Annex 1

This set of proposed amendments relate to--

- Parts 1 and 2 of the Banking (Capital) Rules ("BCR") that contain definitions and provisions applicable to more than one credit risk calculation approach; and

- Parts 4, 5, 6A, 6B and 7 of the BCR, which deal with the revisions to the "standardized (credit risk) approach" (or "STC approach") under Part 4 and the "basic approach" under Part 5 of the BCR, together with some consequential changes to other Parts of the BCR arising from the revised credit risk framework under the Basel III final reform package.

The proposed amendments are prepared based on the version of the Banking (Capital) Rules (Cap. 155L) ("BCR") that will come into operation on ***1 July 2022*** *(Reference: Banking (Capital) (Amendment) Rules 2022 ("BCAR 2022") (https://www.gld.gov.hk/egazette/pdf/20222616/es22022261654.pdf)).*

Unless otherwise stated—

- *tables, formulas, sections, subdivisions, divisions, parts and schedules mentioned in this document are those of the BCR; and*
- *chapters of the Basel Framework mentioned in this document are those chapters to be effective on 1 January 2023.*

I. AMENDMENTS TO PART 1 (PRELIMINARY)

I(i) Amendments to be effective on [1 July 2023]

Item 1. Amend section 2(1) - add new definitions

New definitions		Remarks (including references)
(1)	***current Basel Framework*** means the consolidated Basel Framework launched by the Basel Committee in December 2019 comprising standards and the associated FAQs, as amended or supplemented from time to time, that are currently in force according to the Basel Committee's implementation timeline.	
(2)	***Basel Framework*** means— (a) the current Basel Framework; or (b) other standards (including FAQs) for the regulation and supervision of banks published by the Basel Committee in or after 2006 that have been superseded by the current Basel Framework.	
(3)	***covered bond***, in relation to the calculation of the risk-weighted amount for credit risk, means a bond issued by a bank or mortgage corporation— (a) that is subject to relevant laws or regulations specially designed to protect the holders of the bond; and (b) the proceeds from the issue of which must, in conformity with those relevant laws	Basel Framework reference: CRE20.33[1].

[1] CRE20 - Standardised approach: individual exposures (https://www.bis.org/basel_framework/chapter/CRE/20.htm?inforce=20230101&published=20201126).

New definitions		Remarks (including references)
	or regulations, be invested in assets— (i) that, during the whole period of the validity of the bond, are capable of covering claims attached to the bond; and (ii) that, in the event of the failure of the issuer of the bond, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.	
(4)	***eligible covered bond***, in relation to the STC approach and the BSC approach, means a covered bond that meets all the conditions specified by the Monetary Authority ("MA") under Item 48(4).	Basel Framework reference: CRE20.34 to 20.37.
(5)	***exposure value***— (a) in relation to the STC approach, has the meaning given by section 51(1); and (b) in relation to the BSC approach, has the meaning given by section 105.	
(6)	***home jurisdiction***, in relation to a Type B ECAI, means— (a) the jurisdiction in which the Type B ECAI is incorporated; or (b) another jurisdiction specified by the MA in a restriction published under Item 7(3) for the Type B ECAI.	See sub-item (9) below.
(7)	***IRB adoption*** class, means a class of exposures specified in Table 1 proposed in Item 19(2) which includes various IRB classes and IRB subclasses where an authorized	

New definitions		Remarks (including references)
	institution applies to use the IRB approach to calculate its credit risk for non-securitization exposures.	
(8)	***LT ECAI rating mapping table*** means a table made by the MA under Item 7(2) that includes the mapping of ECAI issuer ratings and long-term ECAI issue specific ratings to credit quality grades.	This new table will replace Tables A, B and C of Schedule 6 to be repealed as proposed in Item 215 and Table A of Schedule 11 to be repealed as proposed in Item 219 (see Appendix for the draft LT ECAI rating mapping tables).
(9)	***Type B ECAI*** means an ECAI the use of the credit assessment ratings issued by which for the purposes of these Rules is subject to one or more than one restriction published by the MA under Item 7(3).	This new definition is needed as a consequence of the proposed amendment to the existing definition of "external credit assessment institution" in §2(1) (see Item 2(7)) in order to differentiate the ECAIs falling within paragraphs (f), (g) and (h) of the exiting definition of "external credit assessment institution" ("Indian ECAIs") from the ECAIs falling within paragraphs (a), (b), (c), (d) and (e) of that definition ("international ECAIs"). The MA will include the Indian ECAIs in the list of Type B ECAIs to be published on the MA's website (see Appendix for a draft list).
(10)	***ST ECAI rating mapping table*** means a table made by the MA under Item 7(2) that includes the mapping of short-term ECAI issue specific ratings to credit quality grades.	This new table will replace Table E of Schedule 6 to be repealed as proposed in Item 215 and Table B of Schedule 11 to be repealed as proposed in Item 219

New definitions	Remarks (including references)
	(see Appendix for the draft ST ECAI rating mapping tables).
(11) ***transactor***— (a) in relation to a revolving facility, such as credit card and charge card, that has scheduled repayment dates, subject to paragraph (c), means an obligor in respect of the facility who has repaid in full the balance due under the facility at each scheduled repayment date for the previous 12 months; (b) in relation to a revolving facility, such as overdraft, that can be drawn and repaid at any time, subject to paragraph (c), means an obligor in respect of the facility who has not made any drawdown under the facility over the previous 12 months; or (c) means an obligor in respect of more than one revolving facility where, if all of the facilities are considered one at a time as if there were only one revolving facility granted to the obligor, the obligor would be a transactor in relation to each of those facilities under either paragraph (a) or (b).	Basel Framework reference: CRE20.66.
(12) ***Type A ECAI*** means an ECAI other than a Type B ECAI.	The MA will include the international ECAIs in the list of Type A ECAIs to be published on the MA's website under Item 7(3) (see Appendix for a draft list).
(13) ***unspecified multilateral body*** means any entity (other than a multilateral development bank)— (a) that is established by a group of countries to provide financing and professional	Basel Framework reference: CRE20.13.

New definitions	Remarks (including references)
advice for economic and social development projects; (b) that has— (i) a large sovereign membership; (ii) its own independent legal and operational status; and (iii) a mandate similar to the mandates of multilateral development banks; and (c) a considerable number of the owners of which are also owners of multilateral development banks.	

Item 2. Amend section 2(1) - amend existing definitions

Amendments to be made	Remarks (including references)
(1) ***bank*** Replace paragraph (b) of the definition with the following paragraph: "(b) a financial institution (other than an authorized institution) incorporated outside Hong Kong— (i) that is licensed or authorized to take deposits from the public[2] of the jurisdiction in which the institution is incorporated; and (ii) that is either—	Basel Framework reference: CRE20.16 and footnote 10.

[2] The term "public" is defined in §2(1) of the Banking Ordinance (Cap. 155) as the public of Hong Kong. As such, clarification is made to avoid confusion.

Amendments to be made	Remarks (including references)
(A) an internationally active financial institution subject to appropriate prudential standards (including regulatory capital and liquidity requirements) and level of supervision in accordance with the Basel Framework; or (B) a financial institution (other than an internationally active financial institution) subject to appropriate prudential standards that include at least a minimum regulatory capital requirement determined by the banking supervisory authority of the jurisdiction in which the financial institution is incorporated, except such a financial institution— (iii) that, in the opinion of the Monetary Authority, is not adequately supervised by the relevant banking supervisory authority; or (iv) the licence or other authorization of which to take deposits from the public is for the time being suspended;".	
(2) ***commodity*** (a) revise paragraph (b) of the definition by replacing "in any other case" with "in relation to the calculation of market risk"; and (b) add a new paragraph (c) as follows: in relation to the calculation of credit risk (other than counterparty credit risk), means any item falling within paragraph (a)(i) that is traded on an exchange.	

Amendments to be made	Remarks (including references)
(3) ***commodity-related derivative contract*** Insert "in relation to the calculation of market risk" before "has the meaning assigned to".	
(4) Amend the definition of "credit quality grade" to read as: "***credit quality grade*** means a grade represented by a numeral to which an ECAI rating is mapped in accordance with a LT ECAI rating mapping table or a ST ECAI rating mapping table;".	
(5) Amend the definition of "ECAI issue specific rating" to read as: "***ECAI issue specific rating***, in relation to an exposure— (a) subject to paragraphs (b) and (c), means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the exposure by a Type A ECAI or a Type B ECAI; (b) in section 287, has the meaning given by section 287(11); and (c) if the exposure is a securitization exposure, has the meaning given by section 227A;".	
(6) Amend the definition of "ECAI issuer rating" to read as: "***ECAI issuer rating***, in relation to any person (however described)—	

Amendments to be made	Remarks (including references)
(a) except in section 287, means a long-term credit assessment rating that is assigned to the person by a Type A ECAI or a Type B ECAI; and (b) in section 287, has the meaning given by section 287(11);".	
(7) Amend the definition of "external credit assessment institution" to read as: "***external credit assessment institution*** means an institution that is on the list published on the website of the Monetary Authority in accordance with section [see Item 7(3)].".	As several cases were encountered in the past which required amendments to the name of an EACI or the definition of that ECAI due to, for example, change of company name, or change of parent company, of the ECAI, and it took considerable time for us to amend the BCR accordingly, it is proposed to publish the list of recognized ECAIs on the MA's website so that amendments can be made swiftly to reflect any changes.
(8) ***financial instrument*** (a) replace "includes a financial instrument in the form of" with "includes a financial instrument in any one or more of the following forms"; and (b) in paragraph (c), remove "and".	
(9) ***foreign public sector entity*** (a) repeal the content of paragraph (b) of the definition and replace with "the Basel Framework".	

Amendments to be made	Remarks (including references)
(10) ***insurance firm*** In paragraph (a)(i), replace "country" with "jurisdiction".	
(11) ***long-term ECAI issue specific rating*** (a) in paragraph (a), remove "subject to paragraphs (b) and (c),"; and (b) repeal paragraphs (b) and (c).	
(12) Amend the definition of "non-securitization exposure" to read as: "***non-securitization exposure*** means an exposure that is not a securitization exposure;".	
(13) ***outstanding default risk exposure*** Amend paragraph (b)(i) of the definition by replacing "default risk exposures" with "the amounts of the default risk exposures".	
(14) Amend the definition of "positive current exposure" to read as: "***positive current exposure***, in relation to a transaction of an authorized institution in securities, foreign exchange or commodities that is outstanding after the settlement date in respect of the transaction, means the risk of loss to the institution on the difference between— (a) the transaction valued at the agreed settlement price; and (b) the transaction valued at the current market price;".	

Amendments to be made	Remarks (including references)
(15) ***risk-weighted amount for credit risk*** Amend the definition by adding a new paragraph to read as: "the institution's CVA risk calculated by using the standardized CVA method, the advanced CVA method or a combination of these 2 methods, as the case requires;".	The amendment is proposed to clarify that "risk-weighted amount for credit risk" includes "CVA risk-weighted amount" because it is proposed to remove provisions related to "CVA risk-weighted amount" from Parts 4, 5 and 6.
(16) Amend the definition of "SA-CCR risk-weighted amount" to read as: "***SA-CCR risk-weighted amount***, in relation to a netting set of an authorized institution with a counterparty that contains one or more than one derivative contract, means the product of— (a) either one of the following amounts calculated by using the SA-CCR approach— (i) if the institution calculates the credit risk for exposures to the counterparty by using the IRB approach—the outstanding default risk exposure in respect of the netting set; or (ii) in any other case—the exposure value of the default risk exposure in respect of the netting set; and (b) the risk-weight applicable to the amount referred to in paragraph (a) determined in accordance with Part 4, 5 or 6, or Division 4 of Part 6A, as the case requires;".	
(17) Amend the definition of "securities firm" to read as: "***securities firm—***	

Amendments to be made	Remarks (including references)
(a) means an entity (other than a bank)— (i) that is authorized and supervised by a securities regulator pursuant to the law of a jurisdiction other than Hong Kong; and (ii) that is subject to supervisory arrangements regarding the maintenance of adequate capital to support its business activities comparable to those prescribed for authorized institutions under the Ordinance and these Rules; and (b) includes a licensed corporation which has been granted a licence to carry on a regulated activity by the Securities and Futures Commission of Hong Kong; but (c) excludes any credit rating agency that is authorized by a securities regulator outside Hong Kong or the Securities and Futures Commission of Hong Kong to provide credit rating services;".	
(18) ***standard supervisory haircut*** replace "Table" with "Tables".	
(19) Amend the definition of "trade-related contingency" to read as: "***trade-related contingency***, in relation to an authorized institution, means an off-balance sheet exposure of the institution arising from a self-liquidating trade letter of credit— (a) that has an original maturity below one year; and (b) that is associated with the movement of goods,	Basel Framework reference: CRE20.99.

Amendments to be made	Remarks (including references)
including such an exposure arising from issuing or confirming a letter of credit, from acceptance on a trade bill or from shipping guarantee;".	

Item 3. Amend section 2(1) – repeal existing definitions

Amendments to be made	Remarks (including references)
(1) Repeal the following definitions: (a) CARE Ratings Limited; (b) CEM risk-weighted amount; (c) CRISIL Ratings Limited; (d) Fitch Ratings; (e) ICRA Limited; (f) IRB coverage ratio; (g) Japan Credit Rating Agency, Ltd.; (h) Moody's Investors Service; (i) PD/LGD approach; (j) Rating and Investment Information, Inc.; and	• It is proposed to repeal the definitions of the ECAIs in order to remove references to credit rating agencies in legislation[3] and allow more flexibility for timely review and amendment of the list of ECAIs. • The definition of "IRB coverage ratio" should be repealed because the existing requirement to ensure that a significant portion of an AI's risk-weighted amount for credit risk is calculated under the IRB approach is no longer required. • The term "CEM risk-weighted amount" will be defined in the proposed amended §106 (see Item 108(8)(b)).

[3] The removal of references to credit rating agencies in legislation is one of the recommendations made by the Financial Stability Board in its document "Principles for Reducing Reliance on CRA Ratings" issued in October 2010.

Amendments to be made	Remarks (including references)
(k) S&P Global Ratings; (l) transitional period.	

I(ii) Amendments to be effective on the same day as the new CVA capital framework comes into force

Item 4. Amend section 2(1) - amend existing definitions

Amendments to be made	Remarks (including references)
(1) ***common Equity Tier 1 capital ratio*** After "risk-weighted amount for credit risk", add "risk-weighted amount for CVA risk".	
(2) Amend the definition of "counterparty credit risk" to read as: "***counterparty credit risk***, in relation to a derivative contract or SFT entered into by an authorized institution with a counterparty, means the risk that the counterparty could default before the final settlement of the cash flows of the contract or transaction;".	
(3) ***default risk exposure*** Replace "counterparty default risk" with "counterparty credit risk".	
(4) ***risk-weighted amount for credit risk*** Repeal the new paragraph added to this definition proposed in Item 2(15).	

Amendments to be made	Remarks (including references)
(5) ***Tier 1 capital ratio*** After "risk-weighted amount for credit risk", add "risk-weighted amount for CVA risk".	
(6) ***Total capital ratio*** After "risk-weighted amount for credit risk", add "risk-weighted amount for CVA risk".	

Item 5. Amend section 2(1) – repeal existing definition

Amendments to be made	Remarks (including references)
(1) Repeal the definition of "counterparty default risk".	

II. AMENDMENTS TO PART 2 (PRESCRIBED APPROACHES IN RELATION TO CALCULATION OF CAPITAL ADEQUACY RATIO)

II(i) Amendments to Division 1 to be effective on [1 July 2023]

Item 6. Amend section 4 – repeal existing definition

Amendments to be made		Remarks (including references)
(1)	Repeal the following definitions:	
	(a) IRB coverage ratio	
	(b) transitional period	

II(ii) Amendments to Division 2 to be effective on [1 July 2023]

Item 7. Add new section on recognition of ECAIs

Matters to be provided		Remarks (including references)
(1)	A credit assessment rating assigned to a person or an exposure may be used by an authorized institution ("AI") for the purposes of the BCR only if— (a) the rating has been issued by an entity recognized by the MA for that purposes; (b) the use of the rating is not for a purpose that is prohibited by a restriction published on the MA's website under paragraph (3); (c) the exposure has not ceased to be outstanding; and	

Matters to be provided	Remarks (including references)
(d) the rating is for the time being neither withdrawn nor suspended by that entity.	
(2) The MA will— (a) determine with which of the credit quality grades, which are represented by numerals 1 to 18 inclusive, the relevant long-term credit assessment ratings issued by an entity falling within paragraph (1)(a) are to be associated; (b) determine with which of the credit quality grades, which are represented by numerals 1 to 5 inclusive, the relevant short-term credit assessment ratings issued by an entity falling within paragraph (1)(a) are to be associated; and (c) make tables to include the mappings determined under subparagraphs (a) and (b).	The tables to be made by the MA will replace the proposed repealed Schedules 6, 8 and 11.
(3) The MA will publish on the MA's website— (a) the list of entities that have been recognized under paragraph (1); (b) the restriction, if any, on the use of the credit assessment ratings issued by an entity that has been recognized under paragraph (1); (c) the mapping tables made under paragraph (2); and (d) any amendment to the list, the restriction or the mapping tables that may be made by the MA from time to time.	

Item 8. Add new section on nomination of ECAIs to be used

Matters to be provided	Remarks (including references)
(1) If an AI is required under the BCR to determine the risk-weight attributable to an exposure in accordance with Part 4 or 7 of the BCR, the AI must nominate one or more than one ECAI in accordance with this new section.	This new section is a modified version of existing §70 (which will be repealed as proposed in Item 35(3)).
(2) Subject to paragraphs (3) and (4), an AI must nominate, for each of the ECAI ratings based portfolios relevant to it, one or more than one ECAI the credit assessment ratings issued by which the AI will use, for the purposes of Part 4 or 7, in respect of— (a) the ECAI ratings based portfolio concerned; or (b) a certain type of exposures falling within the ECAI ratings based portfolio concerned.	This provision is based on the proposed repealed §70(1) with modifications to cater for cases where there is a restriction imposed by the MA that the ECAI ratings issued by an ECAI can only be used for certain exposures falling with an ECAI ratings based portfolio
(3) An AI must not nominate under paragraph (2) an ECAI, or a group of ECAIs, for an ECAI ratings based portfolio unless, having regard to the obligors in respect of the exposures which fall within that portfolio and to the geographical regions where those exposures arise or may require to be enforced, it can reasonably be concluded that the ECAI, or the group of ECAIs collectively, issues a range of credit assessment ratings which— (a) if the credit assessment ratings will be used in respect of any exposure falling within that portfolio—provides a reasonable coverage for that portfolio; (b) if the credit assessment ratings will be used in respect of a certain type of exposures falling with that portfolio—provides a reasonable coverage for those	This provision is based on the proposed repealed §70(2).

Matters to be provided		Remarks (including references)
	exposures.	
(4)	An AI may nominate under paragraph (2) a Type B ECAI for an ECAI ratings based portfolio if the use of the ECAI ratings issued by the Type B ECAI for the purposes of Part 4 or 7 in respect of exposures falling within the ECAI ratings based portfolio is not prohibited by a restriction published on the MA's website under Item 7(3).	This is a new paragraph to clarify the nomination requirement for Type B ECAIs.
(5)	An AI must, as soon as is practicable after making a nomination under paragraph (2), give notice in writing to the MA of the nomination.	This provision is the same as the proposed repealed §70(3).
(6)	An AI must not, in respect of an ECAI ratings based portfolio or a certain type of exposures falling within an ECAI ratings based portfolio, use, for the purposes of Part 4 or 7, the credit assessment ratings of an ECAI unless— (a) the ECAI has been nominated under paragraph (2) in respect of that portfolio or that type of exposures; and (b) notice of that nomination has been given to the MA pursuant to paragraph (5).	Basel Framework reference: CRE20 footnotes 12, 17 and 18. This provision is a modified version of the proposed repealed §70(4).
(7)	An AI may, with the prior consent of the MA, amend a nomination under paragraph (2) (including a nomination amended pursuant to this paragraph).	This provision is the same as the proposed repealed §70(5).
(8)	Paragraphs (3), (4), (5) and (6), with all necessary modifications, apply to a nomination to be amended, or amended, pursuant to paragraph (7) as they apply to a nomination under paragraph (2).	This provision is the same as the proposed repealed §70(6).

Matters to be provided		Remarks (including references)
(9)	To avoid doubt, an AI must, for the purposes of Parts 4 and 7, treat as not having an ECAI rating any person or exposure which, although falling within an ECAI ratings based portfolio, does not have an ECAI rating assigned to it by an ECAI nominated under paragraph (2) by that AI in respect of that portfolio or the type of exposures to which the exposure belongs.	Basel Framework reference: CRE20 footnotes 12, 17 and 18. This provision is a modified version of the proposed repealed §70(7).
(10)	In this section— ***ECAI ratings based portfolio***— (a) in relation to Part 4, has the meaning given by section 51(1); (b) in relation to Part 7, means securitization exposures other than re-securitization exposures.	
(11)	To provide for the following saving and deeming provision— (a) Unless an AI chooses to make new nomination under this new section, any nomination (and the corresponding notification to the MA) or any amendment to nomination (and the corresponding prior consent granted by the MA) made in accordance with the proposed repealed section 70 (and in the case of securitization exposures, the proposed repealed section 267(1)(a)) prior to the effective date of the BCAR [202x] for the following ECAI ratings based portfolios or securitization exposures will still be valid and will be deemed to be made in accordance with this new section after the BCAR [202x] comes into operation— (i) sovereign exposures;	

Matters to be provided	Remarks (including references)
(ii) public sector entity exposures; (iii) bank exposures; and (iv) securitization exposures subject to the SEC-ERBA. (b) Nomination made for the existing ECAI ratings based portfolios "securities firm exposures" and "corporate exposures" (see proposed repealed section 70(8)) will not be carried forward. AIs must make new nomination for the new ECAI ratings based portfolios "non-bank financial institution exposures", "general corporate exposures" and "specialized lending" (see Item 27(7)) in accordance with this new section.	

Item 9. Amend section 5 (Authorized institution shall only use STC approach, BSC approach or IRB approach to calculate its credit risk for non-securitization exposures)

Amendments to be made	Remarks (including references)
(1) In subsection (2), repeal ", BSC approach".	

Item 10. Amend section 6 (Authorized institution may apply for approval to use BSC approach to calculate its credit risk for non-securitization exposures)

Amendments to be made	Remarks (including references)
(1) Amend subsections (1) and (2)(a) by adding "all of its" before "non-securitization exposures".	The amendment is proposed to clarify the policy intent that an AI cannot apply for the use of the BSC

Amendments to be made			Remarks (including references)
			approach for some of its non-securitization exposures only.
(2)	(a)	In subsection (3), replace "section 7(a) or (b)" with "section 7(a)".	
	(b)	Repeal subsection (4).	

Item 11. Amend section 7 (Minimum requirements to be satisfied for approval under section 6(2)(a) to use BSC approach)

Amendments to be made			Remarks (including references)
(1)	(a)	Repeal the entire content of paragraph (a)(ii) and replace with a provision as follows— "there is no cause to believe that the use by the institution of the BSC approach to calculate its credit risk for all of its non-securitization exposures would not adequately identify, assess and reflect the credit risk of all of the institution's non-securitization exposures taking into account the nature of the institution's business.".	
	(b)	Repeal paragraph (b).	

Item 12. Amend section 8 (Authorized institution may apply for approval to use IRB approach to calculate its credit risk for non-securitization exposures)

Amendments to be made			Remarks (including references)
(1)		Add "for one or more than one IRB adoption class" after "to use the IRB approach" in	

Amendments to be made	Remarks (including references)
section 8(1), (2)(a) and (3).	
(2) In section 8(4)— (a) add "for one or more than one IRB adoption class" after "to use the IRB approach" in the chapeau; and (b) add "within the IRB adoption class for which an approval is granted to use the IRB approach" after "non-securitization exposures" in paragraph (a).	

Item 13. Amend section 10 (Measures which may be taken by Monetary Authority if authorized institution using BSC approach or IRB approach no longer satisfies specified requirements)

Amendments to be made	Remarks (including references)
(1) Repeal section 10(5)(d).	The existing capital floor requirements set out in Division 13 of Part 6 to the BCR is to be replaced with a new output floor framework.
(2) Repeal ", (d)" in section 10(6).	

Item 14. Amend section 10D (Measures that may be taken by Monetary Authority if authorized institution using IMM(CCR) approach no longer satisfies specified requirements)

Amendments to be made	Remarks (including references)
(1) After subsection (7), add a new subsection to provide for the following requirements: If an AI—	The new subsections are intended to introduce a transitional arrangement for AIs that are currently

Amendments to be made		Remarks (including references)
	(a) has an IMM(CCR) approval; and (b) anticipates that the approval granted to it by the MA to use the IMM approach to calculate its market risk will be revoked by the MA or by virtue of amendments made to these Rules, the AI may apply to the MA for approval to continue to use the IMM(CCR) approach for a transitional period not longer than 3 years from the date on which the AI is not permitted under these Rules to use the IMM approach to calculate its market risk.	using the IMM(CCR) approach to calculate counterparty credit risk and may or may not seek for an approval to use the IMA under the new market risk capital framework.
(2)	After the new subsection proposed in paragraph (1), add a new subsection to provide for the following requirements: If— (a) an AI has already applied to the MA for approval to use the IMA; and (b) the transitional period approved by the MA under paragraph (1) will expire before the approval for the use of the IMA is granted, the AI may apply to the MA for approval to extend the transitional period.	
(3)	After the new subsection proposed in paragraph (2), add a new subsection to provide for the following requirements: An AI must calculate the amounts of its default risk exposures in respect of derivative contracts and SFTs in accordance with paragraph (4)— (a) from the date on which it is not permitted under these Rules to use the IMM approach to calculate its market risk if the AI does not have an approval granted	

Amendments to be made	Remarks (including references)
by the MA under paragraph (1); or (b) after the expiry of the transitional period approved by the MA under paragraph (1) or (2) unless the AI already has an approval to use the IMA to calculate its market risk.	
(4) After the new subsection proposed in paragraph (3), add a new subsection to provide for the following requirements: An AI must calculate the amounts of its default risk exposures in respect of derivative contracts and SFTs— (a) subject to subparagraph (b), by using the SA-CCR approach and in accordance with section 226MI(1) or (2), as the case required (see Item 163(1) and (2)); or (b) if the AI uses the BSC approach to calculate its credit risk for non-securitization exposures— (i) by using either the SA-CCR approach or the current exposure method; and (ii) in accordance with section 226MI(3) (see Item 163(3)).	

II(iii) Amendments to Division 2 to be effective on the same day as the new market risk capital framework comes into force

Item 15. Amend section 10B (Authorized institution may apply for approval to use IMM(CCR) approach to calculate its default risk exposures)

Amendments to be made	Remarks (including references)
(1) In subsection (1), replace "IMM approach" with "IMA".	

II(iv) Amendments to Division 2 to be effective on the same day as the new CVA capital framework comes into force

Item 16. Amend section 10A (Authorized institution must only use SA-CCR approach, etc. to calculate its counterparty credit risk)

Amendments to be made	Remarks (including references)
(1) Amend subsection (1) as follows: (a) in the chapeau, replace "(2), (2A), (4) and (5)" with "(2), (2A) and (5)"; (b) in paragraph (b), replace "; and" with a full stop; and (c) repeal subsection (1)(c).	
(2) Amend subsection (2B) by replacing "counterparty default risk" with "counterparty credit risk".	
(3) Repeal subsections (3), (4) and (6).	
(4) Amend subsection (7) by removing "or (6)".	
(5) Amend subsection (8) by replacing "(3), (4), (5), (6) and (7)" with "(5) and (7)".	

Item 17. Repeal section 10C (Provisions supplementary to prescribed methods for calculation of CVA capital charge)

Amendments to be made	Remarks (including references)
(1) Repeal section 10C.	

Item 18. Amend section 10D (Measures that may be taken by Monetary Authority if authorized institution using IMM(CCR) approach no longer satisfies specified requirements)

Amendments to be made	Remarks (including references)
(1) Amend subsection (2) as follows: (a) at the end of paragraph (a), replace "; and" with a comma; and (b) repeal paragraph (b).	

II(v) Amendments to Division 3 to be effective on [1 July 2023]

Item 19. Amend section 11 (Minimum IRB coverage ratio)

Amendments to be made	Remarks (including references)
(1) Change the heading of section 11 to "**Adoption of IRB approach**".	Basel Framework reference: CRE30.45 to CRE30.48[4].
(2) Repeal section 11(1) and replace with provisions to provide that when an AI applies to the MA for approval to use the IRB approach in accordance with section 8(1), the AI must– (a) submit an implementation plan which specifies to what extent and when the AI intends to use the IRB approach to calculate its credit risk for non-securitization exposures, which must be agreed by the MA; and	Basel Framework reference: CRE30.45 and CRE30.48. Paragraph (2)(b) implements CRE30.45 by specifying different IRB assets classes— CRE30.45(1) – Item 3 in Table 1 CRE30.45(2) – Item 4 in Table 1

[4] CRE30 – IRB approach: overview and asset class definitions (https://www.bis.org/basel_framework/chapter/CRE/30.htm?inforce=20230101&published=20200327).

Amendments to be made	Remarks (including references)

(b) subject to paragraph (3) below, choose one or more than one IRB adoption class as specified in Table 1 below which sets out the IRB class and IRB subclasses for which the AI applies to use the IRB approach to calculate its credit risk for non-securitization exposures.

Table 1 – IRB adoption class

Item	IRB adoption class	IRB class covered	IRB subclass covered
1	Corporate – Other than specialized lending	Corporate exposures	(a) Small-and-medium sized corporates (b) Large corporates (c) Non-regulated financial institutions (d) Other corporates
2	Corporate – Specialized lending	Corporate exposures	(a) Specialized lending (project finance) (b) Specialized lending (object finance) (c) Specialized lending (commodity finance) (d) Specialized lending (income-producing real estate) (e) Specialized lending (high-volatility commercial real estate)
3	Sovereign	Sovereign exposures	(a) Sovereigns (b) Sovereign foreign public sector

CRE30.45(3)	Item 1 in Table 1
CRE30.45(4)	Item 2 in Table 1
CRE30.45(5)	Corporate purchased receivables are classified as corporate exposures under §197 of the BCR
CRE30.45(6)	Item 5 in Table 1
CRE30.45(7)	Item 6 in Table 1
CRE30.45(8)	Item 7 in Table 1
CRE30.45(9)	Retail purchased receivables are classified as retail exposures under §197 of the BCR

Item 8 in Table 1: Though the calculation of credit risk with respect to equity exposures will only be subject to the revised standardized approach upon implementation of the Basel III final reform

Amendments to be made					Remarks (including references)
				entities (c) Multilateral development banks	package, the IRB approach continues to apply to CIS exposures. Item 9 in Table 1: These refer to other exposures that do not fall under items 1 to 8.
	4	Bank	Bank exposures	(a) Banks (excluding covered bonds) (b) Regulated financial institutions (c) Public sector entities (excluding sovereign foreign public sector entities) (d) Unspecified multilateral bodies (e) Covered bonds	
	5	Retail – Qualifying revolving retail exposures	Retail exposures	(a) Qualifying revolving retail exposures (transactor) (b) Qualifying revolving retail exposures (revolver)	
	6	Retail – Residential mortgages	Retail exposures	(a) Residential mortgages to individuals (b) Residential mortgages to property-holding shell companies	
	7	Retail–Others	Retail exposures	(a) Small business retail exposures (b) Other retail exposures to individuals	
	8	Equity	Equity exposures	(a) CIS exposures	
	9	Others	Other	(a) Cash items	

Amendments to be made					Remarks (including references)
			exposures	(b) Other items	
(3)	Repeal section 11(2) and replace with a provision to provide that an AI is not allowed to choose the IRB adoption class of "Others" only to apply for the use of the IRB approach to calculate its credit risk for exposures falling within the IRB class of "Other exposures".				
(4)	Repeal section 11(3) and replace with a provision to provide that subject to the proposed amended section 12 (see Item 20 below), where an authorized institution uses the IRB approach to calculate its credit risk for an IRB adoption class, the institution must use the IRB approach to calculate its credit risk for all exposures which fall within that IRB adoption class.				Basel Framework reference: chapeau of CRE30.45[5].
(5)	Repeal section 11(4) and replace with a provision to provide that, in this section, the terms "cash items", "corporate", "non-regulated financial institution", "regulated financial institution" and "specialized lending" have the meanings given by the proposed amended section 139(1).				

Item 20. Amend section 12 (Exemption for exposures)

Amendments to be made		Remarks (including references)
(1)	Replace "Subject to subsection (4), the" with "The" in the chapeau of section 12(2).	
(2)	Replace "IRB class (or, in the case of retail exposures, an IRB subclass)" with "IRB adoption class" in section 12(2)(a)(i).	

[5] *"Once a bank adopts an IRB approach for part of its holdings within an asset class, it is expected to extend it across all holdings within that asset class."*

Amendments to be made	Remarks (including references)
(3) Amend section 12(3)(a) as follows— (a) repeal "subject to paragraph (b),"; and (b) replace "relates; or" with "relates.".	
(4) Repeal section 12(3)(b).	
(5) Repeal section 12(4).	
(6) Repeal "or (4)" in section 12(5)(b).	

Item 21. Amend section 13 (Revocation of exemption under section 12)

Amendments to be made	Remarks (including references)
(1) Repeal "or BSC approach" in section 13(1)(a).	
(2) Repeal section 13(2)(b).	
(3) Repeal "or (b)" in section 13(3) and (4).	

Item 22. Repeal section 14 (Transitional arrangements)

Amendments to be made	Remarks (including references)
(1) Repeal the whole section.	

II(vi) Amendments to Division 4 to be effective on [1 July 2023]

Item 23. Amend section 15 (Authorized institution must use SEC-IRBA, SEC-ERBA, SEC-SA or SEC-FBA to determine risk-weight of securitization exposure)

Amendments to be made		Remarks (including references)
(1)	In subsection (2)(b)(i), replace "for the purposes of section 267(1)(a)" with "under section [see the new section proposed in Item 8] for the purposes of Part 7".	
(2)	In subsection (2B)(b)(i), replace "for the purposes of section 267(1)(a)" with "under section [see the new section proposed in Item 8] for the purposes of Part 7".	

Item 24. Amend section 15B (Meaning of eligible ABCP exposure)

Amendments to be made		Remarks (including references)
(1)	In paragraph (e), replace "for the purposes of Part 7 in the manner as set out in section 267(1)(a)" with "under section [see the new section proposed in Item 8] for the purposes of Part 7".	
(2)	Repeal the entire content of paragraph (j) and replace with provisions to provide for the following requirement: the initial internal credit rating assigned to the specified exposure by the institution in accordance with the approved internal assessment process is at least equivalent to an ECAI issue specific rating that maps to— (i) a credit quality grade of 1, 2, 3, 4, 5, 6, 7, 8, 9 or 10 in the LT ECAI rating mapping table made by the Monetary Authority under Item 7(2) for	

Amendments to be made	Remarks (including references)
securitization exposures; or (ii) a credit quality grade of 1, 2 or 3 in the ST ECAI rating mapping table made by the Monetary Authority under Item 7(2) for securitization exposures.	

II(vii) Amendments to Division 7 to be effective on [1 July 2023]

Item 25. Amend section 33 (Exceptions to section 27)

Amendments to be made		Remarks (including references)
(1)	In subsection (1)(b), replace all references to "country" with "jurisdiction".	
(2)	In subsection (2)(a), replace "country" with "jurisdiction".	
(3)	In subsection (3), replace "country" with "jurisdiction".	

III. AMENDMENTS TO PART 4 (CALCULATION OF CREDIT RISK FOR NON-SECURITIZATION EXPOSURES: STC APPROACH) TO BE EFFECTIVE ON [1 JULY 2023]

III(i) Amendments to Division 1 of Part 4

Item 26. Amend section 50 (Application of Part 4)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements: (1) This Part applies to an AI that is required or permitted by these Rules to use the STC approach to determine the risk-weight or the risk-weighted amount of a non-securitization exposure.	
(2) Unless the context otherwise requires, a reference to an AI in this Part is a reference to an AI that is required or permitted by these Rules to use the STC approach to determine the risk-weight or the risk-weighted amount of a non-securitization exposure.	

Item 27. Amend section 51(1) – add new definitions

New definitions	Remarks (including references)
(1) ***3 months' exposure*** means an exposure to a bank or a non-bank financial institution with an original contractual period of time for full repayment of not more than 3 months where— (a) the exposure is not associated with cross-border movement of goods (including movement of goods between Hong Kong and Mainland China or between Hong Kong and Macau); and (b) the facility to which the exposure relates is not expected or anticipated to be rolled over at the expiration of the contractual period.	Basel Framework reference: CRE20.19. BCR reference: existing definition of "3 months' exposure" in §59(12) which will be repealed as proposed in Item 35(3).
(2) ***6 months' exposure*** means an exposure to a bank or a non-bank financial institution with an original contractual period of time for full repayment of not more than 6 months where— (a) the exposure is associated with cross-border movement of goods (including movement of goods between Hong Kong and Mainland China or between Hong Kong and Macau); and (b) the facility to which the exposure relates is not expected or anticipated to be rolled over at the expiration of the contractual period.	Basel Framework reference: CRE20.19.
(3) ***ADC exposure*** means land acquisition, development and construction exposure.	
(4) ***commitment***, in relation to the determination of a CCF applicable to an off-balance sheet exposure, has the meaning given by Item 216(2)(a).	Basel Framework Reference: CRE20.94.

New definitions	Remarks (including references)
(5) ***commodities finance*** means short-term lending to finance reserves, inventories, or receivables of exchange-traded commodities, where— (a) the lending will be repaid from the proceeds of the sale of the commodities; and (b) the borrower has no independent capacity to repay the lending.	Basel Framework reference: CRE20.49(3).
(6) ***defaulted exposure***—see Item 68.	
(7) ***ECAI ratings based portfolio***— (a) means— (i) sovereign exposures; (ii) public sector entity exposures; (iii) multilateral development bank exposures; (iv) unspecified multilateral body exposures; (v) bank exposures; (vi) non-bank financial institution exposures; (vii) eligible covered bond exposures; (viii) general corporate exposures; or (ix) specialized lending; and (b) excludes exposures falling within paragraph (a) that are—	

New definitions	Remarks (including references)
(i) equity exposures; (ii) significant capital investments in commercial entities; (iii) exposures to capital instruments issued by financial sector entities; (iv) exposures to non-capital LAC liabilities of financial sector entities; (v) exposures to subordinated debts issued by banks, non-bank financial institutions or corporates; (vi) real estate exposures; or (vii) defaulted exposures.	
(8) ***equity exposure***—see Item 34.	
(9) ***exposure value—*** (a) in relation to an on-balance sheet exposure, means the principal amount of the exposure (net of specific provisions, if any); (b) in relation to an off-balance sheet exposure to a counterparty that is a default risk exposure in respect of one or more derivative contracts or in respect of a netting set that contains both derivative contracts and SFTs, means the outstanding default risk exposure in respect of the counterparty (net of specific provisions, if any); (c) in relation to an off-balance sheet exposure to a counterparty that is a default risk exposure in respect of one or more SFTs, means the amount of the exposure calculated in accordance with Division 2B of Part 6A (net of specific provisions, if	

New definitions	Remarks (including references)
any); (d) in relation to an off-balance sheet exposure that does not fall within paragraphs (b) and (c), means— (i) the credit equivalent amount of the exposure calculated in accordance with section 71(1); or (ii) the credit equivalent amount of the exposure calculated in accordance with section 71(2) and (3) (net of specific provisions, if any).	
(10) ***general corporate exposure*** means an exposure to a corporate that is none of the following— (a) a specialized lending; (b) an equity exposure; (c) an exposure to a capital instrument issued by a financial sector entity that does not fall within paragraph (b); (d) an exposure to a non-capital LAC liability of a financial sector entity; (e) a regulatory retail exposure; (f) a subordinated debt; (g) a real estate exposure; and (h) a defaulted exposure.	Basel Framework reference: CRE20.41, 20.47 and 20.63(2).

