Annex 2

This set of proposed amendments relate to Part 6 of the Banking (Capital) Rules ("BCR"), which deal with the revisions to the "internal ratings-based approach" (or "IRB approach"), and the addition of a new Part (to be added after Part 10) of the BCR to set out the requirements of the newly introduced output floor 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.*

DETAILED INSTRUCTIONS

I. AMENDMENTS TO BE EFFECTIVE ON 1 JULY 2023

AMENDMENTS TO PART 6 (CALCULATION OF CREDIT RISK FOR NON-SECURITIZATION EXPOSURES: IRB APPROACH)

Item 1. Amend the following existing definitions in section 139(1) of the BCR

Existing definitions to be amended	Remarks (including references)
(1) ***advanced IRB approach*** (高級 IRB 計算法) – (a) replace ", sovereign or bank" with "or sovereign".	Basel Framework reference: CRE30.34(2) The AIRB is no longer available for the calculation of credit risk of an AI's bank exposures.
(2) ***corporate*** (法團) – (a) replace everything after "is not a" with "multilateral development bank, unspecified multilateral body, public sector entity, bank or regulated financial institution.	

Existing definitions to be amended	Remarks (including references)
(3) ***credit risk components*** (信用風險組成部分) – (a) replace "; or" with ";" in paragraph (a); and (b) repeal paragraph (b).	Basel Framework reference: CRE30.43 The calculation of credit risk with respect to an AI's equity exposure (other than CIS exposure) will be migrated to the revised SA upon the implementation of Basel III final reform package.
(4) ***foundation IRB approach*** (基礎 IRB 計算法) – (a) add "subject to section 167(c)," before "using" in paragraph (b).	
(5) ***maturity*** (到期期限) – (a) replace ", 168 or 169" with "or 168", and replace "; or" with ";" in paragraph (a); and (b) repeal paragraph (b).	Item 1(5)(a): BCBS removed the double default framework and it will cease to operate upon the implementation of Basel III final reform package. Item 1(5)(b):

Existing definitions to be amended	Remarks (including references)
	Basel Framework reference: CRE30.43
(6) ***recognized collateral*** (認可抵押品) – (a) replace "corporate, sovereign or bank" with "corporate or sovereign" in paragraph (b); and (b) replace paragraph (b)(ii) with "which satisfy all the criteria set out in the subsection proposed as per Item 81(2) in the DIs mainly for amending Part 4 of the BCR ("STC DIs"). .	Item 1(6)(a): Basel Framework reference: CRE30.34(2) The AIRB is no longer available for the calculation of credit risk of an AI's bank exposures.
(7) ***recognized credit derivative contract*** (認可信用衍生工具合約) – (a) replace "bank, retail or equity" with "bank or retail" in paragraph (a); and	Item 1(7)(a): Basel Framework reference: CRE30.43

Existing definitions to be amended	Remarks (including references)
(b) replace paragraph (b) with "an internal hedge recognized under section 213".	Item 1(7)(b): Please refer to Item 42 below on proposed amendments to section 213 of the BCR.
(8) ***recognized financial collateral*** (認可財務抵押品) – (a) replace "section 80(1)(a), (b), (c) or (d)" with "section 80(1)(a), (b) or (c)" in paragraph (a)(i); and (b) replace paragraph (a)(ii) with "which satisfy all the criteria set out in the subsection proposed in Item 81(2) in the STC DIs."; and (c) replace everything after "debt securities" by "that are re-securitization exposures" in paragraph (b).	
(9) ***recognized guarantee*** (認可擔保) – (a) replace "bank, retail or equity" with "bank or retail" in paragraph (a); and	Basel Framework reference: CRE30.43

Existing definitions to be amended	Remarks (including references)
(b) repeal paragraph (b).	
(10) ***revolving*** (循環) – (a) replace "a retail" with "an".	Basel Framework reference: Footnote 2 of CRE32.36[1]
(11) ***risk-weight function*** (風險權重函數) – (a) replace "; or" with ";" in paragraph (a); and (b) repeal paragraph (b).	Basel Framework reference: CRE30.43
(12) ***specialized lending*** (專門性借貸) – (a) replace everything after "exposure of" with "a lender to a corporate (which is	Basel Framework reference: CRE30.7

[1] CRE32 – IRB approach: risk components (https://www.bis.org/basel_framework/chapter/CRE/32.htm?tldate=20220101&inforce=20230101&published=20200327)

Existing definitions to be amended	Remarks (including references)
typically an entity created specifically to finance or operate specific assets) that falls within section 143(1) and 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.	
(13) ***specific risk-weight approach*** (特定風險權重計算法) [Reserved for future use]	

Existing definitions to be amended	Remarks (including references)
(14) ***total EL amount*** (EL 總額) – (a) replace everything after "the institution" with "which are subject to the IRB approach".	BCBS removed the double default framework and it will cease to operate upon the implementation of Basel III final reform package.
(15) ***total eligible provisions*** (合資格準備金總額) – (a) replace everything after "the institution" with "which are subject to the IRB approach".	Ditto.

Item 2. Add the following new definitions in section 139(1) of the BCR

New definitions	Remarks (including references)
(1) ***financial institution*** (金融機構) means an entity that– (a) is a financial sector entity; or	This definition is proposed to be relocated from section 157A(3).

New definitions	Remarks (including references)
(b) is engaged predominantly in any one or more of the following activities, whether by itself or through any of its subsidiaries– (i) lending; (ii) factoring; (iii) provision of credit enhancement; (iv) securitization; (v) proprietary trading; and (vi) any other financial services activity specified in Part 11 of Schedule 1.	
(2) ***fully secured exposure*** ( ) means an exposure, for the purposes of taking into account the credit risk mitigating effect of recognized collateral under the advanced IRB approach and retail IRB approach, which is secured by recognized collateral and the	Basel Framework reference: CRE32.17 This is to implement CRE32.17 on how to determine whether an exposure is fully secured or

New definitions	Remarks (including references)
value of the recognized collateral (after the application of haircut pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92) is greater than the value of the exposure (after the application of haircut pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92).	partially secured and thus determine the LGD floor of exposures under the AIRB for corporate exposures and retail IRB approach for retail exposures.
(3) ***non-regulated financial institution*** ( ) means a financial institution (other than a bank) that is not a regulated financial institution.	
(4) ***partially secured exposure*** ( ) means an exposure, for the purposes of taking into account the credit risk mitigating effect of recognized collateral under the advanced IRB approach and retail IRB approach, which is secured by recognized collateral and is not a fully secured exposure.	
(5) ***regulated financial institution*** ( ) means– (a) a licensed corporation licensed and supervised by the Securities and Future	Basel Framework reference: CRE30.18

New definitions	Remarks (including references)
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) an authorized insurer within the meaning of the Insurance Ordinance (Cap. 41); or (c) a financial institution (other than a bank) that is supervised by regulatory authority that imposes supervisory standards (including supervisory standards relating to capital and liquidity) that are substantially consistent with international standards.	
(6) ***residential mortgage loan*** (住宅按揭貸款), in relation to an authorized institution, means a credit facility provided by the institution to a borrower– (a) which is secured on a residential property or residential properties; and (b) which is required by the facility agreement between the institution and the borrower to be secured on the residential property or residential properties referred to in	This is to relocate the existing definition from section 2(1) to section 139(1).

New definitions	Remarks (including references)
paragraph (a).	

Item 3. Repeal the following existing definitions in section 139(1) of the BCR

Existing definitions to be repealed	Remarks (including references)
(1) ***capital floor*** (資本下限)	The calculation of capital floor as set out in Division 13 of Part 6 of the BCR is to be replaced with the new output floor specified in RBC20.4[2].
(2) ***double default framework*** (雙重違責框架)	BCBS removed the double default framework and it will cease to operate upon the implementation of Basel III final reform package.

[2] RBC20 – Calculation of minimum risk-based capital requirements (https://www.bis.org/basel_framework/chapter/RBC/20.htm?inforce=20230101&published=20201126)

Existing definitions to be repealed	Remarks (including references)
(3) ***financial firm*** (金融商號)	Ditto.
(4) ***hedge exposure*** (對沖風險承擔)	Ditto.
(5) ***internal models method*** (內部模式方法)	This approach is no longer required.
(6) ***market-based approach*** (市場基準計算法)	Ditto.
(7) ***PD/LGD approach*** (PD/LGD 計算法)	Ditto.
(8) ***seasoning*** (季節性因素)	
(9) ***simple risk-weight method*** (簡單風險權重方法)	This approach is no longer required.
(10) ***unhedged exposure*** (無對沖風險承擔)	BCBS removed the double default framework and it will cease to operate upon the implementation of

Existing definitions to be repealed	Remarks (including references)
	Basel III final reform package.

