5—Other Exposures

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.

Subdivision 6—Provisions Supplementary to Subdivisions 2, 3, 4 and 5

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—

(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; and

(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 nth-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 section 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.

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 1250%.

(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 1250%.

(3) If a subject exposure referred to in section 117A(3) arises from any other nth-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 nth-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 SFT as an on-balance sheet exposure of the institution as if the institution had never entered into the 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 ( ), 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.".

51. Part 5, Division 3A added

Part 5, after Division 3—

Add

"**Division 3A—CIS Exposures**

117D. Interpretation of Division 3A

In this Division—

indirect CIS exposure ( ) means an indirect CIS exposure within the meaning of section 226ZH;

Level 1 CIS ( ) means a Level 1 CIS within the meaning of section 226ZH;

Level 2 CIS ( ) means a Level 2 CIS within the meaning of section 226ZH;

Level n+1 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 of deductible holding 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.".

52. 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**".

53. 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) and 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.".

54. Sections repealed

Sections 119, 120, 122, 123 and 123A—

Repeal the sections.

55. Section 124 amended (recognized collateral)

(1) Section 124(b)—

Repeal

"or transferred"

Substitute

"(or otherwise provided as security)".

(2) 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 purposes of mitigating the credit risk of the exposure;".

(3) Section 124(g)(i), after "pledged"—

Add

"(or otherwise provided as security)".

(4) 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)".

56. 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 the full stop

Substitute a semi-colon.

(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 the definition of ***bank*** in section 2(1) 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.".

57. Section 126 amended (calculation of risk-weighted amount of exposures taking into account credit risk mitigation effect of recognized collateral)

Section 126(4)(a)—

Repeal

"sections 109, 110, 111, 112, 113, 114, 115 and 116"

Substitute

"Subdivision 2 of Division 3".

58. 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".

59. 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".

60. 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 purposes of mitigating the credit risk of the guaranteed exposure;".

61. 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 purposes 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); and

(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 purposes 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 country 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 upon 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 purposes 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; and

(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 purposes 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 purposes 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 purposes 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 ( ), 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 nth-to-default credit derivative contract;

specified obligation ( ), 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 purposes 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 a standard haircut of 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) or (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.".

62. Section 135 amended (provisions supplementary to section 134)

(1) Section 135(1)—

Repeal

"Where"

Substitute

"Subject to section 133(2), (3) and (4) and subsection (9), 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

"; and"

Substitute a full stop.

(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.".

63. Section 136 amended (multiple recognized credit risk mitigation)

Section 136(1)—

Repeal

"these Rules"

Substitute

"this Part".

64. 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)".

65. Section 139 amended (interpretation of Part 6)

(1) Section 139(1), definition of ***advanced IRB approach***—

Repeal

", sovereign or bank"

Substitute

"or sovereign".

(2) Section 139(1), definition of ***cash items***, paragraph (a)—

Repeal

"and held by the institution"

Substitute

"owned and held by the institution or in transit".

(3) Section 139(1), definition of ***cash items***, paragraphs (g), (h), (i) and (j)—

Repeal

"(other than repo-style transactions)".

(4) Section 139(1), definition of ***corporate***—

Repeal

"public sector entity, bank or securities firm"

Substitute

"multilateral development bank, unspecified multilateral body, public sector entity, bank or qualifying non-bank financial institution".

(5) Section 139(1), definition of ***credit risk components***, paragraph (a)—

Repeal

"exposures; or"

Substitute

"exposures;".

(6) Section 139(1), definition of ***credit risk components***—

Repeal paragraph (b).

(7) Section 139(1), definition of ***foundation IRB approach, paragraph (b)***, before "using"—

Add

"subject to section 167(c),".

(8) Section 139(1), definition of ***maturity***, paragraph (a)—

Repeal

", 168 or 169, as the case requires; or"

Substitute

"or 168, as the case requires;".

(9) Section 139(1), definition of ***maturity***—

Repeal paragraph (b).

(10) Section 139(1), definition of ***recognized collateral***, paragraph (b)—

Repeal

", sovereign or bank"

Substitute

"or sovereign".

(11) Section 139(1), definition of ***recognized collateral***, paragraph (b)(ii)—

Repeal

"77(a), (b), (c), (d), (e), (ea) and (f)"

Substitute

"77(2)".

(12) Section 139(1)—

Repeal the definition of *recognized credit derivative contract*

Substitute

"***recognized credit derivative contract*** ( )—

(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);".

(13) Section 139(1)—

Repeal the definition of *recognized financial collateral*

Substitute

"***recognized financial collateral*** ( )—

(a) subject to paragraph (b), means any collateral that—

(i) falls within the description in section 80(1)(a), (b) or (c); and

(ii) satisfies the requirements under section 77(2);

(b) does not include any collateral in the form of real property, or any collateral in the form of debt securities, that are re-securitization exposures;".

(14) 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;".

(15) Section 139(1), definition of ***recognized guarantee***—

Repeal paragraph (b).

(16) Section 139(1), definition of ***risk-weight function***, paragraph (a)—

Repeal

"institution; or"

Substitute

"institution;".

(17) Section 139(1), definition of ***risk-weight function***—

Repeal paragraph (b).

(18) Section 139(1)—

Repeal the definition of *specialized lending*

Substitute

"***specialized lending*** ( ) means an exposure of a lender to a corporate that falls within section 143(1) and possesses both of the following characteristics, either in legal form or economic substance—

(a) 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;

(b) 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;".

(19) Section 139(1), definition of ***specific risk-weight approach***—

Repeal

"equity"

Substitute

"CIS".

(20) Section 139(1)—

Repeal the definition of *total EL amount*

Substitute

"***total EL amount*** ( ), 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;".

(21) Section 139(1)—

Repeal the definition of *total eligible provisions*

Substitute

"***total eligible provisions*** ( ), 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.".

(22) Section 139(1)—

(a) definition of ***capital floor***;

(b) definition of ***double default framework***;

(c) definition of ***financial firm***;

(d) definition of ***hedge 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.

(23) Section 139(1)—

Add in alphabetical order

"***equity exposure*** ( ) means an exposure that falls within section 54A;

financial institution ( ) 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 ( ) means a financial institution (other than a bank) that is not a qualifying non-bank financial institution;

fully secured exposure ( ), for the purposes 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 greater 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 ( ), for the purposes 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 (　　), 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);".