New definitions	Remarks (including references)
(11) ***general exposure*** means any exposure to a bank or non-bank financial institution that is not a short-term exposure.	
(12) ***land acquisition, development and construction exposure***— (a) means an exposure to an individual, a company or a special purpose vehicle financing or refinancing — (i) land acquisition for development and construction purposes; or (ii) development and construction of any residential or commercial property; and (b) excludes an exposure to an individual, a company or a special purpose vehicle financing or refinancing the acquisition of forest or agricultural land, where there is no planning consent or intention to apply for planning consent.	Basel Framework reference: CRE20.90 and footnote 41.
(13) ***non-bank financial institution*** means an entity (other than a bank)— (a) that is a licensed corporation licensed and supervised by the Securities and Futures Commission of Hong Kong (except a licensed corporation that has been licensed for Type 10 regulated activity (within the meaning of the Securities and Futures Ordinance (Cap. 571)); (b) that is an authorized insurer within the meaning of the Insurance Ordinance (Cap. 41); or (c) that is authorized by a regulator pursuant to the law of a jurisdiction other than Hong Kong to carry on financial activities in that jurisdiction, where the relevant banking supervisory authority in that jurisdiction—	Basel Framework reference: CRE20.40.

New definitions		Remarks (including references)
	(i) determines that the regulatory and supervisory standards imposed on the entity by its regulator are comparable to those (including capital and liquidity requirements) that are imposed on banks incorporated in the jurisdiction; or (ii) has implemented capital standards consistent with the current Basel Framework and permits banks incorporated in the jurisdiction to treat exposures to the entity as exposures to a bank for the purposes of complying with the capital standards.	
(14)	***object finance*** means a method of funding the acquisition of physical assets (other than land and buildings) where the repayment of the funds provided by a lender is dependent on the cash flows generated by the assets that have been financed and pledged (or otherwise provided as security) or assigned to the lender.	Basel Framework reference: CRE20.49(2).
(15)	***project finance*** means a method of financing or refinancing a single project (other than a project of development and construction of residential or commercial properties) in which the lender that provides the loan looks primarily to the revenues generated by the project, both as the source of repayment of, and as security for, the loan.	Basel Framework reference: CRE20.49(1).
(16)	***real estate exposure*** means— (a) an exposure extended by a lender to a borrower— (i) that is secured by immovable property; and (ii) that is required by the facility agreement between the lender and the borrower to be secured on the immovable property referred to in subparagraph (i); or	Basel Framework reference: CRE20.69.

New definitions		Remarks (including references)
	(b) an ADC exposure.	
(17)	***regulatory real estate exposure***—see section [Item 54(1)].	
(18)	***regulatory retail exposure***—see section [Item 52(2)].	
(19)	***short-term exposure*** means— (a) a 3 months' exposure; or (b) a 6 months' exposure;	Basel Framework reference: CRE20.19 and CRE20.31.
(20)	***significant capital investment in a commercial entity***, in relation to an AI, means the AI's holdings of shares in a commercial entity where — (a) the holdings amount to more than 10% of the ordinary shares issued by the commercial entity; or (b) the commercial entity is an affiliate of the AI.	This new definition is equivalent to §68A(1)(a) and (b) which will be repealed as proposed in Item 35(3).
(21)	***small business*** means— (a) subject to paragraph (b), a corporate with reported annual sales not exceeding $500 million for the most recent financial year; or (b) a corporate in a consolidated group where the reported annual sales for the consolidated group do not exceed $500 million for the most recent financial year.	Basel Framework reference: CRE20.47.
(22)	***specialized lending*** means an exposure of a lender to a corporate (which is typically an entity created specifically to finance or operate, or to finance and operate, specific physical assets) that—	Basel Framework reference: CRE20.48.

New definitions	Remarks (including references)
(a) arises from object finance, project finance or commodities finance; and (b) possesses all the following characteristics, either in legal form or economic substance— (i) the corporate has few or no other material assets or activities, and therefore the primary source of repayment of the exposure is the income generated by the asset or assets being financed by the lender, rather than the independent capacity of the corporate; and (ii) the terms of the exposure give the lender a substantial degree of control over the asset or assets being financed and the income that the asset or assets generate.	
(23) ***specific provisions*** includes partial write-offs.	Basel Framework reference: CRE20.1(1).
(24) ***subordinated debt***, in relation to an obligor that is a bank, non-bank financial institution or corporate— (a) includes a subordinated debt or junior subordinated debt— (i) that is not an equity exposure to the obligor; and (ii) that is higher in ranking, or senior, to equity exposures to the obligor in terms of the priority of repayment; and (b) if the obligor is a financial sector entity, excludes— (i) any capital instrument issued by the obligor; and	

New definitions	Remarks (including references)
(ii) any non-capital LAC liability of the obligor.	
(25) ***unhedged credit exposure***—see Item 30.	
(26) ***unrated exposure*** means— (a) a non-securitization exposure— (i) that— (A) falls within an ECAI ratings based portfolio; and (B) does not have an ECAI issue specific rating assigned to it; and (ii) the obligor in respect of which has none of the following— (A) an ECAI issuer rating; (B) a long-term ECAI issue specific rating assigned to any other debt obligation issued or undertaken by the obligor; or (b) a non-securitization exposure— (i) that— (A) falls within an ECAI ratings based portfolio; and (B) does not have an ECAI issue specific rating assigned to it; (ii) the obligor in respect of which has either or both of the following— (A) one or more than one ECAI issuer rating; (B) one or more than one debt obligation that has at least one long-term	Basel Framework reference: CRE20.18 footnote 12.

New definitions	Remarks (including references)
ECAI issue specific rating assigned to it; and (iii) where, under Item 7(1)(b), (c) or (d) or Item 40, none of the ratings referred to in subparagraph (ii) can be used for determining the risk-weight attributable to the exposure in accordance with Subdivision 2[16] of Division 3 of this Part.	

Item 28. Amend section 51(1) – amend existing definitions

Amendments to be made	Remarks (including references)
(1) Repeal the definition of "attributed risk-weight" and replace with an amended definition along the following lines: ***Attributed risk-weight*** — (a) subject to paragraphs (b), (c), (d) and (e), in relation to a person an exposure to whom would fall within an ECAI ratings based portfolio— (i) if the person has an ECAI issuer rating, means the risk-weight that would be attributable, in accordance with Subdivision 2[17] of Division 3, to a senior and unsecured long-term debt obligation of the person based on that ECAI issuer rating and on the assumption that no ECAI issue specific rating has been assigned to any debt obligation of the person;	Attributed risk-weight will be used in the following circumstances: • serving as a sovereign floor for unrated bank exposures (see Item 47); • determining whether a project finance is a high quality project finance (see Item 51); • forming the basis for assigning a RW to an unrated eligible covered bond (Item 48), regulatory commercial real estate exposure (Item 57) or other real estate exposure (Item

[16] See subdivisions proposed in Item 35(3).
[17] See subdivisions proposed in Item 35(3).

Amendments to be made	Remarks (including references)
(ii) if the person does not have an ECAI issuer rating, means the risk-weight that would be attributable, in accordance with Subdivision 2 of Division 3, to an unrated exposure to the person and on the assumption that no ECAI issue specific rating has been assigned to any debt obligation of the person; (b) in relation to a person that is a public sector entity or sovereign foreign public sector entity, means the risk-weight that would be attributable, in accordance with Item 43, to an exposure to the person; (c) in relation to a relevant international organization or a multilateral development bank to which Item 44(1) applies, means 0% risk-weight; (d) in Item 47, has the meaning given by that Item; and (e) in Item 57 and Item 58, means the risk-weight that would be attributable to an unsecured exposure to an obligor under Division 3 where the obligor is neither an individual nor a small business.	58); • determining whether a corporate is a core market participant in relation to repo-style transactions (see Item 86); and • determining whether an entity is an eligible credit protection provider (see Item 99). Basel Framework reference: CRE20.85 and 20.89(1).
(2) Replace the definition of ***corporate*** with one along the following lines: ***corporate*** means— (a) a company; or (b) a partnership or any other unincorporated body,	

Amendments to be made	Remarks (including references)
which is not a multilateral development bank, unspecified multilateral body, public sector entity, bank or non-bank financial institution.	
(3) ***credit equivalent amount*** (a) Remove "or 73".	
(4) ***principal amount*** (a) In paragraph (b)(i) of the definition, replace "Table 10 or to which section 73(2) applies" with a cross-reference to the new Schedule proposed in Item 216. (b) In paragraph (b)(ii) of the definition, replace "Table 10 or to which section 73(2) applies" with a cross-reference to the new Schedule proposed in Item 216.	
(5) ***recognized credit derivative contract*** (a) In paragraph (a) of the definition, after "99(1)" add "or (2)" and remove "or". (b) In paragraph (b) of the definition, replace "99(2) or (3)" with "99(3) or (4)" and add "or" after the semi-colon. (c) Add a new paragraph along the lines of "an internal hedge recognized under section [see Item 100(1)] or [see Item 100(2)(a)]".	It is assumed that the subsections proposed in Item 98(2), (3) and (4) would be included in §99(2), (3) and (4) respectively.

Item 29. Amend section 51 – repeal existing definitions and subsection (2)

Amendments to be made	Remarks (including references)
(1) Repeal the following definitions: (a) cash items; (b) past due exposure; (c) regulatory retail exposure; (d) rescheduled; (e) SFT risk-weighted amount; (f) small business; and (g) small business consent provisions.	
(2) Repeal subsection (2).	

Item 30. Add new section on unhedged credit exposure

Matters to be provided	Remarks (including references)
(1) In this Part, an unhedged credit exposure is an exposure falling within Item 52 (retail exposures) or Item 56 (regulatory residential real estate exposures) where— (a) the obligor in respect of the exposure is— (i) if the exposure falls within Item 52—an individual; (ii) if the exposure falls within Item 56—	Basel Framework reference: CRE20.92 and 20.93.

Matters to be provided	Remarks (including references)
(A) an individual; or (B) a property-holding shell company with an individual acting as a guarantor for the exposure; (b) the exposure is denominated in a currency that differs from— (i) the currency of the obligor's source of income; or (ii) if the obligor is a property-holding shell company and the primary source of repayment is the income of the guarantor—the currency of the guarantor's source of income; and (c) less than 90% of the relevant amount of the exposure is hedged against the foreign exchange risk resulting from the mismatch in currencies referred to in subparagraph (b) through one or both of the following means— (i) incomes, such as salaries and rental incomes, in a currency received by the obligor or guarantor that matches the currency in which the exposure is denominated; (ii) derivative contracts or other legal contracts with financial institutions.	
(2) In paragraph (1)(c), ***relevant amount***— (a) in relation to an exposure arising from a non-revolving loan with a pre-specified repayment schedule and repayment amounts (including such loan with an irregular repayment structure), means the scheduled repayment with the largest amount; (b) in relation to an exposure arising from a non-revolving loan with bullet payment,	This paragraph is proposed to address queries raised by the banking industry about the manner in which the hedged amount should be determined when the exposure concerned is not an instalment loan.

Matters to be provided	Remarks (including references)
means the whole outstanding loan amount; (c) in relation to an exposure arising from— (i) a newly established revolving facility that has no drawdown since establishment; or (ii) a revolving facility that has no drawdown over the previous 12 months or no outstanding balance at the time of allocation of a risk-weight to the exposure, means the credit equivalent amount of the undrawn portion of the facility; (d) in relation to an exposure arising from a revolving facility that does not fall within subparagraph (c), means the drawn portion of the facility (which may be all of the facility), and the credit equivalent amount of any undrawn portion of the facility, at the time of allocation of a risk-weight to the exposure.	

III(ii) Amendments to Division 2 of Part 4

Item 31. Amend section 52 (Calculation of risk-weighted amount of exposures)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements: (1) If an AI is required under these Rules to use only the STC approach to calculate the credit risk for all of its non-securitization exposures, subject to section 53, the AI must	

Amendments to be made		Remarks (including references)
	calculate an amount representing the degree of credit risk to which the AI is exposed by aggregating— (a) the risk-weighted amounts of the AI's on-balance sheet exposures; and (b) the risk-weighted amounts of the AI's off-balance sheet exposures.	
(2)	If an AI is required or permitted under these Rules to use the STC approach to calculate the credit risk for some of its non-securitization exposures, unless otherwise stated under these Rules, the AI must calculate the risk-weighted amounts of those exposures in accordance with paragraphs (3) to (9) below.	This paragraph covers cases such as those in which an AI has an approval granted under §8 to use the IRB approach for some of its exposures but there are exposures for which an option to use the IRB approach is not available (e.g. equity exposures other than CIS exposures) or no approval is granted under §8.
(3)	For the purposes of paragraphs (1) and (2), subject to paragraph (5)— (a) the risk-weighted amount of each exposure (except CIS exposure and default risk exposure in respect of derivative contracts or SFTs) must be calculated by multiplying the exposure value of the exposure by the relevant risk-weight attributable to the exposure determined under Division 3; (b) the risk-weighted amount of each CIS exposure must be calculated in accordance with Division 3A[18]; and (c) the risk-weighted amount of each default risk exposure in respect of derivative	Basel Framework reference: CRE20.1(1). This paragraph combines the proposed repealed subsections (2)(a) and (3)(ab).

[18] See the new Division 3A proposed in Item 72.

Amendments to be made	Remarks (including references)
contracts or SFTs is the amount specified in paragraph (4).	
(4) If an AI— (a) has an IMM(CCR) approval— (i) the risk-weighted amount of the default risk exposure in respect of derivative contracts or SFTs covered by the IMM(CCR) approval is the IMM(CCR) risk-weighted amount; (ii) the risk-weighted amount of the default risk exposure in respect of derivative contracts that are not covered by the IMM(CCR) approval or that fall within section 10B(5) or (7) is the sum of the SA-CCR risk-weighted amounts calculated for the contracts; and (iii) the risk-weighted amount of the default risk exposure in respect of SFTs that are not covered by the IMM(CCR) approval or that fall within section 10B(5) or (7) is the sum of the SFT risk-weighted amounts calculated for the SFTs; (b) does not have an IMM(CCR) approval for any of its derivative contracts or SFTs— (i) the risk-weighted amount of the default risk exposure in respect of derivative contracts is the sum of the SA-CCR risk-weighted amounts calculated for the contracts; and (ii) the risk-weighted amount of the default risk exposure in respect of SFTs is	This paragraph combines the proposed repealed subsections (3)(a) and (3A). Provisions related to CVA are removed to prepare for the migration of the capital treatment for CVA from the credit risk framework to the market risk framework.

Amendments to be made		Remarks (including references)
	the sum of the SFT risk-weighted amounts calculated for the SFTs.	
(5)	An AI may reduce the risk-weighted amount of its exposure by taking into account the effect of any recognized credit risk mitigation in respect of the exposure in the manner set out in Divisions 5, 6, 7, 8, 9 and 10 unless— (a) the AI falls within paragraph (6); or (b) paragraph (7), (8) or (9) applies to the recognized credit risk mitigation concerned.	This paragraph combines the proposed repealed subsections (2)(b) and (3)(b) to reduce duplication.
(6)	The AI referred to in paragraph (5)(a) is an AI that has made disclosures in respect of credit risk for the immediately preceding applicable reporting periods but the disclosures are not fully in compliance with the applicable provisions set out in Division 4 of Part 2A of the Disclosure Rules. In this paragraph— (a) ***applicable provisions***, in relation to an AI that uses the STC approach to calculate the credit risk for all or part of its non-securitization exposures, means the provisions set out in Division 4 of Part 2A of the Disclosure Rules the application of which to the AI has not been exempted by the MA under section 3 of the Disclosure Rules; (b) ***Disclosure Rules*** means the Banking (Disclosure) Rules (Cap. 155 sub. leg. M); (c) ***applicable reporting period***, in relation to an applicable provision, means the reporting period (within the meaning given by section 2(1) of the Disclosure	Basel Framework Reference: CRE22.4[19].

[19] CRE22 – Standardised approach: credit risk mitigation (https://www.bis.org/basel_framework/chapter/CRE/22.htm?inforce=20230101&published=20201126).

Amendments to be made		Remarks (including references)
	Rules) referred to in that applicable provision.	
(7)	If an exposure of an AI has an ECAI issue specific rating, the AI must not under paragraph (5) take into account the effect of any recognized credit risk mitigation applicable to the exposure that has already been taken into account in that rating.	This paragraph combines the proposed repealed subsections (2)(c) and (3)(c) to reduce duplication.
(8)	If an AI has bought credit protection for an exposure and the credit protection is in the form of a single-name credit default swap that falls within section 226J(1), the AI must not under paragraph (5) take into account the credit risk mitigation effect of the swap.	This paragraph combines the proposed repealed subsections (2)(d) and (3)(e) to reduce duplication.
(9)	If an exposure of an AI is a default risk exposure in respect of derivative contracts or SFTs, the AI must not under paragraph (5) take into account the effect of any recognized credit risk mitigation applicable to the exposure that has already been taken into account in the calculation of the amount of the default risk exposure under Part 6A.	This paragraph is equivalent to the proposed repealed subsection (3)(d).
(10)	In paragraph (4), ***SFT risk-weighted amount*** means— (a) if the amount of the default risk exposure in respect of an SFT is calculated in accordance with section 226MJ—the risk-weighted amount of the default risk exposure calculated in accordance with section 85 or 88, as the case requires; (b) if the amount of the default risk exposure in respect of a portfolio of SFTs is calculated in accordance with section 226MK—the risk-weighted amount of the	This paragraph combines the definition of "SFT risk-weighted amount" in §51(1) (which will be repealed as proposed in Item 29(1)(e)) and §76A (which will be repealed as proposed in Item 80).

Amendments to be made	Remarks (including references)
default risk exposure calculated by multiplying the exposure value[20] of the default risk exposure by the risk-weight attributable to the exposure determined under Division 3.	

Item 32. Amend section 53 (On-balance sheet exposures and off-balance sheet exposures to be covered)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements: (1) If an AI is required under these Rules to use only the STC approach to calculate the credit risk for all of its non-securitization exposures, subject to paragraph (2), the AI must, for the purposes of calculating an amount representing the degree of credit risk to which the AI is exposed under section 52, take into account and risk-weight— (a) all of the AI's on-balance sheet exposures and off-balance sheet exposures booked in its banking book; (b) all of the AI's following exposures— (i) default risk exposures to counterparties in respect of derivative contracts or SFTs booked in the AI's trading book; (ii) credit exposures to counterparties in respect of transactions (other than derivative contracts and SFTs) in securities, foreign exchange or commodities	§53 is revised to enhance clarity. Paragraph (1)(b)(ii) is a new provision to reflect CRE70.1 and 70.5[21] (current version) of the Basel Framework.

[20] The exposure value of the default risk exposure (see Item 27(9)(c)) is different from the amount of the default risk exposure. The former is net of specific provisions while the latter is gross of specific provisions.
[21] CRE70 – Capital treatment of unsettled transactions and failed trades (https://www.bis.org/basel_framework/chapter/CRE/70.htm?inforce=20191215&published=20191215).

Amendments to be made	Remarks (including references)
booked in the AI's trading book that remain outstanding after the settlement dates in respect of the transactions; and (iii) credit exposures to counterparties in respect of unsegregated collateral posted by the AI and held by the counterparties for transactions or contracts booked in the AI's trading book; and (c) if applicable, all of the AI's market risk exposures that are exempted from section 17 under section 22, except for its total net open position in foreign exchange exposures as derived in accordance with section 296.	
(2) Paragraph (1) does not apply to— (a) securitization exposures; (b) the underlying exposures of eligible traditional securitization transactions (within the meaning of section 227(1)) if the AI opts to apply the treatment under section 230(1) to the underlying exposures; (c) default fund contributions made to qualifying CCPs and non-qualifying CCPs (within the meaning of section 226V(1)); (d) default risk exposures to qualifying CCPs; (e) exposures that are risk-weighted as if they were default risk exposures to qualifying CCPs under Division 4 of Part 6A; and (f) any portion of an exposure (which may be all of the exposure) that is required to be deducted from any of the AI's CET1 capital, Additional Tier 1 capital and Tier 2	This paragraph is intended to replace the proposed repealed §53(1)(a)(i), (ii), (iii) and (2).

Amendments to be made	Remarks (including references)
capital under Division 4 of Part 3.	

Item 33. Amend section 54 (Classification of exposures)

Amendments to be made	Remarks (including references)
Repeal the chapeau and all paragraphs and replace with provisions to provide for the following requirements: (1) An AI must classify its on-balance sheet exposures and off-balance sheet exposures into one only of the following categories and subcategories— (a) exposures other than CIS exposures— (i) ECAI ratings based portfolios; (ii) exposures that are neither ECAI ratings based portfolios nor defaulted exposures; (iii) defaulted exposures; (b) CIS exposures.	
(2) The AI must— (a) further classify each of the exposures falling within paragraph (1)(a)(i), according to the obligor or the nature of the exposure, into one only of the ECAI ratings based portfolios; and (b) determine the risk-weight attributable to each of the exposures in accordance with	

Amendments to be made	Remarks (including references)
Subdivisions 1 and 2 of Division 3 and, if applicable, Subdivision 8 of Division 3.	
(3) The AI must—	
(a) further classify each of the exposures falling within paragraph (1)(a)(ii), according to the obligor or the nature of the exposure, into one only of the following classes—	
(i) retail exposures;	
(ii) real estate exposures;	
(iii) equity exposures (other than those falling within sub-subparagraphs (iv) and (v));	
(iv) significant capital investments in commercial entities;	
(v) holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities;	
(vi) subordinated debts issued by banks, non-bank financial institutions and corporates;	
(vii) cash and gold;	
(viii) items in the process of clearing or settlement;	
(ix) other exposures; and	

Amendments to be made	Remarks (including references)
(b) determine the risk-weight attributable to each of the exposures in accordance with Subdivision 3, 4, 5 or 6 of Division 3, as the case requires, and if applicable, Subdivision 8 of Division 3.	
(4) The AI must determine the risk-weight attributable to each of the exposures falling within paragraph (1)(a)(iii) in accordance with Subdivision 7 of Division 3, and, if applicable, Subdivision 8 of Division 3.	
(5) The AI must determine the risk-weight attributable to each of the exposures falling within paragraph (1)(b) in accordance with Division 3A.	

Item 34. Add new section on provisions supplementary to section 54

Matters to be provided	Remarks (including references)
(1) If an exposure to an instrument issued by an entity (referred to in this Item as ***issuer***) falls within paragraph (2), (3), (4) or (5) based on the economic substance of the instrument, an AI must classify the exposure as an equity exposure for the purposes of this Part unless— (a) the exposure is a CIS exposure; (b) the exposure is fully deducted from the AI's capital base in accordance with Division 4 of Part 3; (c) (if classification of the exposure is for the purpose of calculation of the AI's capital adequacy ratio on a solo-consolidated basis) the issuer is—	Basel Framework reference: CRE20.54, 20.55 and 20.56. Subparagraphs (b), (c) and (d) reflect the requirement in CRE20.54 that ownership interests in entities that are consolidated or deducted are excluded.

Matters to be provided		Remarks (including references)
	(i) a subsidiary of the AI specified in an approval granted under section 28(2)(a); and (ii) the subject of consolidation under a section 3C requirement imposed on the AI; or (d) (if classification of the exposure is for the purpose of calculation of the AI's capital adequacy ratio on a consolidated basis) the issuer is the subject of consolidation under a section 3C requirement imposed on the AI.	
(2)	An instrument that represents direct or indirect ownership interests (whether voting or non-voting) in the assets and income of the issuer or another entity.	Basel Framework reference: CRE20.54. Footnote 20 to CRE20.54 will be included in supervisory guidance (e.g. Q&As).
(3)	An instrument that meets all of the following requirements— (a) it is irredeemable in the sense that the return of invested funds can be achieved only by the sale of the investment or sale of the rights to the investment or by the liquidation of the issuer; (b) it does not embody an obligation on the part of the issuer; and (c) it conveys a residual claim on the assets or income of the issuer.	Basel Framework reference: CRE20.54.
(4)	An instrument— (a) the issuer of which is not a bank but the instrument would be a Tier 1 capital in accordance with the current Basel Framework if it were issued by a bank; or	Basel Framework reference: CRE20.55. Footnote 21 to CRE20.55(2)(c) will be included in supervisory guidance (e.g. Q&As).

Matters to be provided	Remarks (including references)
(b) that embodies an obligation on the part of the issuer and meets any one or more of the following conditions: (i) the issuer may indefinitely defer the settlement of the obligation; (ii) the obligation requires (or permits at the issuer's discretion) settlement by issuance of a fixed number of the issuer's equity shares; (iii) the obligation requires (or permits at the issuer's discretion) settlement by issuance of a variable number of the issuer's equity shares and, other things being equal, any change in the value of the obligation is attributable to, comparable to, and in the same direction as, the change in the value of a fixed number of the issuer's equity shares; (iv) the holder of the instrument has the option to require that the obligation be settled in equity shares, unless the AI demonstrates to the satisfaction of the MA that— (A) in the case of a traded instrument, the instrument trades more like the debt of the issuer than equity, or (B) in the case of non-traded instruments, the instrument should be treated as a debt position.	
(5) A debt obligation, derivative contract, or instrument in any other form, which— (a) does not fall within paragraphs (2), (3) and (4); and (b) is structured with the intent of conveying the economic substance of equity	Basel Framework reference: CRE20.56 (first sentence).

Matters to be provided	Remarks (including references)
ownership.	
(6) To avoid doubt, equity exposures— (a) include liabilities (such as short positions) from which the return is linked to that of equities unless the liabilities are directly hedged by equity holdings such that the resulted net position in the equities concerned does not involve material risk; and (b) exclude equity investments that are structured with the intent of conveying the economic substance of debt holdings or securitisation exposures.	Basel Framework reference: CRE20.56 (last two sentences) and footnote 23.
(7) The MA may, by notice in writing given to an AI, require the AI to treat a debt position of the AI as an equity exposure for the purposes of calculating the AI's credit risk if the MA is satisfied that the nature and economic substance of the debt position are such that the debt position should more realistically be characterized as an equity exposure than as a debt position. The AI must comply with the requirements of a notice given to it under this paragraph.	Basel Framework reference: CRE20.56 footnote 24.

III(iii) Amendments to Division 3 of Part 4

Item 35. Amend Division 3 (including adding new subdivisions)

Amendments to be made	Remarks (including references)
(1) Change the heading of Division 3 to "**Determination of Risk-weights Applicable to Exposures other than CIS Exposures**".	

Amendments to be made	Remarks (including references)
(2) Repeal the following headings in Division 3: (a) the heading "**Subdivision 1—Exposures other than CIS Exposures**"; (b) the heading "**Subdivision 2—CIS Exposures**"; and (c) the heading "**Subdivision 3—Treatment of Certain Types of Off-balance Sheet Exposures**".	
(3) Repeal sections 55 to 70 in Division 3 and divide the proposed new sections (see Item 37 to Item 71) into Subdivisions as follows: (a) Subdivision 1—Due diligence requirements; (b) Subdivision 2—ECAI ratings based portfolios; (c) Subdivision 3—Retail exposures; (d) Subdivision 4—Real estate exposures; (e) Subdivision 5—Equity exposures, capital instruments other than equity exposures, non-capital LAC liabilities, etc.; (f) Subdivision 6—Exposures not falling within subdivisions 2, 3, 4 and 5; (g) Subdivision 7—Defaulted exposures; and (h) Subdivision 8—Miscellaneous provisions.	

Item 36. Amend section 54A (Application of Subdivision 1)

Amendments to be made	Remarks (including references)
(1) Change the heading of section 54A to "**Application of Division 3**".	
(2) Replace "Subdivision" with "Division".	

Item 37. Amend Subdivision 1 (including adding a new section)

Amendments to be made	Remarks (including references)
(1) After the proposed amended section 54A, add the following heading: "**Subdivision 1—Due diligence requirements**"	
(2) The proposed amended Subdivision 1 will contain the proposed new section on diligence requirements (see Item 38).	

Item 38. Amended subdivision 1: Add new section on due diligence requirements

Matters to be provided	Remarks (including references)
(1) An AI must perform due diligence on its credit exposures (at origination and at least annually thereafter) to ensure that it has an adequate understanding of the risk profile and characteristics of the obligors in respect of the exposure.	Basel Framework Reference: CRE20.4 to 20.6. As the due diligence requirements are basically no different from the HKMA's existing supervisory requirements on credit risk management, details on how the due diligence should be conducted (e.g. the last three sentences of CRE20.4, CRE20.5 and

Matters to be provided		Remarks (including references)
		CRE20.6) are included in the relevant supervisory guidelines. Paragraph (1) is intended to apply to all credit exposures (including retail exposures and residential mortgages that are usually managed on a portfolio basis), while paragraph (2) is intended to apply additionally to exposures whose risk-weights are determined based on ECAI ratings.
(2)	If an AI determines the risk-weight of an exposure in accordance with Subdivision 2 of this Division by using an ECAI issuer rating or a long-term ECAI issue specific rating (***relevant rating***), the AI must, based on the due diligence performed under paragraph (1) on the exposure, assess whether the risk-weight (referred to in this Item as ***rating-based RW***) so determined is appropriate and prudent for the exposure. Such assessment must be conducted at least annually. If the due diligence indicates that the credit risk of the exposure is higher than that implied by the rating-based RW, the AI must allocate to the exposure a risk-weight that is at least the next higher base risk-weight than the base risk-weight applicable to the ECAI ratings based portfolio to which the exposure belongs based on the relevant rating. If there is no such next higher base risk-weight, the AI must allocate to the exposure the highest base risk-weight applicable to the ECAI ratings based portfolio to which the exposure belongs.	Basel Framework Reference: CRE20.4, CRE20.20 (bank exposures), 20.39 (covered bonds) and 20.42 (general corporate exposures).

Matters to be provided		Remarks (including references)
(3)	The AI must not, according to the due diligence conducted by it on the exposure, allocate to the exposure a risk-weight that is lower than the rating-based RW.	
(4)	Paragraph (2) does not apply to— (a) sovereign exposures; and (b) public sector entity exposures.	Basel Framework reference: CRE20.4 footnote 3.
(5)	Notwithstanding the requirements set out in this Division, the MA may, by notice in writing given to one or more than one AI, direct the AI to allocate to an exposure, or exposures belonging to a class of exposure, a risk-weight specified in the notice if the MA is satisfied that— (a) there exists a [material] prudential concern in respect of the exposure or the class of exposure that has, or could reasonably be construed as potentially having, adverse impacts on the financial soundness of the AI; or (b) there exists a [material] prudential concern in respect of the economy of Hong Kong where flexibility in the capital treatment of the class of exposure is necessary to support the economy and ensure the stability of the financial system of Hong Kong. The AI must comply with the requirements of the notice given to it.	Implementation experiences in the past decade indicate that certain degree of flexibility in the BCR is necessary to enable the MA to respond swiftly to adverse developments in the credit conditions during stressed periods such as the 2008 global financial crisis and the recent Covid-19 pandemic. The proposed subsection is intended to empower the MA to change the RW applicable to an exposure or exposures belonging to a class of exposure when this is necessary to safeguard the resilience of individual AIs and/or the Hong Kong banking sector.
(6)	In this section, ***base risk-weight***— (a) in relation to a multilateral development bank exposure or unspecified multilateral body exposure, means any risk-weight specified in column [2] of Table [2B] in	

Matters to be provided	Remarks (including references)
Item 44; (b) in relation to a bank exposure or non-bank financial institution exposure, means any risk-weight specified in column [2] of Table 3 in Item 45; (c) in relation to an eligible covered bond exposure, means any risk-weight specified in column [2] of Table [4B] or column [2] of Table [4C] in Item 48; and (d) in relation to a general corporate exposure or a specialized lending, means any risk-weight specified in column [2] or [3] of Table [5] in Item 50.	

Item 39. New subdivision 2: Add new section on mapping ECAI rating to credit quality grade

Matters to be provided	Remarks (including references)
(1) For the purpose of determining the risk-weight attributable to an exposure that falls within one of the ECAI ratings based portfolios and that is not an unrated exposure, an AI must determine the credit quality grade applicable to the exposure in accordance with the requirements below and Item 40.	
(2) If— (a) an exposure is a sovereign exposure, an unspecified multilateral body exposure, a bank exposure, an eligible covered bond exposure, a non-bank financial institution exposure (***NBFI exposure***), a general corporate exposure to a corporate incorporated outside the home jurisdiction of a Type B ECAI or a specialized lending; and	

Matters to be provided		Remarks (including references)
	(b) there is a long-term ECAI issue specific rating assigned to the exposure by a Type A ECAI, an AI must determine the credit quality grade applicable to the exposure by mapping the long-term ECAI issue specific rating of the exposure to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type A ECAIs.	
(3)	If— (a) an exposure is a bank exposure, a NBFI exposure, a general corporate exposure to a corporate incorporated outside the home jurisdiction of a Type B ECAI or a specialized lending; and (b) there is a short-term ECAI issue specific rating assigned to the exposure by a Type A ECAI, an AI must determine the credit quality grade applicable to the exposure by mapping the short-term ECAI issue specific rating of the exposure to a scale of credit quality grades in accordance with the ST ECAI rating mapping table for Type A ECAIs.	Basel Framework reference: CRE21.16[22].
(4)	If— (a) an exposure is a general corporate exposure to a corporate incorporated in the home jurisdiction of a Type B ECAI; and (b) there is a long-term ECAI issue specific rating or short-term ECAI issue specific	

[22] CRE21- Standardised approach: use of external ratings (https://www.bis.org/basel_framework/chapter/CRE/21.htm?inforce=20230101&published=20200327).

Matters to be provided		Remarks (including references)
	rating assigned by a Type A ECAI or that Type B ECAI to the exposure, an AI must determine the credit quality grade applicable to the exposure by mapping the rating to a scale of credit quality grades in accordance with the LT ECAI rating mapping table or the ST ECAI rating mapping table, as the case requires, applicable to the ECAI that issues the rating.	
(5)	If— (a) an exposure is a sovereign exposure or an unspecified multilateral body exposure; (b) there is no long-term ECAI issue specific rating assigned by a Type A ECAI to the exposure; and (c) a Type A ECAI has assigned an ECAI issuer rating to the obligor in respect of the exposure or a long-term ECAI issue specific rating (***reference rating***) to any other exposure to the obligor, an AI must determine the credit quality grade applicable to the exposure by mapping the ECAI issuer rating of the obligor or the reference rating, as the case may be, to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type A ECAIs.	
(6)	If— (a) an exposure is a bank exposure, a NBFI exposure or a general corporate exposure to a corporate incorporated outside the home jurisdiction of a Type B ECAI; (b) there is neither a long-term ECAI issue specific rating nor a short-term ECAI issue	Basel Framework reference: CRE21.12, CRE21.16 and CRE20.50 (last sentence).

Matters to be provided	Remarks (including references)
specific rating assigned by a Type A ECAI to the exposure; and (c) a Type A ECAI has assigned an ECAI issuer rating to the obligor in respect of the exposure or a long-term ECAI issue specific rating (***reference rating***) to any other exposure to the obligor, an AI must determine the credit quality grade applicable to the exposure by mapping the ECAI issuer rating of the obligor or the reference rating, as the case may be, to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type A ECAIs.	
(7) If— (a) an exposure is a general corporate exposure to a corporate incorporated in the home jurisdiction of a Type B ECAI; (b) there is neither a long-term ECAI issue specific rating nor a short-term ECAI issue specific rating assigned by an ECAI to the exposure; and (c) a Type A ECAI or the Type B ECAI referred to in subparagraph (a) has assigned an ECAI issuer rating to the corporate or a long-term ECAI issue specific rating (***reference rating***) to any other exposure to the corporate, an AI must determine the credit quality grade applicable to the exposure by mapping the ECAI issuer rating of the corporate or the reference rating, as the case may be, to a scale of credit quality grades in accordance with the LT ECAI rating mapping table applicable to the ECAI that issues the rating.	

Matters to be provided	Remarks (including references)
(8) If an exposure is a public sector entity exposure (***PSE exposure***) (including a PSE exposure to a sovereign foreign public sector entity), an AI must— (a) map the ECAI issuer rating assigned to the sovereign of the jurisdiction in which the public sector entity is incorporated to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type A ECAIs; and (b) regard the credit quality grade so obtained as the credit quality grade applicable to the PSE exposure.	
(9) For the purpose of determining whether a multilateral development bank exposure is eligible for a risk-weight of 0%, an AI must determine the credit quality grade applicable to the exposure by mapping the ECAI issuer rating of the multilateral development bank concerned to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type A ECAIs.	Basel Framework reference: CRE20.14 footnote 9).

Item 40. New subdivision 2: Add new section on application of ECAI ratings

Matters to be provided	Remarks (including references)
(1) This section applies to the use of ECAI ratings by an AI under this Part for determining the risk-weight attributable to an exposure (however described) (referred to in this Item as ***exposure A***) that falls within one of the ECAI ratings based portfolios.	This new section is intended to replace existing §69 which will be repealed as proposed in Item 35(3).

Matters to be provided	Remarks (including references)
(2) An AI must, in complying with the requirements under Item 39— (a) if exposure A has only one ECAI issue specific rating—use that rating; (b) if exposure A has 2 ECAI issue specific ratings that would map into different credit quality grades under Item 39 and result in the allocation of different risk-weights to exposure A under the relevant section in relation to exposure A—use the rating that would result in the allocation of the higher of the 2 different risk-weights; (c) if exposure A has 3 or more ECAI issue specific ratings—refer to the 2 ratings that would, under Item 39, map into credit quality grades the use of which would result in the allocation of the lowest risk-weights to exposure A under the relevant section in relation to exposure A, and— (i) if the 2 lowest risk-weights are the same, the AI must use any one of the 2 ratings; (ii) if the 2 lowest risk-weights are different, the AI must use the rating that would result in the allocation of the higher of those different risk-weights.	Basel Framework reference: CRE21.9, 21.10 and 21.11. This provision is equivalent to the proposed repealed §69(1) and (2).
(3) Subject to paragraphs (5) and (6), if exposure A does not have an ECAI issue specific rating, and the obligor in respect of exposure A does not have an ECAI issuer rating but there is a reference exposure, an AI must, in complying with the requirements under Item 39, determine the rating to be used as follows— (a) if the long-term ECAI issue specific rating of the reference exposure is a low-quality rating, the AI may use that long-term ECAI issue specific rating provided	Basel Framework reference: CRE21.12(1) and (2). This paragraph is equivalent to the proposed repealed §69(3).

Matters to be provided		Remarks (including references)
	that exposure A ranks equally with, or is subordinated in respect of payment or repayment to, the reference exposure; (b) if the long-term ECAI issue specific rating of the reference exposure is a high-quality rating, the AI may use that long-term ECAI issue specific rating provided that exposure A ranks equally with, or senior in respect of payment or repayment to, the reference exposure.	
(4)	Subject to paragraph (5), if exposure A does not have an ECAI issue specific rating, and the obligor in respect of exposure A has an ECAI issuer rating but there is no reference exposure, an AI must, in complying with the requirements under Item 39, determine the rating to be used as follows— (a) if the ECAI issuer rating is a low-quality rating, the AI may use that ECAI issuer rating provided that— (i) that rating is only applicable to unsecured exposures to the obligor as an issuer that are not subordinated to other exposures to that obligor; and (ii) exposure A ranks equally with, or is subordinated to, the unsecured exposures referred to in sub-subparagraph (i); (b) subject to subparagraph (c), if the ECAI issuer rating is a high-quality rating, the AI may use that ECAI issuer rating provided that— (i) that rating is only applicable to unsecured exposures to the obligor as an issuer that are not subordinated to other exposures to that obligor; and	Basel Framework reference: CRE21.12. This paragraph is equivalent to the proposed repealed §69(4).

Matters to be provided	Remarks (including references)
(ii) exposure A is not subordinated to other exposures to the obligor; (c) if the ECAI issuer rating is a high-quality rating that only applies to a specific exposure class, the AI may use that ECAI issuer rating provided that— (i) exposure A falls within that specific exposure class; (ii) the ECAI issuer rating is only applicable to unsecured exposures to the obligor as an issuer that are not subordinated to other exposures to that obligor falling within the same exposure class; and (iii) exposure A is not subordinated to other exposures to the obligor that fall within the same exposure class.	
(5) Subject to paragraph (6), if exposure A falls within the description in the chapeau of paragraph (3) and the reference exposure has more than one long-term ECAI issue specific rating or exposure A falls within the description in the chapeau of paragraph (4) and the obligor in respect of exposure A has more than one ECAI issuer rating, an AI must, in complying with the requirements under Item 39— (a) apply paragraph (3) to each long-term ECAI issue specific rating or paragraph (4) to each ECAI issuer rating, as the case requires; and (b) if it is determined under subparagraph (a) that— (i) only one long-term ECAI issue specific rating or ECAI issuer rating can be used—use that rating; (ii) 2 long-term ECAI issue specific ratings or 2 ECAI issuer ratings can be	Similar to the proposed repealed §69(5), this paragraph sets out the treatment when there is more than one issue specific rating or issuer rating.