Item 4. Amend section 140 of the BCR (Calculation of risk-weighted amount of exposures)

Amendments to be made	Remarks (including references)
(1) Replace section 140(1B) along the following line: For [an equity exposure that is] a CIS exposure constituting deductible holding which is not deducted from the capital base of an authorized institution under Division 4 of Part 3, the institution must calculate the risk-weighted amount of the exposure in accordance with the revised section 183 set out in Item 32 below.	Proposed to provide with a prologue requiring AIs to calculate the RWA of a CIS exposure constituting deductible holding which is not deducted from capital base in accordance with the revised section 183.
(2) In section 140(1C) of the BCR, (a) replace "and an approval to use the IMM approach to calculate the market risk capital charge for specific risk for interest rate exposures" with "for its transactions	Proposed amendments to cater for the amended definition of "risk-weighted amount for credit risk" set out in Item 2(15) in the STC DIs and

Amendments to be made	Remarks (including references)
or contracts" in the chapeau of paragraph (a); (b) add "and" after "approval;" in paragraph (a)(i); (c) add "the sum of" before "the SA-CCR" and repeal "and" in paragraph (a)(ii); (d) repeal paragraphs (a)(iii) and (b); (e) add "the sum of" before "the "SA-CCR" and add "and" after "amount;" in paragraph (c)(i); (f) replace "; and" with a full stop in paragraph (c)(ii); and (g) repeal paragraph (c)(iii).	prepare for the migration of the capital treatment for CVA risk out of the credit risk framework.
(3) Repeal section 140(1E) of BCR.	

Item 5. Amend section 140A of the BCR (Calculation of exposure at default)

Amendments to be made	Remarks (including references)
(1) In section 140A(2) of the BCR, (a) replace "an equity exposure" with "a CIS exposure constituting deductible holding"; and (b) replace "the equity exposure" with "the deductible holding".	

Item 6. Amend section 142 of the BCR (Classification of exposures)

Amendments to be made	Remarks (including references)
(1) Replace "27" with the revised number of IRB subclasses in column 3 of Table 16 proposed in Item 6(2) below in section 142(1)(b) of the BCR.	
(2) Amend Table 16 under section 142(1) of the BCR as follows– (a) in item 1 of the table:	Item 6(2)(a)(ii): Basel Framework reference: CRE30.34

Amendments to be made	Remarks (including references)
(i) repeal "under supervisory slotting criteria approach" for paragraphs (a), (b), (c) and (d) in column 3; and (ii) add two new IRB subclasses "(ea) Large corporates" and "(eb) Non-regulated financial institutions" after paragraph (e) in column 3. (b) in item 3 of the table: (i) replace "Banks" with "Banks (excluding covered bonds)" in paragraph (a) in column 3; (ii) replace "Securities firms" with "regulated financial institutions" in paragraph (b) in column 3; and (iii) add two new IRB subclasses "(d) Unspecified multilateral bodies" and "(e) Covered bonds" after paragraph (c) in column 3. (c) in item 4 of the table:	Item 6(2)(b): Basel Framework reference: CRE30.18 Item 6(2)(c): Basel Framework reference: CRE30.25 Item 6(2)(d): Basel Framework reference: CRE30.43

Amendments to be made	Remarks (including references)
(i) replace "Qualifying revolving retail exposures" with "Qualifying revolving retail exposures (transactor)" in paragraph (d) in column 3; and (ii) add a new IRB subclass "(da) Qualify revolving retail exposures (revolver)" after paragraph (d) in column 3. (d) in item 5 of the table: (i) repeal paragraphs (a) to (f) in column 3; and (ii) replace "Equity exposures (CIS exposures)" with "CIS exposure" in paragraph (g) in column 3.	
(3) Add the reference to the new subsection proposed in Item 7(3)(a) below after "143(3) or" in section 142(3) of the BCR.	

Item 7. Amend section 143 of the BCR (Corporate exposures)

Amendments to be made	Remarks (including references)
(1) In section 143(1) of the BCR, (a) replace "collateral" with "security" in paragraph (a); (b) add "(or otherwise provided as security)" after "and pledged" in paragraph (b); and (c) repeal "(including gold)" (whenever appear) in paragraph (c).	Item 7(1)(a): Basel Framework reference: CRE30.9 Item 7(1)(c): The definition of "commodity" in section 2(1) is amended to include gold (refer to Item 2(2) in the STC DIs.)
(2) Replace "and (4A)" with the existing subsection (4A) and the two new subsections proposed in Item 7(5)(a) and (b) below in section 143(3) of the BCR.	
(3) Add three new subsections after section 143(3) to provide that– (a) Subject to the new subsection proposed in Item 7(3)(b) below, the existing subsection (4A) and the two new subsections proposed in Item 7(5)(a) and (b) below, for the purposes of section 142(1) as read with Table 16, an	Basel Framework reference: CRE30.34 and CRE30.35

Amendments to be made	Remarks (including references)
authorized institution may only classify an exposure to a corporate as a corporate exposure which falls within the IRB subclass of large corporates if– (i) subject to paragraphs (ii) and (iii), the corporate concerned has a reported total annual revenue, in its audited annual financial statements, of more than $5 billion; (ii) subject to paragraph (iii), in any case where the corporate concerned is a member of a group of companies, the group of companies has a consolidated reported total annual revenue, in the group's latest audited consolidated annual financial statements, of more than $5 billion; (iii)in any case where the corporate concerned is consolidated with other corporates by the institution for risk management purposes, the aggregate of the reported total annual revenue in the latest audited	

Amendments to be made	Remarks (including references)
annual financial statements of the corporate concerned and the other corporates, is more than $5 billion. (b) The reported total annual revenue referred to in the new subsection proposed in Item 7(3)(a) above must be either an average amount of the annual revenue of the corporate or the group concerned in the past three years or the latest amount of the annual revenue updated every three years by an authorized institution. (c) Subject to the existing subsection (4A), and the new subsection proposed in Item 7(5)(a) below, for the purposes of section 142(1) as read with Table 16, an authorized institution may only classify an exposure to a corporate as a corporate exposure which falls within the IRB subclass of non-regulated financial institutions if the corporate is a non-regulated financial	

Amendments to be made	Remarks (including references)
institution.	
(4) Amend section 143(4A) of the BCR as follows– (a) repeal "or" in paragraph (a); (b) replace "(3)." with "(3);" in paragraph (b); and (c) add two new paragraphs after paragraph (b) to provide that an authorized institution must classify all of its corporate exposures that fall within the description in subsection (1)(e) as exposures that fall within the IRB subclass of specialized lending (HVCRE), whether or not the exposures may be classified as exposures that fall within– (i) the IRB subclass of large corporates under the new subsection proposed in Item 7(3)(a) above; or (ii) the IRB subclass of non-regulated financial institutions under the new	

Amendments to be made	Remarks (including references)
subsection proposed in Item 7(3)(c) above.	
(5) Add two new subsections after section 143(4A) of the BCR to provide that– (a) For the purposes of section 142(1) as read with Table 16, an authorized institution must classify all of its exposures to corporates that fall within the description in subsection (1)(a), (b), (c) or (d) as exposures that fall within the IRB subclass of specialized lending (project finance), specialized lending (object finance), specialized lending (commodities finance) or specialized lending (income-producing real estate) respectively, whether or not the exposures may be classified as exposures that fall within– (i) the IRB subclass of small-and-medium sized corporates under existing subsection (3);	

Amendments to be made	Remarks (including references)
(ii) the IRB subclass of large corporates under the new subsection proposed in Item 7(3)(a) above; or (iii)the IRB subclass of non-regulated financial institutions under the new subsection proposed in Item 7(3)(c) above. (b) For the purposes of section 142(1) as read with Table 16, an authorized institution must classify all of its exposures to corporates that falls within the description in the new subsection proposed in Item 7(3)(c) above as exposures that fall within the IRB subclass of non-regulated financial institutions, whether or not the exposure may be classified as exposures that fall within– (i) the IRB subclass of small-and-medium sized corporates under existing subsection (3); or	

Amendments to be made	Remarks (including references)
(ii) the IRB subclass of large corporates under the new subsection proposed in Item 7(3)(a) above.	
(6) Amend section 143(5) of the BCR as follows– (a) amend paragraph (a) to provide that an authorized institution shall classify all of its exposures to corporates which do not fall within the IRB subclass of specialized lending pursuant to existing subsections (1) and (4A) and the new subsection proposed in Item 7 (5)(a) above; (b) repeal paragraph (ba); and (c) add two new paragraphs after paragraph (ba) to provide that an authorized institution shall classify all of its exposures to corporates which do not fall within (i) the IRB subclass of large corporates pursuant to the new subsection proposed in Item 7(3)(a) above; and (ii) the IRB subclass of non-regulated financial	

Amendments to be made	Remarks (including references)
institutions pursuant to the new subsection proposed in Item 7(3)(c) above, as exposures which fall within the IRB subclass of other corporates.	

