V.1, 8 February 2019

Supervisory Communication Website > Supervisory Policy > FAQ > IRRBB

Item	Question	Answer
1	Regarding the general exemption of AIs incorporated outside Hong Kong from the new local IRRBB framework set out in HKMA's circular dated 31 August 2018, will the exempted AIs be notified?	No, there will not be any firm-specific notifications. As the exemption criteria and requirements have been clearly set out in the circular to all AIs dated 31 August 2018 as well as in the finalised IRRBB policy documents published on 14 December 2018, all AIs should be able to ascertain whether they are exempted from the new local IRRBB standards or not. In case of any potential remaining doubt, an AI should contact its case officer to verify whether or not it is exempted from the new local IRRBB framework.
2	Regarding the general exemption of AIs incorporated outside Hong Kong from the new local IRRBB framework set out in HKMA's circular dated 31 August 2018, will the parent group of an AI be considered "additionally represented in Hong Kong through a locally incorporated AI" if the parent group only	If the locally incorporated AI is part of the parent group according to the scope of regulatory consolidation in the home jurisdiction, then the parent group will be considered "represented in Hong Kong through a locally incorporated AI" even though the locally incorporated AI may not be fully owned by the parent. This also means that the Hong Kong branch of the parent bank will not be exempted and has to implement the new local IRRBB standards by July 2019. Whether the Hong Kong branch of the parent bank and a locally incorporated AI owned by the parent group are completely independent in terms of structure and business decision is not a condition for the exemption. This will therefore not affect whether the Hong Kong branch of the parent bank will be exempted from implementing the new local IRRBB standards.

	partially owns the locally incorporated AI?	
3	How should AIs investigate Credit Spread Risk in the Banking Book (CSRBB) within the IRRBB framework and which products are in scope for CSRBB?	In line with Section 1.4 in the Annex of the Basel standards on IRRBB, in particular Figure 1 on p. 34, AIs must assess CSRBB for items at fair value, that is, for example, debt securities. It is the AI's responsibility to develop a suitable methodology for CSRBB.
4	At which frequency does the HKMA expect AIs to measure and monitor IRRBB?	AIs should measure their IRRBB at least quarterly and monitor their IRRBB exposure on a continuous basis. Whether an AI needs to measure its IRRBB more frequently (on an ongoing basis, or specifically after certain events) will depend on the information it gathers from the continuous monitoring process (e.g. whether the information has any material impact on the AI's IRRBB) and the buffer between the IRRBB exposures and the AI's internal IRRBB exposure limit. To ensure internal control and regulatory supervision are not undermined, AIs are expected not to engage in 'window dressing', i.e. lowering their quarter-end interest rate exposures temporarily in a systematic manner.
5	Are there any guidelines on how AIs should monitor IRRBB exposures?	As different AIs have very different interest rate risk profiles, AIs should set up their own monitoring frameworks that are commensurate with their firm-specific interest rate risk profiles.
6	Are there any requirements for AIs to monitor and test	As long as the AIs have not engaged in window dressing, such monitoring or testing will not be necessary.

	whether the month- or quarter-end aggregate IRRBB positions are systematically lower?	