66. 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

"; and"

Substitute a full stop.

(11) Section 140(1C)(c)—

Repeal subparagraph (iii).

(12) Section 140—

Repeal subsection (1E).

67. 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".

68. 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 than one IRB adoption class to calculate its credit risk for non-securitization exposures, the institution must, for the purposes 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 227(1)) 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.".

69. Section 142 amended (classification of exposures)

(1) Section 142(1)(b)—

Repeal

"27"

Substitute

"26".

(2) Section 142(1), Table 16, item 1, column 3, paragraphs (a), (b), (c) and (d)—

Repeal

"under supervisory slotting criteria approach".

(3) Section 142(1), Table 16, item 1, column 3, after paragraph (e)—

Add

"(ea) Large corporates

(eb) Financial institutions treated as corporates".

(4) Section 142(1), Table 16, item 3, column 3, paragraph (a), after "Banks"—

Add

"(excluding covered bonds)".

(5) Section 142(1), Table 16, item 3, column 3—

Repeal paragraph (b)

Substitute

"(b) Qualifying non-bank financial institutions".

(6) Section 142(1), Table 16, item 3, column 3, after paragraph (c)—

Add

"(d) Unspecified multilateral bodies

(e) Covered bonds".

(7) Section 142(1), Table 16, item 4, column 3, paragraph (d), after "exposures"—

Add

"(transactor)".

(8) Section 142(1), Table 16, item 4, column 3, after paragraph (d)—

Add

"(da) Qualifying revolving retail exposures (revolver)".

(9) Section 142(1), Table 16, item 5, column 2—

Repeal

"Equity"

Substitute

"CIS".

(10) Section 142(1), Table 16, item 5, column 3—

Repeal paragraphs (a),(b), (c), (d), (e) and (f).

(11) Section 142(1), Table 16, item 5, column 3—

Repeal paragraph (g)

Substitute

"(g) CIS exposures".

(12) Section 142(3), after "143(3) or"—

Add

"(3A) or".

70. 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)" (where twice appearing).

(4) Section 143(3)—

Repeal

"and (4A)"

Substitute

", (4A), (4B) and (4C)".

(5) 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".

(6) Section 143(3)—

Repeal paragraphs (b) and (c)

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.".

(7) 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;

(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.".

(8) Section 143(4A)(a)—

Repeal

"or".

(9) Section 143(4A)(b)—

Repeal the full stop

Substitute a semi-colon.

(10) 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).".

(11) 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);

(b) the IRB subclass of large corporates under subsection (3A).".

(12) Section 143(5)—

Repeal paragraph (a)

Substitute

"(a) the IRB subclass of specialized lending under subsections (1) and (4A) or (4B);".

(13) Section 143(5)—

Repeal paragraph (ba)

Substitute

"(ba) the IRB subclass of large corporates under subsection (3A); or

(bb) the IRB subclass of financial institutions treated as corporates under subsection (3C);".

71. Section 144 amended (retail exposures)

(1) Section 144(1), after "revolving retail exposures"—

Add

"(transactor), qualifying revolving retail exposures (revolver)".

(2) Section 144(4), after "revolving retail exposures" (where first appearing)—

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),".

72. Section 145 repealed

Section 145—

Repeal the section.

73. Section 146 amended (other exposures)

Section 146(1)—

Repeal

"equity"

Substitute

"CIS".

74. 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 of Part 2 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 commencement.

(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 of Part 2 of the Banking (Capital) (Amendment) Rules 2023 to calculate its credit risk for equity exposures (within the meaning of 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 ( ) means Part 6 of these Rules as in force immediately before the commencement of Part 2 of the Banking (Capital) (Amendment) Rules 2023.".

75. 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 account-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 has been made for the obligor's bankruptcy or a similar order 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*** ( ) has the meaning given by section 67(7);

non-accrued status ( ) has the meaning given by section 67(7).".

76. Section 156 amended (calculation of risk-weighted amount of corporate, sovereign and bank exposures)

(1) Section 156(2)—

Repeal

"subsections (5) and"

Substitute

"subsection".

(2) Section 156—

Repeal subsections (5) (including Formula 17), (6), (7) and (8).

(3) Section 156(9)(a)—

Repeal

"set equal to 1; and"

Substitute

"set equal to 1.".

(4) Section 156(9)—

Repeal paragraph (b).

(5) Section 156(10)—

Repeal the definition of *full maturity adjustment*

Substitute

"***full maturity adjustment*** ( ) means the amount calculated by the component $(1 - 1.5 \times b)^{\wedge} - 1 \times (1 + (M - 2.5) \times b)$ in Formula 16.".

77. 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 set out in Formula 16 by substituting the following correlation formula for that in Formula 16—

$$\text{Correlation (R)} = 0.12 \times (1 - \text{EXP}(-50 \times \text{PD}))/(1 - \text{EXP}(-50)) + 0.24 \times [1 - (1 - \text{EXP}(-50 \times \text{PD}))/(1 - \text{EXP}(-50))] - 0.04 \times (1 - (S - 50)/450).$$

".

(3) Section 157(2)—

Repeal

"(1)(a) and (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 revenue of the group of companies of which the corporate is a member; or"

Substitute

"the consolidated total 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 set out in Formula 16 in respect of the exposure; and

(b) subsections (2), (3) and (4) apply accordingly.".

78. Section 157A amended (provisions supplementary to section 156(2) and (5)—asset valuation 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 set out in Formula 16".

(3) Section 157A(3)—

Repeal the definition of *financial institution*.

79. 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 set out in Formula 16 or 17"

Substitute

"in the risk-weight function set out 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 (*IRB approach: supervisory slotting approach for specialized lending*) of the consolidated Basel Framework launched by the Basel Committee as in force on 15 December 2019; or

(ii) the credit quality grades specified in a table made by the Monetary Authority under section 4B(2).".

[Note: Please see Annex 2 for the table to be uploaded to the HKMA's website.]

(7) Section 158(5)—

Repeal

"reference exposures"

Substitute

"exposures falling within the IRB subclass of specialized lending (income-producing real estate)".

(8) Section 158(6)—

Repeal the definition of *reference exposure*.

80. 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 any such exposures of the institution that are the subject of recognized guarantees issued by sovereigns;".