Item 8. Amend section 144 of the BCR (Retail exposures)

Amendments to be made	Remarks (including references)
(1) Add "(transactor), qualifying revolving retail exposures (revolver)" after "qualifying revolving retail exposures" in section 144(1) of the BCR.	Basel Framework reference: CRE30.25
(2) Amend section 144(4) of the BCR as follows– (a) add "(transactor)" after "qualifying revolving retail exposures" in the chapeau and paragraph (f); and (b) add a new paragraph after paragraph (f) to provide that an authorized institution	Basel Framework reference: CRE30.25

Amendments to be made	Remarks (including references)
shall classify an exposure as a retail exposure which falls within the IRB subclass of qualifying revolving retail exposures (transactor) if the exposure is to the obligor who is a transactor.	
(3) Add a new subsection after section 144(4) of the BCR to provide that subject to subsection (1), for the purposes of section 142(1) as read with Table 16, an authorized institution shall classify an exposure as a retail exposure which falls within the IRB subclass of qualifying revolving retail exposures (revolver) if– (a) the requirements set out in existing subsections (4)(a), (b), (c), (d) and (e) to section 144 of the BCR are satisfied; (b) treatment of the exposure as falling within the IRB subclass of qualifying revolving retail exposures (revolver) is consistent with the underlying risk characteristics of the exposure; and	Basel Framework reference: CRE30.25

Amendments to be made	Remarks (including references)
(c) the exposure does not fall within the IRB subclass of qualifying revolving retail exposure (transactor).	
(4) Amend section 144(5) of the BCR as follows– (a) repeal "or" in paragraph (a); (b) replace "exposures," with "exposures (transactor); or" in paragraph (b); and (c) add a new paragraph after paragraph (b) to provide that an authorized institution shall classify all of its exposures to individuals which do not fall within the IRB subclass of qualifying revolving retail exposures (revolver) as exposures falling within the IRB subclass of other retail exposures to individuals.	

Item 9. Amend section 145 of the BCR (Equity exposures)

Amendments to be made	Remarks (including references)
(1) Repeal section 145(1) of the BCR and replace with a provision to provide that for the purposes of section 142(1) as read with Table 16, an authorized institution shall classify under the IRB class of equity exposures holdings of any CIS exposures.	Basel Framework reference: CRE30.43
(2) Repeal sections 145(2), (3) and (4) of the BCR.	Ditto.

Item 10. Amend section 146 (Other exposures)

Amendments to be made	Remarks (including references)
(1) [reserved for future use]	

Item 11. Amend section 147 of the BCR (IRB calculation approaches)

Amendments to be made	Remarks (including references)
(1) Replace "subsections (2) and (3)" with the existing subsections (2) and (3) and the new subsection proposed in Item 11(5) below in section 147(1) of the BCR.	
(2) Amend Table 17 under section 147(1) of the BCR as follows– (a) rename "(a) Foundation IRB approach" in column 3 of item 3 as "Foundation IRB approach"; (b) repeal "(b) Advanced IRB approach" in column 3 of item 3; (c) repeal paragraphs (a) to (c) in column 3 of item 5; and (d) rename "(d) CIS calculation approach" in column 3 of item 5 as "CIS calculation approach".	Basel Framework reference: CRE30.34 and CRE30.43
(3) Provide that section 147(3) of the BCR is subject to the new subsection proposed in	

Amendments to be made		Remarks (including references)
	Item 11(4) below.	
(4)	Add a new subsection after section 147(3) of the BCR to provide that where an authorized institution uses the advanced IRB approach before [1 July 2023] for– (a) exposures to corporates that satisfy the requirements set out in the new subsections proposed in Item 7(3)(a)(i), (ii) or (iii); (b) exposures to corporates that are non-regulated financial institutions (c) the bank exposures, the institution is not required to obtain the prior consent of the Monetary Authority referred to in subsection (3) to commence using the foundation IRB approach to calculate its credit risk for such exposures on or after [1 July 2023].	Basel Framework reference: CRE30.34 Upon implementation of Basel III final reform package, CRE30.34 prohibits a bank to use the AIRB for certain exposures. Considering that it is a mandatory migration of such exposures from the AIRB to FIRB, the MA proposes to add this subsection in order to facilitate the automatic migration of these exposures.

Amendments to be made	Remarks (including references)
(5) Add a new subsection after the new subsection proposed in Item 11(4) above to provide that an authorized institution must not use the advanced IRB approach to calculate its credit risk for exposures to corporates that satisfy the requirements set out in the new subsections proposed in Item 7(3)(a)(i), (ii) or (iii) and corporates that are non-regulated financial institutions.	Basel Framework reference: CRE30.34
(6) Add a new subsection after the new subsections proposed in Item 11(4) and (5) above to provide that, notwithstanding section 8(4)(a) of the BCR, where an authorized institution uses the IRB approach before [1 July 2023] to calculate the credit risk for equity exposures, the institution must instead use the STC approach to calculate the credit risk for equity exposures which fall within Item 34 in the STC DIs on or after [1 July 2023].	Basel Framework reference: CRE30.34 The MA intends that AIs which are currently using the IRB approach to calculate the credit risk of their equity exposures must use the revised SA for its equity exposure (other than CIS exposure) upon implementation of Basel III final reform package without requiring AIs to obtain the MA's consent or submit any application to the MA for such

Amendments to be made	Remarks (including references)
	compulsory migration.

Item 12. Amend section 149 of the BCR (Default of obligor)

Amendments to be made	Remarks (including references)
(1) Add a new subsection after section 149(1) to provide that, for the purpose of subsection (1)(a), an authorized institution may regard an obligor as being unlikely to pay in full its credit obligations to the institution if one or more of the following events have occurred in respect of the obligor– (a) any material credit obligation is put on non-accrued status; (b) a write-off or account-specific provision is made as a result of a significant perceived decline in credit quality subsequent to the institution taking on any credit exposure to the obligor;	Basel Framework reference: CRE36.69

Amendments to be made	Remarks (including references)
(c) any credit obligation is sold at a material credit-related economic loss; (d) a distressed restructuring of any credit obligation is agreed by the institution; (e) 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 institution or any member of the consolidation group of the institution; (f) 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 institution or any member of the consolidation group of the institution.	

Item 13. Amend section 156 of the BCR (Calculation of risk-weighted amount of corporate, sovereign and bank exposures)

Amendments to be made	Remarks (including references)
(1) Replace "subsections (5) and" after "Subject to" with "subsection" in the chapeau of	

Amendments to be made		Remarks (including references)
	section 156(2) of the BCR.	
(2)	Repeal section 156(5) (including Formula 17), (6), (7) and (8) of the BCR.	The operation of the double default framework for determining the credit risk mitigating effect of a recognized guarantee or recognized credit derivative contract is removed by BCBS under Basel III final reform package.
(3)	Repeal section 156(10) of the BCR and replace with a provision to provide that the ***full maturity adjustment*** (全面到期期限調整) in subsection 156(9) of the BCR means that amount calculated by the component $(1 – 1.5 \times b) ^ {-1} \times (1 + (M – 2.5) \times b)$ in Formula 16.	Ditto.

Item 14. Amend section 157 of the BCR (Provisions supplementary to section 156(2) and (5)–firm-size adjustments for small-and-medium sized corporates)

Amendments to be made	Remarks (including references)
(1) Repeal "**and (5)**" in the heading of section 157 of the BCR.	
(2) In section 157(1) of the BCR, replace everything after "of the correlation" with "(R) in the risk-weight function set out in Formula 16 by substituting the following correlation formula for that in Formula 16: Correlation (R) = 0.12 × (1 – EXP (–50 × PD)) / (1 –EXP (–50)) + 0.24 × [1 – (1 – EXP(–50 × PD)) / (1 – EXP (–50))] – 0.04 × (1 – (S – 50) / 450)."	
(3) Repeal "(a) or (b)" in the chapeau of section 157(2) of the BCR.	
(4) Amend section 157(5) of the BCR as follows– (a) replace everything before "would have been" with "If an authorized institution's specialized lending or its exposure which falls within the IRB subclass of non-regulated financial institutions" in the chapeau;	

Amendments to be made	Remarks (including references)
(b) add the new subsections proposed in Item 7(a) and (b) above after "section 143(4A)" in the chapeau; and (c) repeal "or ρ_{OS}" and "or 17" in paragraph (a).	