Matters to be provided	Remarks (including references)
used and the use of the 2 ratings would result in the allocation of different risk-weights to exposure A under the relevant section in relation to exposure A—use the rating that would result in the allocation of the higher of the 2 different risk-weights; (iii) 3 or more ECAI issue specific ratings or 3 or more ECAI issuer ratings can be used and the use of those ratings would result in the allocation of different risk-weights to exposure A under the relevant section in relation to exposure A—refer to the 2 ratings that would result in the allocation of the lowest risk-weights to exposure A, and— (A) if the 2 lowest risk-weights are the same, the AI must use any one of the 2 ratings; (B) if the 2 lowest risk-weights are different, the AI must use the rating that would result in the allocation of the higher of those different risk-weights.	
(6) If exposure A falls within the description in the chapeau of paragraph (3) and there is more than one reference exposure, the AI must— (a) apply paragraph (3) or paragraph (5)(a) and (b), as the case requires, to each reference exposure, to determine the long-term ECAI issue specific rating to be used for the purpose of subparagraph (b); and (b) apply paragraph (2), as if the long-term ECAI issue specific ratings determined under subparagraph (a) were those of exposure A, to determine the long-term	This paragraph addresses cases where there are 2 or more reference exposures— • if a reference exposure has only one rating, subparagraph (a) requires applying paragraph (3) to find out whether the rating can be used; • if a reference exposure has more than one rating, subparagraph (a) requires applying paragraph

Matters to be provided	Remarks (including references)
ECAI issue specific rating to be used for the purpose of complying with the requirement under Item 39.	(5)(a) and (b) to find out which rating among those ratings should be used for the purpose of subparagraph (b); and • if there are n reference exposures, subparagraph (a) should result in at most n ratings. Subparagraph (b) is then used to find out which rating among those n ratings should be used for determining the RW applicable to exposure A.
(7) If— (a) exposure A does not have an ECAI issue specific rating; (b) the obligor in respect of exposure A has— (i) at least one reference exposure that has one or more long-term ECAI issue specific ratings; and (ii) one or more ECAI issuer ratings; and (c) the use, in accordance with Item 39 and the relevant section in relation to exposure A, of the ratings below would result in the allocation of 2 different risk-weights to exposure A— (i) the long-term ECAI issue specific rating that would be determined under paragraph (3), (5) or (6), as the case requires, as if the obligor did not have any ECAI issuer rating;	Paragraph (7) combines the proposed repealed §69(6) and (7) and sets out the treatment when both reference exposure(s) and issuer rating are available. The AI must first apply paragraph (5) (if there is only one reference exposure) or (6) (if there are 2 or more reference exposures) to the ECAI issue specific rating(s) to obtain one rating and then apply paragraph (5) to the ECAI issuer rating(s) to obtain another rating. The 2 ratings are then compared to find out which one can be used for risk-weighting exposure A.

Matters to be provided		Remarks (including references)
	(ii) the ECAI issuer rating that would be determined under paragraph (4) or (5), as the case requires, as if there were no reference exposure, the AI may, in complying with the requirements under Item 39, use the rating that would result in the allocation of the lower of the 2 different risk-weights to exposure A.	
(8)	In determining the ECAI rating to be used pursuant to paragraphs (3), (4), (5), (6) or (7)— (a) subject to subparagraph (b), an AI— (i) must use ECAI ratings applicable to foreign currency, if available, to the extent that exposure A is denominated in foreign currency; (ii) must use ECAI ratings applicable to local currency, if available, to the extent that exposure A is denominated in local currency; and (iii) may use ECAI issuer ratings applicable to foreign currency, if available, to the extent that— (A) exposure A is denominated in local currency; and (B) there is not available an ECAI rating applicable to local currency; (b) if exposure A is denominated in a currency different from the local currency of the obligor in respect of exposure A, an AI may use the obligor's ECAI rating applicable to the obligor's local currency, if available, for the purposes of— (i) risk-weighting exposure A where exposure A arises pursuant to the AI's	Basel Framework reference: CRE21.15 and footnote 2. Paragraph (8) is based on the proposed repealed §69(9).

Matters to be provided	Remarks (including references)
participation in an exposure created by a multilateral development bank; or (ii) risk-weighting the credit protection covered portion of exposure A where exposure A is guaranteed by a multilateral development bank against the risk of the obligor not being able to repay exposure A to the AI due to exchange controls of the country in which the obligor is located.	
(9) For the purposes of this Part— (a) an AI may use an ECAI rating to determine the risk-weight attributable to its exposure only if the rating takes into account and reflects the entire amount of the exposure with regard to all payments owed to the AI; and (b) subject to paragraph (10), an AI must not use an ECAI rating assigned to a bank or bank exposure that incorporates assumptions of implicit government support unless the bank is a public bank owned by the government concerned.	Basel Framework Reference: CRE20.18, CRE21.13 and CRE22.5. It is proposed to move the requirement set out in the proposed repealed §69(10) to the new section proposed in Item 7 as the requirement also applies to the use of ECAI ratings for the purposes of Part 7.
(10) Notwithstanding paragraph (9)(b)— (a) an AI may continue to use ECAI ratings that incorporate assumptions of implicit government support for up to a period of five years, from the effective date of this set of amendment rules, for the purpose of determining the risk-weights attributable to bank exposures; (b) [after the expiry of the five-year period referred to in subparagraph (a), the MA may, by written notice given to AIs that have nominated the ECAI under Item 8 for the purposes of Part 4 in respect of bank exposures, allow the AIs to continue to use, within such period and subject to such conditions as the MA may specify	Basel Framework Reference: CRE20.18 footnote 13.

Matters to be provided		Remarks (including references)
	in the notice, ECAI ratings that incorporate assumptions of implicit government support issued by the ECAI for the purpose of determining the risk-weights attributable to bank exposures].	
(11)	In this section—	The new definitions of "high-quality rating" and "low-quality rating" are based on the descriptions set out in CRE21.12 of the Basel Framework. The new definition of "implicit government support" is based on footnote 13 to CRE20.18 of the Basel Framework.
	(a) ***high-quality rating***, in relation to exposure A, means an ECAI issuer rating assigned to the obligor in respect of exposure A, or a long-term ECAI issue specific rating assigned to a reference exposure to the obligor in respect of exposure A, which, if being used to determine a risk-weight attributable to exposure A in accordance with Item 39 and the relevant section in relation to exposure A, would result in the allocation of a risk-weight to exposure A that would be lower than the risk-weight that would be allocated to an unrated exposure to the obligor;	
	(b) ***implicit government support***, in relation to banks incorporated in a jurisdiction, means the notion that the government of that jurisdiction would act to prevent bank creditors from incurring losses in the event of a bank default or bank distress;	
	(c) ***low-quality rating***, in relation to exposure A, means an ECAI issuer rating assigned to the obligor in respect of exposure A, or a long-term ECAI issue specific rating assigned to a reference exposure to the obligor in respect of exposure A, which, if being used to determine a risk-weight attributable to exposure A in accordance with Item 39 and the relevant section in relation to exposure A, would result in the allocation of a risk-weight to exposure A that	

Matters to be provided	Remarks (including references)
would be equal to, or higher than, the risk-weight that would be allocated to an unrated exposure to the obligor; (d) ***reference exposure***, in relation to the obligor in respect of exposure A, means an exposure (other than exposure A) to the obligor that has one or more than one long-term ECAI issue specific rating assigned to it; and (e) ***relevant section***, in relation to an exposure that falls within one of the ECAI ratings based portfolios, means the section in this Subdivision that is applicable to the ECAI ratings based portfolio to which the exposure belongs but excludes Item 46 and Item 50(3) and (4).	

Item 41. New subdivision 2: Add new section 55 (Sovereign exposures)

Matters to be provided	Remarks (including references)
(1) Subject to Item 42, an AI must allocate a risk-weight to a sovereign exposure that has been assigned a credit quality grade under Item 39(2) or (5) in accordance with Table 2.	Basel Framework reference: CRE20.7 (CRE20.9 is not implemented in Hong Kong).

Table 2
Risk-weights for Sovereign Exposures

Credit quality grade	Risk-weight
1, 2	0%
3	20%
4	50%

Matters to be provided	Remarks (including references)
<table><tr><td>5, 6</td><td>100%</td></tr><tr><td>7</td><td>150%</td></tr></table>	
(2) Subject to Item 42, an AI must allocate a risk-weight of 100% to a sovereign exposure that is an unrated exposure.	Basel Framework reference: CRE20.7.

Item 42. New subdivision 2: Add new section 56 (Exceptions to section 55)

Matters to be provided	Remarks (including references)
(1) If a sovereign exposure is a domestic currency exposure to the Government (including an exposure to the Exchange Fund), an AI must allocate a risk-weight of 0% to the exposure.	Basel Framework reference: CRE20.8.
(2) If— (a) a sovereign exposure is a domestic currency exposure to a sovereign (other than the Government or a restricted sovereign); and (b) the relevant banking supervisory authority for the jurisdiction of the sovereign would permit banks incorporated in the jurisdiction to allocate a risk-weight to the exposure which is lower than the risk-weight which would be allocated under Item 41 to the exposure, an AI may allocate the lower risk-weight to the exposure.	Basel Framework reference: CRE20.8.
(3) If a sovereign exposure is an exposure to a relevant international organization, an AI must allocate a risk-weight of 0% to the exposure.	Basel Framework reference: CRE20.10.

Item 43. New subdivision 2: Add new section 57 (Public sector entity exposures)

<table>
<tr><th colspan="2">Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(1)</td><td>Subject to paragraph (3), an AI must allocate a risk-weight to a PSE exposure that has been assigned a credit quality grade under Item 39(8) in accordance with Table [2A].
<table>
<tr><th colspan="2">Table [2A]
Risk-weights for PSE exposures</th></tr>
<tr><td>Credit quality grade</td><td>Risk-weight</td></tr>
<tr><td>1, 2</td><td>20%</td></tr>
<tr><td>3</td><td>50%</td></tr>
<tr><td>4, 5, 6</td><td>100%</td></tr>
<tr><td>7</td><td>150%</td></tr>
</table></td><td>Basel Framework reference: CRE20.11 (Option 1 is adopted).</td></tr>
<tr><td>(2)</td><td>If the sovereign of the jurisdiction in which the PSE is incorporated does not have an ECAI issuer rating, an AI must allocate a risk-weight of 100% to the exposure.</td><td></td></tr>
<tr><td>(3)</td><td>If a PSE exposure is an exposure to a sovereign foreign public sector entity, Item 41, with all necessary modifications, applies to the exposure as if the entity were a sovereign, using the credit quality grade assigned to the PSE exposure under Item 39(8).</td><td>Basel Framework reference: CRE20.12.</td></tr>
</table>

Item 44. New subdivision 2: Add new section 58 (Multilateral development bank exposures and unspecified multilateral body exposures)

Matters to be provided		Remarks (including references)
(1)	An AI must allocate a risk-weight of 0% to a multilateral development bank exposure (***MDB exposure***) if the multilateral development bank concerned is assigned a credit	Basel Framework reference: CRE20.14 and footnotes 8 and 9.

Matters to be provided		Remarks (including references)
	quality grade of 1 or 2 under Item 39(9).	
(2)	If paragraph (1) is not applicable to an MDB exposure, an AI must treat the multilateral development bank concerned as if it were an unspecified multilateral body and— (a) if the MDB exposure is not an unrated exposure— (i) determine the credit quality grade applicable to the exposure in accordance with Item 39(2) or (5), as the case requires; and (ii) determine the risk-weight attributable to the exposure based on the credit quality grade so determined in accordance with paragraph (3); or (b) if the MDB exposure is an unrated exposure—determine the risk-weight attributable to the exposure in accordance with paragraph (4).	Basel Framework reference: CRE20.14 and footnote 9.

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(3) Subject to Item 38, an AI must allocate a risk-weight to an unspecified multilateral body exposure that has been assigned a credit quality grade under Item 39(2) or (5) in accordance with Table [2B].
<table>
<tr><th colspan="2">Table [2B]
Risk-weights for Unspecified Multilateral Body Exposures</th></tr>
<tr><td>Credit quality grade</td><td>Risk-weight</td></tr>
<tr><td>1, 2</td><td>20%</td></tr>
<tr><td>3</td><td>30%</td></tr>
<tr><td>4</td><td>50%</td></tr>
<tr><td>5, 6</td><td>100%</td></tr>
<tr><td>7</td><td>150%</td></tr>
</table></td><td>Basel Framework Reference: CRE20.15.</td></tr>
<tr><td>(4) An AI must allocate a risk-weight of 50% to an unspecified multilateral body exposure that is an unrated exposure.</td><td>Basel Framework reference: CRE20.15.</td></tr>
</table>

Item 45. New subdivision 2: Add new section 59 (Bank exposures— external credit risk assessment approach ("ECRA"))

Matters to be provided	Remarks (including references)
(1) This section applies to a bank exposure that is none of the following exposures— (a) an unrated exposure to a bank; (b) an eligible covered bond exposure.	Basel Framework reference: CRE20.16.

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(2) Subject to Item 38 and Item 46, an AI must allocate a risk-weight to a bank exposure that has been assigned a credit quality grade under Item 39(2) or (6) in accordance with Table 3.
<table>
<tr><th colspan="3">Table 3
Risk-weights for Bank Exposures with
credit quality grades obtained by mapping to LT ECAI rating mapping table for Type A ECAIs</th></tr>
<tr><td>Credit quality grade</td><td>Risk-weight for general exposures</td><td>Risk-weight for short-term exposures (other than exposures that have a short-term ECAI issue specific rating)</td></tr>
<tr><td>1, 2</td><td>20%</td><td>20%</td></tr>
<tr><td>3</td><td>30%</td><td>20%</td></tr>
<tr><td>4</td><td>50%</td><td>20%</td></tr>
<tr><td>5, 6</td><td>100%</td><td>50%</td></tr>
<tr><td>7</td><td>150%</td><td>150%</td></tr>
</table></td><td>Basel Framework reference: CRE20.18, 20.19, 20.20 (due diligence) and footnote 13 (implicit government support) (footnote 11 to CRE20.17 is not relevant to Hong Kong).</td></tr>
<tr><td>(3) An AI must allocate a risk-weight to a bank exposure that has been assigned a credit quality grade under Item 39(3) in accordance with Table 4.
<table>
<tr><th>Table 4
Risk-weights for Bank Exposures with credit quality grades obtained by mapping to ST ECAI rating mapping table for Type A ECAIs</th></tr>
</table></td><td></td></tr>
</table>

Matters to be provided	Remarks (including references)
<table><tr><th>Credit quality grade</th><th>Risk-weight for general exposures and short-term exposures</th></tr><tr><td>1</td><td>20%</td></tr><tr><td>2</td><td>50%</td></tr><tr><td>3</td><td>100%</td></tr><tr><td>4</td><td>150%</td></tr></table>	

Item 46. New subdivision 2: Add new section to set out provisions supplementary to section 59

Matters to be provided	Remarks (including references)
(1) Notwithstanding Item 45(2), a risk-weight of 150% must be allocated to a general exposure or a 3 months' exposure to a bank— (a) if— (i) Item 39(6) applies to the exposure; and (ii) there is a reference exposure to the same bank; and (b) if Item 39(3) and Item 45(3) applied to the reference exposure, it would be allocated a risk-weight of 150% pursuant to those Items.	Basel Framework Reference: the second requirement set out in CRE21.17.
(2) The risk-weight allocated to a bank exposure that is not a 6 months' exposure and has an original maturity of one year or less (***concerned exposure***) pursuant to Item 45(2) must not be lower than 100%— (a) if—	Basel Framework Reference: the first requirement set out in CRE21.17.

Matters to be provided	Remarks (including references)
(i) Item 39(6) applies to the concerned exposure; and (ii) there are one or more reference exposures to the same bank but none of the reference exposures falls within paragraph (1)(b); and (b) if Item 39(3) and Item 45(3) applied to the reference exposures, one or more of the reference exposures would be allocated a risk-weight of 50% or 100% pursuant to those Items.	
(3) If— (a) a bank exposure (***concerned exposure***) to which Item 39(6) applies is a 3 months' exposure; and (b) there are one or more reference exposures to the same bank but none of the reference exposures falls within paragraph (1)(b) or (2)(b), the concerned exposure must be allocated a risk-weight that is the higher of— (c) the risk-weight that would be allocated to the reference exposures pursuant to Item 39(3) and Item 45(3) if those Items applied to the reference exposures; and (d) the risk-weight that would be allocated to the concerned exposure pursuant to Item 39(6) and Item 45(2) if those Items applied to the concerned exposure as if there were no reference exposure.	Basel Framework Reference: CRE21.18.
(4) For the purposes of paragraph (3), if the two risk-weights referred to in paragraph (3)(c) and (d) are the same, any one of the two risk-weights may be allocated to the concerned exposure.	

Matters to be provided		Remarks (including references)
(5)	In this section, ***reference exposure***, in relation to a bank exposure to which Item 39(6) applies, means another exposure to the same bank that has a short-term ECAI issue specific rating, regardless of who is holding that other exposure.	

Item 47. New subdivision 2: Add new section on bank exposures—standardized credit risk assessment approach

Matters to be provided		Remarks (including references)
(1)	This section applies to an unrated exposure to a bank that is neither an eligible covered bond exposure nor a defaulted exposure.	Basel Framework reference: CRE20.21 to 20.32.
(2)	An AI must assign a credit assessment grade to an unrated exposure to a bank in accordance with paragraphs (3), (4) and (5).	
(3)	An AI must not assign a credit assessment grade of A to an unrated exposure to a bank unless the AI assesses that the bank— (a) has adequate capacity to meet its financial commitments (including repayments of principal and interest) in a timely manner, for the projected life of the assets or exposures concerned and irrespective of the economic cycles and business conditions; and (b) meets or exceeds the published minimum regulatory requirements (including buffers) established by the relevant supervisor.	Basel Framework reference: CRE20.22 and 20.23.

Matters to be provided	Remarks (including references)
(4) An AI may assign a credit assessment grade of B to an unrated exposure to a bank if the AI assesses that— (a) the bank— (i) does not fall within paragraph (3)(a); and (ii) is subject to substantial credit risk, such as repayment capacities that are dependent on stable or favourable economic or business conditions; and (b) the bank meets or exceeds the published minimum regulatory requirements (excluding buffers) established by the relevant supervisor.	Basel Framework reference: CRE20.24 to 20.27.
(5) An AI must assign a credit assessment grade of C to an unrated exposure to a bank if— (a) the AI assesses that— (i) the bank— (A) does not fall within paragraphs (3)(a) and (4)(a)(ii); (B) has material default risks and limited margins of safety; and (ii) adverse business, financial, or economic conditions are very likely to lead, or have led, to an inability of the bank to meet its financial commitments; or (b) the AI assesses that the bank— (i) fails to meet the published minimum regulatory requirements (excluding buffers) established by the relevant supervisor; or	Basel Framework reference: CRE20.26 (last sentence), CRE20.28 to 20.30.

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(ii) is not subject to any published minimum regulatory requirements; or

(c) the external auditor of the bank has issued an adverse audit opinion or has expressed substantial doubt about the bank's ability to continue as a going concern in the bank's financial statements or audited reports issued within the previous 12 months.</td><td></td></tr>
<tr><td>(6) Subject to paragraph (7), an AI must allocate a risk-weight to an unrated exposure to a bank in accordance with Table [4A] based on the credit assessment grade assigned by the AI to the unrated exposure under paragraph (2).

Table [4A]
Risk-weights for Unrated Exposures to Banks
<table><tr><th>Credit assessment grade</th><th>Risk-weight for general exposures</th><th>Risk-weight for short-term exposures</th></tr><tr><td>A</td><td>40%</td><td>20%</td></tr><tr><td>B</td><td>75%</td><td>50%</td></tr><tr><td>C</td><td>150%</td><td>150%</td></tr></table></td><td>Basel Framework reference: CRE20.21 and 20.31.</td></tr>
<tr><td>(7) Notwithstanding the requirements in paragraph (6), an AI may allocate a risk-weight of 30% to an unrated exposure to a bank provided that—

(a) the AI assigns a credit assessment grade of A to the bank under paragraph (3); and

(b) the bank has—

(i) a CET1 capital ratio, calculated in the manner specified by the relevant supervisor of the bank, that meets or exceeds 14%; and</td><td>Basel Framework reference: CRE20.21 footnote 15.</td></tr>
</table>

Matters to be provided	Remarks (including references)
(ii) a leverage ratio, calculated in the manner specified by the relevant supervisor of the bank, that meets or exceeds 5%.	
(8) Subject to paragraph (9), an unrated exposure to a bank must not be allocated under paragraph (6) or (7) a risk-weight that is lower than the attributed risk-weight of the sovereign of the bank's home jurisdiction if— (a) the unrated exposure is not denominated in the local currency of the home jurisdiction; or (b) the unrated exposure— (i) is booked in a branch of the bank in a jurisdiction other than its home jurisdiction (***host jurisdiction***); and (ii) is not denominated in the local currency of the host jurisdiction.	Basel Framework reference: CRE20.32.
(9) Paragraph (8) does not apply to an unrated exposure to a bank that is a trade-related contingency.	
(10) In this section— ***attributed risk-weight***, in relation to a sovereign— (a) if the sovereign has an ECAI issuer rating or a long-term ECAI issue specific rating assigned to a debt obligation of the sovereign, means the risk-weight that would be attributable, in accordance with Item 39 and Item 41(1), to a senior and unsecured exposure (other than a domestic currency exposure) to the sovereign based on that	

Matters to be provided	Remarks (including references)
rating; (b) in any other case, means the risk-weight that would be attributable, in accordance with Item 41(2), to an unrated exposure (other than a domestic currency exposure) to the sovereign; ***home jurisdiction***, in relation to a bank, means the jurisdiction in which the bank is incorporated; ***published minimum regulatory requirements***— (a) in relation to an internationally active bank, means the minimum quantitative regulatory requirements imposed by the relevant supervisor on the bank that are— (i) consistent with the Basel Framework; and (ii) publicly disclosed or otherwise made known by the bank to its creditors or counterparties; (b) in relation to a bank that is not an internationally active bank, means the minimum quantitative regulatory requirements imposed by the relevant supervisor on the bank— (i) that include at least a minimum regulatory capital requirement; and (ii) that are publicly disclosed or otherwise made known by the bank to its creditors or counterparties; and (c) do not include—	Basel Framework reference: CRE20.16 and footnote 10, 20.21 and 20.23.

Matters to be provided	Remarks (including references)
(i) liquidity standards; and (ii) bank-specific minimum regulatory requirements— (A) that may be imposed through supervisory actions taken by the relevant supervisor; and (B) that are not made public; ***relevant supervisor***, in relation to a bank, means— (a) the MA if the bank is an AI incorporated in Hong Kong; or (b) in any other case, the relevant banking supervisory authority in the bank's home jurisdiction.	

Item 48. New subdivision 2: Add new section on eligible covered bond exposures

Matters to be provided	Remarks (including references)
(1) Subject to Item 38, an AI must allocate a risk-weight to an eligible covered bond exposure that has been assigned a credit quality grade under Item 39(2) in accordance with Table [4B].	Basel Framework Reference: CRE20.38 Table 8 and 20.39 (due diligence).

Table [4B]
Risk-weights for Eligible Covered Bonds with Long-term ECAI Issue Specific Ratings

Credit quality grade	Risk-weight

Matters to be provided	Remarks (including references)

1, 2	10%
3, 4	20%
5, 6	50%
7	100%

(2) Subject to Item 38, if no credit quality grade can be assigned to an eligible covered bond exposure under Item 39(2), an AI must—

(a) determine the attributed risk-weight of the issuer of the eligible covered bond; and

(b) allocate a risk-weight to the eligible covered bond exposure in accordance with Table [4C] based on the attributed risk-weight of the issuer determined under subparagraph (a).

Basel Framework Reference: CRE20.38 Table 9 and 20.39 (due diligence).

Table [4C]
Risk-weights for Eligible Covered Bonds without Long-term ECAI Issue Specific Ratings

Attributed risk-weight of issuer	Risk-weight for eligible covered bond exposures
20%	10%
30%	15%
40%	20%
50%	25%
75%	35%
100%	50%

Matters to be provided	Remarks (including references)
<table><tr><td>150%</td><td>100%</td></tr></table>	
(3) For the purpose of paragraph (2), if the issuer of an eligible covered bond is a financial institution other than a bank, an AI may determine the attributed risk-weight of the issuer in a manner as if the issuer were a bank.	
(4) The MA shall develop implementing technical standards to specify the conditions a covered bond must meet in order to be recognized as an eligible covered bond for the purposes of this section. The conditions must at least cover the following aspects: (a) the types and qualities of claims included in the underlying assets of the covered bond; (b) the size of the underlying assets assigned to the covered bond relative to the size of the outstanding amount of the covered bond; and (c) information that must be made available to investors on a regular basis.	The conditions to be specified by the MA will include those set out in CRE20.34 to 20.37 of the Basel Framework.

Item 49. New subdivision 2: Add new section 60 (Exposures to non-bank financial institutions)

Matters to be provided	Remarks (including references)
(1) This section applies to a non-bank financial institution exposure (***NBFI exposure***) that is not an eligible covered bond exposure.	Basel Framework reference: CRE20.40.

Matters to be provided	Remarks (including references)
(2) If a NBFI exposure has been assigned a credit quality grade under Item 39(2), (3) or (6), Item 45 and Item 46 apply to the NBFI exposure as they apply to a bank exposure that is not an unrated exposure.	
(3) If a NBFI exposure is an unrated exposure— (a) Item 47 applies to the NBFI exposure as it applies to a bank exposure that is an unrated exposure; and (b) for the purposes of subparagraph (a), published minimum regulatory requirements referred to in Item 47 should be construed to— (i) mean the minimum quantitative regulatory requirements that are— (A) imposed on the NBFI concerned by the regulatory authority in the jurisdiction in which the NBFI is incorporated; and (B) publicly disclosed or otherwise made known by the NBFI to its creditors or counterparties; and (ii) exclude— (A) liquidity standards; and (B) institution-specific minimum regulatory requirements— (I) that may be imposed through supervisory actions taken by the regulatory authority; and (II) that are not made public.	

Item 50. New subdivision 2: Add new section 61 (General corporate exposures)

Matters to be provided	Remarks (including references)
(1) Subject to paragraphs (3) and (4) and Item 38, an AI must allocate a risk-weight to a general corporate exposure that has been assigned a credit quality grade under Item 39(2), (3), (4), (6) or (7) in accordance with Table [5].	Basel Framework reference: CRE20.42, 20.43, 21.12 and 21.16.

Table [5]
Risk-weights for General Corporate Exposures

Credit quality grade	Risk-weight for credit quality grade obtained by mapping to LT ECAI rating mapping table for Type A ECAIs	Risk-weight for credit quality grade obtained by mapping to LT ECAI rating mapping table for Type B ECAIs	Risk-weight for credit quality grade obtained by mapping to ST ECAI rating mapping table for Type A ECAIs	Risk-weight for credit quality grade obtained by mapping to ST ECAI rating mapping table for Type B ECAIs
1	20%	20%	20%	20%
2	20%	30%	50%	30%
3	50%	50%	100%	50%
4	75%	75%	150%	100%
5	100%	100%	Not applicable	150%
6, 7	150%	150%	Not applicable	Not applicable

Matters to be provided	Remarks (including references)
(2) Subject to paragraphs (3) and (4), an AI must allocate to a general corporate exposure that is an unrated exposure— (a) a risk-weight of 100% if the corporate concerned is not a small business (b) a risk-weight of 85% if the corporate concerned is a small business.	Basel Framework reference: CRE20.43 and 20.47.
(3) Notwithstanding paragraphs (1) and (2), a risk-weight of 150% must be allocated to a general corporate exposure— (a) if— (i) the exposure is either— (A) an exposure to which Item 39(6) or (7) applies; or (B) an unrated exposure; and (ii) there is a reference exposure to the same corporate; and (b) if paragraph (3) of Item 39 and paragraph (1) applied to the reference exposure, it would be allocated a risk-weight of 150% pursuant to those paragraphs.	Basel Framework reference: CRE21.17 (second sentence).
(4) The risk-weight allocated to a general corporate exposure with an original maturity of one year or less pursuant to paragraph (1) or (2), as the case requires, must not be lower than 100%— (a) if— (i) the exposure is either—	Basel Framework reference: CRE21.17 (first sentence).

Matters to be provided	Remarks (including references)
(A) an exposure to which Item 39(6) or (7) applies; or (B) an unrated exposure; and (ii) there are one or more reference exposures to the same corporate but none of the reference exposures falls within paragraph (3)(b); and (b) if paragraph (3) of Item 39 and paragraph (1) applied to the reference exposures, one or more of the reference exposures would be allocated a risk-weight of 50% or 100% pursuant to those paragraphs.	
(5) In this section, ***reference exposure***, in relation to a general corporate exposure that does not have an ECAI issue specific rating, means another general corporate exposure to the same corporate that has a short-term ECAI issue specific rating, regardless of who is holding that other general corporate exposure.	

Item 51. New subdivision 2: Add new section on specialized lending

Matters to be provided	Remarks (including references)
(1) Subject to Item 38, an AI must allocate a risk-weight to a specialized lending that has been assigned a credit quality grade under Item 39(2) or (3) in accordance with Table [5] in Item 50.	Basel Framework reference: CRE20.50 and CRE21.16.
(2) An AI must allocate to a specialized lending that does not have an ECAI issue specific rating a risk-weight of— (a) if the lending arises from an object finance—100%;	Basel Framework reference: CRE20.51.

Matters to be provided	Remarks (including references)
(b) if the lending arises from a commodities finance—100%; (c) if the lending arises from a project finance (whether high quality or not) during the preoperational phase—130%; (d) if the lending arises from a high quality project finance during the operational phase—80%; (e) if the lending arises from a project finance, other than a high quality project finance, during the operational phase—100%. For the purposes of subparagraphs (c), (d) and (e)— (f) ***operational phase*** means the phase in which the entity that was specifically created to finance the project has— (i) a positive net cash flow that is sufficient to cover any remaining contractual obligation; and (ii) declining long-term debt; (g) ***preoperational phase*** means the phase before the operational phase.	
(3) For the purposes of paragraph (2), a specialized lending arising from a ***high quality project finance*** is an exposure to a project finance entity where— (a) the entity is able to meet its financial commitments in a timely manner and its ability to do so is assessed to be robust against adverse changes in the economic cycle and business conditions;	Basel Framework reference: CRE20.52.

Matters to be provided	Remarks (including references)
(b) the entity is restricted from acting to the detriment of the creditors (e.g. by not being able to issue additional debt without the consent of existing creditors); (c) the entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project; (d) the revenues are availability-based or subject to a rate-of-return regulation or take-or-pay contract; (e) the entity's revenue depends on one main counterparty that is a central government, PSE or a corporate with an attributed risk-weight of 80% or lower; (f) the contractual provisions governing the exposure to the entity provide for a high degree of protection for creditors in case of a default of the entity; (g) the main counterparty, or other counterparties that similarly comply with the eligibility criteria set out in subparagraph (e) for the main counterparty, will protect the creditors from the losses resulting from a termination of the project; (h) all assets and contracts necessary to operate the project have been pledged (or otherwise provided as security) to the creditors to the extent permitted by applicable law; and (i) creditors may assume control of the entity in case of its default.	
(4) For the purposes of paragraph (3)(d), the revenues are availability-based if— (a) once construction is completed, the project finance entity is entitled to payments from its contractual counterparties (***availability payments***), as long as contract	Basel Framework reference: Footnote 19 to CRE20.52.

Matters to be provided	Remarks (including references)
conditions are fulfilled; (b) the availability payments are sized to cover operating and maintenance costs, debt service costs and equity returns as the project finance entity operates the project; and (c) the availability payments are not subject to swings in demand, such as traffic levels, and are adjusted typically only for lack of performance or lack of availability of the asset to the public.	

Item 52. New subdivision 3: Add new section 64 (Retail exposures)

Matters to be provided	Remarks (including references)
(1) Subject to paragraph (6), an AI must allocate— (a) a risk-weight of 75% to a regulatory retail exposure to an obligor that is not a transactor; (b) to a regulatory retail exposure to a transactor— (i) a risk-weight of 45% if the exposure arises from a revolving credit facility granted to the transactor; (ii) in any other case, a risk-weight of 75%; and (c) a risk weight of 100% to an exposure to an individual if the exposure is not a regulatory retail exposure (referred to in this Item as ***other retail exposure***).	Basel Framework reference: CRE20.67 and 20.68.

Matters to be provided	Remarks (including references)
(2) For the purposes of paragraph (1), an exposure of an AI to a single obligor, or to a particular obligor in a group of obligors that is considered by the AI as a group of obligors for risk management purposes (including, but not limited to, those grouped under the Banking (Exposure Limits) Rules (Cap. 155S)), is a regulatory retail exposure if— (a) that single obligor, or that particular obligor in the group of obligors, is an individual or a small business; (b) the exposure to the obligor is none of the following— (i) in cases where the obligor is an individual— (A) a real estate exposure; (B) a default risk exposure in respect of derivative contracts entered into with the individual; (C) a defaulted exposure; (ii) in cases where the obligor is a small business— (A) a real estate exposure; (B) a default risk exposure in respect of derivative contracts entered into with the small business; (C) a holding of securities issued by the small business, whether listed or not;	

Matters to be provided	Remarks (including references)
(D) an exposure that falls within Subdivision 5; (E) a defaulted exposure; (c) the exposure arises from a transaction, whether drawn down or not, which takes the form of an advance or extension of credit that is— (i) an overdraft or other line of credit; (ii) an instalment loan, auto loan or lease or other personal term loan or advance by way of leasing facilities; (iii) a credit card or other revolving credit; or (iv) a credit facility, or a commitment to lend funds or advance a credit facility, to a small business; (d) the maximum aggregate exposure of the AI to that single obligor, or to that group of obligors, does not exceed $10 million; and (e) no aggregate exposure of the AI to that single obligor, or to that group of obligors, exceeds 0.2% of the AI's overall regulatory retail portfolio.	Basel Framework reference: CRE20.65(2). Basel Framework reference: CRE20.65(3).
(3) For the purposes of paragraph (2)(d) and (e), aggregate exposure— (a) includes all forms of exposures (other than real estate exposures secured by residential properties) to an individual or a small business (***in-scope exposures***); and (b) must be calculated by aggregating the exposure values of the in-scope exposures	Basel Framework reference: CRE20.65(3) (last sentence) and footnote 26.

Matters to be provided	Remarks (including references)
without taking into account any recognized credit risk mitigation.	
(4) For the purposes of paragraph (2)(e), an AI must— (a) first, identify the full set of exposures to individuals and small businesses; (b) second, from the full set of exposures identified under subparagraph (a), identify the subset of exposures that meet all the criteria set out in paragraph (2)(a), (b), (c) and (d); and (c) third, regard the subset of exposures identified under subparagraph (b) as the overall regulatory retail portfolio of the AI.	Basel Framework reference: Footnotes 26 and 27 to CRE20.65(3).
(5) If— (a) an AI has any branch or subsidiary in a jurisdiction outside Hong Kong; and (b) the branch or subsidiary has exposures to individuals or small businesses (***relevant exposures***) in that jurisdiction, the AI must include in the aggregate exposure referred to in paragraph (3) and the full set of exposures referred to in paragraph (4)(a)— (c) for the purpose of calculating its capital adequacy ratio on a solo basis—the relevant exposures of its overseas branches; (d) for the purpose of calculating its capital adequacy ratio on a solo-consolidated basis or consolidated basis—the relevant exposures of its overseas branches and overseas subsidiaries subject to the consolidation,	This paragraph is proposed in response to comments received during industry consultation.

Matters to be provided		Remarks (including references)
	unless transfer of any information on the relevant exposures necessary for the inclusion outside the jurisdiction is prohibited by its law.	
(6)	If a regulatory retail exposure or other retail exposure is an unhedged credit exposure, an AI must apply a 1.5 times multiplier to the risk-weight applicable to the exposure determined under paragraph (1), subject to a cap of 150%.	Basel Framework reference: CRE20.92.

Item 53. [Reserved]

Item 54. New subdivision 4: Add new section 65 (Regulatory real estate exposures)

Matters to be provided		Remarks (including references)
(1)	Subject to paragraph (3), a real estate exposure (other than an ADC exposure) of an AI to an obligor is a regulatory real estate exposure if all of the following criteria are met in respect of the exposure— (a) the exposure is secured by an immovable property that falls within paragraph (2)(a), (b) or (c) (***mortgaged property***); (b) any claim on the mortgaged property is legally enforceable in all relevant jurisdictions; (c) the collateral agreement and the legal process underpinning any claim on the mortgaged property are such that they provide for the AI to realise the value of the mortgaged property within a reasonable time frame; (d) the exposure is secured by a first legal charge on the mortgaged property, or, if the	Basel Framework reference: CRE20.71.

Matters to be provided	Remarks (including references)
mortgaged property falls within paragraph (2)(c), the exposure will be secured by a first legal charge on the residential property after it is fully completed; (e) the exposure is granted for one or more of the following purposes— (i) financing the acquisition of the mortgaged property; (ii) refinancing the acquisition of the mortgaged property; (iii) cashing out the equity in the mortgaged property;	
(f) the AI's underwriting policies with respect to the granting of real estate exposures are adequate and prudent and include— (i) assessment of the ability of the obligor to repay; and (ii) if the repayment of the exposure depends materially on the cash flows generated by the mortgaged property—assessment of relevant metrics (such as occupancy rate);	The elements that an adequate and prudent underwriting policies must have (including those mentioned in the Financial Stability Board *Principles for sound residential mortgage underwriting practices* (April 2012) cited in footnote 30 to CRE20.73) will be included in technical standards to be issued by the HKMA.
(g) the mortgaged property is valued in a manner consistent with the relevant guidance issued by the MA and the value of the mortgaged property does not depend materially on the performance of the obligor; and	There is already supervisory guidance on valuation of collateral (including properties). The guidance will be reviewed to ensure that CRE20.75(2), footnotes 33 and 34 are reflected in the guidance.
(h) all the information required at loan origination and for monitoring purposes is properly documented, including information on the ability of the borrower to repay and on the valuation of the mortgaged property.	

Matters to be provided	Remarks (including references)
(2) The immovable property mentioned in paragraph (1)(a) is— (a) a fully completed immovable property; (b) forest or agricultural land; or (c) a residential property under construction or land upon which a residential property would be constructed where— (i) the real estate exposure secured by which is granted to an individual; and (ii) either of the following conditions is met— (A) the residential property is constructed, or to be constructed, under a subsidised home ownership scheme launched by the Government or a domestic public sector entity; or (B) in any other case, the AI is able to demonstrate, with the support of written and reasoned legal advice, that the sovereign of the jurisdiction (including Hong Kong) in which the property or land is located or any public sector entity of that jurisdiction has the legal power and ability to ensure that the property under construction or to be constructed will be finished.	Basel Framework reference: CRE20.71(1). Paragraph (2)(c) is similar to the concession allowed under CRE20.71(1) in respect of unfinished properties, but certain modifications are proposed to suit local circumstances.
(3) Real estate exposures secured by residential properties do not need to satisfy the criteria set out in paragraph (1) to be classified as regulatory real estate exposures provided that— (a) the exposures were originated before [1 July 2023];	Paragraph (3) is a local arrangement proposed to address concerns raised by the industry.

Matters to be provided	Remarks (including references)
(b) the exposures were eligible for a risk-weight of 35% under section 65(1) of these Rules as in force immediately before [1 July 2023]; and (c) there is no material change to the loan terms and conditions subsequent to that date.	
(4) For the purposes of Item 56, Item 57 and Item 58— (a) subject to subparagraph (b), a real estate exposure is materially dependent on the cash flows generated by the mortgaged property if both the servicing of the exposure and the prospects for recovery in the event of default depend materially on the cash flows generated by the mortgaged property, rather than on the income, revenue and net worth of the obligor generated from other sources; (b) for any real estate exposure that was originated before [1 July 2022], an AI may, where information necessary for assessment is not available, treat the exposure as an exposure not materially dependent on the cash flows generated by the mortgaged property.	Basel Framework reference: CRE20.79. The example mentioned in CRE20.80 will be set out in supervisory guidance. Exceptions set out in CRE20.81 will not be allowed. Subparagraph (b) is a local requirement proposed in light of industry comments.

