



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
S4/3C
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16 April 2014

The Chief Executive
All Locally Incorporated Authorized Institutions

Dear Sir/Madam,

Issuance and implementation of a final standard for the capital treatment of bank exposures to central counterparties

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued on 10 April 2014 a standard on *Capital requirements for bank exposures to central counterparties* (see <http://www.bis.org/publ/bcbs282.pdf>) to replace the interim capital requirements for bank exposures to central counterparties (CCPs) published in July 2012.

Scheduled to take effect on 1 January 2017 when the interim capital requirements will be replaced, the standard introduces a number of changes to simplify the underlying policy framework and to complement relevant initiatives undertaken by other supervisory bodies. The major changes include –

- (a) for the purpose of calculating the capital requirements of a bank's exposures arising from its default fund contributions to qualifying CCPs¹ (QCCPs), replacing the existing methodology (which can be found in the interim capital requirements) with a single approach which is simpler and uses the new standardised approach for counterparty credit risk² (instead of the Current Exposure Method) to measure a QCCP's hypothetical capital requirement;
- (b) setting a cap on a bank's total capital charges for its exposures to a QCCP such that those charges will not exceed the charges that would otherwise be applicable if the CCP were a non-qualifying CCP¹; and

¹ The terms "qualifying CCP" and "non-qualifying CCP" are defined in section 226V of the Banking (Capital) Rules.

² See the circular letter "Implementation of new standardised approach for measuring counterparty credit risk exposures" issued by the HKMA on 10 April 2014.

(c) specifying the treatment for multi-level client structures whereby a bank centrally clears its trades through a client of a clearing member or a client of that client.

The HKMA's current intention is to implement the final standard (through amendment of the Banking (Capital) Rules) in accordance with the BCBS implementation timetable. The industry will be consulted on the implementation proposals in due course. Authorized institutions that engage in derivatives activities are strongly recommended to review and consider the relevant implications of the final standard.

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,

Karen Kemp
Executive Director (Banking Policy)

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