(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.".

81. 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 exposures, sovereign exposures 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) Section 160(2), after "subsections"—

Add

"(2A),".

(4) After section 160(2)—

Add

"(2A) Subject to subsection (1)(c) and (d), an authorized institution must use the supervisory estimates of LGD specified in subsection (1)(a), (ab) or (b), as the case requires, for its default risk exposures.

(5) Section 160—

Repeal subsection (3) (including Formulas 18 and 19) and (4) (including Table 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 in section 156;

(b) for the purposes of Formula 18, only use the unsecured portion of the exposure (E_U) and the secured portion of the exposure (E_S) to calculate the LGD* and continue to calculate EAD without taking into account the presence of any collateral;

(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 the supervisory estimate of 40% as H_C if the recognized collateral is a recognized IRB collateral;

(iii) apply, if applicable, a haircut of zero to 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;

(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 in section 156;

(ii) for the purposes of Formula 19, only use the unsecured portion of the exposure (E_U) and the secured portion of the exposure (E_S) to calculate the LGD* and continue to calculate EAD without taking into account the presence of any collateral;

(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 the supervisory estimate of 40% as $H_{C,i}$ if the recognized collateral is a recognized IRB collateral;

(C) apply, if applicable, a haircut of zero to 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 a 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 potion of the exposure;

(c) LGD_S is—

(i) 0% if the recognized collateral is a recognized financial collateral; or

(ii) the applicable LGD specified in Table 18B in respect of the type of recognized IRB collateral concerned, if the recognized collateral is a recognized IRB collateral;

(d) E is the EAD of the exposure;

(e) E_U is $E \times (1 + H_E) - E_S$;

(f) E_S is min $[C \times (1 - H_C - H_{fx}), E \times (1 + H_E)]$;

(g) 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);

(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

LGDs 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 potion of the exposure;

(c) $LGD_{S,i}$, for each recognized collateral i is—

(i) 0% if the recognized collateral is a recognized financial collateral; or

(ii) the applicable LGD specified in Table 18B in respect of the type of recognized IRB collateral concerned, if the recognized collateral is a recognized IRB collateral;

(d) E is the EAD of the exposure;

(e) E_U is max $\left[0, E \times (1 + H_E) - \sum_i E_{S,i}\right]$

(f) $E_{S,i}$ is $C_i \times \left(1 - H_{C,i} - H_{fx,i}\right)$, where 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) 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);

(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(5)—

Add in alphabetical order

"***financial institution treated as corporate exposures*** ( ) means exposures to financial institutions treated as corporates;".

82. 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 financial collateral or a recognized IRB collateral, as the case requires, 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 that fall within section 205; or

(ii) commercial real estate or residential real estate that falls within section 206 or 208, as the case requires,

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 assets (except commercial real estate or residential real estate) that fall within section 207 or 208, as the case requires, 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 any such exposures of the institution that are the subject of recognized guarantees issued by sovereigns;".

(2) After section 161(1)(f)—

Add

"**Formula 19A**

Determination of LGD Floor for Partially Secured Exposure or Exposure Secured by More Than One Recognized Collateral

$$\mathrm{LGD}^{\#} = 25\% \times \frac{\mathrm{E_U}}{\mathrm{E} \times (1 + \mathrm{H_E})} + \sum_{\mathrm{i}} \mathrm{LGD_{S\ floor,i}} \times \frac{\mathrm{E_{S,i}}}{\mathrm{E} \times (1 + \mathrm{H_E})}$$

where—

(a) $\mathrm{LGD}^{\#}$ is the effective LGD floor;

(b) E is the EAD of the exposure;

(c) $\mathrm{E_U}$ is max $\left[0, \mathrm{E} \times (1 + \mathrm{H_E}) - \sum_{\mathrm{i}} \mathrm{E_{S,i}}\right]$;

(d) $E_{S,i}$ 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 $E \times (1 + H_E)$;

(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) $LGD_{S\ floor,i}$, for each recognized collateral i, is the LGD floor specified in Table 19A;

(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 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

(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 of Recognized Collateral

Column 1	Column 2	Column 3
Item	Recognized collateral	LGD floor
1.	Recognized financial collateral	0%
2.	Financial receivables falling within section 205	10%
3.	Commercial real estate or residential real estate falling within section 206 or 208, as the case requires	10%
4.	Physical assets (except commercial real estate or residential real estate) falling within section 207 or 208, as the case requires	15%".

(3) After section 161(1)—

Add

"(1A) For the purposes of Formula 19A—

(a) recognized collaterals only includes recognized financial collaterals and recognized IRB collaterals; and

(b) an authorized institution must—

(i) use sections 90, 91 and 92(1) to determine H_E and $H_{fx,i}$;

(ii) use sections 90, 91 and 92(1) to determine $H_{C,i}$ if the recognized collateral is a recognized financial collateral and use the supervisory estimate of 40% as $H_{C,i}$ if the recognized collateral is a recognized IRB collateral;

(iii) apply, if applicable, a haircut of zero to 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.

(1B) If an authorized institution is unable to estimate an LGD for an exposure that is secured by one or more than one recognized financial collateral or recognized IRB collateral 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%.".

83. Section 162 repealed (loss given default under double default framework)

Section 162—

Repeal the section.

84. 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, column 3—

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) After section 163(2)—

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;

(d) 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)—

Add in alphabetical order

"***commitment*** ( ) means any contractual arrangement that has been offered by an authorized institution and accepted by an obligor 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 obligor; or

(c) that can be cancelled by the institution if the obligor fails to meet conditions set out in the facility documentation, including

conditions that must be met by the obligor prior to any initial or subsequent drawdown under the arrangement.".

85. 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 section 163(2AA) and subsection (4B), 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 in section 163.".

(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 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) The EAD applicable to a corporate exposure for inclusion into the risk-weighted function specified in Formula 16 in section 156 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).".

86. Section 167 amended (maturity under foundation IRB approach)

(1) Section 167, before "An authorized institution"—

Add

"(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.".

87. Section 168 amended (maturity under advanced IRB approach)

(1) Section 168(1)(a)(ii) and (b), after "(bb)"—

Add

", (bc)".

(2) 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;".

88. Section 169 repealed (maturity under double default framework)

Section 169—

Repeal the section.

89. 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)**".