Item 15. Amend section 157A of the BCR (Provisions supplementary to section 156(2) and (5)—asset value correlation multiplier for exposures to certain financial institutions)

Amendments to be made		Remarks (including references)
(1)	Repeal "**and (5)**" in the heading of section 157A of the BCR.	
(2)	Repeal "or correlation (ρ_{OS})" and "or 17, as the case requires," in section 157A(2) of the BCR.	
(3)	Repeal section 157A(3) and relocate the definition of "***financial institution***" to section	The definition is proposed to be relocated to

Amendments to be made	Remarks (including references)
139(1) of the BCR.	section 139(1) of the BCR.

Item 16. Amend section 158 of the BCR (Provisions supplementary to section 156—risk-weights for specialized lending)

Amendments to be made	Remarks (including references)
(1) Amend section 158(1) of the BCR as follows– (a) repeal "or 17, as the case requires,"; (b) repeal "section 157(1) in respect of exposures to small-and-medium sized corporates,"; and (c) replace "HVCRE exposures" with "specialized lending".	
(2) Amend section 158(1A) of the BCR as follows– (a) repeal "or correlation (ρ_{OS})" and "or 17" in paragraph (a);	

Amendments to be made		Remarks (including references)
	(b) repeal "or correlation (ρ_{OS})" and "(a) or (b)" in paragraph (b); and (c) repeal "or 17" in paragraph (c).	
(3)	Replace everything after "specified in" with "paragraphs CRE33.13 to CRE33.16 specified in Chapter CRE33 *IRB approach: supervisory slotting approach for specialised lending* to the consolidated Basel Framework launched by the Basel Committee which is effective as of 15 December 2019; or" in section 158(2)(c)(i) of the BCR.	The reference to Annex 6 to the Basel II document[3] in section 158(2)(c)(i) of the BCR is replaced with the relevant paragraphs in the consolidated Basel Framework[4].
(4)	Replace "Schedule 8" in section 158(2)(c)(ii) of the BCR with "a table made by the MA under Item 7(2) in the STC DIs".	Please refer to Item 57.

[3] Please refer to Annex 6 on page 280 to 297 in the document https://www.bis.org/publ/bcbs128.pdf

[4] Refer to https://www.bis.org/basel_framework/chapter/CRE/33.htm?inforce=20191215 for relevant CRE33 paragraphs set out in the Basel Framework (version effective as of 15 Dec 2019)

Item 17. Amend section 159 of the BCR (Probability of default)

Amendments to be made	Remarks (including references)
(1) Replace "(b)" with the new paragraph proposed in Item 17(2) below, the existing section 159(1)(b) of the BCR and the new paragraph proposed in Item 17(4) below in section 159(1)(a) of the BCR.	
(2) Add a new paragraph after section 159(1)(a) of the BCR to provide that the long run average PD referred to in paragraph (a) must be an observed historical average PD which is a simple average based on the number of obligors in respect of corporate, sovereign and bank exposures.	Basel Framework reference: CRE36.78 The MA proposes to incorporate the PD estimation methods set out in CRE36.78(1), (2) and (3) in the HKMA's supervisory policy manual module CA-G-4[5] instead of BCR.
(3) Repeal section 159(1)(b) of the BCR and replace with a provision to provide that subject to the new paragraph proposed in Item 17(4) below, in the case of a corporate	Basel Framework reference: CRE32.4

[5] https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-G-4.pdf

Amendments to be made		Remarks (including references)
	or bank exposure of the institution which is not in default, the estimate of the PD is not less than 0.05%.	
(4)	Add a new paragraph after section 159(1)(b) of the BCR to provide that paragraph (b) to section 159(1) of the BCR does not apply to any such exposures of the institution which are the subject of recognized guarantees issued by sovereigns.	Basel Framework reference: CRE32.2
(5)	Amend section 159(1)(d) of the BCR as follows– (a) repeal "and" in subparagraph (i); (b) repeal ", subject to section 14," and replace "years." with "years; and" in subparagraph (ii); and (c) add a new subparagraph after subparagraph (ii) to provide that the estimate of the PD is based on not less than one source of data which includes a representative mix of good and bad years of the economic cycle relevant for the institution's	Basel Framework reference: CRE36.79

Amendments to be made	Remarks (including references)
corporate, sovereign or bank exposures.	

Item 18. Amend section 160 of the BCR (Loss given default under foundation IRB approach)

Amendments to be made	Remarks (including references)
(1) Replace "corporate, sovereign or bank exposures" with "certain corporate exposures specified in the new subsection proposed in Item 18(3) below, sovereign exposures or bank exposures" in section 160(1)(a) of the BCR.	Basel Framework reference: CRE32.6
(2) Add a new paragraph after section 160(1)(a) of the BCR to provide that subject to paragraphs (c) and (d) to section 160(1) of the BCR, use a supervisory estimate of 40% for the LGD of its senior exposures which are corporate exposures other than certain corporate exposures specified in the new subsection proposed in Item 18(3) below which are–	Basel Framework reference: CRE32.6

Amendments to be made		Remarks (including references)
	(i) unsecured; or (ii) secured by collateral which is not recognized collateral.	
(3)	Add a new subsection after section 160(1) of the BCR to provide that certain corporate exposures are exposures to corporates which are non-regulated financial institutions.	
(4)	Add the section reference to the new subsection proposed in Item 18(5) below after "subsections" in section 160(2) of the BCR.	
(5)	Add a new subsection after section 160(2) of the BCR to provide that subject to subsections (1)(c) and (d) to section 160 of the BCR, an authorized institution must use the supervisory estimates of LGD specified in the existing subsection (1)(a) or (b) or the proposed new subsection proposed in Item 18(2) above, as the case requires, for the default risk exposures.	Basel Framework reference: CRE32.6, CRE32.7 and CRE32.13

Amendments to be made	Remarks (including references)
(6) Repeal section 160(3) of the BCR and replace with provisions to provide that for the purposes of subsection (2) to section 160 of the BCR, an authorized institution must– (a) subject to the proposed new paragraph (d) below, use the proposed new Formula 1 set out in this Item below to determine the effective LGD (LGD^*) applicable to an exposure covered by a recognized collateral for inclusion into the risk-weight function specified in Formula 16 to section 156 of the BCR; (b) for the purposes of the proposed new Formula 1 set out in this Item, only use the unsecured portion of the exposure (E_U) and the secured portion of the exposures (E_S) to calculate LGD^* and continue to calculate EAD without taking into account the presence of any collateral;	Item 18(6)(b): Basel Framework reference: CRE32.10(3)
(c) for the purposes of the proposed new Formula 1 set out in this Item– (i) use sections 90, 91 and 92(1) of the BCR to determine H_E and H_{fx};	Item 18(6)(c)(i): • Basel Framework reference: CRE32.10(1)

Amendments to be made	Remarks (including references)
(ii) use sections 90, 91 and 92(1) of the BCR to determine H_C if the recognized collateral is a recognized financial collateral and use the supervisory estimate of 40% as H_C if the recognized collateral is a recognized IRB collateral; (iii) apply, if applicable, a haircut of zero to repo-style transactions which are treated as collateralized loans to the counterparty in accordance with section 92(2) of the BCR; and (iv) where the recognized collateral in respect of an exposure of the institution has a residual maturity which is shorter than the residual maturity of the exposure covered by the collateral, the institution must adjust, with all necessary modifications, the value of the collateral in accordance with section 103 of the BCR.	and the "Haircut" column in the 1st row of the table in CRE32.11 • Basel Framework reference: CRE32.12 in respect of the determination of H_{fx}. Item 18(6)(c)(ii): Basel Framework reference: the "Haircut" column in the 1st row of the table in CRE32.11 for "recognized financial collateral" and the 2nd to 4th rows of the same table for "recognized IRB collateral" Item 18(6)(c)(iii): Basel Framework reference: the first part of

Amendments to be made	Remarks (including references)
	CRE32.43. Item 18(6)(c)(iv): Basel Framework reference: CRE32.56
(d) if the institution has obtained more than one type of recognized collateral in respect of the exposure– (i) use the proposed new Formula 2 set out in this Item to determine the effective LGD (LGD*) applicable to an exposure covered by the recognized collaterals for inclusion into the risk-weight function specified in Formula 16 to section 156 of the BCR; (ii) for the purposes of the proposed new Formula 2 set out in this Item, only use the unsecured portion of the exposure (E_U) and the secured portion of the exposures (E_S) to calculate LGD^* and continue to calculate EAD	Item 18(6)(d): Basel Framework reference: CRE32.14

Amendments to be made	Remarks (including references)
without taking into account the presence of any collateral; (iii) for the purposes of the proposed new Formula 2 set out in this Item– (A) use sections 90, 91 and 92(1) of the BCR to determine H_E and $H_{fx,i}$; (B) use sections 90, 91 and 92(1) of the BCR to determine $H_{C,i}$ if the recognized collateral is a recognized financial collateral and use the supervisory estimate of 40% as $H_{C,i}$ if the recognized collateral is a recognized IRB collateral; (C) apply, if applicable, a haircut of zero to repo-style transactions which are treated as collateralized loans to the counterparty in accordance with section 92(2) of the BCR; and (D) where the recognized collateral in respect of an exposure of the institution has a residual maturity which is shorter than the residual maturity of the exposure covered by the collateral, the institution must adjust, with all necessary modifications, the value of the	