Item 55. New subdivision 4: Add new section on loan-to-value ratio

Matters to be provided	Remarks (including references)
(1) The loan-to-value ratio (***LTV ratio***) of a regulatory real estate exposure (***concerned exposure***) secured by one or more than one immovable property (***concerned security***)	Basel Framework reference: CRE20.74 and 20.75(1).

Matters to be provided		Remarks (including references)
	must be calculated as a ratio of the amount specified in subparagraph (a) to the amount specified in subparagraph (b)— (a) the sum of— (i) the principal amount of any outstanding drawn portion of the concerned exposure (including accrued interest); and (ii) the amount of any undrawn committed portion of the concerned exposure; (b) the value at origination of the concerned security with the exceptions set out in paragraphs (4) and (5).	
(2)	If a pool of regulatory real estate exposures (collectively referred to as ***concerned exposure***) is secured by one or more than one immovable property (***concerned security***), the LTV ratio of the concerned exposure must be calculated as a ratio of the amount specified in subparagraph (a) to the amount specified in subparagraph (b)— (a) the sum of— (i) the principal amount of any outstanding drawn portion of each of the regulatory real estate exposures in the pool (including accrued interest); and (ii) the credit equivalent amount of any undrawn committed portion of each of the regulatory real estate exposures in the pool; (b) the value at origination of the concerned security with the exceptions set out in paragraphs (4) and (5).	Basel Framework reference: CRE20.74 and 20.75(1) and footnote 31.

Matters to be provided	Remarks (including references)
(3) The sum calculated under paragraph (1)(a) or (2)(a)— (a) must not be reduced by any specific provisions; and (b) must not take into account the effect of any recognized credit risk mitigation (including mortgage insurance) except for cash on deposit with the AI that— (i) is pledged (or otherwise provided as security) by the obligor in respect of the concerned exposure under a netting or offsetting agreement for the sole purpose of redemption of the concerned exposure; and (ii) meets all of the following requirements— (A) the AI has a well-founded legal basis for concluding that the netting or offsetting agreement with the obligor is enforceable in each relevant jurisdiction regardless of whether the obligor is insolvent or bankrupt; (B) the AI is able at any time to determine those assets and liabilities with the obligor that are subject to the netting or offsetting agreement; (C) the AI monitors and controls the roll-off risks that may arise when short-term liabilities that have been netted against longer term exposures are no longer available; and (D) the AI monitors and controls its exposures to the obligor on a net basis.	Basel Framework reference: CRE20.75(1), 20.76 and 22.68 on requirements for on-balance sheet netting.

Matters to be provided	Remarks (including references)
(4) In calculating the LTV ratio of a concerned exposure under paragraph (1) or (2), an AI must use a value lower than the value at origination of the concerned security if— (a) downward adjustment of the value of the concerned security is warranted by the prevailing local property market situations; (b) the MA, by written notice given to the AI, requires the AI to revise the value of the concerned security downwards; or (c) an extraordinary, idiosyncratic event occurs and results in a permanent reduction of the value of the concerned security.	Basel Framework Reference: CRE20.74(1) and (2).
(5) If— (a) an AI incurs a new regulatory real estate exposure secured by a concerned security that is also the collateral for at least one existing regulatory real estate exposure of the AI and an updated valuation of the concerned security is obtained as part of the new loan application process in relation to the new regulatory real estate exposure, the AI may use the updated valuation in calculating the LTV ratio of the pool of regulatory real estate exposures secured by the concerned security under paragraph (2); (b) the value of a concerned security has been adjusted downwards under paragraph (4)(a), an AI may make a subsequent upward adjustment to the value of the concerned security and use the resultant adjusted value in the LTV ratio calculation under paragraph (1) or (2) provided that the resultant adjusted value is	Basel Framework reference: CRE20.74(1) and (3). Subparagraph (a) is a local adaption proposed to address a practical issue that has not been discussed in the Basel III rule text.

Matters to be provided	Remarks (including references)
not higher than the value at origination of the concerned security; (c) the value of a concerned security has been adjusted downwards under paragraph (4)(b), an AI may, with the prior consent of the MA, make a subsequent upward adjustment to the value of the concerned security and use the resultant adjusted value in the LTV ratio calculation under paragraph (1) or (2); (d) modifications are made to an immovable property included in a concerned security that unequivocally increase the value of the property, an AI may take into account such increase in value in the LTV ratio calculation under paragraph (1) or (2) provided that an updated valuation is obtained that confirms the increase in value.	
(6) In this section, ***value at origination***— (a) in relation to a regulatory real estate exposure of an AI secured by one or more than one immovable property, means the valuation of the property or properties obtained by the AI at the time of origination of the regulatory real estate exposure; (b) in relation to a pool of regulatory real estate exposures of an AI originated at the same time and secured by one or more than one immovable property, means the valuation of the property or properties obtained by the AI at the time of origination of the pool of regulatory real estate exposures.	

Item 56. New subdivision 4: Add new section on regulatory residential real estate exposures

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(1) This section applies to regulatory real estate exposures secured by residential properties (regulatory residential real estate exposures), including a regulatory residential real estate exposure of an AI to a member of its staff (whether solely or jointly with another person).</td><td></td></tr>
<tr><td>(2) Subject to paragraph (4) and Item 59, if a regulatory residential real estate exposure is not materially dependent on cash flows generated by the residential property securing the exposure, an AI must allocate a risk-weight to the exposure in accordance with the following table based on the LTV ratio of the exposure calculated under Item 55.
<table>
<tr><th>LTV ratio</th><th>Risk-weight</th></tr>
<tr><td>≤ 50%</td><td>25%</td></tr>
<tr><td>> 50% and ≤ 60%</td><td>25%</td></tr>
<tr><td>> 60% and ≤ 80%</td><td>30%</td></tr>
<tr><td>> 80% and ≤ 90%</td><td>40%</td></tr>
<tr><td>> 90% and ≤ 100%</td><td>50%</td></tr>
<tr><td>> 100%</td><td>70%</td></tr>
</table></td><td>Basel Framework reference: CRE20.82.

CRE20.81 and CRE20.83 will not be implemented.

Supervisory guidance will be issued to help AIs determine whether an exposure is materially dependent on cash flows generated by the property and to reflect CRE20.79 and 20.80.</td></tr>
<tr><td>(3) Subject to paragraph (4) and Item 59, if a regulatory residential real estate exposure is materially dependent on cash flows generated by the residential property securing the</td><td>Basel Framework reference: CRE20.84</td></tr>
</table>

Matters to be provided	Remarks (including references)
exposure, an AI must allocate a risk-weight to the exposure in accordance with the following table based on the LTV ratio of the exposure calculated Item 55.	

LTV ratio	Risk-weight
≤ 50%	30%
> 50% and ≤ 60%	35%
> 60% and ≤ 80%	45%
> 80% and ≤ 90%	60%
> 90% and ≤ 100%	75%
> 100%	105%

(4)	If a regulatory residential real estate exposure is an unhedged credit exposure, an AI must apply a 1.5 times multiplier to the risk-weight applicable to the exposure determined under paragraph (2) or (3), as the case requires, subject to a cap of 150%.	Basel Framework Reference: CRE20.92.

Item 57. New subdivision 4: Add new section on regulatory commercial real estate exposures

Matters to be provided		Remarks (including references)
(1)	This section applies to regulatory real estate exposures secured by properties other than residential properties (***regulatory commercial real estate exposures***).	Basel Framework Reference: CRE20.78.

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(2) If a regulatory commercial real estate exposure to an obligor is not materially dependent on cash flows generated by the property securing the exposure, an AI must allocate a risk-weight to the exposure in accordance with the following table based on the LTV ratio of the exposure calculated under Item 55.
<table>
<tr><th>LTV ratio</th><th>Risk-weight</th></tr>
<tr><td>≤ 60%</td><td>Min (60%, attributed risk-weight of the obligor)</td></tr>
<tr><td>> 60%</td><td>Attributed risk-weight of the obligor</td></tr>
</table></td><td>Basel Framework Reference: CRE20.85. CRE20.86 is irrelevant as it is proposed not to adopt the “loan splitting” approach.</td></tr>
<tr><td>(3) If a regulatory commercial real estate exposure is materially dependent on cash flows generated by the property securing the exposure, an AI must allocate a risk-weight to the exposure in accordance with the following table based on the LTV ratio of the exposure calculated under Item 55.
<table>
<tr><th>LTV ratio</th><th>Risk-weight</th></tr>
<tr><td>≤ 60%</td><td>70%</td></tr>
<tr><td>> 60% and ≤ 80%</td><td>90%</td></tr>
<tr><td>> 80%</td><td>110%</td></tr>
</table></td><td>Basel Framework Reference: CRE20.87. The national discretions set out in CRE20.87 footnotes 39 and 40 are not exercised.</td></tr>
</table>

Item 58. New subdivision 4: Add new section on other real estate exposures

Matters to be provided	Remarks (including references)
(1) This section applies to real estate exposures that are neither regulatory real estate exposures nor ADC exposures.	Basel Framework reference: CRE20.88.

Matters to be provided	Remarks (including references)
(2) Subject to Item 59, if a real estate exposure is not materially dependent on the cash flows generated by the property securing the exposure, an AI must allocate to the exposure— (a) a risk-weight of 75% if the obligor in respect of the exposure is an individual; (b) a risk-weight of 85% if the obligor in respect of the exposure is a small business; (c) in any other case—the attributed risk-weight of the obligor.	Basel Framework reference: CRE20.89(1).
(3) Subject to Item 59, if a real estate exposure is materially dependent on the cash flows generated by the property securing the exposure, an AI must allocate a risk-weight of 150% to the exposure.	Basel Framework reference: CRE20.89(2).

Item 59. New subdivision 4: Add new section on real estate exposures secured by residential properties outside Hong Kong

Matters to be provided	Remarks (including references)
(1) If— (a) a real estate exposure (other than an ADC exposure) of an AI is secured by a residential property situated outside Hong Kong; and (b) the relevant supervisory authority of the jurisdiction in which the residential property is situated has implemented capital adequacy standards that were formulated in accordance with the Basel Framework, the AI may allocate a risk-weight to the exposure provided for under the capital adequacy standards (but excluding any approach that is based on internal models) applicable to banks incorporated in that jurisdiction.	This provision is equivalent to the proposed repealed §65(3) which is a local treatment that has been implemented since 2007, with a modification to clarify that the AI is not allowed to use the IRB approach provided for under foreign jurisdictions' capital requirements.

Item 60. New subdivision 4: Add new section on ADC exposures

Matters to be provided	Remarks (including references)
(1) Subject to paragraphs (2) and (3), an AI must allocate a risk-weight of 150% to an ADC exposure.	Basel Framework reference: CRE20.90.
(2) An ADC exposure in respect of residential property situated in Hong Kong may be allocated a risk-weight of 100%, provided that both of the following criteria are met— (a) prudential underwriting standards with respect to the granting of ADC exposures meet the requirements in Item 54(1) where applicable; (b) the borrower has substantial equity at risk, where the equity at risk must be determined as an appropriate amount of borrower-contributed equity to the property's appraised as-completed value.	Basel Framework reference: CRE20.91. The fixed pre-sale or pre-lease contracts threshold mentioned in CRE20.91(2) will not be implemented having considered the practices of local property developers. The HKMA will explain in supervisory guidance what would be considered an "appropriate amount" for the purpose of subparagraph (b) and, where necessary, update the guidance in light of the prevailing property market conditions.
(3) If— (a) an AI has an ADC exposure in respect of one or more than one residential property situated in a jurisdiction outside Hong Kong (***concerned ADC exposure***); and (b) the relevant banking supervisory authority of the jurisdiction— (i) has implemented the standardized approach for credit risk under the current Basel Framework; and (ii) would, under the capital adequacy standards of the jurisdiction, permit	This is a local requirement proposed in light of industry comment.

Matters to be provided	Remarks (including references)
banks incorporated in the jurisdiction to allocate a risk-weight that is lower than 150% to certain ADC exposures in respect of residential properties situated in the jurisdiction, the AI may allocate the same lower risk-weight to the concerned ADC exposure provided that the conditions for the lower risk-weight specified in the capital adequacy standards of the jurisdiction are met in respect of the concerned ADC exposure.	

Item 61. New subdivision 5: Add new section on equity exposures

Matters to be provided	Remarks (including references)
(1) Subject to Item 62 and Item 63, an AI must allocate— (a) a risk-weight of 400% to speculative unlisted equity exposures; and (b) a risk-weight of 250% to equity exposures that are not speculative unlisted equity exposures.	Basel Framework reference: CRE20.57. After consultation with the industry, the following will not be implemented: • the phase-in arrangement in CRE90.1[23]; and • treatment of equity holdings made pursuant to national legislated programmes in CRE20.59.
(2) In this section, ***speculative unlisted equity exposure*** means an equity investment in an unlisted company that is— (a) invested for short-term resale purposes; or	Basel Framework reference: CRE20.58.

[23] CRE90 – Transition (https://www.bis.org/basel_framework/chapter/CRE/90.htm?inforce=20230101&published=20200327).

Matters to be provided	Remarks (including references)
(b) considered venture capital or similar investment which is— (i) subject to price volatility; and (ii) acquired in anticipation of significant future capital gains.	

Item 62. New subdivision 5: Add new section on significant capital investments in commercial entities

Matters to be provided	Remarks (including references)
(1) If the net book value of an AI's significant capital investment in a commercial entity exceeds 15% of its capital base as reported in its capital adequacy ratio return as at the immediately preceding calendar quarter end date, the AI must— (a) subject to section 43(1)(n), allocate a risk-weight of 1250% to that amount of the net book value of the investment that exceeds that 15%; and (b) allocate a risk-weight determined in accordance with Item 61(1)(a) or (b), as the case requires, to that amount of the net book value of the investment that does not exceed that 15%.	Basel Framework Reference: CRE20.61 and 20.62. This new section will replace §68A (which will be repealed as proposed in Item 35(3)). Paragraph (1) is a local treatment that uses one threshold, instead of two thresholds as specified in CRE20.61, to determine the amount of holdings subject to a RW of 1250%.

Item 63. New subdivision 5: Add new section on holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities

Matters to be provided	Remarks (including references)
(1) If an AI has an insignificant LAC investment that is a direct holding, indirect holding or synthetic holding of a capital instrument issued by, or a non-capital LAC liability of, a	Basel Framework reference: • CRE20.53 and 20.60; and

Matters to be provided	Remarks (including references)
financial sector entity, any amount of the insignificant LAC investment that is not deducted from the AI's capital base under sections 43(1)(o), 47(1)(c) and 48(1)(c) must be allocated— (a) a risk-weight determined in accordance with Item 61(1)(a) or (b), as the case requires, if the insignificant LAC investment is an equity exposure; or (b) a risk-weight of 150% if the insignificant LAC investment is not an equity exposure.	• CAP30.22(5) [24] and footnote 7 (current version).
(2) If an AI has a significant LAC investment that is a direct holding, indirect holding or synthetic holding of a capital instrument issued by, or a non-capital LAC liability of, a financial sector entity, any amount of the significant LAC investment that is not deducted from the AI's capital base under sections 43(1)(p), 47(1)(d) and 48(1)(d) must be allocated— (a) in the case where the significant LAC investment is in a CET1 capital instrument—a risk-weight of 250%; (b) in any other case— (i) a risk-weight determined in accordance with Item 61(1)(a) or (b), as the case requires, if the significant LAC investment is an equity exposure; or (ii) a risk-weight of 150% if the significant LAC investment is not an equity exposure.	Basel Framework reference: • CRE20.53, 20.60 and 20.109; and • CAP30.29(4) and footnote 11 (current version).

[24] CAP 30 – Regulatory adjustments (https://www.bis.org/basel_framework/chapter/CAP/30.htm?inforce=20191215&published=20191215).

Matters to be provided		Remarks (including references)
(3)	If an AI maintains any non-capital LAC debt resources and has holdings of non-capital LAC liabilities that fall within section 48A, the AI must allocate a risk-weight of 150% to any amount of the holdings that is not deducted from the AI's capital base under section 48(1)(g)(i) and, if applicable, sections 43(1)(r) and 47(1)(g).	Basel Framework reference: CRE20.60 second sentence.

Item 64. New subdivision 5: Add new section on exposures to subordinated debts

Matters to be provided		Remarks (including references)
(1)	An AI must assign a risk-weight of 150% to exposures to subordinated debts issued by banks, non-bank financial institutions and corporates.	Basel Framework Reference: CRE20.53 and 20.60.

Item 65. New subdivision 6: Add new section on cash and gold

Matters to be provided		Remarks (including references)
(1)	An AI must allocate a risk-weight of 0% to the following items— (a) legal tender notes or other notes, and coins, representing the lawful currency of a country owned and held by the AI or in transit; (b) the AI's holding of certificates of indebtedness issued by the Government for the issue of legal tender notes; and (c) gold bullion held by the AI, or gold bullion held on an allocated basis for the AI by another person, which is backed by gold bullion liabilities.	Basel Framework reference: CRE20.110(1). This new section and Item 66 combine existing §63 and §63A (which will be repealed as proposed in Item 35(3)) and the definition of "cash items" in §51(1) (which will be repealed as proposed in Item 29(1)(a)) so that it is easier to see what items are subject to 0% risk-weight.

Matters to be provided		Remarks (including references)
(2)	Gold bullion held on an unallocated basis for an AI by another person which is backed by gold bullion liabilities must be risk-weighted as a claim on the person who holds the gold bullion.	
(3)	Gold bullion held by an AI, or gold bullion held for the AI by another person, which is not backed by gold bullion liabilities must be allocated a risk-weight of 100%.	

Item 66. New subdivision 6: Add new section on items in the process of clearing or settlement

Matters to be provided		Remarks (including references)
(1)	An AI must allocate a risk-weight of 0% to the following items— (a) unsettled clearing items of the AI that are being processed through any interbank clearing system in Hong Kong; (b) receivables from transactions of the AI in securities, foreign exchange, and commodities that are not yet due for settlement.	
(2)	An AI must allocate a risk-weight of 20% to cheques, drafts and other items drawn on other banks— (a) that are payable to the account of the AI immediately upon presentation; and (b) that are in the process of collection.	Basel Framework reference: CRE20.110(2).

Matters to be provided	Remarks (including references)
(3) In the case of transactions in securities, foreign exchange and commodities that are entered into by an AI on a delivery-versus-payment basis, if any of those transactions is outstanding after the settlement date in respect of the transaction concerned, the AI must allocate to the positive current exposure incurred by the AI under the transaction a risk-weight of— (a) 0% if the transaction is outstanding up to and including the fourth business day after the settlement date; (b) 100% if the transaction remains outstanding from 5 to 15 business days (both days inclusive); (c) 625% if the transaction remains outstanding from 16 to 30 business days (both days inclusive); (d) 937.5% if the transaction remains outstanding from 31 to 45 business days (both days inclusive); and (e) 1250% if the transaction remains outstanding for 46 or more business days.	Basel Framework reference: CRE70.9 (current version).
(4) In the case of transactions in securities, foreign exchange and commodities that are entered into by an AI on a basis other than a delivery-versus-payment basis, if any of those transactions is outstanding after the settlement date in respect of the transaction concerned, the AI must— (a) if the transaction remains unsettled up to and including the fourth business day after the settlement date, risk-weight the following items as exposures to the	Basel Framework reference: CRE70.10(1) and 70.12 (current version).

Matters to be provided		Remarks (including references)
	counterparty to the transaction— (i) the amount of payment made, or the current market value of the thing delivered, by the AI under the transaction; and (ii) any positive current exposure incurred by the AI under the transaction; (b) if the transaction remains unsettled for 5 or more business days after the settlement date, allocate a risk-weight of 1250% to— (i) the amount of payment made, or the current market value of the thing delivered, by the AI under the transaction; and (ii) any positive current exposure incurred by the AI under the transaction.	
(5)	Unless otherwise stated in Part 6A of the BCR, paragraphs (1)(b), (3) and (4) do not apply to derivative contracts, securities financing transactions and long settlement transactions.	Basel Framework reference: CRE70.5 (current version).

Item 67. New subdivision 6: Add new section 66 (Other exposures that are not defaulted exposures)

Matters to be provided		Remarks (including references)
(1)	If an exposure is not a defaulted exposure and none of the sections in Subdivisions 2, 3, 4 and 5 and Item 65 and Item 66 applies to the exposure, an AI must allocate a risk-weight of 100% to the exposure.	Basel Framework Reference: CRE20.110.

Matters to be provided	Remarks (including references)
(2) Where in respect of an exposure of an AI, the AI has difficulty in allocating any accrued interest under the exposure to the obligors of the AI, the AI may, with the prior consent of the MA, treat the accrued interest as an exposure to which paragraph (1) applies.	

Item 68. New subdivision 7: Add new section 67 (Defaulted exposures)

Matters to be provided	Remarks (including references)
(1) Notwithstanding Subdivisions 2, 3, 4 and 6, an AI must— (a) allocate a risk-weight of 100% to a defaulted exposure that is a regulatory residential real estate exposure where repayments do not materially depend on cash flows generated by the residential property securing the exposure; and (b) in any other case, allocate a risk-weight of 150% to a defaulted exposure.	Basel Framework reference: CRE20.107. The treatment in the existing §67 (which will be repealed as proposed in Item 35(3)) will continue. Therefore, CRE20.106(1) and (2) will not be implemented.
(2) Subject to paragraph (3), an exposure of an AI to an obligor is a defaulted exposure if— (a) the exposure is past due for more than 90 days; or (b) the obligor is a defaulted borrower.	Basel Framework reference: CRE 20.104.
(3) Notwithstanding paragraph (2)— (a) a retail exposure (i.e. a regulatory retail exposure or an exposure to an individual that is not a regulatory retail exposure) of an AI is a defaulted exposure if—	Basel Framework reference: CRE20.105.

Matters to be provided	Remarks (including references)
(i) the exposure is past due for more than 90 days; (ii) the exposure is put on non-accrued status; (iii) a write-off or account-specific provision is made for the exposure as a result of a significant perceived decline in the credit quality of the exposure; or (iv) a distressed restructuring of the exposure is agreed by the AI; and (b) if— (i) the AI or any member of the consolidation group of the AI has other outstanding retail exposures to the obligor in respect of a retail exposure that is a defaulted exposure; and (ii) these other outstanding retail exposures do not fall within any of subparagraphs (a)(i), (ii), (iii) and (iv), the AI may, at its discretion, choose whether to treat these other outstanding retail exposures as defaulted exposures for the purposes of this Part.	
(4) For the purposes of paragraph (2)(b), an obligor is a defaulted borrower if any one or more of the following events have occurred in respect of the obligor— (a) any material credit obligation is past due for more than 90 days; (b) any material credit obligation is put on non-accrued status; (c) a write-off or account-specific provision is made as a result of a significant perceived decline in credit quality subsequent to the AI taking on any credit	Basel Framework reference: CRE20.104.

Matters to be provided	Remarks (including references)
exposure to the obligor; (d) any credit obligation is sold at a material credit-related economic loss; (e) a distressed restructuring of any credit obligation is agreed by the AI; (f) a filing has been made for the obligor's bankruptcy or a similar order in respect of any of the obligor's credit obligations to the AI or any member of the consolidation group of the AI; (g) the obligor has sought, or has been placed in, bankruptcy or similar protection where this would avoid or delay repayment of any of the credit obligations to the AI or any member of the consolidation group of the AI; (h) any other situation where the AI considers that the obligor is unlikely to pay in full its credit obligations to the AI, without recourse to actions by the AI such as realization of available collateral.	
(5) For the purposes of paragraphs (2)(a) and (3)(a)(i)— (a) if an AI has provided an overdraft facility to an obligor and advised the obligor of the credit limit set for the facility, the facility becomes past due once— (i) the obligor has breached the credit limit; or (ii) the AI has advised the obligor of a new credit limit that is smaller than the current outstanding balance of the facility; (b) if an AI has not provided any overdraft facility to an obligor, an overdraft by the	Basel Framework reference: CRE20.104(1).

Matters to be provided	Remarks (including references)
obligor becomes past due on the same day the overdraft occurs.	
(6) In this section— ***distressed restructuring*** means a restructuring that may result in a diminished financial obligation caused by material forgiveness, or postponement, of principal, interest or, if relevant, fees; ***non-accrued status***, in relation to an exposure of an AI to an obligor, includes situations where accrued interest on the exposure is no longer recognized by an AI as income or, if recognized, an equivalent amount of provisions is made by the AI in respect of the exposure.	Basel Framework reference: CRE20.104(2) and (5).

Item 69. New subdivision 8: Add new section 68 (Exposures to credit-linked notes)

Matters to be provided	Remarks (including references)
(1) Subject to paragraphs (3), (4) and (5), if a credit-linked note issued by an issuer has an ECAI issue specific rating, an AI must— (a) subject to Item 40(2), determine the credit quality grade applicable to the note by mapping the ECAI issue specific rating of the note to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type A ECAIs or the LT ECAI rating mapping table for Type B ECAIs, as the case requires; (b) determine the risk-weight that would be attributable to the note as an exposure to the issuer under Subdivision 2 based on the credit quality grade determined under	Paragraph (1) is similar to paragraph (a) of existing §68 (which will be repealed as proposed in Item 35(3)).

Matters to be provided	Remarks (including references)
subparagraph (a); (c) determine the risk-weight that would be attributable to the reference obligations of the note— (i) under Subdivision 2 based on the credit quality grade determined under subparagraph (a) if the reference obligations would fall within one of the ECAI ratings based portfolios; or (ii) under Subdivision 3, 4, 5, 6 or 7, as applicable, if the reference obligations would not fall within any ECAI ratings based portfolio; and (d) allocate to an exposure to the note the higher of the two risk-weights determined under subparagraphs (b) and (c).	
(2) Subject to paragraphs (3), (4) and (5), if a credit-linked note issued by an issuer does not have an ECAI issue specific rating, an AI must allocate a risk-weight to an exposure to the note that is the higher of— (a) the risk-weight that would be attributable to the note as an exposure to the issuer under Subdivision 2, 3 or 6, as applicable; and (b) the risk-weight that would be attributable to the reference obligations of the note under Subdivision 2, 3, 4, 5, 6 or 7, as applicable.	Paragraph (2) is equivalent to the proposed repealed §68(d).
(3) If a credit-linked note (whether having an ECAI issue specific rating or not)— (a) is a first-to-default note, second-to-default note or n^{th}-to-default note; or	Paragraph (3) is equivalent to the proposed repealed §68(e).

Matters to be provided		Remarks (including references)
	(b) provides credit protection proportionately to a basket of reference obligations, an AI must determine the risk-weight attributable to an exposure to the note as the risk-weight attributable to the pool of reference obligations of the note determined in accordance with Item 70(6), (7), (8) or (9), as the case requires, as if the exposure to the note were a direct exposure to the credit default swap embedded in the note.	
(4)	This section does not apply to any exposure to a credit-linked note, or any part of such exposure, to which any section in Subdivision 5 applies.	
(5)	If an exposure to a credit-linked note is a defaulted exposure, an AI must determine the risk-weight applicable to the exposure in accordance with Item 68.	Paragraph (5) is equivalent to the proposed repealed §68(b).

Item 70. New subdivision 8: Add new section on determination of risk-weight applicable to certain types of off-balance sheet exposures

Matters to be provided		Remarks (including references)
(1)	If an off-balance sheet exposure of an AI (***subject exposure***) is an asset sale with recourse or a forward asset purchase, the risk-weight applicable to the subject exposure is the risk-weight applicable to the assets sold or to be purchased.	Basel Framework reference: CRE20.95(2) and (4) footnotes 44 and 45. This new section is equivalent to §70AAD to be added by the BCAR 2022. §70AAD will be amended to focus on off-balance sheet CIS exposures (see Item 75). Paragraph (1) is equivalent to §70AAD(1).

Matters to be provided		Remarks (including references)
(2)	If a subject exposure is partly paid-up shares and securities, the risk-weight applicable to the subject exposure is the risk-weight applicable to the relevant shares or securities.	Paragraph (2) is equivalent to §70AAD(2).
(3)	If a subject exposure is a direct credit substitute arising from the selling of credit protection in the form of total return swap or credit default swap in the AI's banking book, subject to paragraphs (6), (7), (8) and (9), the risk-weight applicable to the subject exposure is the risk-weight applicable to the reference obligation specified in the swap.	Paragraph (3) is equivalent to §70AAD(3).
(4)	If a subject exposure is a default risk exposure in respect of a single-name credit default swap that falls within section 226J(1) and the amount of the default risk exposure is determined in accordance with section 226J(3), the risk-weight applicable to the subject exposure is the attributed risk-weight of the counterparty in respect of the swap without taking into account any recognized credit risk mitigation afforded to the swap.	Paragraph (4) is equivalent to §70AAD(4).
(5)	If the subject exposure is a commitment to extend a loan secured by a fully completed immovable property and the exposure would, but for the fact it does not satisfy any one or more of paragraph (1)(b), (c) and (d) of Item 54, have been a regulatory real estate exposure, the AI may allocate a risk-weight in accordance with Item 56 or Item 57, as the case requires, to the exposure only if the AI has no reason to believe that any of paragraph (1)(b), (c) and (d) of Item 54 will not be satisfied immediately after the loan that is the subject of that commitment is drawn down.	This paragraph is a modified version of §70AAD(5).
(6)	If the subject exposure mentioned in paragraph (3) arises from a first-to-default credit derivative contract— (a) subject to subparagraph (b), the risk-weight applicable to the subject exposure is	Basel Framework reference: CRE20.103. Paragraph (6) is equivalent to the proposed repealed §70AAD(6) (see Item 75(5)).

Matters to be provided		Remarks (including references)
	the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract; and (b) the risk-weight applicable to the subject exposure is subject to a cap of 1,250%.	
(7)	If the subject exposure mentioned in paragraph (3) arises from a second-to-default credit derivative contract— (a) subject to subparagraph (b), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract but excluding the lowest of those risk-weights; and (b) the risk-weight applicable to the subject exposure is subject to a cap of 1,250%.	Basel Framework reference: CRE20.103. Paragraph (7) is equivalent to the proposed repealed §70AAD(7) (see Item 75(5)).
(8)	If the subject exposure mentioned in paragraph (3) arises from any other n^{th}-to-default credit derivative contract, paragraph (7), with all necessary modifications, applies to that contract as it applies to a second-to-default credit derivative contract so that the reference to "lowest" in paragraph (7)(a) is construed to mean— (a) "lowest and second lowest" in the case of a third-to-default credit derivative contract; and (b) "lowest, second lowest and third lowest" in the case of a fourth-to-default credit derivative contract, and likewise for other n^{th}-to-default credit derivative contracts.	Basel Framework reference: CRE20.103. Paragraph (8) is equivalent to the proposed repealed §70AAD(8) (see Item 75(5)).
(9)	If the subject exposure mentioned in paragraph (3) arises from a credit derivative contract	Paragraph (9) is a local requirement which is

Matters to be provided	Remarks (including references)
that provides credit protection proportionately in respect of the reference obligations in the basket of reference obligations specified in the contract, the risk-weight applicable to the subject exposure is calculated by using [Formula 1B]. **[Formula 1B]** **Calculation of Risk-weight of Off-balance Sheet Exposure Arising from Credit Derivative Contract under paragraph (9)** $$RW_a = \sum_i (a_i \cdot RW_i)$$ where— (a) RW_a is the weighted average risk-weight of a basket of reference obligations; (b) a_i is the proportion of credit protection allocated to reference obligation i; and (c) RW_i is the risk-weight of reference obligation i.	equivalent to the proposed repealed §70AAD(9) (see Item 75(5)). .

Item 71. New subdivision 8: Add new section on exposures in respect of assets underlying SFTs

Matters to be provided	Remarks (including references)
(1) The requirements below apply to an AI's exposures to the assets underlying specified SFTs.	Basel Framework reference: CRE22.25. It is proposed to use this new section to house the risk-weighting treatment currently set out in §75 and

Matters to be provided		Remarks (including references)
		§76 for assets underlying SFTs (thus, it is proposed to repeal §75 and §76 (see Item 80).
(2)	Subject to paragraph (3) below, if a specified SFT is booked in the banking book of the AI, the AI must— (a) treat the securities sold or lent, or the securities provided as collateral, under the SFT as an on-balance sheet exposure of the AI as if the AI had never entered into the SFT; and (b) allocate to the exposure the risk-weight attributable to the securities.	Paragraph (2) combines the proposed repealed §75(2) and (4).
(3)	If the securities referred to in paragraph (2)(a) are securitization issues, the risk-weight attributable to the securities must be determined in accordance with Part 7.	Paragraph (3) is equivalent to the proposed repealed §75(5).
(4)	To avoid doubt, if a specified SFT is booked in the trading book of the AI, an exposure of the AI to the asset underlying the specified SFT is an exposure subject to the requirements of Part 8 instead of this Part.	Paragraph (4) is equivalent to the proposed repealed §76(1).
(5)	In this section— ***specified SFT***, in relation to an AI, means— (a) a repo-style transaction that falls within paragraph (a) or (b) of the definition of ***repo-style transaction*** in section 2(1); or (b) a repo-style transaction— (i) that falls within paragraph (d) of the definition of ***repo-style transaction*** in	Paragraph (5) is based on the proposed repealed §76(2) with modifications to cover SFTs booked in banking book.

Matters to be provided	Remarks (including references)
section 2(1); and (ii) under which the collateral provided by the AI is in the form of securities.	

III(iv) Add new Division 3A (Capital treatment of CIS exposures)

Item 72. Add a new heading for the new Division 3A

Amendments to be made		Remarks (including references)
(1)	Before section 70AA, add a heading "**Division 3A—CIS Exposures**".	
(2)	The new Division 3A will contain the proposed amended section 70AA (see Item 73), existing section 70AAB (no amendment is proposed to this section), and the proposed amended sections 70AAC and 70AAD (see Item 74 and Item 75).	

Item 73. Amend section 70AA (Interpretation of Subdivision 2)

Amendments to be made		Remarks (including references)
(1)	Change the heading to "**Interpretation of Division 3A**".	
(2)	Replace "Subdivision" with "Division".	

Item 74. Amend section 70AAC (Treatment of CIS exposure constituting deductible holding)

Amendments to be made		Remarks (including references)
(1)	In subsection (3), repeal the entire content of paragraph (a) and replace with provisions along the following lines: "allocate a risk-weight determined in accordance with Item 61(1)(a) or (b), as the case requires, to any amount of deductible holding determined under subsection (2)(b) if the deductible holding is an insignificant LAC investment that is an equity exposure;".	The amendments set out in paragraphs (1) and (2) are proposed to align with the capital treatments proposed in Item 63.
(2)	In subsection (3), after the proposed amended paragraph (a), add a new paragraph along the following lines: "allocate a risk-weight of 150% to any amount of deductible holding determined under subsection (2)(b) if the deductible holding is— (a) an insignificant LAC investment that is not an equity exposure; or (b) a holding of non-capital LAC liabilities falling within section 48A; and".	

Item 75. Amend section 70AAD (Determination of risk-weights applicable to certain types of off-balance sheet exposures)

Amendments to be made		Remarks (including references)
(1)	Change the heading to "**Determination of risk-weights applicable to certain types of off-balance sheet CIS exposures**".	It is proposed to amend §70AAD so that it will apply to CIS exposures only.
(2)	Before subsection (1), add a new subsection to provide that section 70AAD applies to CIS exposures that are off-balance sheet exposures (***off-balance sheet CIS exposures***).	

Amendments to be made		Remarks (including references)
(3)	Repeal the entire content of subsection (1) and replace with provisions to provide that if an off-balance sheet CIS exposure of an authorized institution is an asset sale with recourse or a forward asset purchase, the risk-weight applicable to the off-balance sheet CIS exposure is the risk-weight applicable to the assets sold or to be purchased.	
(4)	Amend subsection (2) by replacing "a subject exposure" with "an off-balance sheet CIS exposure".	
(5)	Repeal subsections (3), (4), (5), (6), (7), (8) and (9) (including Formula 1B).	

III(v) Amendments to Division 4 of Part 4

Item 76. Amend heading of Division 4 (Calculation of Risk-weighted Amount of Authorized Institution's Off-balance Sheet Exposures)

Amendments to be made		Remarks (including references)
(1)	In the heading, replace "**Risk-weighted Amount of Authorized Institution's**" with "**Exposure Values of**".	

Item 77. Amend section 71 (Off-balance sheet exposures)

Amendments to be made		Remarks (including references)
(1)	Change the heading of section 71 to "**Calculation of exposure values of off-balance sheet exposures**".	

Amendments to be made	Remarks (including references)
(2) Repeal subsection (1) and Table 10 and replace with provisions to provide for the following requirements: An AI must calculate the credit equivalent amount of an off-balance sheet exposure (other than an exposure to which section 71(2) or (5) applies) by— (a) determining the CCF applicable to the exposure in accordance with the new schedule proposed in Item 216 and, if applicable, paragraph (3); and (b) multiplying the principal amount of the exposure, after deducting any specific provisions applicable to the exposure, by the CCF so determined.	Basel Framework reference: CRE20.94.
(3) Add a new subsection after subsection (1) to provide that: If an off-balance sheet exposure (***exposure A***) is a commitment the drawdown of which will give rise to another off-balance sheet exposure (***exposure B***), the CCF applicable to exposure A is the lower of— (a) the CCF applicable to the commitment determined in accordance with the new schedule proposed in Item 216; and (b) the CCF applicable to exposure B determined in accordance with the new schedule proposed in Item 216.	Basel Framework reference: CRE20.101. CRE20.102 is already reflected in §71(5).

Item 78. Repeal section 72 (Provision supplementary to section 71(1))

Amendments to be made	Remarks (including references)
(1) Repeal §72.	

Item 79. Repeal section 73 (Calculation of credit equivalent amount of off-balance sheet exposures not covered by section 71(1), (2) or (5))

Amendments to be made	Remarks (including references)
(1) Repeal §73.	

Item 80. Repeal sections 75, 76 and 76A

Amendments to be made	Remarks (including references)
(1) Repeal §75, §76 and §76A.	The content of the proposed repealed §75 and §76 will be relocated to Item 71. No replacement for the proposed repealed §76A is needed as the calculation steps will be included in the proposed amended §52, §85 and §88.

III(vi) Amendments to Division 5 of Part 4

Item 81. Amend section 77 (Recognized collateral)

Amendments to be made	Remarks (including references)
Repeal the chapeau and all paragraphs and replace with provisions to provide for the following requirements: (1) Collateral is recognized for the purposes of calculating the risk-weighted amount of an exposure (***collateralized exposure***) of an AI provided that— (a) all the criteria specified in paragraphs (2) and (3) below are met if the AI uses the	Criteria of different nature are allocated to different subsections for ease of cross-referencing the relevant criteria in other sections.

