HONG KONG MONETARY AUTHORITY
香 港 金 融 管 理 局

Circulars

31 Jan 2007

Supervisory Policy Manual ("SPM") CA-G-3: "Use of Internal Models Approach to Calculate Market Risk"

Ref.: S4/2C
B1/15C
B4/1C
B4/9C

31 January 2007

The Chief Executive
All locally incorporated authorized institutions

Dear Sir/Madam,

Supervisory Policy Manual ("SPM") CA-G-3: "Use of Internal Models Approach to Calculate Market Risk"

I am writing to inform you that, following consultation with the two industry Associations, the HKMA issued today the above SPM module which is a technical note superseding the previous version of CA-G-3 "Use of Internal Models to Measure Market Risk" issued in September 2002. It incorporates the new Basel II standards relating to the use of internal models for calculation of market risk and explains the latest criteria that the Monetary Authority will use in assessing an AI's eligibility for adopting the internal models approach to calculate its regulatory capital for market risk under the Banking (Capital) Rules.

On-line access to this module is available to AIs under the icon "Supervisory Policy Manual" in the HKMA's public (http://www.info.gov.hk/hkma) and private (http://www.stet.finnet.hk) websites.

I would also like to take this opportunity to inform you that the SPM module CA-G-2 "Maintenance of Adequate Capital against Market Risk" has become obsolete after the Banking (Capital) Rules took effect on 1 January 2007. This module has been removed from the SPM accordingly.

Should you have any questions relating to the above SPM modules, please contact Ms Rita Yeung at 2878-1388 or Mr Angus Chan at 2878-1287.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

Encl.

cc. The Chairman, Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Angelina Kwan)

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