90. 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 long run average PD referred to in paragraph (a) must be an observed historical average of one-year default rate;".

(3) Section 177(1)—

Repeal paragraph (b)

Add

"(b) subject to paragraph (bb), the estimate of the PD of a retail exposure that falls within the IRB subclass of qualifying revolving retail exposure (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 any retail exposures of the institution that are the subject of recognized guarantees issued by sovereigns;".

(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).

91. 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

exposure (transactor) or qualifying revolving retail exposure (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 financial collateral or recognized IRB 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) financial receivables that fall within section 205; or

(B) commercial real estate or residential real estate that falls within section 206 or 208, as the case requires; 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 physical assets (except commercial real estate or residential real estate) that fall within section 207 or 208, as the case requires; 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 type of 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 any retail exposures of the institution that are the subject of recognized guarantees issued by sovereigns;".

(3) Section 178(1)(g)(ii)—

Repeal

", subject to section 14,".

92. Section 179 amended (exposure at default—on-balance sheet exposures)

Section 179, after "Section 164(1)"—

Add

"and (4B)".

93. Section 180 amended (exposure at default—off-balance sheet exposures other than default risk exposures)

(1) Section 180—

Repeal subsections (1) and (2)

Substitute

"(1) Section 164(2), (3), (3A), (4)(a), (b), (c), (ca), (d) and (e), (4A) and (4B), 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, sovereign and bank exposures.".

(2) Section 180(3)(b)(ii)—

Repeal

", subject to section 14,".

94. 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%;

(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 capital base—

(i) if the deductible holding is an equity exposure that falls within section 54A—determine the risk-weighted amount in accordance with section 65G(1)(a) or (b); or

(ii) in any other case—multiply that portion of the EAD of the deductible holding by a risk-weight determined in accordance with those provisions of this Part that would be applicable to the deductible holding if it were directly held by the institution.

(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 ( ) means an indirect CIS exposure within the meaning of section 226ZH;

Level 1 CIS ( ) means a Level 1 CIS within the meaning of section 226ZH;

Level 2 CIS ( ) means a Level 2 CIS within the meaning of section 226ZH;

Level n+1 CIS ( ) means a Level n+1 CIS within the meaning of section 226ZH.".

95. Section 195 amended (cash items)

After section 195(1)—

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.".

96. 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 (*IRB approach: minimum requirements to use IRB approach*) of the consolidated Basel Framework launched by the Basel Committee as in force on 1 January 2023.".

97. Section 202 amended (securities financing transactions)

(1) Section 202(1), (2), (3) and (4)—

Repeal

"section 75"

Substitute

"section 68C".

(2) Section 202(4)(b), after "exposures;"—

Add

"or".

(3) Section 202(4)—

Repeal paragraph (c).

(4) Section 202(5)—

Repeal

"section 76(2)"

Substitute

"section 68C(5)".

98. Section 202C added

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 section 43(1)(o), 47(1)(c) or 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 is not a CET1 capital instrument and 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 section 43(1)(p), 47(1)(d) or 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."

99. Section 205 amended (recognized financial receivables)

Section 205(1)(a)—

Repeal

"countries"

Substitute

"jurisdictions".

100. Section 206 amended (recognized commercial real estate and recognized residential real estate)

Section 206(e)—

Repeal

"countries"

Substitute

"jurisdictions".

101. 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".

102. 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,".

103. 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),".

104. 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

"; and"

Substitute a full stop.

(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 above 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 ( ) has the meaning given by section 99A(3).".

105. 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, before "A guarantee"—

Add

"(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)(e)—

Repeal

"section 99(1)(n)"

Substitute

"section 99(1)(o)".

(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.".

106. 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 purposes 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 referred to in subsection (1) are—

(a) the external hedge—

(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) in respect of the protected credit exposure; or

(b) all of the following apply—

(i) the external hedge is made up of multiple credit derivative contracts entered into by the institution with one or more than one third party (***aggregated 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) in respect of the protected credit exposure;

(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 purposes 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;

(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 purposes of calculating the risk-weighted amount of the protected credit exposure.

(4) In this section—

internal risk transfer ( ) means an internal written record of a transfer of credit risk from an authorized institution's banking book to its trading book.".

107. 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 subsections (2) and (3)

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.".

108. Section 215 amended (provisions supplementary to section 214)

Section 215—

Repeal

"bank, retail or equity"

Add

"bank or retail".

109. 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);

(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 determined 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 terms of the counter-guarantee provide allow the counter-guarantee to 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" (where twice appearing)—

Add

"underlying".

(9) Section 216(3B)(a)(iii)—

Repeal

"institution"

Substitute

"institution; or".

(10) Section 216(3B)—

Repeal paragraphs (b) and (c)

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 with 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—

Repeal subsection (4)

Substitute

"(4) In the case of an uncovered portion of an underlying exposure, an authorized institution must assign a risk-weight calculated in the same manner as for any other direct exposure to the obligor in respect of the underlying exposure.".

(12) 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)".

(13) 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 does not exceed 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.".

110. 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), (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***) such that—

(c) 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

(d) 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 the 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 the 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 terms of the counter-guarantee provide allow the counter-guarantee to 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" (where twice appearing)—

Add

"underlying".

(6) Section 217(5)(a)(iii)—

Repeal

"institution"

Substitute

"institution; or".

(7) Section 217(5)—

Repeal paragraphs (b) and (c)

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 with 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) After section 217(5)—

Add

"(6) In the case of an uncovered portion of an underlying exposure, an authorized institution must assign a risk-weight calculated in the same manner as for any other direct exposure to the obligor in respect of the underlying exposure.".

111. Section 218 repealed (provisions supplementary to section 214(2)—double default framework)

Section 218—

Repeal the section.

112. Section 219 amended (capital treatment of recognized guarantees and recognized credit derivative contracts in respect of purchased receivables)

(1) Section 219(1)(a)—

Repeal

", 217 and 218"

Substitute

"and 217".

(2) Section 219(3)—

Repeal

"Subject to subsection (6), where"

Substitute

"Where".

(3) Section 219—

Repeal subsections (5) and (6).

113. 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).

114. Section 223 repealed (EL amount—equity exposures subject to PD/LGD approach)

Section 223—

Repeal the section.