Amendments to be made	Remarks (including references)
simple approach in its treatment of recognized collateral; (b) all the criteria specified in paragraphs (2) and (4) below are met if the AI uses the comprehensive approach in its treatment of recognized collateral.	
(2) The criteria specified for paragraph (1)(a) and (b) are— (a) all documentation creating the collateral and providing for the obligations of the parties with respect to each other in respect of the collateral is binding on all parties and legally enforceable in all relevant jurisdictions; (b) the legal mechanism by which the collateral is pledged (or otherwise provided as security) ensures that the AI has the right to realize, or to take legal possession of, the collateral in a timely manner in the event of a default by, or the insolvency or bankruptcy of, or any other event specified in the relevant legal documentation applicable to any of— (i) the obligor in respect of the collateralized exposure; or (ii) the custodian, if any, holding the collateral; (c) the AI has clear and adequate procedures for the timely realization of collateral in respect of an event referred to in subparagraph (b); (d) the AI has taken all steps to fulfil requirements under the law applicable to the AI's interest in the collateral which are necessary to obtain and maintain an enforceable security interest, whether by registration or otherwise, or to exercise a right to set-	Basel Framework reference: CRE22.9. This provision is equivalent to the proposed repealed §77(a). Basel Framework reference: CRE22.26. This provision is equivalent to the proposed repealed §77(b). Basel Framework reference: CRE22.27. This provision is equivalent to the proposed repealed §77(c). Basel Framework reference: CRE22.26 (last sentence)

Amendments to be made	Remarks (including references)
off in relation to title transfer of the collateral;	This provision is equivalent to the proposed repealed §77(d).
(e) if the collateral is to be held by a custodian, the AI has taken reasonable steps to ensure that the custodian segregates the collateral from the custodian's assets;	Basel Framework reference: CRE22.29. This provision is equivalent to the proposed repealed §77(e).
(f) if the collateral is provided under a margin agreement for derivative contracts or SFTs, the AI—	Basel Framework reference: CRE22.28. This provision is equivalent to the proposed repealed §77(ea).
(i) has devoted sufficient resources to enable the orderly operation of the agreement; and	
(ii) has collateral management policies in place to control, monitor and report—	
(A) risks (including liquidity risk and concentration risk) associated with the agreement;	
(B) reuse of collateral; and	
(C) the rights ceded by the AI in respect of collateral posted; and	
(g) the credit quality of the obligor in respect of the collateralized exposure does not have material positive correlation with—	Subparagraph (g) is intended to replace the proposed repealed §77(f) so as to incorporate a new element related to correlation with resulting residual risks introduced by CRE22.7.
(i) the current market value of the collateral; and	
(ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the collateral for the purposes of mitigating the credit	

Amendments to be made	Remarks (including references)
risk of the collateralized exposure.	
(3) The criteria specified for paragraph (1)(a) are— (a) the collateral falls within any one of the items listed in Item 83(1); (b) the collateral is pledged (or otherwise provided as security) for not less than the life of the collateralized exposure; (c) the collateral— (i) subject to sub-subparagraph (ii), is revalued not less than every 6 months from the date upon which the collateral is taken in respect of the collateralized exposure; and (ii) if the collateralized exposure is a defaulted exposure, is revalued not less than every 3 months from the date upon which the collateralized exposure is classified as a defaulted exposure.	Basel Framework reference: CRE22.33 and 22.34. This provision is equivalent to the proposed repealed §77(g) and (i)(i).
(4) The criteria specified for paragraph (1)(b) are— (a) the collateral falls within any one of the items listed in Item 84(1); (b) the AI has in place a written internal policy and systems and procedures— (i) adequate to enable the AI to manage collateral provided to it in respect of any exposure; and (ii) to revalue collateral as necessary and take account of the minimum holding periods for collateral in the calculation of the risk-weighted amounts of its	Basel Framework reference: CRE22.45. This provision is equivalent to the proposed repealed §77(h) and (i)(ii).

Amendments to be made	Remarks (including references)
collateralized exposures.	

Item 82. Amend section 78 (Approaches to use of recognized collateral)

Amendments to be made	Remarks (including references)
Repeal the content of subsection (2) and replace with provisions to provide for the following requirements: (1) An AI must— (a) for exposures that are not defaulted exposures, use only the simple approach or only the comprehensive approach to the treatment of recognized collateral; and (b) for defaulted exposures, use only the simple approach to the treatment of recognized collateral.	Basel Framework Reference: CRE22.18 and 22.19. Subparagraph (b) is an existing local requirement.

Item 83. Amend section 79 (Collateral which may be recognized for purposes of section 77(i)(i))

Amendments to be made	Remarks (including references)
Change the heading to "**Collateral which may be recognized under the simple approach**", and repeal subsections (1) and (2) and replace with provisions to provide for the following requirements: (1) Subject to paragraphs (2) and (3), only collateral of the following description may be recognized in relation to an AI that uses the simple approach in its treatment of recognized collateral—	Basel Framework reference: CRE22.34. Paragraphs (1)(a) to (d), which are equivalent to the proposed repealed §79(1)(a), (b), (c) and (d), implement CRE22.34(1) and (2).

Amendments to be made	Remarks (including references)
(a) cash on deposit with the AI or held at a third-party bank; (b) certificates of deposit issued by the AI; (c) instruments issued by the AI that are comparable to instruments referred to in subparagraph (b); (d) gold bullion;	
(e) debt securities issued by a sovereign that have a long-term ECAI issue specific rating that, if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type A ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3, 4 or 5;	Paragraphs (1)(e) and (f) are equivalent to the proposed repealed §79(1)(e) and (f) and implement CRE22.34(3)(a)(i).
(f) debt securities (other than restricted debt securities) issued by a sovereign foreign public sector entity that have a long-term ECAI issue specific rating that, if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type A ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3, 4 or 5;	
(g) debt securities issued by a multilateral development bank that would be assigned a risk-weight of 0% under section [58][25];	This is a local treatment in the proposed repealed §79(1)(h). Modification is made to align with footnote 9 to CRE20.14(1).
(h) debt securities issued by an entity (other than an entity falling within subparagraph (e), (f) or (g)) that have a long-term ECAI issue specific rating where such rating—	Paragraph (1)(h) combines the proposed repealed §79(1)(g), (i), (j) and (ja) (to the extent in relation

[25] Subject to the exact section number to be determined by the law draftsman for Item 44.

Amendments to be made	Remarks (including references)
(i) is issued by a Type A ECAI; and (ii) if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type A ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;	to ratings issued by international ECAIs) and aligns the types of issuer allowed with those set out in CRE22.34(3)(a)(ii) (i.e. any other entity including corporates incorporated in India).
(i) debt securities issued by a corporate incorporated in the home jurisdiction of a Type B ECAI that have a long-term ECAI issue specific rating where such rating— (i) is issued by that Type B ECAI; and (ii) if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type B ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;	Paragraph (1)(i) is equivalent to the proposed repealed §79(1)(ja) (to the extent in relation to ratings issued by Indian ECAIs) and implements CRE22.34(3)(a)(ii).
(j) debt securities issued by an entity (other than an entity falling within subparagraph (g)) that have a short-term ECAI issue specific rating where such rating— (i) is issued by a Type A ECAI; and (ii) if mapped to the scale of credit quality grades in the ST ECAI rating mapping table for Type A ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2 or 3;	Paragraph (1)(j) combines the proposed repealed §79(1)(k), (l) and (la) (to the extent in relation to ratings issued by international ECAIs) and implements CRE22.34(3)(a)(ii).
(k) debt securities issued by a corporate incorporated in the home jurisdiction of a Type B ECAI that have a short-term ECAI issue specific rating where such rating— (i) is issued by that Type B ECAI; and (ii) if mapped to the scale of credit quality grades in the ST ECAI rating mapping	Paragraph (1)(k) is equivalent to the proposed repealed §79(1)(la) (to the extent in relation to ratings issued by Indian ECAIs) and implements CRE22.34(3)(a)(iii).

Amendments to be made	Remarks (including references)
table for Type B ECAIs, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4; (l) debt securities issued by a bank that do not have an ECAI issue specific rating where— (i) the debt securities are not subordinated to any other debt obligations of the bank; (ii) the debt securities are listed on a recognized exchange and the AI is of the reasonable opinion that, having regard to current market conditions, there is sufficient liquidity in the market for the debt securities to enable the AI to dispose of the debt securities at an open market price; (iii) other debt securities issued by the bank that rank equally with the first-mentioned debt securities— (A) have a long-term ECAI issue specific rating that, if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type A ECAIs, would result in those other debt securities being assigned a credit quality grade of 1, 2, 3 or 4; or (B) have a short-term ECAI issue specific rating that, if mapped to the scale of credit quality grades in the ST ECAI rating mapping table for Type A ECAIs, would result in those other debt securities being assigned a credit quality grade of 1, 2 or 3; and (iv) the AI is not aware, and has no reason to be aware, of information suggesting	Basel Framework reference: CRE22.34(3)(b). Paragraph (1)(l) is equivalent to the proposed repealed §79(1)(m).

Amendments to be made	Remarks (including references)
that an assignment of a credit quality grade of 5, 6 or 7 in the LT ECAI rating mapping table for Type A ECAIs (or, in the case of short-term ECAI issue specific ratings, a credit quality grade of 4 in the ST ECAI rating mapping table for Type A ECAIs) would be justified in respect of the debt securities; (m) equities (including convertible bonds) that are included in any main indices; (n) units or shares in a collective investment scheme where— (i) the price of the units or shares in that scheme is quoted publicly on a daily basis; and (ii) that scheme is restricted by its investment guidelines or objects to investing in those items listed in this section except subparagraph (o) below; or	Basel Framework reference: CRE22.34(5). Paragraph (1)(m) is equivalent to the proposed repealed §79(1)(n). Paragraph (1)(n)(ii) is equivalent to the proposed repealed §79(1)(o)(ii), with wording modified to better align with the wording of CRE22.34(6).
(o) securities that are— (i) eligible for being included in trading book; and (ii) received by the AI under a repo-style transaction booked in the AI's trading book.	Paragraph (1)(o) is a new provision to include collateral received under repo-style transactions booked in trading book (CRE55.2[26]).
(2) Any reference to debt securities in paragraph (1) does not include debt securities that are	Basel Framework reference: CRE22.35.

[26] CRE55 – Counterparty credit risk in the trading book (https://www.bis.org/basel_framework/chapter/CRE/55.htm?inforce=20230101&published=20200327).

Amendments to be made	Remarks (including references)
re-securitization exposures.	Paragraph (2) is equivalent to the proposed repealed §79(2).

Item 84. Amend section 80 (Collateral which may be recognized for purposes of section 77(i)(ii))

Amendments to be made	Remarks (including references)
Change the heading to "**Collateral which may be recognized under the comprehensive approach**" and repeal all subsections and replace with provisions to provide for the following requirements:	
(1) Subject to paragraph (2), only collateral of the following description may be recognized in relation to an AI which uses the comprehensive approach in its treatment of recognized collateral— (a) collateral falling within any one of the items listed in Item 83(1); (b) equities (including convertible bonds) that are not included in a main index but are listed on a recognized exchange; or (c) units or shares in a collective investment scheme where— (i) the price of the units or shares in that scheme is quoted publicly on a daily basis; and (ii) that scheme is restricted by its investment guidelines or objects to investing in those items listed in Item 83(1) (except Item 83(1)(o)) and the equities referred to in subparagraph (b).	Basel Framework reference: CRE22.45. Paragraph (1) is a modified version of the proposed repealed §80(1). The proposed repealed §80(1)(d) will be relocated to the proposed amended §79(1) (see Item 83(1)(o)).

Amendments to be made	Remarks (including references)
(2) Collateral referred to in paragraph (1) does not include debt securities that are re-securitization exposures.	This provision is equivalent to the proposed repealed §80(2).

III(vii) Amendments to Division 6 of Part 4

Item 85. Amend section 81 (Calculation of risk-weighted amount of exposures taking into account credit risk mitigation effect of recognized collateral under simple approach)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements: (1) If an AI uses the simple approach in its treatment of recognized collateral, the AI must calculate the risk-weighted amounts of its on-balance sheet exposures and off-balance sheet exposures to which the collateral relates in accordance with sections 82, 83, 84 and 85.	Modifications are introduced to reduce overlapping with existing §83(b) and (c), §84(c) and (d) and §85(1)(b) and (c). The proposed repealed §81(2) will be relocated to the proposed amended §82 (see Item 86(2)).

Item 86. Amend section 82 (Determination of risk-weight to be allocated to recognized collateral under simple approach)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements:	Basel Framework reference: CRE22.33.
(1) Subject to paragraphs (2), (3), (4) and (5), if an AI uses the simple approach in its treatment of recognized collateral, the AI— (a) subject to subparagraph (b), must determine the risk-weight to be allocated to the collateral in accordance with Division 3, section 226ZJ in Part 6B or Part 7, as the case requires, as if the collateral were an on-balance sheet exposure; and (b) must not allocate a risk-weight of less than 20% to the collateral.	This provision is a streamlined version of the proposed repealed §82(1).
(2) For recognized collateral — (a) that falls within section 79[(1)(a), (b) or (c)][27]; (b) that is held at a third-party bank in a non-custodial arrangement; and (c) that is unconditionally and irrevocably pledged (or otherwise provided as security) or assigned to the AI, the AI must treat the credit protection covered portion of the exposure to which the collateral relates as an exposure to the third-party bank and allocate a risk-weight to such exposure in accordance with Item 45 and Item 46 or Item 47, as the case requires.	Basel Framework reference: CRE22.34 footnote 4. This provision is equivalent to the proposed repealed §81(2).
(3) An AI may allocate—	Basel Framework reference: CRE22.38.

[27] Subject to the exact subsection numbers to be determined by the law draftsman for Item 83(1)(a), (b) and (c).

Amendments to be made	Remarks (including references)
(a) a risk-weight of 0% to recognized collateral provided under a repo-style transaction entered into with a counterparty if all the criteria specified in paragraph (4) are met; or (b) a risk-weight of 10% to recognized collateral provided under a repo-style transaction entered into with a counterparty if all the criteria specified in paragraph (4), except subparagraph (a) of that paragraph, are met.	Subparagraph (a) is equivalent to the chapeau of the proposed repealed §82(2). The original wording "booked in … banking book" is removed because this is not a requirement under CRE22.36 and 22.38. Subparagraph (b) is equivalent to the proposed repealed §82(3).
(4) The criteria specified for paragraph (3) are— (a) the counterparty is— (i) a sovereign; (ii) a public sector entity; (iii) a multilateral development bank, where exposures to which would be allocated a risk-weight of 0% under section [58][28]; (iv) a bank or securities firm; (v) a non-bank financial institution (other than a securities firm) that has an attributed risk-weight of not more than 20%; (vi) a corporate (other than a securities firm)— (A) that is an investment company, insurance firm, finance company or other	Subparagraph (a) is equivalent to the proposed repealed §82(2)(a) with modifications to align with the types of eligible counterparties specified in CRE22.37.

[28] Subject to the exact section number to be determined by the law draftsman for Item 44.

Amendments to be made	Remarks (including references)
like financial institution; and (B) that has an attributed risk-weight of not more than 20%; or (vii) a qualifying CCP; (b) the exposure to which the collateral relates and the collateral are— (i) cash; or (ii) securities issued by a sovereign, or a sovereign foreign public sector entity, which would be allocated a risk-weight of 0% under the use of the STC approach; (c) the exposure and the collateral have no currency mismatch[29]; (d) either— (i) the exposure is only an overnight exposure; or (ii) the exposure and the collateral are subject to daily mark-to-market, and, if the mark-to-market value of any excess collateral (***margin***) is below the value required under the terms of the transaction, the counterparty is required to bring the margin up to the required value on the same day (***remargin)***; (e) the AI reasonably expects, if the counterparty fails to remargin, the time between the day on which the exposure is marked-to-market for the last time before the counterparty's failure to remargin and the day on which the AI realizes the collateral	Basel Framework reference: CRE22.36. Subparagraphs (b) to (h) are equivalent to the proposed repealed §82(2)(b) to (h).

[29] The term "currency mismatch" is a defined term in §2(1).

Amendments to be made	Remarks (including references)
for its benefit to be no more than 4 business days; (f) the transaction is settled by means of a settlement system customarily used for repo-style transactions; (g) the transaction is documented using standard market documentation for repo-style transactions involving securities of the same type as those that are the subject matter of the transaction; and (h) the documentation setting out the transaction provides that— (i) the AI may terminate the transaction immediately if— (A) the counterparty commits an event of default under the transaction; or (B) an event of default occurs in respect of the counterparty; and (ii) the AI has, immediately upon any such default, an unfettered and legally enforceable right to seize and realize the collateral for its benefit, whether or not the counterparty is insolvent or bankrupt.	
(5) An AI may allocate a risk-weight of 0% to recognized collateral provided in respect of an exposure other than a default risk exposure where— (a) the collateral and the exposure have no currency mismatch; and (b) the collateral is either— (i) cash; or (ii) debt securities—	Basel Framework reference: CRE22.39. This provision is equivalent to the proposed repealed §82(4)(d).

Amendments to be made	Remarks (including references)
(A) which are issued by a sovereign, or a sovereign foreign public sector entity, and would under section [55 or 57][30], as the case may be, be allocated a risk-weight of 0%; and (B) the current market value of which has been reduced by a haircut of 20%.	
(6) In this section— ***cash***— (a) in relation to an exposure, means money paid by an AI to a counterparty under a repo-style transaction; or (b) in relation to a collateral, means recognized collateral that falls within Item 83(1)(a), (b) or (c), other than collateral held at a third-party bank in a non-custodial arrangement.	This provision is equivalent to the proposed repealed §82(5).

Item 87. Amend section 83 (Calculation of risk-weighted amount of on-balance sheet exposures)

Amendments to be made	Remarks (including references)
(1) In paragraph (a), replace "principal amount of the exposure, net of specific provisions," with "exposure value of the exposure".	

[30] Subject to the exact section numbers to be determined by the law draftsman for Item 41 and Item 43.

Item 88. Amend section 85 (Calculation of risk-weighted amount of default risk exposures)

Amendments to be made	Remarks (including references)
(1) In subsection (1)(a), replace everything before "into—" with "dividing the exposure value of the exposure".	

III(viii) Amendments to Division 7 of Part 4

Item 89. Amend section 86 (Calculation of risk-weighted amount of exposures taking into account credit risk mitigation effect of recognized collateral under comprehensive approach)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements:	Modifications are introduced to incorporate the requirements (except those on specific provisions) in §76A(1) (which will be repealed as proposed in Item 80) and §93 (which will be repealed as proposed in Item 95).
(1) If an AI uses the comprehensive approach in its treatment of recognized collateral, the AI must calculate the risk-weighted amounts of its on-balance sheet exposures and off-balance sheet exposures to which the collateral relates by— (a) calculating the net credit exposure to the obligor in respect of each of the exposures in accordance with section 87, 88 or 89, with the applicable haircuts determined in accordance with sections 90, 91 and 92; and	Basel Framework reference: CRE22.48. Paragraph (1) combines existing §86(1) and §93.

Amendments to be made	Remarks (including references)
(b) multiplying the net credit exposure so obtained by the risk-weight attributable to the exposure.	

Item 90. Amend section 87 (Calculation of net credit exposure of on-balance sheet exposures)

Amendments to be made	Remarks (including references)
(1) In Formula 2, replace "E = principal amount of on-balance sheet exposure net of specific provisions, if any" with "E = exposure value of on-balance sheet exposure".	Basel Framework reference: CRE22.46.

Item 91. Amend section 88 (Calculation of net credit exposure of off-balance sheet exposures other than default risk exposures in respect of derivative contracts)

Amendments to be made	Remarks (including references)
(1) The existing content of section 88 should be renumbered as subsection (1).	
(2) In Formula 3, replace "the default risk exposure" in paragraph (a) related to the notation "E" with "the amount of the default risk exposure calculated in accordance with section 226MJ".	
(3) Add a new subsection to provide that if an off-balance sheet exposure is a default risk exposure mentioned in section 78(1A)(a)— (a) an AI may, in using Formula 3 to calculate the net credit exposure in respect of the off-balance sheet exposure, use 0% as H_e and Hc if the SFT concerned is a repo-style transaction that meets all the criteria set out in Item 86(4); and (b) the net credit exposure in respect of the exposure calculated by using Formula 3 may be	Basel Framework reference: CRE22.60. Paragraph (b) of the new subsection reinstates the requirement in the existing §76A(1) (which will be repealed as proposed in Item 80) in respect of specific provisions.

Amendments to be made	Remarks (including references)
further reduced by the amount of any specific provisions made by the AI.	

Item 92. Amend section 89 (Calculation of net credit exposure of default risk exposures in respect of derivative contracts)

Amendments to be made	Remarks (including references)
(1) In Formula 4, replace "E = outstanding default risk exposure calculated for the derivative contracts concerned, net of specific provisions (if any)" with "E = exposure value of the default risk exposure in respect of the derivative contracts concerned".	

Item 93. Amend section 90 (Haircuts)

Amendments to be made	Remarks (including references)
Change the heading to "**Haircut applicable to a basket of recognized collateral**", and repeal the content and replace with provisions to provide for the following requirements:	
(1) If a basket of recognized collateral is provided to an AI in respect of an exposure of the AI and the recognized collateral is made up of assets that are subject to haircuts of different values, the AI must calculate the haircut applicable to the basket of recognized collateral by the use of Formula 5[31]. **Formula 5** **Calculation of Haircut where Recognized Collateral is made up of**	Basel Framework reference: CRE22.55.

[31] It is assumed that the current formula number will not be changed.

Amendments to be made	Remarks (including references)
Assets with Different Haircuts $H_a = \sum_i (a_i \times H_i)$ where— H_a = haircut applicable to the basket of recognized collateral; a_i = weight of asset i in relation to the aggregate value of all assets in the basket; and H_i = haircut applicable to asset i pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92.	

Item 94. Amend section 92 (Adjustment of standard supervisory haircuts in certain circumstances)

Amendments to be made	Remarks (including references)
(1) Renumber the existing content as subsection (1) and add a new subsection (2) to provide for the following requirements: Notwithstanding the standard supervisory haircuts specified in Schedule 7 and subsection (1), an AI may, in calculating the risk-weighted amount of a default risk exposure in respect of a repo-style transaction under section 88, apply a haircut of 0% to both the exposure and the recognized collateral received under the repo-style transaction if the repo-style transaction satisfies all the criteria set out in Item 86(4).	Basel Framework reference: CRE22.60. It is proposed not to implement CRE22.61.

Item 95. Repeal Section 93 (Calculation of risk-weighted amount of collateralized transactions under comprehensive approach)

Amendments to be made	Remarks (including references)
(1) Repeal section 93.	The content is moved to the proposed amended §86 (see Item 89).

III(ix) Amendments to Division 8 of Part 4

Item 96. Amend section 94 (On-balance sheet netting)

Amendments to be made	Remarks (including references)
(1) In subsection (3), replace "attributed risk-weight of the obligor" with "risk-weight attributable, in accordance with Division 3, to the net credit exposure to the obligor".	Basel Framework reference: CRE22.68 and 22.69.

III(x) Amendments to Division 9 of Part 4

Item 97. Amend section 98 (Recognized guarantees)

Amendments to be made	Remarks (including references)
(1) Repeal the chapeau and paragraphs (a) to (c) and replace with provisions along the following lines: "A guarantee given to an authorized institution is recognized for the purposes of calculating the risk-weighted amount of a specific exposure or a specific pool of exposures of the institution (***guaranteed exposure***) if—	Basel Framework reference: CRE22.71(1) and (2), 22.76(1) and (2)(a), footnotes 10 and 11.

Amendments to be made	Remarks (including references)
(a) the guarantee is given by an eligible credit protection provider described in [to insert section number to be assigned to Item 99] (***guarantor***); (b) the guarantee gives the institution a direct claim against the guarantor; (c) the credit protection provided by the guarantee relates specifically to the guaranteed exposure;".	
(2) To insert a new paragraph after paragraph (c) to provide that— "the credit quality of the obligor in respect of the guaranteed exposure does not have material positive correlation with— (i) the credit quality of the guarantor; and (ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the guarantee for the purposes of mitigating the credit risk of the guaranteed exposure;".	Basel Framework Reference: CRE22.6 and 22.7.

Item 98. Amend section 99 (Recognized credit derivative contracts)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements:	
(1) Subject to paragraphs (2), (3), (4) and (5), a credit derivative contract (***subject contract***) entered into by an AI as a protection buyer is recognized for the purposes of calculating the risk-weighted amount of an exposure of the AI (***protected exposure***) if—	Basel Framework reference: CRE22.78, 22.76(1) and (2)(a), footnotes 10 and 11, 22.71(1) and (2). Subparagraphs (a), (c) and (d) are equivalent to the

Amendments to be made	Remarks (including references)
(a) the subject contract is a credit default swap or total return swap (other than a restricted credit derivative contract);	proposed repealed §99(1)(a), (c) and (d).
(b) the protection seller of the subject contract is an eligible credit protection provider described in Item 99;	
(c) the economic benefit derived by the AI would make good the economic loss suffered by the AI in consequence of the default of the obligor in respect of the protected exposure in a manner substantially similar to that of a recognized guarantee;	
(d) the subject contract gives the AI a direct claim against the protection seller;	
(e) the credit protection provided by the subject contract relates to a specific exposure or a specific pool of exposures;	Subparagraph (e) replaces the proposed repealed §99(1)(e).
(f) the credit quality of the reference entity of the subject contract does not have material positive correlation with—	Subparagraph (f) is a new provision to reflect CRE22.7.
(i) the credit quality of the protection seller; and	
(ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the subject contract for the purposes of mitigating the credit risk of the protected exposure;	

Amendments to be made	Remarks (including references)
(g) the undertaking of the protection seller under the subject contract to make payment in specified circumstances is clearly documented so that the extent of the credit protection provided by the subject contract is clearly defined;	Basel Framework reference: CRE22.71(2). Subparagraph (g) is equivalent to the proposed repealed §99(1)(g).
(h) there is no clause in the subject contract, the satisfaction of which is outside the direct control of the AI, which would— (i) allow the protection seller to cancel the subject contract unilaterally; or (ii) increase the effective cost of the credit protection offered by the subject contract as a result of the deteriorating credit quality of the reference entity or any of the specified obligations of the subject contract, except for a clause permitting termination in the event of a failure by the AI to pay sums due from it under the terms of the subject contract;	Basel Framework reference: CRE22.71(4). Subparagraph (h) is equivalent to the proposed repealed §99(1)(h).
(i) there is no clause in the subject contract, the satisfaction of which is outside the direct control of the AI, which could operate to prevent the protection seller from being obliged to pay out promptly in the event that the reference entity defaults in making any payments due;	Basel Framework reference: CRE22.71(5). Subparagraphs (i) to (k) are equivalent to the proposed repealed §99(1)(h) to (j).
(j) the country in which the protection seller is located and from which the protection seller may be obliged to make payment has no existing exchange controls in place or, if there are existing exchange controls in place, approval has been obtained for the funds to be remitted freely in the event that the protection seller is called upon under the terms of the subject contract to make payment to the AI;	

Amendments to be made	Remarks (including references)
(k) the protection seller has no recourse to the AI for any losses suffered as a result of the protection seller being obliged to make any payment to the AI pursuant to the subject contract;	
(l) the subject contract obliges the protection seller to make payment to the AI in the following credit events—	Basel Framework reference: CRE22.74(1). • Subparagraph (l)(i) is a modified version of the proposed repealed §99(1)(k)(i). • Subparagraph (l)(ii) is a modified version of the proposed repealed §99(1)(k)(ii). • Subparagraph (l)(iii) is equivalent to the proposed repealed 99(1)(k)(iii).
(i) any failure by the reference entity to pay amounts due under the terms of any of the specified obligations (subject to any grace period in the subject contract which is of substantially similar duration to any grace period provided for in the terms of the specified obligations);	
(ii) the bankruptcy or insolvency of the reference entity or the reference entity's failure or inability to pay its debts as they fall due or the reference entity's admission in writing of the reference entity's inability generally to pay its debts as they fall due or any event with respect to the reference entity that has an analogous effect to any of the foregoing events; or	
(iii) restructuring of any of the specified obligations, involving forgiveness or postponement of payment of any principal or interest or fees, which results in the holder of the specified obligation restructured making specific provision or other similar debit to its profit and loss account;	

Amendments to be made	Remarks (including references)
(m) in any case where any of the specified obligations provides a grace period within which the reference entity may make good a default in payment, the subject contract is not capable of terminating prior to the expiry of the grace period; (n) in any case where the subject contract provides for settlement in cash, it provides an adequate mechanism for valuation of loss and specifies a reasonable period within which that valuation is to be arrived at following a credit event;	Basel Framework reference: CRE22.74(3) and (4). Subparagraphs (m) and (n) are equivalent to the proposed repealed §99(1)(l) and (m).
(o) in any case where the specified obligations do not include or are different from the protected exposure— (i) each of the specified obligations ranks for payment or repayment equally with, or junior to, the protected exposure; and (ii) the obligor in respect of the protected exposure is the same person as the reference entity of the subject contract and legally enforceable cross default or cross acceleration clauses are included in the terms of both the protected exposure and the specified obligations;	Basel Framework reference: CRE22.74(7) and (8). Subparagraph (o) is equivalent to the proposed repealed §99(1)(n).
(p) in any case where under the terms of the subject contract it is a condition of settlement that the AI transfers its rights in respect of the protected exposure, to the protection seller, the terms of the protected exposure provide that any consent which may be required from the obligor in respect of the protected exposure must not be unreasonably withheld; (q) the subject contract specifies clearly the identity of the person who is empowered to determine whether a credit event has occurred, that person is not solely the	Basel Framework reference: CRE22.9, 22.74(5) and (6). Subparagraphs (1)(p) to (r) are equivalent to the proposed repealed §99(1)(o) to (q).

Amendments to be made	Remarks (including references)
protection seller and the AI is, under the terms of the subject contract, entitled to inform the protection seller of the occurrence of a credit event; and (r) the subject contract is binding on all parties and legally enforceable in all relevant jurisdictions.	
(2) If all the criteria set out in paragraph (1) are met in respect of the subject contract except that the credit events specified in the subject contract do not include the credit event described in paragraph (1)(l)(iii), the subject contract may be deemed to be a recognized credit derivative contract and is not subject to the treatments set out in paragraph (3) and (4) if all of the following conditions are met— (a) the protected exposure in respect of which the subject contract has been entered into is an exposure to a corporate; (b) unanimous consent of all creditors in respect of a specified obligation of the subject contract is required to amend the maturity, principal, coupon, currency or seniority status of the specified obligation; and (c) the legal domicile in which the specified obligation is governed has well-established legislation on insolvency, bankruptcy or liquidation that— (i) allows for a corporate to reorganize or restructure; and (ii) provides for an orderly settlement of creditor claims.	Basel Framework Reference: CRE22.74 footnote 9.
(3) If— (a) all the criteria set out in paragraph (1) are met in respect of the subject contract	Basel Framework reference: CRE22.75. Paragraph (3) is equivalent to the proposed repealed

Amendments to be made		Remarks (including references)
	except that the credit events specified in the subject contract do not include the credit even described in paragraph (1)(l)(iii); and (b) any one or more of the conditions set out in paragraph (2) are not met in respect of the subject contract; but (c) the maximum liability of the protection seller to the AI under the subject contract is more than the amount of the protected exposure, the subject contract may only be deemed to be a recognized credit derivative contract to the extent of 60% of the amount of the protected exposure.	§99(2) with modifications to reflect the exception introduced in paragraph (2).
(4)	If— (a) all the criteria set out in paragraph (1) are met in respect of the subject contract except that the credit events specified in the subject contract do not include the credit event described in paragraph (1)(l)(iii); and (b) any one or more of the conditions set out in paragraph (2) are not met in respect of the subject contract; but (c) the maximum liability of the protection seller to the AI under the subject contract is less than, or equal to, the amount of the protected exposure, the subject contract may only be deemed to be a recognized credit derivative contract to the extent of 60% of the maximum liability of the protection seller to the AI under the subject contract.	Basel Framework reference: CRE22.75. Paragraph (4) is equivalent to the proposed repealed §99(3) with modifications to reflect the exception introduced in paragraph (2).

Amendments to be made	Remarks (including references)
(5) If the subject contract is a credit derivative contract embedded in a cash funded credit-linked note issued by the AI, the subject contract is recognized for the purposes of calculating the risk-weighted amount of the protected exposure if all the criteria set out in paragraph (1), excluding the criterion set out in paragraph (1)(b), are met.	Basel Framework reference: CRE22.77 footnote 12.
(6) In this section— ***restricted credit derivative contract***, in relation to an AI, means— (a) a total return swap where— (i) the AI is the protection buyer under the swap; and (ii) the AI records the net payments received by it under the swap as net income but does not record, through deductions in fair value in the accounts of the AI or by an addition to reserves or provisions, the extent to which the value of the protected exposure has deteriorated; or (b) a first-to-default credit derivative contract, a second-to-default credit derivative contract or any other n^{th}- to-default credit derivative contract. ***specified obligation***, in relation to a credit derivative contract entered into by an AI as a protection buyer in respect of an exposure of the AI— (a) means an obligation of a specified reference entity specified in the credit derivative contract that is— (i) a reference obligation; or	Basel Framework Reference: CRE22.77 and CRE22.78.

Amendments to be made	Remarks (including references)
(ii) an obligation used for the purposes of determining whether a credit event has occurred; and (b) may or may not include the exposure of the AI.	

Item 99. Add new section on eligible credit protection provider

Matters to be provided	Remarks (including references)
(1) For the purposes of sections 98 and 99, an entity that provides credit protection to an exposure is an eligible credit protection provider if both of the conditions set out in paragraph (2) below are met.	Basel Framework reference: CRE22.76.
(2) The conditions are— (a) the entity is— (i) a sovereign; (ii) a public sector entity; (iii) a multilateral development bank; (iv) an unspecified multilateral body; (v) a bank; (vi) a qualifying CCP; (vii) a prudentially regulated financial institution; or	Basel Framework reference: CRE22.76(1) and (2)(a) and footnote 10.

Matters to be provided	Remarks (including references)
(viii) an entity not listed above that has an ECAI issuer rating; and (b) the attributed risk-weight of the entity is lower than the risk-weight that would be allocated to the exposure in respect of which the credit protection is provided.	
(3) In this section— ***prudentially regulated financial institution*** means— (a) a non-bank financial institution other than qualifying CCP; (b) an entity (other than bank, non-bank financial institution and qualifying CCP) that is— (i) authorized by a regulator pursuant to the law of a jurisdiction to carry on financial activities in that jurisdiction; and (ii) subject to supervisory standards imposed by the regulator that are substantially consistent with international norms; or (c) an entity that is a member of a group of companies (comprised of the ultimate holding company and all of its subsidiaries) where any major entity in the group falls within subparagraph (a) or (b).	Basel Framework reference: CRE22.76 footnote 11.

Item 100. Add new section on recognized internal hedge to trading book

Matters to be provided	Remarks (including references)
(1) Subject to paragraph (2), an internal hedge used by an AI to transfer the credit risk of one or more credit exposures (***protected credit exposure***) booked in the AI's banking book to	Basel Framework Reference: RBC25.21(1) and

Matters to be provided		Remarks (including references)
	its trading book is recognized for the purposes of calculating the risk-weighted amount of the protected credit exposure under this Part if— (a) an external hedge in the form of a credit derivative contract is— (i) entered into by the AI with a third party; and (ii) booked in the AI's trading book; (b) the external hedge exactly matches the internal hedge; and (c) the external hedge meets the requirements in section 99[(1)(a), (b), (c), (l), (m), (n), (o), (p), (q) and (r)][33] in respect of the protected credit exposure.	(3) and 25.22[32].
(2)	For the purposes of paragraph (1)— (a) if the external hedge meets the requirements specified in paragraph (1)(a), (b) and (c) except that the credit events specified in the external hedge do not include the credit event described in section 99[(1)(l)(iii)][34]— (i) in cases where the amount of the internal hedge is more than the amount of the protected credit exposure, the internal hedge may only be deemed to be a recognized credit derivative contract to the extent of 60% of the amount of the protected credit exposure; (ii) in cases where the amount of the internal hedge is less than, or equal to, the	Basel Framework reference: RBC25.21(3) and footnote 7, and CRE22.75.

[32] RBC25 – Boundary between the banking book and the trading book (https://www.bis.org/basel_framework/chapter/RBC/25.htm?inforce=20230101&published=20200327).
[33] Subject to the exact subsection numbers to be determined by the law draftsman for Item 98(1)(a), (b), (c), (l), (m), (n), (o), (p), (q) and (r).
[34] Subject to the exact subsection number to be determined by the law draftsman for Item 98(1)(l)(iii).

Matters to be provided	Remarks (including references)
amount of the protected credit exposure, the internal hedge may only be deemed to be a recognized credit derivative contract to the extent of 60% of the amount of the internal hedge; (b) if an external hedge is made up of multiple transactions with multiple third parties (***aggregate external hedge***)— (i) each of those transactions must meet the requirements in paragraph (1)(a) and (c); (ii) the aggregate external hedge must exactly match the internal hedge; and (iii) the internal hedge must exactly match the aggregate external hedge.	Paragraph (2)(b)(ii) and (iii) are requirements explicitly stated in RBC25.21(3) which suggest that fulfilment of paragraph (2)(b)(ii) does not necessarily result in fulfilment of paragraph (2)(b)(iii) and vice versa.
(3) In this section— ***Internal hedge*** means an internal written record of a transfer of credit risk from the banking book of an AI to its trading book.	Basel Framework reference: RBC25.18.

Item 101. Amend section 100 (Capital treatment of recognized guarantees and recognized credit derivative contracts)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements: (1) If an exposure is covered by a recognized guarantee or recognized credit derivative contract (***protected exposure***)— (a) in the case of a recognized guarantee or a recognized credit derivative contract	Paragraph (1) is similar to the proposed repealed §100(1) but with new provision to set out the treatment of exposures covered by internal hedges

Amendments to be made	Remarks (including references)
recognized under section 99, an AI must calculate the risk-weighted amount of the protected exposure in accordance with paragraph (2); (b) in the case of a recognized credit derivative contract in the form of internal hedge recognized under Item 100, an AI may, for the purposes of this Part— (i) treat the amount of the credit protection covered portion of the protected exposure as zero provided that capital charges are held for the trading book leg of the internal hedge and the corresponding external hedge in accordance with the requirements in Part 8; and (ii) if there is any credit protection uncovered portion, calculate the risk-weighted amount of the unprotected amount of the protected exposure in accordance with paragraph (2).	(see RBC25.22).
(2) If the credit protection covered portion and the credit protection uncovered portion of a protected exposure rank equally— (a) sections 83, 84 and 85, with all necessary modifications, apply to the AI in relation to the calculation of the risk-weighted amount of the protected exposure; and (b) the AI must— (i) subject to paragraphs (5), (6) and (7), allocate to the protected amount of the protected exposure the risk-weight determined in accordance with Division 3 by regarding the protected amount as an exposure of the AI to the credit protection provider; and	Basel Framework reference: CRE22.79(1) and 22.80. Paragraph (2) combines the proposed repealed §100(2) and (3).

Amendments to be made	Remarks (including references)
(ii) allocate to the unprotected amount of the protected exposure the risk-weight attributable to the protected exposure under Division 3.	
(3) For the purposes of paragraph (2)— (a) if section 83 or 85 applies to the AI— (i) subject to paragraph (4), the protected amount of the protected exposure is the credit protection covered portion of the protected exposure; and (ii) the unprotected amount of the protected exposure is the credit protection uncovered portion of the protected exposure; (b) if section 84 applies to the AI— (i) subject to paragraph (4), the protected amount of the protected exposure is the product of the credit protection covered portion of the protected exposure and the CCF applicable to the protected exposure; and (ii) the unprotected amount of the protected exposure is the product of the credit protection uncovered portion of the protected exposure and the CCF applicable to the protected exposure.	
(4) If in respect of a protected exposure there is a currency mismatch, an AI must, in determining the credit protection covered portion for the purpose of paragraph (1)(b) or	Basel Framework reference: CRE22.82 and 22.83. Paragraph (4) is equivalent to the proposed repealed §100(4).

Amendments to be made	Remarks (including references)
the protected amount for the purpose of paragraph (2), adjust the amount of the credit protection covered portion of the protected exposure by the use of Formula 11[35]. **Formula 11** **Calculation of Amount of Credit Protection Covered Portion if there is Currency Mismatch** $G_a = G \times (1 - H_{fx})$ where— G_a = credit protection covered portion adjusted for a currency mismatch; G = credit protection covered portion before adjustment for a currency mismatch; and H_{fx} = haircut applicable in consequence of a currency mismatch pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92.	
(5) If— (a) section [56(1) or (2)][36] is applicable to domestic currency exposures to a sovereign; and (b) a protected exposure— (i) is funded in the local currency of that sovereign; and	Basel Framework reference: CRE22.84. Paragraph (5) is equivalent to the proposed repealed §100(5).

[35] It is assumed that the current formula number will not be changed.
[36] Subject to the exact section numbers to be determined by the law draftsman for Item 42(1) and (2).

Amendments to be made	Remarks (including references)
(ii) is the subject of a recognized guarantee by that sovereign denominated in the local currency, the AI may allocate the lower risk-weight provided for by section [56(1) or (2)], as the case requires, to the protected amount of the protected exposure.	
(6) If the credit protection covered portion of a protected exposure is such credit protection covered portion by virtue of a recognized guarantee (***original guarantee***) and is the subject of a counter-guarantee given by a sovereign, an AI may, in respect of the credit protection covered portion, treat the counter-guarantee as if it were the original guarantee if— (a) the counter-guarantee covers all credit risk elements of the protected exposure to the extent that it relates to the credit protection covered portion; (b) the counter-guarantee is given in such terms that it can be called if— (i) for any reason the obligor in respect of the protected exposure fails to make payments due in respect of the protected exposure; and (ii) the original guarantee could be called; (c) the counter-guarantee meets all of the requirements for guarantees set out in section 98 (except that the counter-guarantee need not meet the requirements set out in section 98(b) and (c)); and (d) the AI reasonably considers, and demonstrates to the satisfaction of the MA, that—	Basel Framework reference: CRE22.84. Paragraph (6) is equivalent to the proposed repealed §100(9).