Amendments to be made	Remarks (including references)
collateral in accordance with section 103 of the BCR.	
Formula 1 Determination of Effective LGD of Exposure Secured by a Recognized Collateral $$LGD^* = LGD_U \times \frac{E_U}{E \times (1 + H_E)} + LGD_S \times \frac{E_S}{E \times (1 + H_E)}$$ where– LGD^* = the effective LGD; LGD_U = the supervisory estimate of the LGD specified in existing subsections (1)(a), (c), (d), or the new subsection proposed in Item 18(2) above, as the case requires, for the unsecured portion of the exposure	Formula 1: Basel Framework reference: The formula under CRE32.10(5) • LGD_U: See CRE32.10(4) • LGD_S: See CRE32.10(5) and the table in CRE32.11 (the column of "LGD_S") • E, H_E: See CRE32.10(1) • E_U: See CRE32.10(3) • E_S, C, H_C: See CRE32.10(2) and the table in CRE32.11 (the column of "Haircut")

Amendments to be made	Remarks (including references)
LGD_S = either of the following– (a) if the recognized collateral is a recognized financial collateral–0% (b) if the recognized collateral is a recognized IRB collateral–the applicable LGD specified in the proposed new Table 2 set out in this Item in respect of the type of recognized IRB collateral concerned; E = the EAD of the exposure; E_U = $E \times (1 + H_E) - E_S$; E_S = $\min\left[C \times (1 - H_C - H_{fx}), E \times (1 + H_E)\right]$;[6]	• H_{fx}: See CRE32.10(2) and CRE32.12

[6] The equation of E_S gives the effect that E_S is capped at the value of E x (1 + H_E) as required under CRE32.10(2).

Amendments to be made	Remarks (including references)
H_E = the haircut applicable to the authorized institution's exposure to the obligor pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92(1) of the BCR; C = the current market value of recognized collateral before adjustment required by the comprehensive approach to the treatment of recognized collateral; H_C either of the following– (a) if the recognized collateral is a recognized financial collateral–haircut applicable to the recognized financial collateral pursuant to the standard supervisory haircuts;	

Amendments to be made			Remarks (including references)
		(b) if the recognized collateral is a recognized IRB collateral–40%;	
H_{fx}	=	the haircut applicable in consequence of a currency mismatch, if any, pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92(1) of the BCR.	

<table>
<tr><th>Amendments to be made</th><th>Remarks (including references)</th></tr>
<tr><td>

Table 2 Determination of LGD Applicable to Recognized IRB Collateral (LGD_S)

Recognized IRB collateral	LGD_S
Recognized financial receivables	20%
Recognized commercial real estate and recognized residential real estate	20%
Other recognized IRB collateral	25%

</td><td>Table 2:

Basel Framework reference: The table under CRE32.11 (the column of "LGD_S")</td></tr>
</table>

Amendments to be made	Remarks (including references)
Formula 2 Determination of Effective LGD of Exposure Secured by More Than One Type of Recognized Collaterals $$LGD^{*} = LGD_{U} \times \frac{E_{U}}{E \times (1 + H_{E})} + \sum_{i} LGD_{S,i} \times \frac{E_{S,i}}{E \times (1 + H_{E})}$$ where– LGD^{*} = the effective LGD; LGD_{U} = the supervisory estimate of the LGD specified in existing subsections (1)(a), (c), (d) or the new subsection proposed in Item 18(2) above, as the case requires, for the unsecured portion of the exposure $LGD_{S,i}$ = for each recognized collateral i, either of the following–	Formula 2: Basel Framework reference: The formula under CRE32.14(2) Please refer to Formula 1 above for the Basel Framework references of the parameters in Formula 2.

Amendments to be made	Remarks (including references)
(a) if the recognized collateral is a recognized financial collateral–0% (b) if the recognized collateral is a recognized IRB collateral– the applicable LGD specified in the proposed new Table 2 set out in this Item in respect of the type of recognized IRB collateral concerned; E = the EAD of the exposure; E_U = $\max[0, E \times (1 + H_E) - \sum_i E_{S,i}]$ [7]; $E_{S,i}$ = $C_i \times (1 - H_{C,i} - H_{fx,i})$; subject to a maximum value of	

[7] In case where the total collateral values ($\sum_i E_{S,i}$) are greater than the exposure value ($Ex(1+H_E)$), E_U is floored at zero.

Amendments to be made			Remarks (including references)
		$E \times (1 + H_E) - \sum_i C_{i-1} \times \left(1 - H_{C,i-1} - H_{fx,i-1}\right)$[8];	
H_E	=	the haircut applicable to the authorized institution's exposure to the obligor pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92(1) of the BCR;	
C_i	=	the current market value of each recognized collateral i before adjustment required by the comprehensive approach to the treatment of recognized collateral;	
$H_{C,i}$	=	for each recognized collateral i, either of the following–	

[8] The $E_{S,\,i}$ should be determined such that the total value of collateral (after adjustment of haircuts) should be capped at the value of exposure (E x ($1+H_E$)). To illustrate with numerical example, suppose an exposure of $200 secured by 4 collaterals (for simplicity, assume all haircuts H_E, H_C and H_{fx} of each collateral are zero). The value of the three

Amendments to be made		Remarks (including references)
	(a) if the recognized collateral is a recognized financial collateral–haircut applicable to the recognized financial collateral pursuant to the standard supervisory haircuts; (b) if the recognized collateral is a recognized IRB collateral–40%; $H_{fx,i}$ = for each recognized collateral i, the haircut applicable in consequence of a currency mismatch, if any, pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92(1) of the BCR.	

collaterals are: C_1 = \$50, C_2 = \$100, C_3 = \$70, C_4 = \$10. Then $E_{S,1}$ = 50, $E_{S,2}$ = 100 (subject to a maximum of 200 – 50 = 150), $E_{S,3}$ = 50 (although C_3 = 70, but subject to a maximum value of 200 – 50 – 100 = 50) and $E_{S,4}$ = 0 (as the collateral values of C_1 to C_3 are greater than the exposure value).

Amendments to be made	Remarks (including references)
(7) Repeal section 160(4) (including the existing Table 19) of the BCR.	The whole section 160(4) of the BCR is no longer required since the determination of the effective LGD (LGD*) applicable to an exposure covered by recognized financial collateral and recognized IRB collateral will be merged into the revised subsection (3) proposed.

Item 19. Amend section 161 of the BCR (Loss given default under advanced IRB approach)

Amendments to be made	Remarks (including references)
(1) Add five new paragraphs after section 161(1)(b) of the BCR to provide that– (a) subject to the new paragraph proposed in Item 19(1)(e) below and the new subsection proposed in Item 19(3) below, the estimate of the LGD of a	Basel Framework reference: CRE32.2, CRE32.16 and CRE32.17

Amendments to be made	Remarks (including references)
corporate exposure that is unsecured or secured by a collateral that is not a recognized financial collateral or a recognized IRB collateral, as the case requires, is not less than 25%; (b) subject to the new paragraph proposed in Item 19(1)(e) below, the estimate of the LGD of a corporate exposure that is a fully secured exposure secured by– (i) financial receivables which fall within section 205 of the BCR; or (ii) commercial real estate or residential real estate which falls within section 206 or 208 of the BCR, as the case requires; is not less than 10%; (c) subject to the new paragraph proposed in Item 19(1)(e) below, the estimate of the LGD of a corporate exposure that is a fully secured exposure secured by physical assets (except commercial real estate or residential real estate)	

Amendments to be made	Remarks (including references)
which fall within section 207 or 208 of the BCR, as the case requires, is not less than 15%; (d) subject to the new paragraph proposed in Item 19(1)(e) below and the new subsections proposed in Item 19(2) and (3) below, the estimate of the LGD of a corporate exposure that is a partially secured exposure or is secured by more than one type of recognized collateral is not less than the effective LGD floor calculated by the use of the proposed new Formula 3 set out in this Item; and (e) the new paragraphs proposed in Item 19(1)(a), (b), (c) and (d) above do not apply to any such exposure of the institution which are the subject of recognized guarantees issued by sovereigns.	