115. Part 6, Divisions 12 and 13 repealed

Part 6—

Repeal Divisions 12 and 13.

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

Section 226A—

Add in alphabetical order

"***commodity-related derivative contract*** ( ) 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 than one commodity (within the meaning of paragraph (a) of the definition of ***commodity*** in section 2(1));".

117. 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 paragraph (o)) or 80(1)(b) or (c)".

(2) Section 226BJ(5)(a)(ii)—

Repeal

"77(a), (b), (c), (d), (e), (ea) and (f)"

Substitute

"77(2)".

118. Section 226BW amended (calculation of add-on for subsets in asset class of credit-related derivative contracts)

(1) Section 226BW(2)(a)(i)—

Repeal

"Table A in Schedule 6 (regardless of whether entity k is a sovereign or not)"

Substitute

"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 Supervisory factor (%)

Item	Credit quality grade	
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 scale of credit quality grades 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 Item	Column 2 Credit quality grade	Column 3 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 scale of credit quality grades 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 scale of credit quality grades 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 manner as that set out in section 54E(2).".

119. Section 226BZC amended (calculation of adjusted notional of derivative contracts)

(1) Section 226BZC(1)(c)(i) and (ii), before "if the"—

Add

"subject to subparagraph (iv),".

(2) Section 226BZC(1)(c)(ii)—

Repeal

"or".

(3) Section 226BZC(1)(c)(iii)—

Repeal the full stop

Substitute

"; or".

(4) 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.".

120. Section 226H amended (calculation of EE)

(1) Section 226H(3)(a)—

Repeal

", (c) or (d)"

Substitute

"or (c)".

(2) Section 226H(3)(b)—

Repeal

"77(a), (b), (c), (d), (e), (ea) and (f)"

Substitute

"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".

121. 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 scale of credit quality grades 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 scale of credit quality grades 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)(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".

(3) 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.".

(4) 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).".

122. Sections 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 of Part 2 of the Banking (Capital) (Amendment) Rules 2023, an authorized institution that uses the STC approach or the 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 commencement to use a VaR model as an alternative to the use of Formula 23EB in section 226MK as in force immediately before that commencement 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 commencement.

(5) In this section—

defaulted exposure ( ) has the meaning given by section 51(1).".

123. 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.".

124. 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) and (4) and Formula 23EB

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 a 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 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 conditions set out 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) subparagraph (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 STFs 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 paragraph (o)) or 80(1)(b) or (c).".

125. 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.".

126. 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 paragraph (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 satisfy all the requirements of section 77(2) and (4)(b).".

127. 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)—

Repeal Tables 23A and 23B

Substitute

"**Table 23A**

Weights for All Counterparties

Column 1	Column 2	Column 3
Item	Credit quality grade in the 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 the Home Jurisdiction of a Type B ECAI

Column 1	Column 2	Column 3
Item	Credit quality grade in the LT ECAI rating mapping table for Type B ECAIs	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%".

(3) Section 226S(1), Formula 23J, paragraph (f)—

Repeal

"7"

Substitute

"6".

(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 scale of credit quality grades 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);

(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 assign a weight of 1% to the counterparty;

(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 assign 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 in section 160(3), and take the E_U so calculated".

128. 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 according to section 99A".

129. 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".

130. 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".

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

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 amount of its default risk exposures to qualifying CCPs, take into account any credit risk mitigating effect in the calculation in accordance with Part 4.".

132. 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".

133. Section 226ZG amended (interpretation of Part 6B)

(1) Section 226ZG—

Repeal the definition of *exempted IRB AI*

Substitute

"***exempted 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-weighted method*.

134. 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).

135. 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".

136. 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 semi-colon—

Add

"or".

(3) Section 226ZQ(4)(a)(ii)—

Repeal

"; or"

Substitute a comma.

(4) Section 226ZQ(4)(a)—

Repeal sub-paragraph (iii).

137. 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"

Substitute

"115F".

(4) Section 226ZR(3)(b)—

Repeal

"; or"

Substitute a full stop.

(5) Section 226ZR(3)—

Repeal paragraph (c).

(6) Section 226ZR(4)(a)(i), before "the default"—

Add

"the amount of".

(7) Section 226ZR(4)(b)(i)(A), after "STC AI"—

Add

", an IRB AI".

(8) Section 226ZR(4)(b)(i)(A)—

Repeal

", or sections 88 and 93, as the case requires;"

Substitute

"or section 86, as the case requires; or".

(9) Section 226ZR(4)(b)(i)(B)—

Repeal

"or"

Substitute

"and".

(10) Section 226ZR(4)(b)(i)—

Repeal sub-subparagraph (C).

(11) Section 226ZR(6)(c)—

Repeal subparagraph (i).

(12) Section 226ZR(6)(c)(iii)—

Repeal

"(i) or".

138. 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".

139. 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".

140. Section 227 amended (interpretation of Part 7)

Section 227, definition of ***rated***, paragraph (a)—

Repeal

"section 267(1)(a)"

Substitute

"this Part in accordance with section 4C".

141. 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".

142. 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) and (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".

143. 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".

144. 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".

145. Section 241 amended (caps on risk-weights for exposures in senior tranches determined by using SEC-IRBA, SEC-ERBA or SEC-SA)

Section 241(3)—

Repeal paragraph (a)

Substitute

"(a) the risk-weights of the underlying exposures in the IRB pool determined under Part 6; and".

146. Section 243 amended (credit risk mitigation recognized for purpose of calculating 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 fulfils 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 fulfils 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) or (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 the scale of credit quality grades in 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 the scale of credit quality grades in 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 the scale of credit quality grades in 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 the scale of credit quality grades in 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.".

147. 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

"some or all 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 recognized collateral, the institution must, instead of taking into account the credit risk mitigation effect of the collateral through the determination of the LGD of the securitization exposure, take into account the effect by applying the formula set out in section 160(3) for calculating the unsecured portion of an exposure (E_U) 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).".

148. 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)".

149. Section 259 amended (treatment of default risk of underlying exposures in calculation of K_{IRB})

(1) Section 259(3)(b)—

Repeal

"document"

Substitute

"paragraphs".

(2) Section 259(3)(b)(i)—

Repeal

"the first bullet point of paragraph 496 of the document"

Substitute

"paragraph CRE36.118(1)"

150. Section 265 amended (determination of risk-weights of securitization exposures with long-term ratings)

(1) Section 265(1)(a)—

Repeal

"Table A in Schedule 11"

Substitute

"the LT ECAI rating mapping table for securitization exposures".