Amendments to be made	Remarks (including references)
(i) the cover of the counter-guarantee is adequate and effective; and (ii) there is no evidence to suggest that the coverage of the counter-guarantee is less effective than that of a direct and explicit guarantee by the sovereign that gives the counter-guarantee.	
(7) If a recognized credit derivative contract is cleared by a qualifying CCP, an AI may allocate to the protected amount of the protected exposure to which the contract relates— (a) a risk-weight of 2% if— (i) the AI is a clearing member of the qualifying CCP; (ii) the AI is a direct client of a clearing member of the qualifying CCP, and all the conditions set out in section 226ZA(6) are met; or (iii) the AI is an indirect client within a multi-level client structure associated with the qualifying CCP, and all the conditions set out in section 226ZA(6), with all necessary modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the AI within the multi-level client structure, and the AI; (b) a risk-weight of 4% if the AI is a direct client of a clearing member of the qualifying CCP, and all the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)) are met; or (c) a risk-weight of 4% if the AI is an indirect client within a multi-level client structure associated with the qualifying CCP, and all the conditions set out in section	This provision is equivalent to the proposed repealed §100(10).

Amendments to be made	Remarks (including references)
226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)), with all necessary modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the AI within the multi-level client structure, and the AI.	

Item 102. Amend section 101 (Provisions supplementary to section 100)

Amendments to be made	Remarks (including references)
(1) Amend the chapeau of subsection (1) by replacing "Where" with "Subject to section 99[(2), (3) and (4)][37], if".	
(2) Repeal subsection (2).	
(3) Repeal subsections (3), (4) and (5).	Basel Framework reference: CRE22.78.
(4) Repeal subsections (6) and (6A).	
(5) Amend subsection (8) as follows: (a) in the chapeau, replace "Where" with "Subject to subsection (9), if"; (b) in paragraph (a), add "and" at the end; (c) in paragraph (b), replace "; and" with a full stop; and (d) remove paragraph (c).	

[37] Subject to the exact subsection numbers to be determined by the law draftsman for Item 98(2), (3) and (4).

Amendments to be made	Remarks (including references)
(6) Add a new subsection (9) after subsection (8) along the following lines: "If the credit protection in respect of an AI's exposure consists of a recognized credit derivative contract (including such a contract embedded in credit-linked notes issued by the AI) which provides that, upon the happening of a credit event, the protection seller is not obliged to make a payment in respect of any loss if the loss does not exceed a specified amount (***materiality threshold***), the AI must, in calculating its capital adequacy ratio, allocate a risk-weight of 1250% to the portion of the exposure that is below the materiality threshold.".	Basel Framework reference: CRE22.79(2).

III(xi) Amendments to Division 10 of Part 4

Item 103. Amend section 102 (Multiple recognized credit risk mitigation)

Amendments to be made	Remarks (including references)
(1) In subsections (1) and (3), replace "these Rules" with "this Part".	

Item 104. Amend section 103 (Maturity mismatches)

Amendments to be made	Remarks (including references)
(1) In subsection (3)(a), remove "if the credit protection is in the form of recognized collateral, guarantees or credit derivative contracts,".	

Amendments to be made	Remarks (including references)
(2) In subsection (4), after "section 79(1)(a)", add "(d), (m) or (n) or section 80(1)(b) or (c)"[38].	

[38] Subject to the exact subsection numbers to be determined by the law draftsman for Item 83(1)(d), (m) and (n) and Item 84(1)(b) and (c).

IV. AMENDMENTS TO PART 5 (CALCULATION OF CREDIT RISK FOR NON-SECURITIZATION EXPOSURES: BSC APPROACH) TO BE EFFECTIVE ON [1 JULY 2023]

IV(i) Amendments to Division 1 of Part 5

Item 105. Amend section 105 (Interpretation of Part 5) – add new definitions

New definitions		Remarks (including references)
(1)	The following new definitions should have the same meaning as proposed in Item 27— (a) ***ADC exposure*** (see Item 27(3)); (b) ***equity exposure*** (see Item 27(8) and Item 34); (c) ***real estate exposure*** (see Item 27(16)); and (d) ***specific provisions*** (see Item 27(23)).	
(2)	***commitment***, in relation to the determination of a CCF applicable to an off-balance sheet exposure, has the meaning given by Item 216(2)(a).	
(3)	***corporate*** means a company, a partnership or any other unincorporated body, that is neither a multilateral development bank, unspecified multilateral body, public sector entity nor bank.	
(4)	***exposure value*** — this definition is identical to the definition of "exposure value" proposed in Item 27(9), except that— (a) the reference to "section 71(1)" in that Item should be replaced with "section 118(1)" (i.e. the proposed amended section 118(1) in Item 143(2)); and	

New definitions	Remarks (including references)
(b) the reference to "section 71(2) and (3)" in that Item should be replaced with "section 118(2)" (no amendment is proposed to section 118(2)).	
(5) ***subordinated debt*** — this definition is identical to the definition of "subordinated debt" proposed in Item 27(24), except that the wording "bank, non-bank financial institution or corporate" proposed in that Item should be replaced with "bank or corporate".	
(6) ***regulatory residential real estate exposure***—see the proposed amended section 115 (Item 121).	

Item 106. Amend section 105 (Interpretation of Part 5) - amend existing definitions

Amendments to be made	Remarks (including references)
(1) Amend the definition of "attributed risk-weight" to read as— ***attributed risk-weight***— (a) in relation to a person (however described), subject to paragraphs (b) and (c), means the risk-weight that would be attributable, in accordance with Subdivision 1 or 4 of Division 3, to an unsecured exposure to the person as the obligor on the following assumptions— (i) the unsecured exposure is a loan granted to the person; (ii) the residual maturity of the loan is not less than one year; and	

Amendments to be made	Remarks (including references)
(iii) the loan is not a domestic currency exposure[39]; (b) in sections 132 and 134 and in relation to a guarantor under a guarantee given to an exposure, means the risk-weight that would be attributable, in accordance with Division 3, to the exposure as if the guarantor were the obligor in respect of the exposure; and (c) in sections 133 and 134 and in relation to a protection seller under a credit derivative contract entered into in respect of an exposure, means the risk-weight that would be attributable, in accordance with Division 3, to the exposure as if the protection seller were the obligor in respect of the exposure.	
(2) ***credit equivalent amount*** (a) Remove "or 120".	
(3) ***principal amount*** (a) In paragraph (b)(i) of the definition, replace "Table 14 or to which section 120(2) applies" with a cross-reference to the new schedule proposed in Item 216. (b) In paragraph (b)(ii) of the definition, replace "Table 14 or to which section 120(2) applies" with a cross-reference to the new schedule proposed in Item 216.	
(4) ***recognized credit derivative contract*** (a) In paragraph (a) of the definition, after "133(1)" add "or [the subsection of the	

[39] The term "domestic currency exposure" is a defined term in §2(1) of the BCR.

Amendments to be made	Remarks (including references)
proposed amended section 133 that will house the requirement set out in Item 98(2)]"; (b) In paragraph (b) of the definition, replace "133(2) or (3)" with "133 [the subsection of the proposed amended section 133 that will house the requirement set out in Item 98(3)] or [the subsection of the proposed amended section 133 that will house the requirement set out in Item 98(4)]".	

Item 107. Amend section 105 (Interpretation of Part 5) - repeal existing definitions

Amendments to be made	Remarks (including references)
(1) Repeal the following definitions: (a) ***cash items***; and (b) ***SFT risk-weighted amount***.	

IV(ii) Amendments to Division 2 of Part 5

Item 108. Amend section 106 (Calculation of risk-weighted amount of exposures)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements: (1) Subject to section 107, an AI must calculate an amount representing the degree of credit risk to which the AI is exposed by aggregating— (a) the risk-weighted amounts of the AI's on-balance sheet exposures; and (b) the risk-weighted amounts of the AI's off-balance sheet exposures.	
(2) For the purposes of paragraph (1), subject to paragraph (4)— (a) the risk-weighted amount of each exposure (except CIS exposure and default risk exposure in respect of derivative contracts or SFTs) must be calculated by multiplying the exposure value of the exposure by the relevant risk-weight attributable to the exposure determined under Division 3; (b) the risk-weighted amount of each CIS exposure must be calculated in accordance with Division 3A (see Item 138); and (c) the risk-weighted amount of each default risk exposure in respect of derivative contracts or SFTs is the amount specified in paragraph (3).	This paragraph combines the proposed repealed §106(2)(a) and (3)(ab).

Amendments to be made	Remarks (including references)
(3) If an AI— (a) has an IMM(CCR) approval— (i) the risk-weighted amount of the default risk exposure in respect of derivative contracts or SFTs covered by the IMM(CCR) approval is the IMM(CCR) risk-weighted amount; (ii) the risk-weighted amount of the default risk exposure in respect of derivative contracts that are not covered by the IMM(CCR) approval or that fall within section 10B(5) or (7) is the sum of the SA-CCR risk-weighted amounts calculated for the contracts; and (iii) the risk-weighted amount of the default risk exposure in respect of SFTs that are not covered by the IMM(CCR) approval or that fall within section 10B(5) or (7) is the sum of the SFT risk-weighted amounts calculated for the SFTs; (b) does not have an IMM(CCR) approval for any of its derivative contracts or SFTs— (i) the risk-weighted amount of the default risk exposure in respect of derivative contracts is— (A) if the AI uses the current exposure method to calculate default risk exposures in respect of derivative contracts—the sum of the CEM risk-weighted amounts calculated for the contracts; or	This paragraph combines the proposed repealed §106(3)(a) and (4). Provisions related to CVA in the proposed repealed §106(3)(a)(iii) and (4)(c) and (d) are removed as CVA will be provided under the market risk framework instead of the credit risk framework.

Amendments to be made	Remarks (including references)
(B) if the AI uses the SA-CCR approach to calculate default risk exposures in respect of derivative contracts—the sum of the SA-CCR risk-weighted amounts calculated for the contracts; and (ii) the risk-weighted amount of the default risk exposure in respect of SFTs is the sum of the SFT risk-weighted amounts calculated for the SFTs.	
(4) An AI may reduce the risk-weighted amount of its exposure by taking into account the effect of any recognized credit risk mitigation in respect of the exposure in the manner set out in Divisions 5, 6, 7 and 8 unless— (a) the AI falls within paragraph (5); or (b) paragraph (6) or (7) applies to the recognized credit risk mitigation concerned.	It is proposed to mirror the requirement set out in Item 31(5) such that the disclosure standard set out in the Banking (Disclosure) Rules (Cap. 155M) in respect of credit risk must be fulfilled for AIs to obtain capital relief in respect of any credit risk mitigation ("CRM") techniques.
(5) The AI referred to in paragraph (4)(a) is an AI that has made disclosures in respect of credit risk for the immediately preceding applicable reporting periods but the disclosures are not fully in compliance with the applicable provisions set out in Division 4 of Part 2A of the Disclosure Rules. In this paragraph— (a) ***applicable provisions***, in relation to an AI that uses the BSC approach to calculate the credit risk for its non-securitization exposures, means the provisions set out in Division 4 of Part 2A of the Disclosure Rules the application of which to the AI has not been exempted by the MA under section 3 of the Disclosure Rules; (b) ***Disclosure Rules*** means the Banking (Disclosure) Rules (Cap. 155 sub. leg. M);	

Amendments to be made	Remarks (including references)
(c) ***applicable reporting period***, in relation to an applicable provision, means the reporting period (within the meaning given by section 2(1) of the Disclosure Rules) referred to in that applicable provision.	
(6) If an AI has bought credit protection for an exposure and the credit protection is in the form of a single-name credit default swap that falls within section 226J(1), the AI must not under paragraph (4) take into account the credit risk mitigation effect of the swap.	This paragraph combines the proposed repealed §106(2)(c) and (3)(d) to reduce duplication.
(7) If an exposure of an AI is a default risk exposure in respect of derivative contracts or SFTs, the AI must not under paragraph (4) take into account the effect of any recognized credit risk mitigation applicable to the exposure that has already been taken into account in the calculation of the amount of the default risk exposure under Part 6A.	This paragraph is equivalent to the proposed repealed §106(3)(c).
(8) In paragraph (3)— (a) ***SFT risk-weighted amount*** means the risk-weighted amount of the default risk exposure in respect of a SFT calculated in accordance with section 129; (b) ***CEM risk-weighted amount*** means the risk-weighted amount of the default risk exposure in respect of a derivative contract calculated as the product of— (i) the exposure value of the default risk exposure calculated by using the current exposure method; and (ii) the risk-weight applicable to the default risk exposure determined under this Part.	

Item 109. Amend section 107 (On-balance sheet exposures and off-balance sheet exposures to be covered)

Amendments to be made	Remarks (including references)
(1) Repeal all subsections and replace with provisions to provide for the same requirements as proposed in Item 32, except that "section 52" in the chapeau of paragraph (1) of that Item should be replaced with "section 106";".	

Item 110. Amend section 108 (Classification of exposures)

Amendments to be made	Remarks (including references)
Repeal the chapeau and all paragraphs and replace with provisions to provide for the following requirements: (1) An AI must classify its on-balance sheet exposures and off-balance sheet exposures into one only of the following categories— (a) exposures that are not CIS exposures: and (b) CIS exposures.	
(2) The AI must— (a) further classify each of the exposures falling within paragraph (1)(a), according to the obligor or the nature of the exposure, into one only of the following subcategories— (i) exposures that do not fall within sub-subparagraphs (ii), (iii), (iv), (v), (vi) and (vii)—	

Amendments to be made	Remarks (including references)
(A) sovereign exposures; (B) public sector entity exposures; (C) multilateral development bank exposures; (D) unspecified multilateral body exposures; (E) bank exposures (other than eligible covered bond exposures); (F) eligible covered bond exposures; (G) real estate exposures; (ii) equity exposures (other than those falling within sub-subparagraphs (iii) and (iv)); (iii) significant capital investments in commercial entities (see Item 128(2)); (iv) holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities; (v) subordinated debts issued by banks and corporates; (vi) cash and gold; (vii) items in the process of clearing or settlement; and (b) classify each of the exposures falling within paragraph (1)(a) that does not fall within subparagraph (a) as other exposures.	

Amendments to be made	Remarks (including references)
(3) An AI must— (a) determine the risk-weight attributable to each of the exposures falling within paragraph (1)(a) in accordance with Division 3; and (b) determine the risk-weights attributable to the exposures falling within paragraph (1)(b) in accordance with Division 3A.	

IV(iii) Amendments to Division 3 of Part 5

Item 111. Amend Division 3 (Determination of Risk-weights Applicable to On-balance Sheet Exposures)

Amendments to be made	Remarks (including references)
(1) Change the heading of Division 3 to "**Determination of Risk-weights Applicable to Exposures other than CIS Exposures**".	
(2) Repeal the following headings in Division 3: (a) the heading "**Subdivision 1—Exposures other than CIS Exposures**"; (b) the heading "**Subdivision 2—CIS Exposures**"; and (c) the heading "**Subdivision 3—Treatment of Certain Types of Off-balance Sheet Exposures**".	

Item 112. Amend section 108A (Application of Subdivision 1)

Amendments to be made		Remarks (including references)
(1)	Change the heading of section 108A to "Application of Division 3".	
(2)	Replace "Subdivision" with "Division".	

IV(iv) Amendments to Subdivision 1 of Division 3 of Part 5

Item 113. Amend Subdivision 1 (including adding new sections)

Amendments to be made		Remarks (including references)
(1)	After the proposed amended section 108A, add the following heading: "**Subdivision 1—Exposures other than those falling within Subdivisions 2, 3 and 4**"	
(2)	The proposed amended Subdivision 1 will contain the following sections— (a) sections 109 and 110 on sovereign exposures; (b) section 111 on public sector entity exposures; (c) section 112 on multilateral development bank exposures; (d) the proposed new section on unspecified multilateral body exposures (see Item 114); (e) the proposed amended section 113 on bank exposures (other than eligible covered bond exposures) (see Item 115);	

Amendments to be made	Remarks (including references)
(f) the proposed new section on eligible covered bond exposures (see Item 116); (g) the proposed amended section 114 on cash and gold (see Item 118); and (h) the proposed amended section 114A on items in the process of clearing or settlement (see Item 119).	

Item 114. Add new section on unspecified multilateral body exposures

Matters to be provided	Remarks (including references)
(1) An AI must allocate a risk-weight of 50% to an exposure to an unspecified multilateral body[40].	

Item 115. Amend section 113 (Bank exposures)

Amendments to be made	Remarks (including references)
(1) Add a new provision to provide that section 113 applies to an exposure to a bank that is not an eligible covered bond exposure.	

Item 116. Add new section on eligible covered bonds exposures

Matters to be provided	Remarks (including references)
(1) An AI must—	

[40] A new definition of "unspecified multilateral body" in §2(1) is proposed in Item 1(13).

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(a) determine the attributed risk-weight of the issuer of an eligible covered bond; and

(b) allocate a risk-weight to an exposure to that eligible covered bond in accordance with the following table based on the attributed risk-weight of the issuer determined under subparagraph (a).

<table><tr><th colspan="2">Risk-weights for Eligible Covered Bonds</th></tr><tr><td>Attributed risk-weight of issuer</td><td>Risk-weight for eligible covered bond exposures</td></tr><tr><td>20%</td><td>10%</td></tr><tr><td>100%</td><td>50%</td></tr></table></td><td></td></tr>
<tr><td>(2) For the purpose of paragraph (1), if the issuer of an eligible covered bond is a financial institution other than a bank, an AI may determine the attributed risk-weight of the issuer in a manner as if the issuer were a bank.</td><td></td></tr>
</table>

Item 117. [Reserved]

Item 118. Amend section 114 (Cash items)

Amendments to be made	Remarks (including references)
(1) Change the heading of section 114 to "**Cash and gold**".	
(2) Repeal the chapeau and all paragraphs and replace with provisions to provide for the same requirements as proposed in Item 65, except that the wording "risk-weighted as a claim on the person who holds the gold bullion" proposed in paragraph (2) of that Item	

Amendments to be made	Remarks (including references)
should be replaced with "allocated the attributed risk-weight of the person who holds the gold bullion".	

Item 119. Amend section 114A (Failed delivery on transactions entered into on non-delivery-versus-payment basis)

Amendments to be made	Remarks (including references)
(1) Change the heading of section 114A to "**Items in the process of clearing or settlement**".	
(2) Repeal the chapeau and all paragraphs and replace with provisions to provide for the same requirements as proposed in Item 66, except that the chapeau of paragraph (4)(a) of that Item should be replaced with "if the transaction remains unsettled up to and including the fourth business day after the settlement date, risk-weight the following items as loans to the counterparty to the transaction—".	

IV(v) Proposed new subdivision 2 of Division 3 of Part 5

Item 120. Add a new heading for the new subdivision 2

Matters to be provided	Remarks (including references)
(1) After the proposed amended section 114A, add the following heading: "**Subdivision 2—Real Estate Exposures**"	

Matters to be provided	Remarks (including references)
(2) Subdivision 2 will contain the proposed amended section 115 (see Item 121) and the new sections proposed in Item 122 to Item 125.	

Item 121. Amend section 115 (Residential mortgage loans)

Amendments to be made	Remarks (including references)
(1) Change the heading of section 115 to "**Regulatory residential real estate exposures**".	
(2) Repeal all subsections and replace with provisions to provide for the same requirements as proposed in Item 54(1) to (3), except that— (a) the chapeau of paragraph (1) of that Item should be replaced with— "Subject to paragraph (3), a real estate exposure (other than an ADC exposure) of an AI to an obligor is a regulatory residential real estate exposure if all of the following criteria are met in respect of the exposure—"; (b) the wording "paragraph (2)(a), (b) or (c)" in paragraph (1)(a) of that Item should be replaced with "paragraph (2)(a) or (b)" (also see subparagraph (e) below); (c) any reference to "immovable property" in that Item should be replaced with a reference to "residential property"; (d) the wording "paragraph (2)(c)" in paragraph (1)(d) of that Item should be replaced with "paragraph (2)(b)" (also see subparagraph (e) below) (e) paragraph (2)(b) of that Item is not applicable for the purposes of Part 5 as forest and agricultural land are not residential properties, hence, paragraph (2)(c) of that	

Amendments to be made	Remarks (including references)
Item should become "paragraph (2)(b)" for the purposes of Part 5; (f) in the chapeau of paragraph (3) of that Item, the wording "regulatory real estate exposures" should be replaced with "regulatory residential real estate exposures"; and (g) paragraph (3)(b) of that Item should be replaced with— "the exposures were eligible for a risk-weight of 50% under section 115(1) of these Rules as in force immediately before [1 July 2023]; and".	

Item 122. Add new section on loan-to-value ratio

Matters to be provided	Remarks (including references)
(1) This new section should provide for the same requirements as proposed in Item 55, except that— (a) any reference to "regulatory real estate exposure" in that Item should be replaced with a reference to "regulatory residential real estate exposure"; (b) any reference to "immovable property" in that Item should be replaced with a reference to "residential property"; and (c) any reference to "regulatory real estate exposures" in that Item should be replaced with a reference to "regulatory residential real estate exposures".	

Item 123. Add new section on risk-weights of regulatory residential real estate exposures

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(1) Subject to Item 124, if a regulatory residential real estate exposure of an AI, including any such exposure to a member of its staff (whether solely or jointly with another person), is not materially dependent on cash flows generated by the residential property securing the exposure, the AI must allocate a risk-weight to the exposure in accordance with the following table based on the LTV ratio of the exposure calculated under Item 122.
<table>
<tr><th>LTV ratio</th><th>Risk-weight</th></tr>
<tr><td>≤ 70%</td><td>40%</td></tr>
<tr><td>> 70% and ≤ 90%</td><td>50%</td></tr>
<tr><td>> 90%</td><td>100%</td></tr>
</table>
</td><td></td></tr>
<tr><td>(2) Subject to Item 124, if a regulatory residential real estate exposure of an AI, including any such exposure to a member of its staff (whether solely or jointly with another person), is materially dependent on cash flows generated by the residential property securing the exposure, the AI must allocate a risk-weight to the exposure in accordance with the following table based on the LTV ratio of the exposure calculated under Item 122.
<table>
<tr><th>LTV ratio</th><th>Risk-weight</th></tr>
<tr><td>≤ 70%</td><td>50%</td></tr>
<tr><td>> 70% and ≤ 90%</td><td>70%</td></tr>
<tr><td>> 90%</td><td>120%</td></tr>
</table>
</td><td></td></tr>
</table>

Matters to be provided	Remarks (including references)
(3) For the purposes of paragraphs (1) and (2)— (a) subject to subparagraph (b), a regulatory residential real estate exposure is materially dependent on the cash flows generated by the residential property securing the exposure if both the servicing of the exposure and the prospects for recovery in the event of default depend materially on the cash flows generated by the residential property, rather than on the income, revenue and net worth of the obligor in respect of the exposure generated from other sources; (b) for any regulatory residential real estate exposure that was originated before [1 July 2022], an AI may, where information necessary for assessment is not available, treat the exposure as an exposure not materially dependent on the cash flows generated by the residential property securing the exposure.	

Item 124. Add new section on risk-weights of real estate exposures secured by residential properties outside Hong Kong

Matters to be provided	Remarks (including references)
(1) If— (a) a real estate exposure (other than an ADC exposure) of an AI is secured by a residential property situated outside Hong Kong; and (b) the relevant supervisory authority of the jurisdiction in which the residential property is situated has implemented capital adequacy standards that were formulated in accordance with the Basel Framework,	

Matters to be provided	Remarks (including references)
the AI may allocate a risk-weight to the exposure provided for under the capital adequacy standards (but excluding any approach that is based on internal models) applicable to banks incorporated in that jurisdiction.	

Item 125. Add new section on risk-weights of other real estate exposures

Matters to be provided	Remarks (including references)
(1) An AI must allocate a risk-weight of 150% to— (a) any ADC exposure; and (b) any other real estate exposure that is neither a regulatory residential real estate exposure nor a real estate exposure to which Item 124 applies.	

IV(vi) Proposed new subdivision 3 of Division 3 of Part 5

Item 126. Add a new heading for the new subdivision 3

Matters to be provided	Remarks (including references)
(1) After the proposed new section in Item 125, add the following heading: "**Subdivision 3—Equity Exposures and Subordinated Debts**"	
(2) Subdivision 3 will contain the new sections proposed in Item 127 to Item 130.	

Item 127. Add new section on equity exposures

Matters to be provided	Remarks (including references)
(1) The requirements to be set out in this new section are identical to those set out in Item 61, except that the wording "Subject to Item 62 and Item 63" in the chapeau of paragraph (1) of that Item should be replaced with "Subject to Item 128 and Item 129".	

Item 128. Add new section on significant capital investments in commercial entities

Matters to be provided	Remarks (including references)
(1) If the net book value of an AI's significant capital investment in a commercial entity exceeds 15% of its capital base as reported in its capital adequacy ratio return as at the immediately preceding calendar quarter end date, the AI must— (a) subject to section 43(1)(n), allocate a risk-weight of 1250% to that amount of the net book value of the investment that exceeds that 15%; and (b) allocate a risk-weight determined in accordance with section [to insert reference to the new section proposed in Item 127 that will house the requirement set out in Item 61(1)(a)] or [to insert reference to the new section proposed in Item 127 that will house the requirement set out in Item 61(1)(b)], as the case requires, to that amount of the net book value of the holdings that does not exceed that 15%.	

Matters to be provided	Remarks (including references)
(2) In this section— ***significant capital investment in a commercial entity*** means an AI's holdings of shares in a commercial entity where— (a) the holdings amount to more than 10% of the ordinary shares issued by the commercial entity; or (b) the commercial entity is an affiliate of the AI.	

Item 129. Add new section on holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities

Matters to be provided	Remarks (including references)
(1) The requirements to be set out in this new section are identical to those set out in Item 63, except that (a) paragraph (1)(a) of that Item should be replaced with "a risk-weight determined in accordance with section [to insert reference to the new section proposed in Item 127 that will house the requirement set out in Item 61(1)(a)] or [to insert reference to the new section proposed in Item 127 that will house the requirement set out in Item 61(1)(b)], as the case requires, if the insignificant LAC investment is an equity exposure; or"; and (b) paragraph (2)(b)(i) of that Item should be replaced with "a risk-weight determined in accordance with section [to insert reference to the new section proposed in Item 127 that will house the requirement set out in Item 61(1)(a)] or [to insert reference	

Matters to be provided	Remarks (including references)
to the new section proposed in Item 127 that will house the requirement set out in Item 61(1)(b)], as the case requires, if the significant LAC investment is an equity exposure; or".	

Item 130. Add new section on exposures to subordinated debts

Matters to be provided	Remarks (including references)
(1) An AI must assign a risk-weight of 150% to exposures to subordinated debts issued by banks and corporates.	

IV(vii) Proposed new subdivision 4 of Division 3 of Part 5

Item 131. Add a new heading for the new subdivision 4

Matters to be provided	Remarks (including references)
(1) After the proposed new section in Item 130, add the following heading: "**Subdivision 4—Other Exposures**"	
(2) Subdivision 4 will contain the proposed amended section 116 (see Item 132).	

Item 132. Amend section 116 (Other exposures)

Amendments to be made	Remarks (including references)
(1) Repeal subsections (1) and (2) and replace with a provision to provide for the following requirement: (a) If none of the sections in Subdivisions 1, 2 and 3 applies to an exposure, an AI must allocate a risk-weight of 100% to the exposure.	

IV(viii) Proposed new subdivision 5 of Division 3 of Part 5

Item 133. Add a new heading for the new subdivision 5

Matters to be provided	Remarks (including references)
(1) After the proposed amended section 116 (see Item 132), add the following heading: "**Subdivision 5—Provisions supplementary to Subdivisions 1, 2, 3 and 4**"	
(2) Subdivision 5 will contain the proposed amended section 117 (see Item 134) and the new sections proposed in Item 135 and Item 136.	

Item 134. Amend section 117 (Credit-linked notes)

Amendments to be made	Remarks (including references)
Change the heading of section 117 to "**Exposures to Credit-linked notes**", repeal the chapeau and all paragraphs and replace with provisions to provide for the following requirements:	

Amendments to be made		Remarks (including references)
(1)	Subject to paragraphs (2) and (3), an AI must allocate to an exposure to a credit-linked note a risk-weight that is the higher of— (a) the risk-weight that would be attributable to the note as an exposure to the issuer of the note under Subdivision 1 or 4, as applicable; and (b) the risk-weight that would be attributable to the reference obligations of the note under Subdivision 1, 2, 3 or 4, as applicable.	
(2)	Subject to paragraph (3), if the credit-linked note— (a) is a first-to-default note, second-to-default note or n^{th}-to-default note; or (b) provides credit protection proportionately to a basket of reference obligations, an AI must determine the risk-weight attributable to an exposure to the note as the risk-weight attributable to the pool of reference obligations of the note determined in accordance with Item 70(6), (7), (8) or (9) as incorporated into the new section proposed in Item 135, as the case requires, as if the exposure to the note were a direct exposure to the credit default swap embedded in the note.	
(3)	This section does not apply to any exposure to a credit-linked note, or any part of such exposure, to which any section in Subdivision 3 applies.	

Item 135. Add new section on determination of risk-weights applicable to certain types of off-balance sheet exposures

Matters to be provided		Remarks (including references)
(1)	The requirements to be set out in this new section are identical to those set out in Item 70,	

Matters to be provided		Remarks (including references)
	except that paragraph (5) of that Item should be replaced with the requirements set out in paragraph (2) below.	
(2)	If the subject exposure is a commitment to extend a loan secured by a fully completed residential property and the exposure would, but for the fact it does not satisfy any one or more of Item 54(1)(b), (c) and (d) as modified by Item 121(2), have been a regulatory residential real estate exposure, the AI may allocate a risk-weight in accordance with Item 123 to the exposure only if the AI has no reason to believe that any of Item 54(1)(b), (c) and (d) as modified by Item 121(2) will not be satisfied immediately after the loan that is the subject of that commitment is drawn down.	

Item 136. Add new section on exposures in respect of assets underlying SFTs

Matters to be provided		Remarks (including references)
(1)	The requirements to be set out in this new section are identical to those set out in Item 71.	

Item 137. Repeal section 117A (Significant exposures to commercial entities)

Amendments to be made		Remarks (including references)
(1)	Repeal section 117A.	

IV(ix) Add new Division 3A (Capital treatment of CIS exposures)

Item 138. Add a new heading for the new Division 3A

Amendments to be made		Remarks (including references)
(1)	Before section 117AB, add a heading "**Division 3A—CIS Exposures**".	
(2)	The new Division 3A will contain the proposed amended section 117AB (see Item 139), existing section 117AC (no amendment is proposed to this section), and the proposed amended sections 117AD and 117AE (see Item 140 and Item 141).	

Item 139. Amend section 117AB (Interpretation of Subdivision 2)

Amendments to be made		Remarks (including references)
(1)	Change the heading of section 117AB to "**Interpretation of Division 3A**".	
(2)	In the chapeau, replace "Subdivision" with "Division".	

Item 140. Amend section 117AD (Treatment of CIS exposure constituting deductible holding)

Amendments to be made		Remarks (including references)
(1)	In subsection (3), repeal the entire content of paragraph (a) and replace with provisions along the following lines: "allocate a risk-weight determined in accordance with section [to insert reference to the new section proposed in Item 127 that will house the requirement set out in Item 61(1)(a)] or [to insert reference to the new section proposed in Item 127 that will house the	

Amendments to be made		Remarks (including references)
	requirement set out in Item 61(1)(b)], as the case requires, to any amount of deductible holding determined under subsection (2)(b) if the deductible holding is an insignificant LAC investment that is an equity exposure;".	
(2)	In subsection (3), after the proposed amended paragraph (a), add a new paragraph along the following lines: "allocate a risk-weight of 150% to any amount of deductible holding determined under subsection (2)(b) if the deductible holding is— (a) an insignificant LAC investment that is not an equity exposure; or (b) a holding of non-capital LAC liabilities falling within section 48A; and".	

Item 141. Amend section 117AE (Determination of risk-weights applicable to certain types of off-balance sheet exposures)

Amendments to be made		Remarks (including references)
(1)	Change the heading to "**Determination of risk-weights applicable to certain types of off-balance sheet CIS exposures**".	
(2)	Before subsection (1), add a new subsection to provide that section 117AE applies to CIS exposures that are off-balance sheet exposures (***off-balance sheet CIS exposure***).	
(3)	Repeal the entire content of subsection (1) and replace with provisions to provide that if an off-balance sheet CIS exposure of an authorized institution is an asset sale with recourse or a forward asset purchase, the risk-weight applicable to the off-balance sheet CIS exposure is the risk-weight applicable to the assets sold or to be purchased.	

Amendments to be made		Remarks (including references)
(4)	Amend subsection (2) by replacing "a subject exposure" with "an off-balance sheet CIS exposure".	
(5)	Repeal subsections (3), (4), (5), (6), (7), (8) and (9) (including Formula 12A).	

IV(x) Amendments to Division 4 of Part 5

Item 142. Amend heading of Division 4 (Calculation of Risk-weighted Amount of Authorized Institution's Off-balance Sheet Exposures)

Amendments to be made		Remarks (including references)
(1)	Change the heading of Division 4 to "**Exposure Values of Off-balance Sheet Exposures**".	

Item 143. Amend section 118 (Off-balance sheet exposures)

Amendments to be made		Remarks (including references)
(1)	Change the heading of section 118 to "**Calculation of exposure values of off-balance sheet exposures**".	
(2)	Repeal subsection (1) and Table 14 and replace with provisions to provide for the following requirements: An AI must calculate the credit equivalent amount of an off-balance sheet exposure (other than an exposure to which section 118(2) or (3) applies) by— (a) determining the CCF applicable to the exposure in accordance with the new	

Amendments to be made	Remarks (including references)
schedule proposed in Item 216; and (b) multiplying the principal amount of the exposure, after deducting any specific provisions applicable to the exposure, by the CCF so determined.	
(3) Add a new subsection after subsection (1) to provide for the following requirement: If an off-balance sheet exposure (***exposure A***) is a commitment the drawdown of which will give rise to another off-balance sheet exposure (***exposure B***), the CCF applicable to exposure A is the lower of— (a) the CCF applicable to the commitment determined in accordance with the new schedule mentioned in paragraph (2)(a) above; and (b) the CCF applicable to exposure B determined in accordance with that new schedule.	

Item 144. Repeal section 119 (Provision supplementary to section 118(1))

Amendments to be made	Remarks (including references)
(1) Repeal section 119.	

Item 145. Repeal section 120 (Calculation of credit equivalent amount of off-balance sheet exposures not covered by section 118(1), (2) or (3))

Amendments to be made	Remarks (including references)
(1) Repeal section 120.	

Item 146. Repeal sections 122, 123 and 123A

Amendments to be made	Remarks (including references)
(1) Repeal sections 122, 123 and 123A.	

IV(xi) Amendments to Division 5 of Part 5

Item 147. Amend section 124 (Recognized collateral)

Amendments to be made	Remarks (including references)
(1) Amend section 124(b) by replacing "or transferred" with "(or otherwise provided as security)".	
(2) Repeal section 124(f) and replace with the following: "(f) the credit quality of the obligor in respect of the exposure does not have material positive correlation with— (i) the current market value of the collateral; and (ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the collateral for the purposes of mitigating the credit risk of the exposure."	
(3) Amend section 124(h) by replacing "section 125(1)(a), (b), (c), (d), (e), (f) or (g)" with "any one of the paragraphs of section 125(1)".	

Item 148. Amend section 125 (Collateral which may be recognized for purposes of section 124(h))

Amendments to be made	Remarks (including references)
(1) Amend subsection (1) as follows— (a) add a new paragraph after paragraph (c) to read "gold bullion"; (b) in paragraph (f), repeal "or"; and (c) add new paragraphs after paragraph (g) to include the following assets as collateral that may be recognized: (i) debt securities issued by an unspecified multilateral body; (ii) debt securities (other than eligible covered bonds) issued by— (A) a bank falling within paragraph (a) of the definition of ***bank*** in section 2(1); or (B) a bank falling within paragraph (b) of the definition of ***bank*** in section 2(1) that is incorporated in a Tier 1 country; and (iii) eligible covered bonds.	
(2) In subsection (2), repeal everything after "include debt securities" and replace with "that are re-securitization exposures".	

Item 149. Amend section 126 (Calculation of risk-weighted amount of exposures taking into account credit risk mitigation effect of recognized collateral)

Amendments to be made	Remarks (including references)
(1) In subsection (4)(a), replace "sections 109, 110, 111, 112, 113, 114, 115 and 116" with "Subdivision 1 of Division 3" (i.e. the proposed amended Subdivision 1 of Division 3 per Item 112 to Item 119).	

Item 150. Amend section 127 (Calculation of risk-weighted amount of on-balance sheet exposures)

Amendments to be made	Remarks (including references)
(1) In section 127(a), replace "principal amount of the exposure, net of specific provisions," with "exposure value of the exposure".	

Item 151. Amend section 129 (Calculation of risk-weighted amount of default risk exposures)

Amendments to be made	Remarks (including references)
(1) In subsection (1)(a), repeal everything before "into—" and replace with "dividing the exposure value of the exposure".	

IV(xii) Amendments to Division 7 of Part 5

Item 152. Amend section 132 (Recognized guarantees)

Amendments to be made	Remarks (including references)
(1) Repeal the chapeau of section 132 and replace with: "A guarantee given to an authorized institution is recognized for the purposes of calculating the risk-weighted amount of a specific exposure or a specific pool of exposures of the institution (***guaranteed exposure***) if— ".	
(2) Amend section 132(a) as follows— (a) in subparagraph (i), repeal "of a Tier 1 country"; (b) repeal subparagraphs (ii) and (iii); (c) after subparagraph (v), add a new subparagraph to read "unspecified multilateral body"; (d) in subparagraph (vi), repeal everything and replace with "a bank; or"; (e) repeal subparagraphs (vii) and (viii); (f) after the proposed repealed subparagraph (viii), add a new subparagraph to read "a qualifying CCP,"; and (g) amend the post-amble by replacing "in each case having been allocated a lower risk-weight than that allocated to the exposure in respect of which the guarantee has been given (referred to in this section as ***guaranteed exposure***)" with "in each case having an attributed risk-weight lower than the risk-weight that would be allocated to the guaranteed exposure".	

Amendments to be made	Remarks (including references)
(3) In section 132(c), repeal everything after "guarantee relates" and replace with "specifically to the guaranteed exposure;".	
(4) To insert a new paragraph after section 132(c) to provide that— the credit quality of the obligor in respect of the guaranteed exposure does not have material positive correlation with— (i) the credit quality of the guarantor; and (ii) the residual risks (including legal, operational, liquidity and market risks) arising from the use of the guarantee for the purposes of mitigating the credit risk of the guaranteed exposure.	It is proposed to incorporate the same requirement proposed in Item 147(2) into §132.

Item 153. Amend section 133 (Recognized credit derivative contracts)

Amendments to be made	Remarks (including references)
(1) Repeal all subsections and replace with provisions that are identical to those proposed in Item 98, except that paragraph (1)(b) of that Item should be replaced with a paragraph as set out in paragraph (2) below.	
(2) The protection seller of the subject contract is— (a) a sovereign; (b) a public sector entity of a Tier 1 country;	

Amendments to be made	Remarks (including references)
(c) a multilateral development bank; (d) an unspecified multilateral body; (e) a bank; or (f) a qualifying CCP, in each case having an attributed risk-weight lower than the risk-weight that would be allocated to the protected exposure.	

