HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref.: B1/15C
S4/3C
S4/15C

10 April 2014

The Chief Executive
All Locally Incorporated Authorized Institutions

Dear Sir/Madam,

Implementation of new standardised approach for measuring counterparty credit risk exposures

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued on 31 March 2014 its final standard on *The standardised approach for measuring counterparty credit risk exposures* (see http://www.bis.org/publ/bcbs279.pdf) setting out a new non-modelled approach for measuring counterparty credit risk (CCR) exposures under the Basel capital adequacy framework.

The new standardised approach (SA-CCR), which is applicable to exchange-traded derivatives, OTC derivatives and long settlement transactions[1], will replace the existing non-modelled CCR measurement approaches (i.e. the Current Exposure Method (CEM) and the Standardised Method[2]) in the Basel capital adequacy framework. Compared with the existing non-modelled approaches, the SA-CCR is more risk-sensitive in that it has been calibrated to reflect volatilities observed in the recent stress period and provides more meaningful recognition of the effects of margining and netting, while also having regard to the need to ensure incentives for centralised clearing of derivatives. The SA-CCR is scheduled to take effect on 1 January 2017.

The HKMA's current intention is to implement the SA-CCR in accordance with the BCBS implementation timetable. The industry will be consulted on the implementation proposals in due course. As the SA-CCR requires more data and complex computation than the CEM, authorized institutions that are using the CEM and have no near-term plan to transition to the internal models (counterparty credit

[1] The term "long settlement transaction" is defined under section 2 of the Banking (Capital) Rules.
[2] The Standardised Method has not been implemented in Hong Kong.

55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Website: www.hkma.gov.hk

香港中環金融街8號國際金融中心2期55樓
網址：www.hkma.gov.hk

risk) approach are strongly recommended to review the final standard and consider the implications of implementation for their institutions, including identifying areas that may need to be enhanced, such as operational capacity, data sufficiency, management information systems and IT infrastructure etc., in order to implement the SA-CCR.

Should you have any questions relating to this letter, please feel free to contact Mr Richard Chu at 2878-8276 or Miss Samantha Yau at 2878-8284.

Yours faithfully,

Rita Yeung
Acting Executive Director (Banking Policy)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Mr Jackie Liu)