(2) Section 265(4), Table 25—

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".

151. Section 266 amended (determination of risk-weights of securitization exposures with short-term ratings)

(1) Section 266(a)—

Repeal

"Table B in Schedule 11"

Substitute

"the ST ECAI rating mapping table for securitization exposures".

(2) Section 266(b), Table 26—

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".

152. 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)".

153. Section 268 amended (inferred ratings)

Section 268(f)—

Repeal

"section 267(1)(a)"

Substitute

"this Part in accordance with section 4C".

154. 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 ( )—

(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 ( ) means a securitization exposure to an NPL securitization transaction;

NPL securitization transaction ( ) 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 given by 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 of this Part, 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—

(a) 100%; and

(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 apply 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 purpose 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 re-sales 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.".

155. 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 ( ) means any of the following—

(a) IRB approach;

(b) SEC-IRBA;

(c) internal assessment approach;

(d) IMM(CCR) approach;

(e) value-at-risk model—

(i) on and after the commencement of Part 2 of the Banking (Capital) (Amendment) Rules 2023 until the commencement of Part [3] of those Rules—as set out in section 226ML for the calculation of default risk exposure in respect of nettable repo-style transactions; or

(ii) on and after the commencement of Part [3] of the Banking (Capital) (Amendment) Rules 2023—as set out in section 226ML for the calculation of default risk exposure in respect of a single SFT or nettable SFTs;

(f) IMA;

output floor ( ), 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 (6), 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 35 in subsection (6).

(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) and (4) and section 359, 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) subject to section 359—

(i) subject to subsection (5), calculating its risk-weighted amount for market risk by using the STM approach; and

(ii) calculating its risk-weighted amount for CVA risk by using 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 (4)(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) 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.

(5) For the purposes of subsection (2)(b)(i), an authorized institution must use the SEC-ERBA (except the use of the internal assessment approach), SEC-SA or SEC-FBA to determine the default risk weights for securitization exposures in its trading book.

(6) Subject to subsection (7), an authorized institution must use the corresponding output floor level specified in Table 35.

Table 35

Output Floor Levels

Column 1	Column 2	Column 3
Item	Applicable dates for output floor level	Output floor level
1.	On and after the date of commencement of Part 2 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%
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%

(7) The Monetary Authority may, by written notice given to one or more than one authorized institution, 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.

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

[Note: The HKMA is currently consulting the industry to implement a tier of risk-weights for risk-weighting an AI's unrated corporate exposures for the calculation of output floor according to its classification under the HKMA's Guideline on Loan Classification System.]

357. Calculation of actual risk-weighted amount

Subject to section 359, 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 the actual risk-weighted amount referred to in subsection (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 provision

(1) For the purposes of this Part, during the transitional period an authorized institution must exclude the risk-weighted amount for market risk and CVA risk from both the output floor and the actual risk-weighted amount calculated under section 357.

(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 ( ) means the period beginning on the commencement of Part 2 of the Banking (Capital) (Amendment) Rules 2023 and ending immediately before the commencement of Part [3] of those Rules.".

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

Schedule 1—

Repeal

"73, 120".

157. Schedule 2 amended (minimum requirements to be satisfied for approval under section 8 of these Rules to use IRB approach)

(1) Schedule 2, section 1(b)(vi)(B), after the semi-colon—

Add

"and".

(2) Schedule 2, section 1(b)—

Repeal subparagraph (vii).

158. 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".

159. 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".

160. Schedule 6 substituted

Schedule 6—

Repeal the Schedule

Substitute

"**Schedule 6**

[ss 51, 71, 105, 118 & 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%
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 (b) provide for automatic cancellation due to deterioration in the creditworthiness of the persons to whom the institution has made the commitments	10%
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, section 68C and section 71(2) and (5); or (b) for the purposes of the BSC approach—any other item in this Schedule, section 117C and section 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—

commitment ( ) 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 ( ), 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.".

161. Schedule 7 amended (standard supervisory haircuts)

(1) Schedule 7—

Repeal

"51, 86".

(2) Schedule 7—

Repeal section 1

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, C and D.

Part 1

Standard Supervisory Haircuts for Debt Securities other than Securitization Issues

Table A
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 1 or 2 under the LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 1 under 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 (ii) is issued by a sovereign having an ECAI issuer rating mapped to a credit quality grade of 1 or 2 under the LT ECAI rating mapping table for Type A ECAIs.	not more than 1 year	0.5%
		more than 1 year but not more than 5 years	2%
		more than 5 years	4%
2.	(a) A debt security—	not more than 1	1%

	(i) issued by a sovereign or sovereign issuer; and (ii) having an ECAI issue specific rating mapped to a credit quality grade 3 or 4 under the LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 2 or 3 under 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 (ii) is issued by a sovereign having an ECAI issuer rating mapped to a credit quality grade of 3 or 4 under the LT ECAI rating mapping table for Type A ECAIs.	year	
		more than 1 year but not more than 5 years	3%
		more than 5 years	6%
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 under the LT ECAI rating mapping table for Type A ECAIs. (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 under the LT ECAI rating mapping table for Type A ECAIs.	All	15%

Table B
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.		not more than 1 year	1%

	A debt security with an ECAI issue specific rating mapped to one of the following credit quality grades— (a) 1 or 2 under the LT ECAI rating mapping table for Type A ECAIs; (b) 1 under the ST ECAI rating mapping table for Type A ECAIs; or (c) 1 or 2 under the LT ECAI rating mapping table or ST ECAI rating mapping table for Type B ECAIs.	more than 1 year but not more than 3 years	3%
		more than 3 years but not more than 5 years	4%
		more than 5 years but not more than 10 years	6%
		more than 10 years	12%
2.	A debt security with an ECAI issue specific rating mapped to one of the following credit quality grades— (a) 3 or 4 under the LT ECAI rating mapping table for Type A ECAIs; (b) 2 or 3 under the ST ECAI rating mapping table for Type A ECAIs; or (c) 3 or 4 under the LT ECAI rating mapping table or ST ECAI rating mapping table for Type B ECAIs.	not more than 1 year	2%
		more than 1 year but not more than 3 years	4%
		more than 3 years but not more than 5 years	6%
		more than 5 years but not more than 10 years	12%
		more than 10 years	20%
3.	A debt security issued by a bank that— (a) does not have an ECAI issue specific rating; and (c) satisfies the criteria set out in section 79(1)(l).	not more than 1 year	2%
		more than 1 year but not more than 3 years	4%
		more than 3 years but not more than 5 years	6%
		more than 5 years but not more than 10 years	12%
		more than 10 years	20%