Item 154. Amend section 134 (Capital treatment of recognized guarantees and recognized credit derivative contracts)

Amendments to be made	Remarks (including references)
Repeal all subsections and replace with provisions to provide for the following requirements:	
(1) If an exposure is covered by a recognized guarantee or recognized credit derivative contract (***protected exposure***), an AI must calculate the risk-weighted amount of the protected exposure in accordance with paragraph (2).	
(2) If the credit protection covered portion and the credit protection uncovered portion of a protected exposure rank equally— (a) sections 127, 128 and 129, with all necessary modifications, apply to the AI in relation to the calculation of the risk-weighted amount of the protected exposure; and (b) the AI must—	It is proposed to combine the proposed repealed §134(2), (3) and (4) to streamline §134. The function of the proposed repealed §134(3) will be served by paragraph (2)(b)(i).

Amendments to be made	Remarks (including references)
(i) subject to paragraphs (5) and (6), allocate to the protected amount of the protected exposure the attributed risk-weight of the credit protection provider; and (ii) allocate to the unprotected amount of the protected exposure the risk-weight attributable to the protected exposure under Division 3.	
(3) For the purposes of paragraph (2)— (a) if section 127 or 129 applies to the AI— (i) subject to paragraph (4), the protected amount of the protected exposure is the credit protection covered portion of the protected exposure; and (ii) the unprotected amount of the protected exposure is the credit protection uncovered portion of the protected exposure; (b) if section 128 applies to the AI— (i) subject to paragraph (4), the protected amount of the protected exposure is the product of the credit protection covered portion of the protected exposure and the CCF applicable to the protected exposure; and (ii) the unprotected amount of the protected exposure is the product of the credit protection uncovered portion of the protected exposure and the CCF applicable to the protected exposure.	

Amendments to be made	Remarks (including references)
(4) If in respect of a protected exposure there is a currency mismatch[41], an AI must, in determining the protected amount for the purpose of paragraph (2), reduce the amount of the credit protection covered portion of the protected exposure by a standard haircut of 8%.	Paragraph (4) is a modified version of the proposed repealed §134(5).
(5) If the credit protection covered portion of a protected exposure is such credit protection covered portion by virtue of a recognized guarantee (***original guarantee***) and is the subject of a counter-guarantee given by a sovereign, an AI may, in respect of the credit protection covered portion, treat the counter-guarantee as if it were the original guarantee if— (a) the counter-guarantee covers all credit risk elements of the protected exposure to the extent that it relates to the credit protection covered portion; (b) the counter-guarantee is given in such terms that it can be called if— (i) for any reason the obligor in respect of the protected exposure fails to make payments due in respect of the protected exposure; and (ii) the original guarantee could be called; (c) the counter-guarantee meets all of the requirements for guarantees set out in section 132 (except that the counter-guarantee need not meet the requirements set out in section 132(b) and (c)); and (d) the AI reasonably considers, and demonstrates to the satisfaction of the Monetary Authority, that—	Paragraph (5) is equivalent to the proposed repealed §134(6).

[41] The term "currency mismatch" is a defined term in §2(1).

Amendments to be made	Remarks (including references)
(i) the cover of the counter-guarantee is adequate and effective; and (ii) there is no evidence to suggest that the coverage of the counter-guarantee is less effective than that of a direct and explicit guarantee by the sovereign that gives the counter-guarantee.	
(6) If a recognized credit derivative contract is cleared by a qualifying CCP, an AI may allocate to the protected amount of the protected exposure to which the contract relates— (a) a risk-weight of 2% if— (i) the AI is a clearing member of the qualifying CCP; (ii) the AI is a direct client of a clearing member of the qualifying CCP, and all the conditions set out in section 226ZA(6) are met; or (iii) the AI is an indirect client within a multi-level client structure associated with the qualifying CCP, and all the conditions set out in section 226ZA(6), with all necessary modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the AI within the multi-level client structure, and the AI; (b) a risk-weight of 4% if the AI is a direct client of a clearing member of the qualifying CCP, and all the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)) are met; or (c) a risk-weight of 4% if the AI is an indirect client within a multi-level client structure associated with the qualifying CCP, and all the conditions set out in section 226ZA(6) (excluding the condition set out in section 226ZA(6)(a)(iii)), with all necessary	Paragraph (6) is equivalent to the proposed repealed §134(7).

Amendments to be made	Remarks (including references)
modifications, are met for arrangements among the CCP, clearing member, all clients at levels higher than the AI within the multi-level client structure, and the AI.	

Item 155. Amend section 135 (Provisions supplementary to section 134)

Amendments to be made	Remarks (including references)
(1) Amend the chapeau of subsection (1) by replacing "Where" with "Subject to section 133[(2), (3) and (4)][42], if".	
(2) Repeal subsections (2), (3), (4), (5), (6) and (6A).	
(3) Amend subsection (8) as follows: (a) in the chapeau, replace "Where" with "Subject to subsection (9), if"; (b) in paragraph (a), add "and" at the end; (c) in paragraph (b), replace "; and" with a full stop; and (d) remove paragraph (c).	
(4) Add a new subsection (9) after subsection (8) to provide that— if the credit protection in respect of an AI's exposure consists of a recognized credit derivative contract (including such a contract embedded in credit-linked notes issued by the AI) which provides that, upon the happening of a credit event, the protection seller is not obliged to make a	

[42] Subject to the exact subsection numbers to be determined by the law draftsman for the subsections of §133 that house the requirements proposed in Item 98(2), (3) and (4) (see Item 153).

Amendments to be made	Remarks (including references)
payment in respect of any loss if the loss does not exceed a specified amount (***materiality threshold***), the AI must, in calculating its capital adequacy ratio, allocate a risk-weight of 1250% to the portion of the exposure that is below the materiality threshold.	

IV(xiii) Amendments to Division 8 of Part 5

Item 156. Amend section 136 (Multiple recognized credit risk mitigation)

Amendments to be made	Remarks (including references)
(1) In subsection (1), replace "these Rules" with "this Part".	

Item 157. Amend section 137 (Maturity mismatches)

Amendments to be made	Remarks (including references)
(1) In subsection (2)(a), remove "if the credit protection is in the form of recognized collateral, guarantees or credit derivative contracts,".	

V. AMENDMENTS TO PART 6A (CALCULATION OF COUNTERPARTY CREDIT RISK)

V(i) Amendments to be effective on [1 July 2023]

Item 158. Amend section 226A (Interpretation of Part 6A)

Amendments to be made	Remarks (including references)
(1) Add a new definition of "commodity-related derivative contract" as follows: ***commodity-related derivative contract*** means a derivative contract the value of which is determined by reference to the value of, or any fluctuation in the value of, one or more than one commodity (within the meaning of paragraph (a) of the definition of ***commodity*** in section 2(1));	Also see Item 2(3) for the amendments proposed to the definition of "commodity-related derivative contract" in §2(1).

Item 159. Amend section 226BJ (Calculation of haircut value of net collateral held)

Amendments to be made	Remarks (including references)
(1) In subsection (5)— (a) replace "section 80(1)(a), (b) or (c)" with "section 79(1) (excluding paragraph (o)) or section 80(1)(b) or (c)"; and (b) replace "section 77(a), (b), (c), (d), (e), (ea) and (f)" with "section 77(2)".	It is assumed that— • the proposed revised provision in Item 83(1)(o) would be included in §79(1)(o); • the proposed revised provisions in Item 84(1)(a), (b) and (c) would be included in §80(1)(a), (b) and (c); and

Amendments to be made	Remarks (including references)
	• the proposed revised provisions in Item 81(2) would be included in §77(2).

Item 160. Amend section 226BW (Calculation of add-on for subsets in asset class of credit-related derivative contracts)

Amendments to be made	Remarks (including references)
(1) In subsection (2)(a)(i), replace "Table A in Schedule 6 (regardless of whether entity k is a sovereign or not)" with "the LT ECAI rating mapping table for Type A ECAIs".	
(2) Repeal the content of Table 23AB in subsection (2)(a)(ii) and replace with the following table:	
(3) Amend subsection (2)(b) as follows: (a) In the chapeau of paragraph (b), replace "India" with "the home jurisdiction of a Type B ECAI".	

Column 1 Credit quality grade	Column 2 Supervisory factor (%)
1, 2	0.38
3	0.42
4	0.54
5	1.06
6	1.6
7	6.0

<table>
<tr><th colspan="2">Amendments to be made</th><th>Remarks (including references)</th></tr>
<tr><td></td><td>(b) In subparagraph (i), replace “to a scale of credit quality grades in accordance with Part 2 of Table C in Schedule 6” with “assigned by that Type B ECAI to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type B ECAIs”.</td><td></td></tr>
<tr><td>(4)</td><td>Repeal the content of Table 23AC in subsection (2)(b)(ii) and replace with the following table:
<table><tr><th>Column 1
Credit quality grade</th><th>Column 2
Supervisory factor (%)</th></tr><tr><td>1</td><td>0.38</td></tr><tr><td>2</td><td>0.42</td></tr><tr><td>3</td><td>0.54</td></tr><tr><td>4</td><td>1.06</td></tr><tr><td>5</td><td>1.6</td></tr><tr><td>6, 7</td><td>6.0</td></tr></table></td><td></td></tr>
<tr><td>(5)</td><td>Amend subsection (4)(a) by repealing everything before “; and” and replacing with a provision to provide for the following requirement—

an index is an investment grade index where the minimum credit rating specified by the index service provider concerned for the purpose of determining whether an entity is eligible for being included in the index—

(i) if mapped to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type A ECAIs—would be mapped to a credit quality</td><td></td></tr>
</table>

Amendments to be made	Remarks (including references)
grade of 1, 2, 3 or 4; or (ii) if mapped to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type B ECAIs—would be mapped to a credit quality grade of 1, 2 or 3.	
(6) Repeal the entire content of subsection (5) and replace with a provision to provide that— an AI must, in complying with subsection (2)(a) or (b) in relation to entity k, if there is more than one ECAI issuer rating or more than one long-term ECAI issue specific rating the use of which would result in the allocation by the AI of different supervisory factors to entity k, determine the ECAI rating to be used in the same manner as set out in Item 40(2).	Basel Framework Reference: CRE21.11[43].

Item 161. Amend section 226H (Calculation of EE)

Amendments to be made	Remarks (including references)
(1) In subsection (3)(a), replace "section 80(1)(a), (b), (c) or (d)" with "section 80(1)(a), (b) or (c)".	It is assumed that— • the proposed revised provisions in Item 84(1)(a), (b) and (c) would be included in §80(1)(a), (b) and (c); and
(2) In subsection (3)(b), replace "section 77(a), (b), (c), (d), (e), (ea) and (f)" with "section 77(2)".	

[43] CRE21 - Standardised approach: use of external ratings (https://www.bis.org/basel_framework/chapter/CRE/21.htm?inforce=20230101&published=20200327).

Amendments to be made		Remarks (including references)
		• the proposed revised provisions in Item 81(2) would be included in §77(2).
(3)	In the post-amble of subsection (3), replace ", if treated as an on-balance sheet exposure of the institution, would fall within the definition of ***re-securitization exposure*** in section 2(1)" with "are re-securitization exposures".	

Item 162. Amend section 226MD (Calculation of potential future exposure of derivative contract)

Amendments to be made		Remarks (including references)
(1)	Amend subsection (3)(a) by repealing everything before "; and" and replacing with a provision to provide for the following requirement— an index is an investment grade index where the minimum credit rating specified by the index service provider concerned for the purpose of determining whether an entity is eligible for being included in the index— (a) if mapped to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type A ECAIs—would be mapped to a credit quality grade of 1, 2, 3 or 4; or (b) if mapped to a scale of credit quality grades in accordance with the LT ECAI rating mapping table for Type B ECAIs—would be mapped to a credit quality grade of 1, 2 or 3.	
(2)	In subsection (4)—	

Amendments to be made	Remarks (including references)
(a) replace "Table A in Schedule 6 (regardless of whether the entity or issuer of the credit instrument is a sovereign or not)" in paragraph (a) with "the LT ECAI rating mapping table for Type A ECAIs"; and (b) repeal the content of paragraph (b) and replace with a provision as follows: "if the entity is a corporate incorporated in the home jurisdiction of a Type B ECAI or the credit instrument is issued by such a corporate— (i) the LT ECAI rating mapping table for Type A ECAIs in cases where the rating is issued by a Type A ECAI; or (ii) the LT ECAI rating mapping table for Type B ECAIs in cases where the rating is issued by the abovementioned Type B ECAI".	
(3) Amend subsection (5) by repealing paragraphs (a), (b) and (c) and replacing with provisions to provide that— (a) a single entity, or a single-name credit instrument, has a category 1 credit quality grade if the ECAI rating concerned is mapped to— (i) a credit quality grade of 1, 2, 3 or 4 under subsection (4)(a) or (4)(b)(i); or (ii) a credit quality grade of 1, 2 or 3 under subsection (4)(b)(ii); (b) a single entity, or a single-name credit instrument, has a category 2 credit quality grade if the ECAI rating concerned is mapped to— (i) a credit quality grade of 5 or 6 under subsection (4)(a) or (4)(b)(i); or	

Amendments to be made	Remarks (including references)
(ii) a credit quality grade of 4 or 5 under subsection (4)(b)(ii); or (c) a single entity, or a single-name credit instrument, has a category 3 credit quality grade if the ECAI rating concerned is mapped to— (i) a credit quality grade of 7 under subsection (4)(a) or (4)(b)(i); or (ii) a credit quality grade of 6 or 7 under subsection (4)(b)(ii).	

Item 163. Amend section 226MI (Calculation of default risk exposures in respect of SFTs: general)

Amendments to be made	Remarks (including references)
(1) Repeal the entire content of subsection (1) and replace with provisions to provide for the following requirements: An AI that uses the IRB approach to calculate its credit risk for non-securitization exposures to counterparties in respect of its SFTs must, for any of those SFTs (whether booked in its banking book or trading book) that are not subject to the IMM(CCR) approach, calculate the amount of the default risk exposure in respect of the SFTs in accordance with sections 226MJ, 226MK and 226ML.	
(2) Repeal the entire content of subsection (2) and replace with provisions to provide for the following requirements: An AI that uses the STC approach to calculate its credit risk for non-securitization exposures to counterparties in respect of its SFTs must, for any of those SFTs (whether	

Amendments to be made		Remarks (including references)
	booked in its banking book or trading book) that are not subject to the IMM(CCR) approach— (a) calculate the amount of the default risk exposure in respect of the SFTs in accordance with sections 226MJ and 226MK if the AI uses the comprehensive approach in its treatment of recognized collateral for any exposures that are not defaulted exposures; or (b) calculate the amount of the default risk exposure in respect of the SFTs in accordance with section 226MJ if the AI uses the simple approach in its treatment of recognized collateral for any exposures that are not defaulted exposures.	
(3)	Repeal the entire content of subsection (3) and replace with provisions to provide for the following requirements: An AI that uses the BSC approach to calculate its credit risk for non-securitization exposures— (a) must, for its SFTs (whether booked in its banking book or trading book) that are not subject to the IMM(CCR) approach, calculate the amount of the default risk exposure in respect of the SFTs in accordance with section 226MJ; and (b) must not take into account the effect of any recognized netting in such calculation.	
(4)	Add a new subsection to provide that if an AI that uses the STC approach or the BSC approach to calculate its credit risk for non-securitization exposures has an approval granted under section 226ML(3) of the BCR as in force immediately before [1 July 2023] to use a VaR model as an alternative to the use of Formula 23EB in section 226MK of the	

Amendments to be made	Remarks (including references)
BCR as in force immediately before [1 July 2023] for the purpose of calculating the amount of the default risk exposure in respect of nettable repo-style transactions, the approval granted to the AI will be revoked on [1 July 2023].	

Item 164. Amend section 226MJ (Calculation of default risk exposure in respect of repo-style transactions that are not nettable and margin lending transactions)

Amendments to be made	Remarks (including references)
(1) Replace "**repo-style transactions that are not nettable and margin lending transactions**" in the heading with "**SFTs that are not nettable**".	
(2) Repeal the entire content of subsection (1) and replace with provisions to provide for the following requirements: An AI must calculate the amount of the default risk exposure in respect of each of the following SFTs in accordance with this section— (a) an SFT that is not nettable; or (b) a nettable SFT for which— (i) the AI is not permitted to use the comprehensive approach to take into account the effect of recognized netting because the AI falls within section 226MI(2)(b) or (3); or (ii) the AI has chosen not to take into account the effect of recognized netting in the calculation of the amount of the default risk exposure in respect of the	Basel Framework Reference: CRE22.44 (last two sentences).

Amendments to be made	Remarks (including references)
SFT.	

Item 165. Amend section 226MK (Calculation of default risk exposure in respect of nettable repo-style transactions)

Amendments to be made		Remarks (including references)
(1)	Replace "**repo-style transactions**" in the heading with "**SFTs**".	Basel Framework Reference: CRE22.62 to 22.65.
(2)	In subsection (1), replace "default risk exposure in respect of its nettable repo-style transactions" with "amount of the default risk exposure in respect of its nettable SFTs".	
(3)	In subsection (2), replace "repo-style transactions in the calculation of the default risk exposure in respect of the transactions" with "SFTs in the calculation of the amount of the default risk exposure in respect of the SFTs".	
(4)	Repeal the entire content of subsection (3) and replace with provisions to provide for the following requirements: An AI must calculate the amount of the default risk exposure in respect of nettable SFTs entered into by the AI with a counterparty by using Formula 23EB[44]. **Formula 23EB** $$E^* = max\left\{0;\ \sum_i E_i - \sum_j C_j + 0.4 \cdot A_{Net} + 0.6 \cdot \frac{A_{Gross}}{\sqrt{N}} + \sum_{fx}\left(E_{fx} \cdot H_{fx}\right)\right\}$$	

[44] It is assumed that the current formula number will not be changed.

$$A_{Net} = \left| \sum_s E_s H_s \right|$$

$$A_{Gross} = \sum_s E_s |H_s|$$

where—

(a) E^* is the amount of the default risk exposure after taking into account recognized netting;

(b) E_i is the current market value of cash i or security i lent or sold to the counterparty under the SFTs or otherwise posted to the counterparty under the valid bilateral netting agreement entered into with the counterparty;

(c) C_j is the current market value of cash j or security j borrowed or purchased from the counterparty under the SFTs or otherwise held by the AI under the valid bilateral netting agreement;

(d) E_s is the absolute value of the net current market value of security s in the netting set;

(e) H_s is the standard supervisory haircut appropriate to E_s (subject to subsection (4) and adjustment set out in section 3 of Schedule 7), which has—

(i) a positive sign if the security is lent, sold or posted by the AI; or

(ii) a negative sign if the security is borrowed, purchased or held by the AI;

Amendments to be made	Remarks (including references)
(f) N is the number of groups of the same securities contained in the netting set, but those groups whose E_s is less than one tenth of the largest E_s in the netting set are not counted; (g) E_{fx} is the absolute value of the net position in each currency *fx* different from the settlement currency; and (h) H_{fx} is the standard supervisory haircut applicable in consequence of a mismatch, if any, between currency *fx* and the settlement currency (subject to adjustment set out in section 3 of Schedule 7).	
(5) Repeal the entire content of subsection (4) and replace with a provision as follows: For the purposes of subsection (3)— (a) in determining the values of H_s and H_{fx} in Formula 23EB, the minimum holding period applicable to the SFTs is determined in the same way as set out in section 91(1), (2) and (3); (b) if an AI's nettable SFTs entered into with a counterparty contain one or more than one repo-style transaction that meets all of the conditions set out in Item 86(4) (***qualifying transaction***), the AI may set H_s in Formula 23EB appropriate to E_s at zero, where E_s in such case must be construed as the absolute value of the net current market value of security s underlying the qualifying transaction; and (c) subparagraph (b) does not apply to an AI's nettable SFTs if— (i) the AI uses the IRB approach to calculate the credit risk for its non-	Basel Framework Reference: CRE22.64 (last sentence) and CRE32.43 (last sentence).

Amendments to be made	Remarks (including references)
securitization exposures to the counterparty concerned; and (ii) at least one of the nettable SFTs is a repo-style transaction that is not a qualifying transaction.	
(6) In subsection (5)— (a) replace "repo-style transactions" (wherever appearing) with "SFTs"; and (b) repeal the entire content of paragraph (b)(ii) and replace with a provision as follows: "all the securities received by the institution under all those SFTs are recognized collateral (within the meaning of section 51(1)) falling within section 79(1) (excluding paragraph (o)) or section 80(1)(b) or (c).".	Basel Framework Reference: CRE22.63. It is assumed that— • the proposed revised provision in Item 83(1)(o) would be included in §79(1)(o); and • the proposed revised provisions in Item 84(1)(b) and (c) would be included in §80(1)(b) and (c).

Item 166. Amend section 226ML (Use of value-at-risk model instead of Formula 23EB in section 226MK)

Amendments to be made	Remarks (including references)
(1) Repeal the entire content of subsection (1) and replace with a provision to provide for the following requirements: This section applies to an AI— (a) that uses the IRB approach to calculate the risk-weighted amounts of nettable repo-style transactions; and	Basel Framework Reference: CRE32.39 to 32.41[45]. Other requirements set out in CRE32.39 to 32.41 related to the criteria that the VaR models concerned must meet will not be implemented in accordance with the local implementation date

[45] CRE32 - IRB approach: risk components for each asset class (https://www.bis.org/basel_framework/chapter/CRE/32.htm?inforce=20230101&published=20200327).

Amendments to be made	Remarks (including references)
(b) that is granted an approval under section 18(2)(a) by the MA to use the IMM approach to calculate its market risk.	of CRE32 (which is tentatively scheduled on [1 July 2023]) since these criteria are based on the new market risk capital framework[46] that will be implemented locally on a date not earlier than [1 January 2024]. Given such time gap, the existing requirements in §226ML(2) to (6) will remain unchanged (and therefore the proposed amended §226ML is applicable to nettable repo-style transactions only instead of SFTs as mentioned in CRE32.39 to 32.41) until the new market risk capital framework is implemented in Hong Kong.

Item 167. Amend section 226MM (Supplementary provisions to sections 226MK and 226ML)

Amendments to be made	Remarks (including references)
(1) Replace "repo-style transactions" (wherever appearing) with "SFTs".	
(2) In paragraph (a), replace "section 80(1)(a), (b) or (c)" with "section 79(1) (excluding paragraph (o)) or section 80(1)(b) or (c)".	It is assumed that— • the proposed revised provision in Item 83(1)(o) would be included in §79(1)(o); and

[46] The "new market risk capital framework" refers to those capital standards set out in the document "Minimum capital requirements for market risk", issued by the Basel Committee in January 2019 and further revised in February 2019 (https://www.bis.org/bcbs/publ/d457.pdf).

Amendments to be made		Remarks (including references)
		• the proposed revised provisions in Item 84(1)(b) and (c) would be included in §80(1)(b) and (c).
(3)	In paragraph (b), replace "section 77 (other than the requirements of section 77(g) and (i))" with "section 77(2) and (4)(b)".	It is assumed that the proposed amendments in Item 81(2) and (4)(b) would be included in §77(2) and (4)(b).

Item 168. Amend section 226S (Standardized CVA method)

Amendments to be made		Remarks (including references)
(1)	Repeal the entire content of paragraph (b) in Formula 23J and replace with provisions to provide that: w_i is the weight applicable to counterparty "i", which is determined by mapping the credit quality grade applicable to the counterparty determined in accordance with subsection (2) to one of the 7 weights in Table 23A or 23B, whichever is applicable.	
(2)	Repeal the content of Table 23A and replace with the following table:	

Table 23A
Weights for all counterparties

Credit quality grade in the LT ECAI rating mapping table for Type A ECAIs	Weight

Amendments to be made	Remarks (including references)

1, 2	0.7%
3	0.8%
4	1.0%
5	2.0%
6	3.0%
7	10.0%

(3) Repeal the content of Table 23B and replace with the following table:

Table 23B
Weights for counterparties that are corporates incorporated in the home jurisdiction of a Type B ECAI

Credit quality grade in the LT ECAI rating mapping table for Type B ECAIs	Weight
1	0.7%
2, 3	0.8%
4	1.0%
5	2.0%
6	3.0%
7	10.0%

Amendments to be made	Remarks (including references)
(4) Repeal the entire content of subsection (2) and replace with provisions to provide for the following requirements: For the purposes of paragraph (b) in Formula 23J— (a) an AI must determine the credit quality grade applicable to counterparty "*i*" by mapping the ECAI issuer rating of the counterparty to a scale of credit quality grades in accordance with— (i) if the rating is issued by a Type A ECAI—the LT ECAI rating mapping table for Type A ECAIs; or (ii) if counterparty "*i*" is a corporate incorporated in the home jurisdiction of a Type B ECAI and the rating is issued by that Type B ECAI—the LT ECAI rating mapping table for Type B ECAIs; (b) if counterparty "*i*" has more than one ECAI issuer rating the use of which would result in the allocation of different weights to the counterparty under either or both of Table 23A and Table 23B, an AI must determine the rating to be used in accordance with section [see Item 40(2)]; (c) if counterparty "*i*" does not have an ECAI issuer rating— (i) subject to sub-subparagraph (iii), an AI that uses the IRB approach to calculate its credit risk for non-securitization exposures to the counterparty must map the internal rating of the counterparty to one of the ECAI issuer ratings in the LT ECAI rating mapping table for Type A ECAIs based on a mapping scheme approved in writing by the MA in order to determine the	Basel Framework Reference: CRE21.10 and 21.11.

Amendments to be made		Remarks (including references)
	weight applicable to the counterparty; (ii) an AI that uses the STC approach or BSC approach to calculate its credit risk for non-securitization exposures to the counterparty must assign a weight of 1% to the counterparty; (iii) the MA may, by notice in writing given to an AI that uses the IRB approach to calculate its credit risk for non-securitization exposures to a counterparty but has not obtained the approval referred to in sub-subparagraph (i), specify a transitional period during which the AI is permitted to apply sub-subparagraph (ii) to the counterparty or is required to assign a weight specified in the notice to the counterparty, and the AI must comply with the notice.	
(5)	In the post-amble of subsection (2A), replace "applying Formula 19 and in accordance with section 160(3), and take the resulting net credit exposure (E*)" with "calculating an E_U for each of the SFTs in the way specified in [Formula 1][47] in section 160[(3)][48], and take the E_U so calculated".	

[47] Subject to the exact formula number to be determined by the law draftsman for [Formula 1] proposed in Item 18(6) of the set of amendments for Part 6 of the BCR.
[48] Subject to the exact section number to be determined by the law draftsman for the provisions proposed in Item 18(6) of the set of amendments for Part 6 of the BCR.

Item 169. Amend section 226T (Eligible CVA hedges)

Amendments to be made	Remarks (including references)
(1) In section 226T(1)(ba), replace "fall within section 99(1)(b)(i), (ii), (iii), (iv), (v) or (vi)" with "are eligible credit protection providers according to section [99A]".	It is assumed that the new section proposed in Item 99 would be numbered as §99A.

Item 170. Amend section 226U (Application of Division 4)

Amendments to be made	Remarks (including references)
(1) In subsection (2)(b)(i), replace "cash transactions in securities (other than repo-style transactions), foreign exchange or commodities" with "cash transactions in securities, foreign exchange or commodities, other than those that are derivative contracts, SFTs or long settlement transactions".	Basel Framework Reference: CRE70.5[49] (current version).

Item 171. Amend section 226V (Interpretation of Division 4)

Amendments to be made	Remarks (including references)
(1) Amend the definition of "Basel CCR Rules" by replacing "consolidated Basel Framework published by the Basel Committee in December 2019, as amended or supplemented from time to time" with "current Basel Framework".	

[49] CRE70 - Capital treatment of unsettled transactions and failed trades (https://www.bis.org/basel_framework/chapter/CRE/70.htm?inforce=20191215&published=20191215)

Item 172. Amend section 226X (Exposures of clearing members to qualifying CCPs)

Amendments to be made	Remarks (including references)
(1) Repeal the entire content of subsection (2A) and replace with provisions to provide for the following requirements: For the purposes of subsections (1) and (2), if an AI uses the IRB approach to calculate its credit risk for certain non-securitization exposures, the AI must calculate the risk-weighted amount of its default risk exposures to qualifying CCPs and take into account any credit risk mitigating effect in the calculation in accordance with Part 4.	

V(ii) Amendments to be effective on the same day as the new CVA capital framework comes into force

Item 173. Amend section 226A (Interpretation of Part 6A) of Division 1

Amendments to be made	Remarks (including references)
(1) Repeal the following definitions: (a) ***CVA risk;*** (b) ***eligible CVA hedge***; (c) ***single-name contingent credit default swap***; and (d) ***spread gamma.***	

Item 174. Repeal Division 3 (Calculation of CVA Capital Charge)

Amendments to be made	Remarks (including references)
(1) Repeal Division 3.	

Item 175. Amend sections 226Z (Exposures of clearing members to direct clients), 226ZA (Exposures of direct clients to clearing members), 226ZB (Exposures of direct clients to CCPs) and 226ZBA (Exposure of authorized institution to higher level client or lower level client within multi-level client structure) in Division 4 of Part 6A

Amendments to be made	Remarks (including references)
(1) In section 226Z(1)— (a) replace "CVA risk-weighted amount", wherever appearing, with "the risk-weighted amount for CVA risk"; and (b) replace "Division 3" with a reference to the new Division of Part 8 that houses the new CVA capital framework.	These are consequential changes arising from the proposed removal of the CVA framework from Part 6A of the BCR (see Item 174).
(2) In section 226Z(2), replace "CVA risk-weighted amount" with "the risk-weighted amount for CVA risk".	
(3) In section 226Z(3), replace "CVA risk-weighted amount" with "risk-weighted amount for CVA risk".	
(4) In section 226ZA(1)— (a) replace "CVA risk-weighted amount" with "the risk-weighted amount for CVA risk"; and	

Amendments to be made	Remarks (including references)
(b) replace "Division 3" with a reference to the new Division of Part 8 that houses the new CVA capital framework.	
(5) In section 226ZA(2), replace "CVA risk-weighted amount" with "the risk-weighted amount for CVA risk".	
(6) In section 226ZB(1)— (a) replace "CVA risk-weighted amount" with "the risk-weighted amount for CVA risk"; and (b) replace "Division 3" with a reference to the new Division of Part 8 that houses the new CVA capital framework.	
(7) In section 226ZBA(1), (a) replace "CVA risk-weighted amount" with "the risk-weighted amount for CVA risk"; and (b) replace "Division 3" with a reference to the new Division of Part 8 that houses the new CVA capital framework.	
(8) In section 226ZBA(2), replace "CVA risk-weighted amount" with "the risk-weighted amount for CVA risk".	

V(iii) Amendments to be effective on the same day as the new market risk capital framework comes into force

Item 176. Amend section 226ML (Use of value-at-risk model instead of Formula 23EB in section 226MK)

Amendments to be made	Remarks (including references)
(1) The amendments set out below should be made to the proposed amended section 226ML (see Item 166).	
(2) In the heading, add "**section 226MJ and**" after "**instead of**".	Basel Framework Reference: CRE32.39.
(3) Repeal the entire content of subsection (1) and replace with provisions to provide for the following requirements: An AI may use an internal model based on VaR (***VaR model***) as an alternative to the use of section 226MJ and Formula 23EB in section 226MK for the purpose of calculating the amount of its default risk exposure to a counterparty in respect of single SFTs or nettable SFTs provided that— (a) the AI uses the IRB approach to calculate the risk-weighted amounts of the SFTs; (b) the AI is either— (i) granted an approval under section 18(2)(a) by the MA to use the IMA to calculate its market risk capital charge; or (ii) granted an approval under subsection (3)(a) by the MA; and (c) all requirements set out in paragraph (4) are met.	Basel Framework Reference: CRE32.39.

Amendments to be made		Remarks (including references)
(4)	Add a new subsection after subsection (1) to specify the requirements referred to in paragraph (3)(c) as follows: (a) the VaR model captures risk sufficient to— (i) fulfil the back-testing requirements in accordance with [Part 8][50]; and (ii) pass the profit and loss attribution test in accordance with [Part 8][51]; (b) none of the collateral posted or received by the AI in respect of the SFTs is a securitization exposure; and (c) the collateral is revalued on a daily basis.	Basel Framework Reference: CRE32.39 (last sentence).
(5)	Repeal the entire content of subsection (2) and replace with provisions to provide for the following requirements: An AI that does not have the approval referred to in paragraph (3)(b)(i) may apply to the MA for an approval to use a VaR model as an alternative to— (a) the use of section 226MJ for the purpose of calculating the amount of default risk exposure to a counterparty in respect of single SFTs; and (b) the use of Formula 23EB in section 226MK for the purpose of calculating the amount of default risk exposure to a counterparty in respect of nettable SFTs.	Basel Framework Reference: CRE32.39.
(6)	In subsection (3), replace "subsections (4) and (5)" with "subsection (4)".	

[50] Exact section number will be inserted when available.
[51] Ditto.

Amendments to be made	Remarks (including references)
(7) Repeal the entire content of subsection (4) and replace with provisions to provide for the following: The MA must refuse to grant the approval under subsection (3)(a) unless the AI satisfies the MA that the AI and the VaR model in respect of which the approval is sought meet the requirements specified in Schedule 3 with the following exceptions and modifications: (a) instead of an expected shortfall at a 97.5% confidence level, the model must calculate the VaR at a 99%, one-tailed confidence level; (b) the model does not need to meet the requirements set out in the new section in Part 8[52] in relation to default risk charge; and (c) instead of the minimum liquidity horizon of 10 business days specified in the relevant new section in Part 8[53], the model assumes— (i) a minimum holding period of 5 business days for margined repo-style transactions; (ii) a minimum holding period of 10 business days for SFTs other than margined repo-style transactions; and (iii) a longer minimum holding period than the one specified in sub-subparagraph (i) or (ii) when this is appropriate given the liquidity of the market instruments	Basel Framework Reference: CRE32.39. Basel Framework Reference: CRE32.40 (second, third and fourth sentences).

[52] Exact section number will be inserted when available.
[53] Exact section number will be inserted when available.

Amendments to be made		Remarks (including references)
	concerned.	
(8)	Repeal the entire content of subsection (5) and replace with a provision to provide that an AI must not, without the prior consent of the MA, make any significant change to the VaR model that is the subject of the approval granted to the AI under subsection (3)(a).	Basel Framework Reference: CRE32.40 (first sentence) and MAR30.14[54].
(9)	In subsection (6), replace "An authorized institution that is granted an approval under subsection (3)(a) must calculate the default risk exposure in respect of nettable repo-style transactions entered into by the institution with a counterparty that do not fall within section 226MJ(1)(b)" with "An authorized institution that is permitted under subsection (1) to use the VaR model must calculate the amount of default risk exposure in respect of SFTs" (see paragraph (3) above).	Basel Framework Reference: CRE32.41.
(10)	Add a new subsection after subsection (6) to provide for the following requirements: If the AI mentioned in subsection (6) has an approval falling within paragraph (3)(b)(i), the VaR output in Formula 23ED must be calculated— (a) at a 99%, one-tailed confidence level; and (b) based on— (i) a minimum holding period of 5 business days for margined repo-style transactions; (ii) a minimum holding period of 10 business days for SFTs other than margined	Basel Framework Reference: CRE32.39 (second last sentence) and CRE32.40 (second, third and fourth sentences).

[54] MAR30 – Internal models approach: general provisions (https://www.bis.org/basel_framework/chapter/MAR/30.htm?inforce=20230101&published=20200327).

Amendments to be made	Remarks (including references)
repo-style transactions; and (iii) a longer minimum holding period than the one specified in sub-subparagraph (i) or (ii) when this is appropriate given the liquidity of the market instruments concerned.	

Item 177. Amend section 226W (Calculation of credit risk exposures)

Amendments to be made	Remarks (including references)
(1) In subsection (5), definition of ***20-business day supervisory floor***— (a) at the end of paragraph (b), add "or"; (b) in paragraph (c), replace "; or" with a full stop; and (c) repeal paragraph (d).	
(2) In subsection (6), repeal "or 226ML".	

V(iv) Proposed new division of Part 6A

Item 178. Add new division on haircut floors for SFTs

Matters to be provided	Remarks (including references)
(1) It is proposed to add a new division after existing Division 4 of Part 6A to implement CRE56.1 to 56.12 which set out the haircut floor requirements applicable to securities financing transactions[55] (SFTs) (i.e. the haircut applicable to collateral received under a SFT must not be lower than a value specified by the Basel Committee, otherwise, the collateral must be disregarded when calculating the capital charge for the SFT). The matters to be provided in this new division are set out in Item 179 to Item 184 below.	Basel Framework Reference: CRE56[56].

Item 179. Add new section on commencement date

Matter to be provided	Remarks (including references)
(1) This Division comes into operation on the date to be appointed by the MA by notice published in the Gazette.	It is proposed that the new division should come into operation on a date to be specified by the MA in a gazette notice after taking into consideration the implementation status in major jurisdictions.

[55] See existing §2(1) of the BCR for definitions of "securities financing transaction" and "SFT".
[56] CRE56 - Minimum haircut floors for securities financing transactions (https://www.bis.org/basel_framework/chapter/CRE/56.htm?inforce=20230101&published=20210701).

Item 180. Add new section on interpretation

Matter to be provided	Remarks (including references)
(1) In this Division—	
(a) ***collateral upgrade transaction*** means a transaction under which an AI lends a security to its counterparty and the counterparty provides a lower-quality security as collateral so as to enable the counterparty to exchange a lower quality security for a higher quality security;	Basel Framework Reference: CRE56.2(2).
(b) ***in-scope counterparty***, in relation to a SFT entered into by an AI, means a counterparty to the SFT other than—	Basel Framework Reference: CRE56.2(1).
(i) a bank; and	
(ii) a non-bank financial institution (within the meaning of section 51(1));	
(c) ***in-scope securities***, in relation to SFTs, means any securities (including equities, securitization issues and shares in collective investment schemes) except those issued by—	Basel Framework Reference: CRE56.2(1) and Section 3.1 of *Regulatory framework for haircuts on non-centrally cleared securities financing transactions* (November 2015, updated in July 2019, November 2019 and September 2020) [60] issued by the Financial Stability Board ("FSB haircut framework").
(i) sovereigns[57];	
(ii) sovereign foreign public sector entities[58]; and	
(iii) multilateral development banks[59] that are eligible for a 0% risk-weight under	

[57] See existing §2(1) of the BCR for the definition of "sovereign".
[58] See existing §2(1) and §51(1) of the BCR for the definition of "sovereign foreign public sector entity".
[59] See §2(1) of the Banking Ordinance (Cap. 155) for the definition of "multilateral development bank".
[60] https://www.fsb.org/wp-content/uploads/P070920-1.pdf

Matter to be provided	Remarks (including references)
Part 4, 5 or 6; (d) ***in-scope SFT***—see Item 181.	

Item 181. Add new section on in-scope SFTs

Matter to be provided	Remarks (including references)
(1) For the purposes of this Division, the following SFTs of an AI are in-scope SFTs unless they fall within paragraph (2): (a) non-centrally cleared SFTs in which financing is provided by the AI to in-scope counterparties by lending cash to the counterparties against in-scope securities, including cash-collateralized securities lending transactions in which in-scope securities are lent to the AI; and (b) non-centrally cleared SFTs that are collateral upgrade transactions with in-scope counterparties.	Basel Framework Reference: CRE56.2.
(2) For the purposes of this Division, the following SFTs of an AI are not in-scope SFTs: (a) SFTs with the central bank of a jurisdiction, the Monetary Authority, or an authority of a jurisdiction that performs in the jurisdiction functions similar to the functions performed by central banks; (b) SFTs that are cash-collateralized securities lending transactions where— (i) securities are lent to the AI at long maturities and the lender of securities reinvests or employs the cash collateral at the same or shorter maturity,	Basel Framework Reference: CRE56.3. Basel Framework Reference: CRE56.4.

Matter to be provided	Remarks (including references)
therefore not giving rise to material maturity or liquidity mismatch; or (ii) securities are lent to the AI at call or at short maturities, giving rise to liquidity risk, and the lender of the securities reinvests the cash collateral into a reinvestment fund or account subject to regulations or regulatory guidance meeting the minimum standards for reinvestment of cash collateral by securities lenders set out in Section 3.1 of the Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos[61] issued by the Financial Stability Board in August 2013. For this purpose, the AI may rely on representations by securities lenders that their reinvestment of cash collateral meets the minimum standards; and (c) SFTs that are collateral upgrade transactions where— (i) the AI borrows or lends securities; and (ii) the recipient of the securities delivered as collateral or lent by the AI— (A) is unable to re-use the securities; or (B) provides representations to the AI that it does not and will not re-use the securities.	Basel Framework Reference: CRE56.5.