Amendments to be made	Remarks (including references)
Formula 3 Determination of LGD floor for Partially Secured Exposure or Exposure Secured by More Than One Type of Recognized Collaterals[9] $$LGD^{\#} = 25\% \times \frac{E_U}{E \times (1 + H_E)} + \sum_i LGD_{S\ floor,i} \times \frac{E_{S,i}}{E \times (1 + H_E)}$$ where– $LGD^{\#}$ = the effective LGD floor; E = the EAD of the exposure; E_U = $\max[0, E \times (1 + H_E) - \sum_i E_{S,i}]$ [10]; $E_{S,i}$ = $C_i \times (1 - H_{C,i} - H_{fx,i})$; subject to a minimum value	Formula 3: Basel Framework reference: The formula under CRE32.17(2) Please note that the proposed Formula 3 is modified to: • replace "LGD_U" in the formula with 25%, which is equivalent to the LGD floor of unsecured exposures set out in Item 19(1)(a) above; and • to cater for scenarios where an exposure is

[9] As it is possible that an exposure is (fully or partially) secured by pools of collateral (as provided in CRE32.14), the formula under CRE32.17(2) is further modified.
[10] In case where the total collateral values ($\sum_i E_{S,i}$) are greater than the exposure value ($Ex(1+H_E)$), E_U is floored at zero.

Amendments to be made			Remarks (including references)
		of 0 and a maximum value of $E \times (1 + H_E) - \sum_i C_{i-1} \times \left(1 - H_{C,i-1} - H_{fx,i-1}\right)$[11]	secured by pools of collateral (see footnote 32 for details).
	H_E	= the haircut applicable to the authorized institution's exposure to the obligor pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92(1) of the BCR;	
	$LGD_{S\ floor,i}$	= for each of recognized collateral i, the LGD floor specified in the proposed new Table 3 set out in this Item	
	C_i	= the current market value of each type of recognized collateral i before adjustment required by the	

[11] The $E_{S,i}$ should be determined in the same way as specified in footnote 8 above.

Amendments to be made			Remarks (including references)
		comprehensive approach to the treatment of recognized collateral;	
$H_{C,i}$	=	for each type of recognized collateral i, either of the following– (a) if the recognized collateral is a recognized financial collateral–haircut applicable to the recognized financial collateral pursuant to the standard supervisory haircuts; (b) if the recognized collateral is a recognized IRB collateral–40%;	
$H_{fx,i}$	=	for each type of recognized collateral i, the haircut applicable in consequence of a currency mismatch, if	

Amendments to be made	Remarks (including references)
any, pursuant to the standard supervisory haircuts subject to adjustment as set out in section 92(1) of the BCR.	

<table>
<tr><th>Amendments to be made</th><th>Remarks (including references)</th></tr>
<tr><td>

Table 3 Determination of LGD floor of Recognized Collateral

Recognized collateral	LGD floor
Recognized financial collateral	0%
Financial receivables falling within section 205 of the BCR	10%
Commercial real estate or residential real estate falling within section 206 or 208 of the BCR, as the case requires	10%
Physical assets (except commercial real estate or residential real estate) falling within section 207 or 208 of the BCR, as the case requires	15%

</td><td>Table 3:

Basel Framework reference: The table under CRE32.16 (refer to the column “Secured”)</td></tr>
</table>

Amendments to be made	Remarks (including references)
(2) Add a new subsection after section 161(1) to provide that for the purposes of the proposed new Formula 3 set out in Item 19(1) above– (a) recognized collaterals means recognized financial collaterals or recognized IRB collaterals only[12]; (b) use sections 90, 91 and 92(1) of the BCR to determine H_E and $H_{fx,i}$; (c) use sections 90, 91 and 92(1) of the BCR to determine $H_{C,i}$ if the recognized collateral is a recognized financial collateral and use the supervisory estimate of 40% as $H_{C,i}$ if the recognized collateral is a recognized IRB collateral; (d) apply, if applicable, a haircut of zero to repo-style transactions which are treated as collateralized loans to the counterparty in accordance with section 92(2)[13] of the	This is to set out specific requirements to the new Formula 3 proposed in Item 19(1) above which are similar to Item 18(6)(c) and (d)(iii) above with respect to Formula 1 and 2.

[12] This gives the effect that, for the purposes of determining the effective LGD floor, the portion of exposures secured by recognized collaterals which do not satisfy the requirements of recognized financial collaterals or recognized IRB collaterals must be treated as unsecured exposures.
[13] Please refer to Item 94 in the STC DIs.

Amendments to be made	Remarks (including references)
BCR; and (e) where the recognized collateral in respect of an exposure of the institution has a residual maturity which is shorter than the residual maturity of the exposure covered by the collateral, the institution must adjust, with all necessary modifications, the value of the collateral in accordance with section 103 of the BCR.	
(3) Add a new subsection after the new subsection proposed in Item 19(2) above to provide that if an authorized institution is unable to estimate an LGD for [a pool of] exposures where one of such exposures is secured by one or more than one recognized financial collateral or recognized IRB collateral as a result of lack of sufficient data to model the effect of the recognized collateral on recoveries, the institution may determine the LGD of [such pool of] exposure in accordance with section 160(3) of the BCR under the proposed new Formula 1 or 2 set out in Item 18(6) above, as the case requires, with the	Basel Framework reference: CRE32.18

Amendments to be made	Remarks (including references)
value of LGD_U being replaced by the LGD estimated by the institution for unsecured exposure without taking into account the presence of any collateral, subject to a minimum value of 25%.	

Item 20. Repeal section 162 of the BCR (Loss given default under double default framework)

Amendments to be made	Remarks (including references)
(1) Repeal the whole section.	This section is no longer required since the double default framework ceases to operate upon the implementation of Basel III final reform package.

Item 21. Amend section 163 of the BCR (Exposure at default under foundation IRB approach–on-balance sheet exposures and off-balance sheet exposures other than default risk exposures)

Amendments to be made	Remarks (including references)
(1) Provide at the beginning of section 163(2) of the BCR that it is subject to the new subsection proposed in Item 21(3) below.	
(2) Amend Table 20 to section 163(2) of the BCR by– (a) in column 2 of item 9– (i) replace the chapeau with "Subject to *[the new subsection proposed in* Item 21*(3) below]*, commitments that do not fall within any of items 1, 2, 3, 4, 5, 6, 7 and 8–"; and (ii) add "subject to paragraph (c)," before "which may" and adding "without prior notice" after "by an authorized institution" in paragraph (a); and (b) replace column 3 (i.e. applicable CCF) of: (i) item 8 with "50%";	Basel Framework reference: CRE32.33, CRE32.35, CRE20.96, CRE20.98, CRE20.100

Amendments to be made	Remarks (including references)
(ii) item 9(a) with "10%"; (iii) item 9(b) with "40%"; and (iv) item 9(c) with "the lower of (1) the CCF applicable to the commitment determined in paragraph (a) or (b), as the case requires, or (2) the CCF applicable to the off-balance sheet exposure arising from the drawdown of the commitment concerned".	
(3) Add a new subsection after section 163(2) of the BCR to provide that an authorized institution may allocate a CCF of 0% to the commitment that falls within the IRB class of corporate exposures if the commitment satisfies all of the following conditions– (a) the credit quality of the obligor is closely monitored by the institution on an ongoing basis; (b) the institution receives no fees or commissions to establish or maintain the	Basel Framework reference: Footnote 43 of CRE20.94

Amendments to be made	Remarks (including references)
commitment; (c) the obligor is required to apply to the institution for the initial and each subsequent drawdown; (d) the institution has full authority, regardless of the fulfilment by the obligor of the conditions set out in the facility documentation, over the execution of each drawdown; and (e) the institution's decision on the execution of each drawdown is only made after assessing the creditworthiness of the obligor immediately prior to drawdown.	
(4) Add a new subsection after the subsection proposed in Item 21(3) above to provide that in this section– ***commitment*** ( ) means any contractual arrangement that has been offered by an authorized institution and accepted by an obligor to extend credit, purchase assets or	Basel Framework reference: CRE20.94

Amendments to be made	Remarks (including references)
issue credit substitutes, including such an arrangement— (a) that is in the form of a general banking facility consisting of 2 or more credit lines; (b) that can be unconditionally cancelled by the AI at any time without prior notice to the obligor; or (c) 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 obligor prior to any initial or subsequent drawdown under the arrangement.	