Part 2

Standard Supervisory Haircuts for Securitization Issues other than Re-securitization Exposures

Table C Securitization Issues			
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 with an ECAI issue specific rating mapped to— (a) a credit quality grade of 1, 2, 3 or 4 under the LT ECAI rating mapping table for securitization exposures; or (b) a credit quality grade of 1 under the ST ECAI rating mapping table for securitization exposures.	not more than 1 year	2%
		more than 1 year but not more than 5 years	8%
		more than 5 years	16%
2.	Securitization issue with an ECAI issue specific rating mapped to— (a) a credit quality grade of 5, 6, 7, 8, 9 or 10 under the LT ECAI rating mapping table for securitization exposures; or (b) a credit quality grade of 2 or 3 under the ST ECAI rating mapping table for securitization exposures.	not more than 1 year	4%
		more than 1 year but not more than 5 years	12%
		more than 5 years	24%

Part 3

Standard Supervisory Haircuts for Exposures and Collateral not falling within Parts 1 and 2 of this Schedule

Table D Assets other than Debt Securities		
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%
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	30%

	not fall within item 4	
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 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
8.	Exposures arising from financial instruments sold, lent, or posted as collateral by an authorized institution under securities financing transactions where the financial instruments do not fall within Parts 1, 2 and items 4, 6 and 7 of this Part of this Schedule	30%
9.	Securities received under repo-style transactions booked in trading book where the securities— (a) do not fall within Parts 1, 2 and items 4, 6 and 7 of this Part of this Schedule; 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*** ( ) 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 the semi-colon

Substitute a full stop.

(7) Schedule 7, section 2—

Repeal paragraphs (f), (g) and (h).

162. Schedule 8 repealed (credit quality grades for specialized lending)

Schedule 8—

Repeal the Schedule.

163. 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 paragraph (o)) and 80(1)(b) and (c)".

(2) Schedule 10, section 2(a)(iv)—

Repeal

"77(a), (b), (c), (d), (e), (ea) and (f)"

Substitute

"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).".

164. Schedule 11 repealed (mapping of ECAI issue specific ratings into credit quality grades under SEC-ERBA)

Schedule 11—

Repeal the Schedule.

Part 3—Amendments in relation to market risk and CVA risk

165. Section 2 amended (interpretation)

(1) Section 2(1), definition of ***common Equity Tier 1 capital ratio***, after "risk-weighted amount for credit risk"—

Add

"risk-weighted amount for CVA risk,".

(2) Section 2(1)—

Repeal the definition of *counterparty credit risk*

Substitute

"***counterparty credit risk*** ( ), 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;".

(3) Section 2(1), definition of ***default risk exposure***—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

(4) Section 2(1), definition of ***risk-weighted amount for credit risk***, paragraph (a), after "requires;"—

Add

"and".

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

Repeal

"and".

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

Repeal paragraph (c).

(7) Section 2(1), definition of ***Tier 1 capital ratio***, after "risk-weighted amount for credit risk"—

Add

"risk-weighted amount for CVA risk,".

(8) Section 2(1), definition of ***Total capital ratio***, after "risk-weighted amount for credit risk"—

Add

"risk-weighted amount for CVA risk,".

(9) Section 2(1)—

Repeal the definition of *counterparty default risk*.

166. 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

"; and"

Substitute a full stop.

(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)".

167. Section 10C repealed (provisions supplementary to prescribed methods for calculation of CVA capital charge)

Section 10C—

Repeal the section.

168. 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).

169. Section 139 amended (interpretation of Part 6)

(1) Section 139(1), definition of ***eligible provisions***, paragraph (b)—

Repeal the comma

Substitute a semi-colon.

(2) Section 139(1), definition of ***eligible provisions***—

Repeal

"exclusive of any CVA and CVA loss;".

170. Section 156 amended (calculation of risk-weighted amount of corporate, sovereign and bank exposures)

Section 156—

Repeal subsections (9) and (10).

170A. 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 (within the meaning of section 281) or default risk charge (within the meaning of section 281), as the case requires, that already contain an LGD assumption.".

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

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.

172. Section 226ML substituted

Section 226ML—

Repeal the section

Substitute

"**226ML. Use of value-at-risk model instead of section 226MJ and Formula 23EB in section 226MK**

(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 in section 226MK 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 one or more trading desks; or

(ii) granted an approval under subsection (4)(a) by the Monetary Authority; and

(c) all the requirements of subsection (2) are met.

(2) The requirements of this subsection 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 322F(1); and

(ii) be assigned to the green zone in the profit and loss attribution test under section 322F(2) or (4);

(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 in section 226MK 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 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 meet 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 meet the requirements set out in section 2 of Schedule 3 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 Schedule 3, 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 23ED.

Formula 23ED

$$E^{*} = \max\left\{0, \left[\left(\sum(E) - \sum(C)\right) + \text{VaR output}\right]\right\}$$

where—

(a) E* is the default risk exposure;

(b) E is the current market value of all money and securities provided by the institution under the transactions;

(c) C is the current market value of all money and securities received by the institution under the transactions;

(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 23ED 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.".

173. Part 6A, Division 3 repealed (calculation of CVA capital charge)

Part 6A—

Repeal Division 3.

174. 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

"; or"

Substitute a full stop.

(3) Section 226W(5), definition of ***20-business day supervisory floor***—

Repeal paragraph (d).

(4) Section 226W(6)—

Repeal

"or 226ML".

175. Section 226Z amended (exposures of clearing members to direct clients)

(1) Section 226Z(1)(a) and (b)—

Repeal

"CVA risk-weighted amount"

Substitute

"the risk-weighted amount for CVA risk".

(2) Section 226Z(1)—

Repeal

"Division 3"

Substitute

"Part 8A".