[61] https://www.fsb.org/wp-content/uploads/r_130829b.pdf

Item 182. Add new section on haircut floors applicable to in-scope securities

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(1) The haircut floors for in-scope securities are as follows:
<table>
<tr><th rowspan="2">Type of in-scope securities</th><th colspan="2">Haircut floors</th></tr>
<tr><th>In-scope securities other than securitization issues[62]</th><th>Securitization issues</th></tr>
<tr><td>floating rate notes</td><td>0.5%</td><td>1%</td></tr>
<tr><td>debt securities with residual maturity of not more than 1 year</td><td>0.5%</td><td>1%</td></tr>
<tr><td>debt securities with residual maturity of more than 1 year and not more than 5 years</td><td>1.5%</td><td>4%</td></tr>
<tr><td>debt securities with residual maturity of more than 5 years and not more than 10 years</td><td>3%</td><td>6%</td></tr>
</table></td><td>Basel Framework Reference: CRE56.6.</td></tr>
</table>

[62] See existing §2(1) and §227(1) of the BCR for the definition of "securitization issues".

Matters to be provided				Remarks (including references)
	debt securities with residual maturity of more than 10 years	4%	7%	
	equities included in a main index[63]	6%		
	other assets	10%		

Item 183. Add new section on capital treatment of single in-scope SFT

Matters to be provided		Remarks (including references)
(1)	This section applies to a single in-scope SFT that is not covered by a valid bilateral netting agreement[64].	Basel Framework Reference: CRE56.9.
(2)	The haircut floor requirement is met in respect of a single in-scope SFT if *H* is equal to or larger than *f*, where *H* and *f* are calculated in accordance with paragraph (4) or (5), as the case requires.	Basel Framework Reference: CRE56.8.
(3)	An AI must calculate the risk-weighted amount of a single in-scope SFT that does not meet the haircut floor requirement in a manner as if no collateral were received by the AI under the SFT.	Basel Framework Reference: CRE56.7.

[63] See existing §2(1) and §51(1) of the BCR for the definition of "main index".
[64] See existing §2(1) of the BCR for the definition of "valid bilateral netting agreement".

Matters to be provided	Remarks (including references)
(4) For a single cash-lent-for-collateral SFT of an AI, the AI must— (a) determine *H* as the actual amount of the collateral received by the AI under the SFT; and (b) determine *f* as the amount of the collateral that would be received by the AI under the SFT in accordance with the haircut floor applicable to the collateral set out in Item 182. For the purpose of subparagraph (a), collateral that is called by either the AI or its counterparty can be taken into account in determining the value of *H* from the moment that the collateral is called.	Basel Framework Reference: CRE56.9(1).
(5) For a single collateral-for-collateral SFT of an AI, the AI must— (a) calculate the actual effective haircut of the SFT by using the following formula: $$H = \frac{C_B}{C_A} - 1$$ where— (i) *H* is the actual effective haircut of the SFT; (ii) C_A is the actual amount of collateral lent by the AI under the SFT; and (iii) C_B is the actual amount of collateral received by the AI under the SFT; and (b) calculate the effective haircut floor applicable to the SFT by using the following	Basel Framework Reference: CRE56.9(2).

Matters to be provided	Remarks (including references)
formula: $$f = \frac{1 + f_B}{1 + f_A} - 1$$ where— (i) f is the effective haircut floor applicable to the SFT; (ii) f_A is the haircut floor applicable to the collateral lent by the AI under the SFT pursuant to Item 182; and (iii) f_B is the haircut floor applicable to the collateral received by the AI under the SFT pursuant to Item 182.	

Item 184. Add new section on capital treatment of portfolio of SFTs

Matters to be provided	Remarks (including references)
(1) This section applies to a netting set of SFTs that are covered by a valid bilateral netting agreement.	
(2) For a netting set of SFTs of an AI, the AI must calculate the effective haircut floor applicable to the netting set of SFTs by using the following formulae and in accordance with paragraph (3): $$f_p = \frac{E}{C} - 1$$	Basel Framework Reference: CRE56.10.

Matters to be provided	Remarks (including references)
$$E = \frac{\sum_s \left(\frac{E_s}{1+f_s}\right)}{\sum_s E_s}$$ $$C = \frac{\sum_t \left(\frac{C_t}{1+f_t}\right)}{\sum_t C_t}$$ where— (a) f_p is the effective haircut floor of a netting set applicable to the netting set; (b) E_s is the net position in asset s that is net lent by the AI; (c) C_t is the net position in asset t that is net borrowed by the AI; (d) f_s is the haircut floor applicable to asset s pursuant to Item 182 or paragraph (3)(a), as the case requires; and (e) f_t is the haircut floor applicable to asset t pursuant to Item 182 or paragraph (3)(b), as the case requires.	
(3) When calculating f_p— (a) f_s is zero for any asset lent by the AI that is— (i) cash; or (ii) a security issued by a sovereign, a sovereign foreign public sector entity, or a multilateral development bank that is eligible for a 0% risk-weight under Part	Basel Framework Reference: CRE56.13.

Matters to be provided	Remarks (including references)
4, 5 or 6; and (b) f_t is zero for any asset borrowed by the AI that is— (i) cash; or (ii) a security issued by a sovereign, a sovereign foreign public sector entity, or a multilateral development bank that is eligible for a 0% risk-weight under Part 4, 5 or 6.	
(4) The haircut floor requirement is met in respect of a netting set of SFTs if— $\frac{\sum C_t - \sum E_s}{\sum E_s} \geq f_p$	Basel Framework Reference: CRE56.11.
(5) Collateral that is called by either the AI or its counterparty can be taken into account in the calculations under paragraphs (3) and (4) from the moment that the collateral is called.	Basel Framework Reference: CRE56.12 (last sentence).
(6) If— (a) a netting set of SFTs of an AI does not meet the haircut floor requirement; (b) the assets received by the AI under the in-scope SFTs within the netting set are in-scope securities; and (c) the AI is a net receiver in these assets, the AI must calculate the risk-weighted amount of the netting set in a manner as if no collateral were received by the AI under the in-scope SFTs within the netting set.	Basel Framework Reference: CRE56.12.

VI. AMENDMENTS TO PART 6B (CIS EXPOSURES)

VI(i) Amendments to be effective on [1 July 2023]

Item 185. Amend section 226ZG (Interpretation of Part 6B)

Amendments to be made		Remarks (including references)
(1)	Revise the definition of "exempted IRB AI" as follows: ***exempted IRB AI*** means an authorized institution that uses the IRB approach to calculate its credit risk for some of its non-securitization exposures, but uses the STC approach to calculate the risk-weighted amounts of its CIS exposures.	Basel Framework Reference: CRE30.45.
(2)	Repeal the definition of "simple risk-weight method".	Basel Framework Reference: CRE60.20[65].

Item 186. Amend section 226ZN (TPA conditions)

Amendments to be made		Remarks (including references)
(1)	In subsection (1)(d), repeal "or (3)".	
(2)	In the chapeau of subsection (2), replace "If the institution is an STC AI, a BSC AI or an exempted AI, the" with "The".	
(3)	In subsection (2)(a)— (a) replace "sections 66(1)(a) and (2)(b)" with a reference to the new section proposed in Item	

[65] CRE60 – Equity investments in funds (https://www.bis.org/basel_framework/chapter/CRE/60.htm?&inforce=20230101&published=20200327).

Amendments to be made		Remarks (including references)
	63; and (b) replace "68A" with a reference to the new section proposed in Item 62.	
(4)	In subsection (2)(b)(ii), replace "section 66(1)(a) and (2), in so far as it relates to regulatory deductible items, and sections 68A" with "sections [to insert a reference to the new section proposed in Item 62], [to insert a reference to the new section proposed in Item 63]".	
(5)	Repeal subsection (3).	

Item 187. Amend section 226ZO (Look-through approach: calculation of risk-weighted amount of underlying exposures)

Amendments to be made		Remarks (including references)
(1)	In subsection (3)(a), replace "68A" with a reference to the new section proposed in Item 62.	
(2)	In subsection (3)(b), replace "117A" with a reference to the new section proposed in Item 128.	
(3)	In subsection (3)(c)— (a) replace "Part 6" with "Part 4 or 6, as the case requires,"; (b) replace "183(5) and (6)" with a reference to the new section proposed in Item 62.	
(4)	In subsection (4)— (a) amend paragraph (a)(i) by adding "the amount of" before "the default risk exposure"; and (b) amend paragraph (b)(i)(A) by replacing ", or sections 88 and 93" with "or section 86" (i.e. the proposed amended section 86 in Item 89).	

Amendments to be made	Remarks (including references)
(5) In subsection (7)— (a) add "or the IRB AI is not granted an approval to use the IRB approach," after "as the case requires," in the chapeau; (b) repeal paragraph (a); and (c) repeal "(a) or" in paragraph (c).	Basel Framework Reference: CRE60.20.

Item 188. Amend section 226ZQ (Mandate-based approach: general requirements)

Amendments to be made	Remarks (including references)
(1) In subsection (4)(a)(iii), repeal ", 6".	Basel Framework Reference: CRE60.20.

Item 189. Amend section 226ZR (Mandate-based approach: calculation of risk-weighted amounts of underlying exposures)

Amendments to be made	Remarks (including references)
(1) In subsection (3)(a)— (a) add ", an IRB AI" after "STC AI"; and (b) replace "68A" with a reference to the new section proposed in Item 62.	
(2) In subsection (3)(b), replace "117A" with a reference to the new section proposed in Item 128.	
(3) Repeal subsection (3)(c).	

Amendments to be made	Remarks (including references)
(4) In subsection (4)— (a) amend paragraph (a)(i) by adding "the amount of" before "the default risk exposure"; and (b) amend paragraph (b)(i)(A) by— (i) adding ", an IRB AI" after "STC AI"; and (ii) replacing ", or sections 88 and 93" with "or section 86" (i.e. the proposed amended section 86 in Item 89); and (c) repeal paragraph (b)(i)(C).	Basel Framework Reference: CRE60.20.
(5) In subsection (6)(c)— (a) repeal subparagraph (i); and (b) repeal "(i) or" in subparagraph (iii).	Basel Framework Reference: CRE60.20.

Item 190. Amend section 226ZT (Certain regulatory deductible items held by Level 1 CIS may be excluded from underlying exposures)

Amendments to be made	Remarks (including references)
(1) In subsection (1)(c)(ii) and (iii), replace "183(1) or (7)" with "183".	

Item 191. Amend section 226ZX (Calculation of risk-weighted amounts of CIS exposures held by Level 1 CIS onwards: certain regulatory deductible items may be excluded)

Amendments to be made	Remarks (including references)
(1) In subsection (1)(c)(ii) and (iii), replace "183(1) or (7)" with "183".	

VI(ii) Amendments to be effective on the same day as the new CVA capital framework comes into force

Item 192. Amend section 226ZO (Look-through approach: calculation of risk-weighted amount of underlying exposures)

Amendments to be made	Remarks (including references)
(1) In the chapeau of subsection (4), replace "Division 3 of Part 6A" with a reference to the new Division of Part 8 that houses the new CVA capital framework.	

Item 193. Amend section 226ZR (Mandate-based approach: calculation of risk-weighted amount of underlying exposures)

Amendments to be made	Remarks (including references)
(1) In the chapeau of subsection (4), replace "Division 3 of Part 6A" with a reference to the new Division of Part 8 that houses the new CVA capital framework.	

VII. AMENDMENTS TO PART 7 (CALCULATION OF CREDIT RISK FOR SECURITIZATION EXPOSURES)

VII(i) Amendments to existing sections in Divisions 1, 4, 5, 7 and 8 to be effective on [1 July 2023]

Item 194. Amend section 227 (Interpretation of Part 7)

Amendments to be made	Remarks (including references)
(1) Amend paragraph (a) of the definition of "rated" by replacing "section 267(1)(a)" with "this Part in accordance with [section 4B]".	It is assumed that the new section proposed in Item 8 would be numbered as §4B.

Item 195. Amend section 227A (Meaning of ECAI issue specific rating)

Amendments to be made	Remarks (including references)
(1) In subsection (1)(a), replace "an ECAI (within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of ***external credit assessment institution*** in section 2(1))" with "a Type A ECAI".	

Item 196. Amend section 235 (Determination of exposure amount of securitization exposure)

Amendments to be made	Remarks (including references)
(1) In subsection (2)(c)(i), after the word "commitment", add "(within the meaning of section [see Item 216(2)(a)])".	

Item 197. Amend section 241 (Caps on risk-weights for exposures in senior tranches determined by using SEC-IRBA, SEC-ERBA or SEC-SA)

Amendments to be made	Remarks (including references)
(1) Repeal subsection (3)(a) and replace with a provision as follows: "(a) the risk-weights of the underlying exposures in the IRB pool determined under Part 6; and".	Basel Framework Reference: CRE40.50.

Item 198. Amend section 243 (Credit risk mitigation recognized for purpose of calculating the risk-weighted amounts of securitization exposures)

Amendments to be made	Remarks (including references)
(1) Repeal subsection (2)(c) and (d) and replace with provisions to provide for the following: "(c) a guarantee provided by a person (other than an SPE[66]) falling within section 99A(2)(a)(i), (ii), (iii), (iv), (v), (vi) or (vii), or an entity (other than an SPE) specified in subsection (3), that fulfils the requirements set out in section 98(b), (c), (ca), (d), (e), (f), (g), (h), (i) and (j); and (d) a credit derivative contract provided by a person (other than an SPE) falling within section 99A(2)(a)(i), (ii), (iii), (iv), (v), (vi) or (vii), or an entity (other than an SPE) specified in subsection (3), that fulfils the requirements set out in section 99(1)(a) and (c) to (r) and, if applicable, section 99(2), (3) or (4).".	It is assumed that— • the new paragraph proposed under Item 97(2) would be numbered as §98(ca); • Item 98(1)(a), (c) to (r), (2), (3) and (4) would be numbered as §99(1)(a), (c) to (r), (2), (3) and (4); and • Item 99(2)(a)(i), (ii), (iii), (iv), (v), (vi) and (vii) would be numbered as §99A(2)(a)(i), (ii), (iii), (iv), (v), (vi) and (vii).

[66] "SPE" is a defined term in §227(1) of the BCR.

Amendments to be made	Remarks (including references)
(2) Repeal the entire content of subsection (3) and replace with a provision to provide for the following: "The entity is one that does not fall within any of section 99A(2)(a)(i), (ii), (iii), (iv), (v), (vi) and (vii) and— (a) if it is not a corporate incorporated in the home jurisdiction of a Type B ECAI— (i) has an ECAI issuer rating that, if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type A ECAIs, would result in the entity being assigned a credit quality grade of 1, 2, 3 or 4; and (ii) had an ECAI issuer rating at the time the credit protection was given that, if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type A ECAIs, would result in the entity being assigned a credit quality grade of 1, 2 or 3; or (b) if it is a corporate incorporated in the home jurisdiction of a Type B ECAI— (i) has an ECAI issuer rating assigned by a Type A ECAI or the abovementioned Type B ECAI that, if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type A ECAIs or the LT ECAI rating mapping table for Type B ECAIs, as the case requires, would result in the corporate being assigned a credit quality grade of 1, 2, 3 or 4; and (ii) had an ECAI issuer rating assigned by a Type A ECAI or the abovementioned Type B ECAI at the time the credit protection was given	Basel Framework Reference: CRE22.76(2)(b).

Amendments to be made	Remarks (including references)
that, if mapped to the scale of credit quality grades in the LT ECAI rating mapping table for Type A ECAIs or the LT ECAI rating mapping table for Type B ECAIs, as the case requires, would result in the corporate being assigned a credit quality grade of 1, 2 or 3.".	

Item 199. Amend section 244 (Treatment of Part 7 credit risk mitigation—full or proportional credit protection)

Amendments to be made	Remarks (including references)
(1) In subsections (3)(a) and (4)(a), replace "credit risk for non-securitization exposures" with "credit risk for some of its non-securitization exposures".	
(2) In subsection (5), replace "credit risk for non-securitization exposures" with "credit risk for all of its non-securitization exposures".	
(3) Repeal the entire content of subsection (7) and replace with provisions to provide for the following requirements: In applying the treatment under subsection (3) in respect of recognized collateral, the AI must, instead of taking into account the credit risk mitigation effect of the collateral through the determination of the LGD of the securitization exposure, take into account the effect by applying the formula set out in section 160(3) for calculating the unsecured portion of an exposure (E_U) with the following modifications— (a) the component E of that formula is to be construed as a reference to the exposure amount of the securitization exposure determined in accordance with section 235 (after the adjustments set out in section 236(3) if applicable); and	

Amendments to be made	Remarks (including references)
(b) the E_u calculated for the securitization exposure under that formula is to be taken as the exposure amount of the securitization exposure for the purposes of section 236(1).	

Item 200. Amend section 255 (Calculation of IRB capital charge for underlying exposures in IRB pool)

Amendments to be made	Remarks (including references)
(1) In subsection (1)(a)(i), repeal "(after applying the scaling factor of 1.06)".	

Item 201. Amend section 259 (Treatment of default risk of underlying exposures in calculation of K_{IRB})

Amendments to be made	Remarks (including references)
(1) In subsection (3)(b)(i), replace "in the first bullet point of paragraph 496 of the document" with "in paragraph CRE36.118(1)".	

Item 202. Amend section 265 (Determination of risk-weights of securitization exposures with long-term ratings)

Amendments to be made	Remarks (including references)
(1) In subsection (1)(a), replace "Table A in Schedule 11" with "the LT ECAI rating mapping table for securitization exposures".	
(2) In Table 25, repeal "Long-term" wherever appears.	

Item 203. Amend section 266 (Determination of risk-weights of securitization exposures with short-term ratings)

Amendments to be made		Remarks (including references)
(1)	In paragraph (a), replace "Table B in Schedule 11" with "the ST ECAI rating mapping table for securitization exposures".	
(2)	In Table 26, repeal "Short-term" wherever appears.	

Item 204. Amend section 267 (Use of ECAI issue specific ratings or internal credit ratings for determination of risk-weights)

Amendments to be made		Remarks (including references)
(1)	Repeal subsection (1)(a) and replace with a provision as follows: "(a) ensure that it has nominated the ECAI for the purposes of this Part in accordance with section [4B]; and".	It is assumed that the proposed new section in Item 8 would be numbered as §4B.
(2)	In subsection (1)(b), replace "69(2)(b)" with a reference to the subsections that will house the requirements proposed in Item 40(2)(b) and (c).	
(3)	In subsections (2)(a) and (b), replace "section 98(a) or 99(1)(b)" with "section 99A(2)(a)".	It is assumed that Item 99(2)(a) would be numbered as §99A(2)(a).

Item 205. Amend section 268 (Inferred ratings)

Amendments to be made		Remarks (including references)
(1)	In paragraph (f), replace "section 267(1)(a)" with "this Part in accordance with section [4B]".	It is assumed that the proposed new section in Item 8 would be numbered as §4B.

VII(ii) Proposed new division to be effective on [1 July 2023]

Item 206. Add new division on non-performing loan securitization transactions

Matters to be provided		Remarks (including references)
(1)	It is proposed to add a new division after existing Division 10 of Part 7 to implement the capital treatments for securitization exposures to non-performing loan securitization transactions set out in CRE45[67]. The matters to be provided in this new division are set out in Item 207 to Item 211 below.	

Item 207. Add new section on interpretation

Matters to be provided		Remarks (including references)
(1)	***Non-performing loan securitization transaction*** or ***NPL securitization transaction***—	Basel Framework Reference: CRE45.1.
	(a) means a traditional securitization transaction where its pool of underlying exposures—	

[67] CRE45 – Securitisations of non-performing loans (https://www.bis.org/basel_framework/chapter/CRE/45.htm?inforce=20230101&published=20201126).

Matters to be provided	Remarks (including references)
(i) has a delinquency ratio (within the meaning of paragraph (a) of the definition of ***delinquency ratio*** in section 273(3)) equal to or higher than 90%— (A) at the origination cut-off date; and (B) at any subsequent date on which assets are added to or removed from the pool due to replenishment, restructuring or any other relevant reason; (ii) only comprises— (A) loans; (B) loan-equivalent financial instruments, such as bonds not listed on a trading venue; or (C) tradable instruments used for the sole purpose of loan sub-participation in relation to securitization of assets; and (iii) does not contain any securitization exposures; and (b) does not include any transaction specified by the MA under paragraph (3).	
(2) ***NPL securitization exposure*** means a securitization exposure to an NPL securitization transaction;	
(3) The MA may, by written notice given to a locally incorporated AI, preclude any securitization transaction originated by the AI from the definition of ***NPL securitization***	Basel Framework Reference: CRE45.2

Matters to be provided		Remarks (including references)
	transaction if the MA is of the opinion that the transaction was executed with the sole purpose of regulatory capital arbitrage (within the meaning given by section 4).	
(4)	An AI given a notice under paragraph (3) must comply with the notice.	

Item 208. Add new section on capital treatment of NPL securitization exposures

Matters to be provided		Remarks (including references)
(1)	An AI must— (a) determine the approach to be used to determine the risk-weight of an NPL securitization exposure in accordance with Division 4 of Part 2; and (b) calculate the risk-weighted amount of the NPL securitization exposure in accordance with Divisions 1 to 10 of this Part, subject to the requirements set out in Item 209 to Item 211. However, if the AI would use the foundation IRB approach to calculate the capital charge of the underlying exposures of the NPL securitization transaction concerned if the underlying exposures were held by the AI directly, the AI must not use the SEC-IRBA to determine the risk-weight of the NPL securitization exposure.	Basel Framework Reference: CRE45.3.

Item 209. Add new section on risk-weights of NPL securitization exposures under SEC-IRBA and SEC-SA

Matters to be provided		Remarks (including references)
(1)	Subject to paragraph (2), where, according to Item 208, an AI must use the SEC-IRBA or the SEC-SA to determine the risk-weight of an NPL securitization exposure, the AI must allocate to the NPL securitization exposure a risk-weight that is the higher of— (a) 100%; and (b) the risk-weight applicable to the NPL securitization exposure determined under the SEC-IRBA, the SEC-SA or section 241 (after applying Item 210 if applicable), as the case requires.	Basel Framework Reference: CRE45.4.
(2)	Where, according to Item 208, an AI must use the SEC-IRBA or the SEC-SA to determine the risk-weight of an NPL securitization exposure to an NPL securitization transaction, the AI may apply a risk-weight of 100% to the senior tranche of the transaction provided that— (a) the transaction is a traditional securitization transaction; and (b) the sum of the non-refundable purchase price discounts (see paragraph (3)) is equal to or higher than 50% of the outstanding balance of the pool of underlying exposures of the transaction.	Basel Framework Reference: CRE45.5.
(3)	For the purpose of paragraph (2), non-refundable purchase price discount (***NRPPD***), in relation to an NPL securitization transaction— (a) means the amount arrived at by subtracting the amount referred to in sub-	Basel Framework Reference: CRE45.6.

Matters to be provided	Remarks (including references)
subparagraph (ii) from the amount referred to in sub-subparagraph (i)— (i) the outstanding balance of the underlying exposures of the transaction at the time those exposures were sold by the originator to the SPE in the transaction; (ii) the price at which those exposures were sold by the originator to the SPE; and (b) does not include any amount that is refundable to either the originator or the original lender. In cases where an originator underwrites tranches of an NPL securitization transaction for subsequent sale, the NRPPD may include the differences between— (a) the nominal amount of the tranches; and (b) the price at which the tranches are first sold by the originator to unrelated third parties. To avoid doubt, for any given piece of a securitization tranche, only its initial sale from the originator to investors is taken into account in the determination of NRPPD. The purchase prices of subsequent re-sales are not considered.	

Item 210. Add new section on caps on risk-weights for exposures in senior tranches determined by using SEC-IRBA, SEC-ERBA or SEC-SA

Matters to be provided	Remarks (including references)
(1) If the weighted average risk-weight of the underlying exposures of an NPL securitization transaction calculated in accordance with section 241(3), (4), (5) or (6), as the case requires, is smaller than 100%, 100% must be used as the risk-weight cap for the purpose of section 241(2).	Basel Framework Reference: CRE45.4 (as far as the look-through approach is concerned).

Item 211. Add new section on cap on capital requirement for NPL securitization exposures

Matters to be provided	Remarks (including references)
(1) If an AI is the originator of an NPL securitization transaction, the AI may apply the cap specified in section 242 to the aggregated capital requirement for its NPL securitization exposures to the NPL securitization transaction.	Basel Framework Reference: CRE45.7.

VII(iii) Amendments to Division 1 to be effective on the same day as the new CVA capital framework comes into force

Item 212. Amend section 227 (Interpretation of Part 7)

Amendments to be made	Remarks (including references)
(1) In paragraph (c) of the definition of ***exposure amount***, replace "counterparty default risk" with "counterparty credit risk".	

VII(iv) Amendments to Division 3 to be effective on the same day as the new market risk capital framework comes into force

Item 213. Amend section 239 (Treatment of overlapping securitization exposures)

Amendments to be made	Remarks (including references)
(1) Amend subsection (4) by replacing "total market risk capital charge for specific risk" with "market risk capital charge".	
(2) Repeal the entire content of subsection (5) and replace with a provision to provide for the following: In this section— ***regulatory capital***, in relation to a securitization exposure booked in the trading book or an overlapping portion that has been attributed to the exposure, means— (a) [the SBM capital charge in relation to the credit spread risk for securitizations, RRAO and SA-DRC][68] calculated by using the STM approach; or (b) the market risk capital charge for specific risk calculated by using the SSTM approach.	

[68] The wording is subject to the exact wording to be used in Part 8 determined by the law draftsman.

VIII. AMENDMENTS TO THE SCHEDULES

VIII(i) Amendments to be effective on [1 July 2023]

Item 214. Amend Schedule 1 (Specifications for Purposes of Certain Definitions in these Rules)

Amendments to be made	Remarks (including references)
(1) In Part 10 (Relevant International Organizations), replace "European Community" with "European Union".	Basel Framework reference: CRE20.10.

Item 215. Repeal Schedule 6 (Credit Quality Grades)

Amendments to be made	Remarks (including references)
Repeal Schedule 6.	In view of the fact that the names of the specified ECAIs and their respective rating notations may change from time to time, it is proposed to repeal Schedule 6 and replace with mapping tables made by the MA and published on the MA's website under Item 7 so that amendments can be made swiftly to reflect any change.

Item 216. Add new schedule on credit conversion factors

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(1) The CCF applicable to an off-balance sheet exposure specified in column 2 of the Table is specified in column 3 of the Table opposite the exposure.

Table
<table><tr><th>Item</th><th>Off-balance sheet exposures</th><th>CCF</th></tr><tr><td>1</td><td>Direct credit substitutes</td><td>100%</td></tr><tr><td>2</td><td>Asset sales with recourse</td><td>100%</td></tr><tr><td>3</td><td>Sale and repurchase agreements (excluding those that are repo-style transactions)</td><td>100%</td></tr><tr><td>4</td><td>Forward asset purchases</td><td>100%</td></tr><tr><td>5</td><td>Forward forward deposits placed</td><td>100%</td></tr><tr><td>6</td><td>Partly paid-up shares and securities</td><td>100%</td></tr><tr><td>7</td><td>Note issuance and revolving underwriting facilities</td><td>50%</td></tr><tr><td>8</td><td>Transaction-related contingencies</td><td>50%</td></tr><tr><td>9</td><td>Trade-related contingencies</td><td>20%</td></tr><tr><td>10</td><td>Exempt commitments</td><td>0%</td></tr><tr><td>11</td><td>Commitments that do not fall within any of items 1, 2,</td><td>10%</td></tr></table></td><td>Basel Framework reference: CRE20.95 to 20.100.

The treatment of sale and repurchase agreements mentioned in BCBS CRE20.95(2) is covered by the new section proposed in Item 71 if the agreements are repo-style transactions.

The treatment of lending of securities and posting of securities as collateral mentioned in CRE20.95(3) are covered by existing §71(2) and (5) and §118(2) and (3).</td></tr>
</table>

Matters to be provided				Remarks (including references)
		3, 4, 5, 6, 7, 8, 9 and 10 and that— (a) may be cancelled at any time unconditionally by the AI concerned without prior notice; or (b) provide for automatic cancellation due to deterioration in the creditworthiness of the persons to whom the AI has made the commitment		
	12	Commitments that do not fall within any of items 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11	40%	
	13	Off-balance sheet exposures that do not fall within— (a) for the purposes of the STC approach—any other item in this Schedule and section 71(2) and (5); or (b) for the purposes of the BSC approach—any other item in this Schedule and section 118(2) and (3)	The CCF specified in Part 2 of Schedule 1 applicable to the exposures or 100% if no such CCF is specified	
(2) In the Table— (a) ***commitment*** means any contractual arrangement that has been offered by an AI and accepted by its customer to extend credit, purchase assets or issue credit substitutes, including such an arrangement— (i) that is in the form of a general banking facility consisting of 2 or more credit lines; (ii) that can be unconditionally cancelled by the AI at any time without prior notice to the				Basel Framework reference: CRE20.94.

Matters to be provided	Remarks (including references)
customer; or (iii) that can be cancelled by the AI if the customer fails to meet conditions set out in the facility documentation, including conditions that must be met by the customer prior to any initial or subsequent drawdown under the arrangement; (b) ***exempt commitment***, in relation to an AI, means a commitment that satisfies all of the following conditions— (i) the person to whom the AI has made the commitment is a corporate (within the meaning of section 51(1) or 105, as the case requires); (ii) the credit quality of the person is closely monitored by the AI on an ongoing basis; (iii) the AI receives no fees or commissions to establish or maintain the commitment; (iv) the person is required to apply to the AI for the initial and each subsequent drawdown; (v) the AI has full authority, regardless of the fulfilment by the person of the conditions set out in the facility documentation, over the execution of each drawdown; and (vi) the AI's decision on the execution of each drawdown is only made after assessing the creditworthiness of the person immediately prior to drawdown.	Basel Framework reference: CRE20.94 footnote 43.

Item 217. Amend Schedule 7 (Standard Supervisory Haircuts)

<table>
<tr><th>Amendments to be made</th><th>Remarks (including references)</th></tr>
<tr><td>(1) In section 1 and the chapeau of section 2, replace “Table” with “Tables”.</td><td></td></tr>
<tr><td>(2) Repeal the Table in section 1 and replace it with the tables below.

Part 1
Standard supervisory haircuts for debt securities other than securitization issues

<table>
<tr><th colspan="4">Table A
Debt securities issued by sovereigns or sovereign issuers</th></tr>
<tr><td>Item</td><td>Type of exposure or recognized collateral</td><td>Residual maturity of debt security</td><td>Standard supervisory haircuts</td></tr>
<tr><td rowspan="3">1</td><td rowspan="3">(a) A debt security—
(i) issued by a sovereign or sovereign issuer; and
(ii) having an ECAI issue specific rating mapped to a credit quality grade of 1 or 2 under the LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 1 under the ST ECAI rating mapping table for Type A ECAIs.</td><td>not more than 1 year</td><td>0.5%</td></tr>
<tr><td>more than 1 year
but not more than 5 years</td><td>2%</td></tr>
<tr><td>more than 5 years</td><td>4%</td></tr>
</table>
</td><td>Basel Framework reference: CRE22.49, 22.51, 22.52, 22.54, 22.60 and CRE55.2.

(CRE22.50 is not applicable to Hong Kong.)</td></tr>
</table>

Amendments to be made				Remarks (including references)
	(b) A debt security that— (i) does not have an ECAI issue specific rating; and (ii) is issued by a sovereign having an ECAI issuer rating mapped to a credit quality grade of 1 or 2 under the LT ECAI rating mapping table for Type A ECAIs.			
2	(a) A debt security— (i) issued by a sovereign or sovereign issuer; and (ii) having an ECAI issue specific rating mapped to a credit quality grade 3 or 4 under the LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 2 or 3 under the ST ECAI rating mapping table for Type A ECAIs. (b) A debt security that— (i) does not have an ECAI issue specific rating; and (ii) is issued by a sovereign having an ECAI issuer rating mapped to a credit quality grade of 3 or 4 under the LT ECAI rating mapping table for Type A ECAIs.	not more than 1 year	1%	
		more than 1 year but not more than 5 years	3%	
		more than 5 years	6%	
3	(a) A debt security— (i) issued by a sovereign or sovereign issuer; and	All	15%	

Amendments to be made				Remarks (including references)
	(ii) having an ECAI issue specific rating mapped to a credit quality grade of 5 under the LT ECAI rating mapping table for Type A ECAIs. (b) A debt security that— (i) does not have an ECAI issue specific rating; and (ii) is issued by a sovereign having an ECAI issuer rating mapped to a credit quality grade of 5 under the LT ECAI rating mapping table for Type A ECAIs.			

Table B
Debt securities issued by issuers other than sovereigns and sovereign issuers

Item	Type of exposure or recognized collateral	Residual maturity of debt security	Standard supervisory haircuts
1	A debt security with an ECAI issue specific rating mapped to one of the following credit quality grades— (a) 1 or 2 under the LT ECAI rating mapping table for Type A ECAIs;	not more than 1 year	1%
		more than 1 year but not more than 3 years	3%
		more than 3 years but not more than 5 years	4%

Amendments to be made				Remarks (including references)
	(b) 1 under the ST ECAI rating mapping table for Type A ECAIs; or (c) 1 under the LT ECAI rating mapping table or ST ECAI rating mapping table for Type B ECAIs.	more than 5 years but not more than 10 years	6%	
		more than 10 years	12%	
2	A debt security with an ECAI issue specific rating mapped to one of the following credit quality grades— (a) 3 or 4 under the LT ECAI rating mapping table for Type A ECAIs; (b) 2 or 3 under the ST ECAI rating mapping table for Type A ECAIs; or (c) 2 or 3 under the LT ECAI rating mapping table or ST ECAI rating mapping table for Type B ECAIs.	not more than 1 year	2%	
		more than 1 year but not more than 3 years	4%	
		more than 3 years but not more than 5 years	6%	
		more than 5 years but not more than 10 years	12%	
		more than 10 years	20%	
3	A debt security issued by a bank that— (a) does not have an ECAI issue specific rating; and (c) satisfies the criteria set out in section [see Item 83(1)(l)] of these Rules.	not more than 1 year	2%	
		more than 1 year but not more than 3 years	4%	
		more than 3 years but not more than 5 years	6%	

Amendments to be made				Remarks (including references)
		more than 5 years but not more than 10 years	12%	
		more than 10 years	20%	

Part 2

Standard supervisory haircuts for securitization issues other than re-securitization exposures

Table C
Securitization issues

Item	Type of exposure or recognized collateral	Residual maturity of securitization issue	Standard supervisory haircuts
1	Securitization issue with an ECAI issue specific rating mapped to— (a) a credit quality grade of 1, 2, 3 or 4 under the LT ECAI rating mapping table for securitization exposures; or (b) a credit quality grade of 1 under the ST ECAI rating mapping table for securitization exposures.	not more than 1 year	2%
		more than 1 year but not more than 5 years	8%
		more than 5 years	16%

Amendments to be made				Remarks (including references)
2	Securitization issue with an ECAI issue specific rating mapped to— (a) a credit quality grade of 5, 6, 7, 8, 9 or 10 under the LT ECAI rating mapping table for securitization exposures; or (b) a credit quality grade of 2 or 3 under the ST ECAI rating mapping table for securitization exposures.	not more than 1 year	4%	
		more than 1 year but not more than 5 years	12%	
		more than 5 years	24%	

Part 3

Standard supervisory haircuts for exposures and collateral not falling within Parts 1 and 2 of this Schedule

Table D
Assets other than debt securities

Item	Type of exposure or recognized collateral	Standard supervisory haircuts
1	Exposures in the form of cash	0%
2	Recognized collaterals that fall within section 79[(1)(a), (b) or (c)][69] of these Rules	0%
3	Exposures arising from currency mismatch	8%

[69] Subject to the exact section numbers to be determined by the law draftsman for Item 83(1)(a), (b) and (c).

Amendments to be made			Remarks (including references)
4	Equities (including convertible bonds) included in main indices	20%	
5	Gold bullion	20%	
6	Equities (including convertible bonds) listed on recognized exchanges that do not fall within item 4	30%	
7	Units or shares in collective investment schemes	(a) the highest haircut applicable to any financial instruments in which the scheme can invest; or (b) if the AI concerned is able to use the look-through approach (within the meaning of section 226ZG) to determine the risk-weighted amount of the underlying exposures of the scheme—the weighted average haircut applicable to the financial instruments held by the scheme	
8	Exposures arising from financial instruments sold, lent, or posted as collateral by an AI under securities financing transactions where the	30%	

Amendments to be made			Remarks (including references)

	financial instruments do not fall within Parts 1, 2 and items 4, 6 and 7 of this Part of this Schedule	
9	Securities received under repo-style transactions booked in trading book where the securities— (a) do not fall within Parts 1, 2 and items 4, 6 and 7 of this Part of this Schedule; and (b) are eligible for being included in trading book	30%
10	Exposures not specified in this Table	30%

(3)	Repeal the content of section 2(b) and replace with "sovereign issuer means (i) a sovereign foreign public sector entity; or (ii) a multilateral development bank where an exposure to it would be eligible for a risk-weight of 0% under section [see Item 44(1)]".	Basel Framework reference: CRE22.51(1).
(4)	Repeal section 2(c) and (ca).	
(5)	Repeal section 2(f).	
(6)	Repeal section 2(g).	
(7)	Repeal section 2(h).	

Item 218. Amend Schedule 10 (Requirements to Be Satisfied for Synthetic Securitization Transaction to be Eligible Synthetic Securitization Transaction)

Amendments to be made	Remarks (including references)
(1) In section 2(a)(i), replace "section 80(1)(a), (b) and (c)" with "section 79(1) (excluding paragraph (o)) and section 80(1)(b) and (c)".	
(2) In section 2(a)(iv), replace "section 77(a), (b), (c), (d), (e), (ea) and (f)" with "section 77(2)".	
(3) Repeal section 2(b) and replace with a provision as follows: "(b) if the underlying exposures concerned consist of securitization exposures, the reference to ["an entity not listed above that has an ECAI issuer rating" in section 99A(2)(a)(viii)] is to be construed as a reference to an entity specified in section 243(3).".	

Item 219. Repeal Schedule 11 (Mapping of ECAI Issue Specific Ratings into Credit Quality Grades under SEC-ERBA)

Amendments to be made	Remarks (including references)
Repeal Schedule 11.	

VIII(ii) Amendments to be effective on the same day as the new CVA capital framework comes into force

Item 220. Amend Schedule 2A (Minimum Requirements to be Satisfied for Approval under Section 10B(2)(a) of these Rules to Use IMM(CCR) Approach)

Amendments to be made		Remarks (including references)
(1)	In section 2(a), (b), (d) and (e), replace "counterparty default risk" with "counterparty credit risk".	
(2)	In section 3(d)(ii), replace "counterparty default risk" with "counterparty credit risk".	
(3)	In section 5(a)(ii), (b)(i)(B), (b)(iii)(C) and (E) and (d)(iii), replace "counterparty default risk" with "counterparty credit risk".	

Item 221. Amend Schedule 4D (Requirements to be Met for Minority Interests and Capital Instruments Issued by Consolidated Bank Subsidiaries and Held by Third Parties to be Included in Authorized Institution's Capital Base)

Amendments to be made		Remarks (including references)
(1)	In section 3(1A)(a) and (b), after "risk-weighted amount for credit risk,", add "risk-weighted amount for CVA risk".	
(2)	In the chapeau of section 3(1B), after "risk-weighted amount for credit risk,", add "risk-weighted amount for CVA risk".	
(3)	In section 4(1A)(a) and (b), after "risk-weighted amount for credit risk,", add "risk-weighted amount for CVA risk".	

Amendments to be made		Remarks (including references)
(4)	In the chapeau of section 4(1B), after "risk-weighted amount for credit risk,", add "risk-weighted amount for CVA risk".	
(5)	In section 5(1A)(a) and (b), after "risk-weighted amount for credit risk,", add "risk-weighted amount for CVA risk".	
(6)	In the chapeau of section 5(1B), after "risk-weighted amount for credit risk,", add "risk-weighted amount for CVA risk".	

Item 222. Amend Schedule 16 (Transitional Provisions for Banking (Capital)(Amendment) Rules 2020)

Amendments to be made		Remarks (including references)
(1)	In section 1(2)(c) and (4)(b), replace "counterparty default risk" with "counterparty credit risk".	