Item 22. Amend section 164 of the BCR (Exposure at default under advanced IRB approach–on-balance sheet exposures and off-balance sheet exposures other than default risk exposures)

Amendments to be made	Remarks (including references)
(1) Provide at the beginning of sections 164(1) and (2) of the BCR that these sections are	

Amendments to be made		Remarks (including references)
	subject to the new subsection proposed in Item 22(7) below.	
(2)	Provide that an AI that uses the advanced IRB approach must estimate the EAD of an off-balance sheet exposure of the institution specified in column 2 of the amended Table 20 to section 163 of the BCR proposed in Item 21(2) above in accordance with the new subsection proposed in Item 22(4) below in addition to the existing subsection (3) and (4) in section 164(2)(a) of the BCR.	
(3)	Repeal section 164(3) of the BCR and replace with a provision to provide that subject to subsection (4), an authorized institution must– (a) if the exposure is an off-balance sheet exposure specified in the new subsection proposed in Item 22(4) below–use its own estimate of CCF to calculate the EAD of the exposure; and (b) in any other case–determine the EAD of the off-balance sheet exposure in	Basel Framework reference: the middle part of CRE32.36

Amendments to be made	Remarks (including references)
accordance with the amended section 163(2) of the BCR proposed in Item 21 above as if it were using the foundation IRB approach.	
(4) Add a new subsection after section 164(3) of the BCR to provide that the exposure is an off-balance sheet exposure which– (a) is revolving in nature; and (b) is not subject to a CCF of 100% in the amended Table 20 to section 163 of the BCR proposed in Item 21(2) above.	Basel Framework reference: the first part of CRE32.36
(5) Amend section 164(4) of the BCR as follows– (a) provide in paragraph (b) that it is subject to the new paragraph proposed in Item 22(5)(b) below in addition to the existing paragraph (c); and (b) add a new paragraph after paragraph (c) to provide that if the estimate of the EAD	Basel Framework reference: CRE36.90

Amendments to be made	Remarks (including references)
is based on alternative measures or only on the economic downturn data, the institution must ensure that such estimate does not fall below a conservative estimate of the long run default-weighted average EAD of similar exposure types.	
(6) Add a new subsection after section 164(4A) of the BCR to provide that the EAD applicable to a corporate exposure for inclusion into the risk-weight function specified in Formula 16 to section 156 of the BCR must not be less than the sum of– (a) the EAD of the on-balance sheet exposure; and (b) 50% of the EAD of the off-balance sheet exposure determined in accordance with the amended section 163(2) of the BCR proposed in Item 21 above.	Basel Framework reference: the latter part of CRE32.36

Item 23. Amend section 167 of the BCR (Maturity under foundation IRB approach)

Amendments to be made	Remarks (including references)
(1) Repeal section 167(c) of the BCR and replace with a provision to provide that an authorized institution which uses the foundation IRB approach may give notice in writing to the Monetary Authority to calculate the M of all of its corporate, sovereign and bank exposures of the institution in accordance with the amended section 168 of the BCR proposed in Item 24 below within seven calendar days after starting to use such section to calculate the M.	

Item 24. Amend section 168 of the BCR (Maturity under advanced IRB approach)

Amendments to be made	Remarks (including references)
(1) Provide in section 168(1)(a)(ii) of the BCR that the M of the exposure is the greater of (i) one year, or (ii) the remaining effective maturity of the exposure as calculated in accordance with the existing paragraph (b), (ba), (bb), (c) or the new paragraph	

Amendments to be made		Remarks (including references)
	proposed in Item 24(3) below, as the case requires.	
(2)	Provide at the beginning of section 168(1)(b) of the BCR that this section is subject to the existing paragraphs (ba), (bb), (c) and the new paragraph proposed in Item 24(3) below.	
(3)	Add a new paragraph after section 168(1)(bb) of the BCR to provide that if the exposure is an exposure to which a revolving facility relates, the M of the exposure must be determined using the maximum contractual termination date of the facility, instead of using the repayment date of the facility currently drawn.	Basel Framework reference: CRE32.50

Item 25. Repeal section 169 of the BCR (Maturity under double default framework)

Amendments to be made	Remarks (including references)
(1) Repeal the whole section.	This section is no longer required due to the cessation of the double default framework upon the implementation of Basel III final reform package.

Item 26. Amend section 176 of the BCR (Calculation of risk-weighted amount of retail exposures)

Amendments to be made	Remarks (including references)
(1) Add "(transactor) or qualifying revolving retail exposures (revolver)" after "exposures" in section 176(3)(a) of the BCR.	
(2) Change the heading of Formula 22 to section 176 of the BCR to "**Risk-weight Function for Qualifying Revolving Retail Exposures (transactor and revolver)**"	

Item 27. Amend section 177 of the BCR (Probability of default)

Amendments to be made		Remarks (including references)
(1)	Provide at the beginning of section 177(1)(a) that this section is subject to existing paragraphs (b) and (c) as well as the three new paragraphs proposed in Item 27(2), (4)(a) and (b) below.	
(2)	Add a new paragraph after section 177(1)(a) of the BCR to provide that the long run average PD referred to in paragraph (a) to section 177(1) of the BCR must be an observed historical average PD which is a simple average based on the number of obligors in respect of retail exposures.	Basel Framework reference: the last sentence of CRE36.82
(3)	Repeal section 177(1)(b) of the BCR and replace with a provision to provide that subject to the new paragraph proposed in Item 27(4)(b) below, the estimate of the PD of a retail exposure that falls within the IRB subclass of qualifying revolving retail exposures (revolver) and is not in default is not less than 0.1%.	Basel Framework reference: CRE32.58

Amendments to be made	Remarks (including references)
(4) Add two new paragraphs after section 177(1)(b) of the BCR to provide that– (a) subject to the new paragraph proposed in Item 27(4)(b) below, the estimate of the PD of a retail exposure that falls within the IRB subclass of small business retail exposures, residential mortgages to individuals, residential mortgages to property-holding shell companies, qualifying revolving retail exposures (transactor) or other retail exposures to individuals and is not in default is not less than 0.05%; and (b) the amended paragraph (b) proposed in Item 27(3) above and the new paragraph proposed in Item 27(4)(a) above do not apply to any such exposure of the institution which are the subject of recognized guarantees issued by sovereigns;	Basel Framework reference: CRE32.57 and CRE32.58
(5) Repeal sections 177(1)(d), (4) and (5) of the BCR.	

Amendments to be made	Remarks (including references)
(6) Amend section 177(1)(e) of the BCR as follows– (a) repeal "and" in subparagraph (i); (b) repeal ", subject to section 14," and replace "years." with "years; and" in subparagraph (ii); and (c) add a new subparagraph after subparagraph (ii) to section 177(1)(e) of the BCR to provide that the estimate of the PD of a pool of retail exposures of the institution is based on not less than one source of data which include a representative mix of good and bad years of the economic cycle relevant for the institution's retail exposures.	Basel Framework reference: CRE36.82

Item 28. Amend section 178 of the BCR (Loss given default)

Amendments to be made	Remarks (including references)
(1) Add five new paragraphs after section 178(1)(c)[14] of the BCR to provide that– (a) subject to paragraph (d) to section 178(1) of the BCR, the estimate of the LGD of a retail exposure that falls within the IRB subclass of qualifying revolving retail exposures (transactor) or qualifying revolving retail exposures (revolver) is not less than 50%; (b) subject to paragraph (d) to section 178(1) of the BCR, the estimate of the LGD of a retail exposure that– (i) is unsecured or secured by a collateral which is not a recognized financial collateral or recognized IRB collateral[15]; and (ii) falls within the IRB subclass of small business retail exposures or other retail exposures to individuals	Basel Framework reference: CRE32.58 and CRE32.59

[14] For the existing paragraph (c) of section 178(1) of the BCR, the requirement that the LGD floor of a retail exposure falling within the IRB subclass of "residential mortgages to individuals" or "residential mortgages to property-holding shell companies" would remain unchanged at 10% (instead of 5% in the table under CRE32.58).

[15] See footnote **Error! Bookmark not defined.** above, which also applies to retail IRB approach.

Amendments to be made	Remarks (including references)
is not less than 30%; (c) subject to paragraph (d) to section 178(1) of the BCR, the estimate of the LGD of a retail exposure that– (i) is a fully secured exposure secured by– (A) financial receivables which fall within section 205 of the BCR; or (B) commercial real estate or residential real estate which falls within section 206 or 208 of the BCR, as the case requires; and (ii) falls within the IRB subclass of small business retail exposures or other retail exposures to individuals is not less than 10%; (d) subject to paragraph (d) to section 178(1) of the BCR, the estimate of the LGD of a retail exposure that– (i) is a fully secured exposure secured by physical assets (except commercial real estate or residential real estate) which fall within the	

Amendments to be made	Remarks (including references)
amended section 207 of the BCR proposed under Item 36 below or section 208 of the BCR, as the case requires; and (ii) falls within the IRB subclass of small business retail exposures or other retail exposures to individuals is not less than 15%; and (e) subject to paragraph (d) to section 178(1) of the BCR and the new subsection to section 161 of the BCR proposed in Item 19(2) above, the estimate of the LGD of a retail exposure that– (i) is a partially secured exposure or is secured by more than one type of recognized collateral; and (ii) falls within the IRB subclass of small business retail exposures or other retail exposures to individuals	

Amendments to be made		Remarks (including references)
	is not less than the effective LGD floor calculated by the use of the new Formula 3 proposed in Item 19(1) above, with the value of 25% in the formula being replaced by a value of 30%.	
(2)	Provide in section 178(1)(d) of the BCR that the existing paragraph (c) together with the five new paragraphs proposed in Item 28(1)(a) to (e) above do not apply to such retail exposures of the institution which are subject of recognized guarantees issued by sovereigns in estimating the LGD of each pool of retail exposures.	Basel Framework reference: CRE32.57
(3)	Repeal ", subject to section 14," in section 178(1)(g)(ii) of the BCR.	