(3) Section 226Z(2)—

Repeal

"CVA risk-weighted amount"

Substitute

"the risk-weighted amount for CVA risk".

(4) Section 226Z(3)—

Repeal

"CVA risk-weighted amount"

Substitute

"risk-weighted amount for CVA risk".

176. Section 226ZA amended (exposures of direct clients to clearing members)

(1) Section 226ZA(1)—

Repeal

"CVA risk-weighted amount"

Substitute

"the 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

"the risk-weighted amount for CVA risk".

177. Section 226ZB amended (exposures of direct clients to CCPs)

(1) Section 226ZB(1)—

Repeal

"CVA risk-weighted amount"

Substitute

"the risk-weighted amount for CVA risk".

(2) Section 226ZB(1)—

Repeal

"Division 3"

Substitute

"Part 8A".

178. Section 226ZBA amended (exposures of direct clients to clearing members)

(1) Section 226ZBA(1)—

Repeal

"CVA risk-weighted amount"

Substitute

"the risk-weighted amount for CVA risk".

(2) Section 226ZBA(1)—

Repeal

"Division 3"

Substitute

"Part 8A".

(3) Section 226ZBA(2)—

Repeal

"CVA risk-weighted amount"

Substitute

"the risk-weighted amount for CVA risk".

179. 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".

180. 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".

181. Section 227 amended (interpretation of Part 7)

Section 227, definition of ***exposure amount***, paragraph (c)—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

182. 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*** ( ), 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 in relation to the credit spread risk for securitizations, RRAO and SA-DRC calculated by using the STM approach; or

(b) the market risk capital charge for specific risk calculated by using the SSTM approach.".

183. Section 356 amended (calculation of output floor)

Section 356(2)(b)(i), after "STM approach"—

Add

"or, subject to approval under section 17, the SSTM approach".

184. Schedule 2A amended (minimum requirements to be satisfied for approval under section 10B(2)(a) of these Rules to use IMM(CCR) approach)

Schedule 2A, sections 2(a), (b), (d) and (e), 3(d)(ii) and 5(a)(ii), (b)(i)(B), (b)(iii)(C) and (E) and (d)(iii)—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

185. 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 credit risk,"—

Add

"risk-weighted amount for CVA risk".

186. Schedule 16 amended (transitional provisions for Banking (Capital)(Amendment) Rules 2020)

Schedule 16, sections 1(2)(c) and (4)(b)—

Repeal

"counterparty default risk"

Substitute

"counterparty credit risk".

Part 4—New Division added to Part 6A

187. 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 ( ) 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 ( ), 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 ( ), 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 0% risk -weight under Part 4, 5 or 6;

in-scope 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 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	0.5%	1%
2.	debt securities with residual maturity of not more than 1 year	0.5%	1%
3.	debt securities with residual maturity of more than 1 year and not more than 5 years	1.5%	4%
4.	debt securities with residual maturity of more than 5 years and not more than 10 years	3%	6%
5.	debt securities with residual maturity of more than 10 years	4%	7%
6.	equities included in a main index	6%	
7.	other assets	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 in section 226ZEC.

(5) For the purpose of subsection (4)(a), collateral that is called by either the authorized institution or its counterparty can 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 23L; and

Formula 23L

$$H = \frac{C_B}{C_A} - 1$$

where—

(i) H is the actual effective haircut of the SFT;

(ii) C_A is the actual amount of collateral lent by the institution under the SFT; and

(iii) 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 23LA.

Formula 23LA

$$f = \frac{1 + f_B}{1 + f_A} - 1$$

where—

(i) f is the effective haircut floor applicable to the SFT;

(ii) f_A is the haircut floor applicable to the collateral lent by the institution under the SFT as set out in Table 23C in section 226ZEC; and

(iii) f_B is the haircut floor applicable to the collateral received by the institution under the SFT as set out in Table 23C in section 226ZEC.

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 23LB, 23LC and 23LD and in accordance with subsection (3).

Formula 23LB

$$f_p = \frac{E}{C} - 1$$

Formula 23LC

$$E = \frac{\sum_s \left(\frac{E_s}{1 + f_s} \right)}{\sum_s E_s}$$

Formula 23LD

$$C = \frac{\sum_t \left(\frac{C_t}{1 + f_t} \right)}{\sum_t C_t}$$

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 in section 226ZEC or in accordance with subsection (3)(a), as the case requires; and

(f) f_t is the haircut floor applicable to asset t as set out in Table 23C in section 226ZEC or in accordance with subsection (3)(a), 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 0% risk-weight 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 0% risk-weight under Part 4, 5 or 6.

(4) The haircut floor requirement is met in respect of a netting set of SFTs if Formula 23LE applies.

Formula 23LE

$$\frac{\sum C_t - \sum E_s}{\sum E_s} \geq f_p$$

(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 fall 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 commencing on 1 January 2024

187A. Section 2 amended (interpretation)

Add in alphabetical order

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

187B. Section 54 amended (classification of exposures)

After section 54(i)—

Add

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

187C. Section 64 amended (regulatory retail exposures)

(1) Section 64(2)(b)(ii)—

Repeal the full stop

Substitute a semi-colon.

(2) Section 64(2)(b), after subparagraph (ii)—

Add

"an exposure falling within section 64A".

187D. 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 the Hong Kong Securities Clearing 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. [Note: Please see the note on section 64A (exposures arising from IPO financing) set out in Part 2 of the BCAR.]

(2) The institution must assign 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.".

187E. Section 66 amended (other exposures which are not past due exposures)

Section 66(1)(b)(ii), after "64, "—

Add

"64A, ".

187F. Section 67 amended (past due exposures)

Section 67(1), after "64, "—

Add

"64A, ".

187G. Section 108 amended (classification of exposures)

After section 108(d)—

Add

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

187H. 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 the Hong Kong Securities Clearing 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 must assign 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 ( ) means—

(a) a company; or

(b) a partnership or any other unincorporated body,

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

187I. Section 116 amended (other exposures)

Section 116(1)(b)(ii), after "113, "—

Add

"113A, ".

187J. Section 202B added

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.".

188. 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".

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

Section 226Y, after subsection (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 assigned 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 authorized 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 authorized institution must treat the asset as a default fund contribution.".

190. 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.".

191. 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".

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

Schedule 1, Part 10, item 4—

Repeal

"Community"

Substitute

"Union".