HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B1/21C
S4/12C

18 July 2025

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Supervisory Policy Manual (SPM): Revised module CA-G-4 on "Validating Risk Rating Systems under the IRB approach"

I am writing to inform you that, following consultations with two industry Associations, the Monetary Authority is issuing by notice in the Gazette today a revised version of the SPM module CA-G-4 "Validating Risk Rating Systems under the IRB approach" as a statutory guideline under section 7(3) of the Banking Ordinance.

The revisions to the SPM module primarily aim to reflect the latest guidance promulgated by the Basel Committee on Banking Supervision on the use of the internal ratings-based (IRB) approach for calculating capital charge for credit risk exposures. The revised CA-G-4 has also incorporated updates to the supervisory expectations of the Hong Kong Monetary Authority (HKMA) for authorized institutions (AIs) using the IRB approach have regard to the HKMA's experience of assessing AIs' rating systems and validation processes.

As compared to the standardized (credit risk) approach (STC approach), the IRB approach provides a framework under which AIs meeting the relevant requirements are allowed to use a more risk-sensitive method to calculate the capital charge for their credit risk exposures. AIs with prudent and robust credit risk management therefore would likely benefit from adopting the IRB approach.

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With effect from the implementation of the Basel III final reform package (B3F) on 1 January 2025, AIs are no longer required to meet the minimum IRB coverage ratio and thus have greater flexibility for using a combination of the STC and IRB approaches to calculate their credit risk capital charge having regard to their circumstances (e.g. practicality and data limitation). This also applies to AIs which have been approved for using the IRB approach prior to the B3F implementation should they satisfy the relevant requirements.

The revised SPM module will take effect on 18 July 2025. It is accessible through the HKMA's public website (https://brdr.hkma.gov.hk/eng/spm) and the Supervisory Communication Website (https://brdr.stet.iclnet.hk/eng/spm).

Should you have any questions regarding the revised SPM module, please approach your usual supervisory contact at the HKMA.

Yours faithfully,

Carmen Chu
Executive Director (Banking Supervision)

Encl.

cc. The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
Secretary for Financial Services and the Treasury (Attn. Mr Timothy Wong)