Item 29. Amend section 179 of the BCR (Exposure at default–on-balance sheet exposures)

Amendments to be made		Remarks (including references)
(1)	Add the section reference of the new subsection to section 164 of the BCR proposed	Basel Framework reference: CRE32.64

Amendments to be made	Remarks (including references)
in Item 22(7) after "164(1)" in section 179 of the BCR.	

Item 30. Amend section 180 of the BCR (Exposure at default–off-balance sheet exposures other than default risk exposures)

Amendments to be made	Remarks (including references)
(1) Repeal section 180(1) of the BCR and replace with a provision to provide that section 164(2), (3), (4)(a), (b), (c), (d), (e), (4A), the new subsections to section 164 of the BCR proposed in Item 22(4) and (6), and the new paragraph to section 164(4) of the BCR proposed in Item 22(5)(b), with all necessary modifications, applies to an authorized institution which uses the retail IRB approach in respect of the estimation by the institution of the EAD of each pool of its off-balance sheet retail exposures as it applies to the institution's estimation of the EAD of its off-balance sheet corporate, sovereign and bank exposures.	Basel Framework reference: CRE32.63 and CRE32.64

Amendments to be made	Remarks (including references)
(2) Repeal section 180(2) of the BCR.	This subsection is no longer necessary since the operation of the existing section 180(2) of the BCR is combined with the revised section 180(1) of the BCR proposed in Item 30(1) above.
(3) Repeal ", subject to section 14," in section 180(3)(b)(ii) of the BCR.	

Item 31. Amend Division 7 of the BCR (Specific Requirements for Equity Exposures)

Amendments to be made	Remarks (including references)
(1) Change the heading of Division 7 to "**Specific Requirements for CIS Exposures Constituting Deductible Holdings**"	Proposed to set out the risk-weighting treatments of CIS exposures constituting deductible holdings.

Item 32. Amend section 183 of the BCR (Equity exposure-general)

Amendments to be made	Remarks (including references)
(1) Change the heading to "**CIS exposure constituting deductible holding**".	
(2) Replace the whole section with the following paragraphs to provide that (a) this section applies in relation to an authorized institution's CIS exposure to a Level 1 CIS, or any part of the exposure, that constitutes a deductible holding and the deductible holding is not deducted from the capital base of an authorized institution under Division 4 of Part 3; (b) an authorized institution must calculate the risk-weighted amount of the deductible holding– (i) if the deductible holding is a significant LAC investment [in a CET1 capital instrument issued by a financial sector entity]–by multiplying that portion of the EAD of the deductible holding that is not subject to deduction from the institution's CET1 capital under [section 43(1)(p)] by a risk-weight of	

Amendments to be made	Remarks (including references)
250%; (ii) if the deductible holding is an insignificant LAC investment or a holding of non-capital LAC liabilities falling within section 48A that is not subject to deduction from the capital base– (A) if the deductible holding falls within equity exposure defined in Item 27(8) in the STC DIs–determine the risk-weighted amount in accordance with the new section proposed in Item 61(1) in the STC DIs; (B) in any other cases–multiply that portion of the EAD of the deductible holding by a risk-weight determined in accordance with those provisions of Part 6 that would be applicable to the deductible holding as if the deductible holding were directly held by the institution.	

Amendments to be made	Remarks (including references)
(3) Add a new subsection after Item 40(2) above to provide that for the avoidance of doubt, this section also applies to cases where a CIS exposure to a Level 1 CIS, or any part of the exposure, constitutes a deductible holding because regulatory deductible items are held by─ (a) a Level 2 CIS to which the Level 1 CIS has a CIS exposure; or (b) a Level n+1 CIS (where n is an integer > 2) to which the Level 1 CIS has an indirect CIS exposure.	
(4) Add a new subsection after Item 40(3) above to provide that In Item 40(2) and (3) above─ ***indirect CIS exposure*** (間接 CIS 風險承擔) means an indirect CIS exposure within	

Amendments to be made	Remarks (including references)
the meaning of section 226ZH; ***Level 1 CIS*** (1 級 CIS) means a Level 1 CIS within the meaning of section 226ZH; ***Level 2 CIS*** (2 級 CIS) means a Level 2 CIS within the meaning of section 226ZH; ***Level n+1 CIS*** (n+1 級 CIS) means a Level n+1 CIS within the meaning of section 226ZH;	

Item 33. Repeal sections 184 to 194 of the BCR

Amendments to be made	Remarks (including references)
(1) Repeal sections 184 to 194 of the BCR.	Basel Framework reference: CRE30.43 These sections are no longer necessary as the capital treatment of equity exposures (other than CIS exposures) will be migrated to the revised SA

Amendments to be made	Remarks (including references)
	upon the implementation of Basel III final reform package.

Item 34. Amend section 200 of the BCR (Requirements for authorized institution using top-down approach to estimate probability of default, etc. of purchased receivables for default risk or dilution risk)

Amendments to be made	Remarks (including references)
(1) Replace everything after "compliance with" with "paragraphs CRE36.115 to CRE36.121 specified in Chapter CRE36 *IRB approach: minimum requirements to use IRB approach* to the consolidated Basel Framework launched by the Basel Committee which is effective as of 1 January 2023." in section 200(d) of the BCR.	Basel Framework reference: CRE36.115 to CRE36.121 This is a consequential amendment arising from the replacement of the reference to paragraphs 493 to 499 of the Basel II document[16] with the relevant

Amendments to be made	Remarks (including references)
	paragraphs in the consolidated Basel Framework.

Item 35. Amend section 202 of the BCR (Securities financing transactions)

Amendments to be made	Remarks (including references)
(1) Replace "section 75" (whenever appeared) with the reference to the new section specified in Item 71 in the STC DIs in section 202(1), (2), (3) and (4) of the BCR.	
(2) Amend section 202(4) of the BCR as follows– (a) add "or" after "exposures;" in section 202(4)(b) of the BCR; and (b) repeal section 202(4)(c) of the BCR.	Basel Framework reference: CRE30.43
(3) Replace "section 76(2)" with the reference to the new section and subsection specified in Item 71(5) in the STC DIs in section 202(5) of the BCR.	

Item 36. Add a 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) Add a new section on holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities after section 202A of the BCR.	Proposed to set out the risk-weighting treatments of an AI's holdings of any capital instruments and non-capital LAC liabilities that do not fall within "equity exposure" upon the implementation of Basel III final reform package.
(2) If an authorized institution 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 financial sector entity that does not fall within equity exposure set out in Item 27(8) in the STC DIs, the authorized institution must determine the risk-weight of any amount of the insignificant LAC investment that is not deducted from the authorized institution's capital base under section 43(1)(o), 47(1)(c) or 48(1)(c) in	

Matters to be provided		Remarks (including references)
	accordance with those provisions of Part 6.	
(3)	If an authorized institution 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 that is not a CET1 capital instrument and does not fall within equity exposures set out in Item 27(8) in the STC DIs, the authorized institution must determine the risk-weight of any amount of the significant LAC investment that is not deducted from the authorized institution's capital base under section 43(1)(p), 47(1)(d) or 48(1)(d) in accordance with those provisions of Part 6.	
(4)	If an authorized institution has holdings of non-capital LAC liabilities that fall within section 48A of the BCR and do not fall within equity exposure set out in Item 27(8) in the STC DIs, the authorized institution must determine the risk-weight of any amount of the holdings that is not deducted from the authorized institution's capital base in	

Matters to be provided	Remarks (including references)
accordance with those provisions of Part 6.	

Item 37. Amend section 207 of the BCR (Other recognized IRB collateral)

Amendments to be made	Remarks (including references)
(1) Add a new paragraph after paragraph (a) to section 207 of the BCR to provide that the institution must reassess the condition referred to in paragraph (a) periodically and when there is information indicating material changes in the market.	Basel Framework reference: the second sentence of CRE36.143(1)
(2) Add a new paragraph after paragraph (b) to section 207 of the BCR to provide that the institution must demonstrate that the amount it receives when the collateral is realised does not deviate significantly from the market price.	Basel Framework reference: the second sentence of CRE36.143(2)
(3) Repeal everything after "detailed descriptions of the collateral and" in paragraph (i) to	Basel Framework reference: CRE36.144(2)

Amendments to be made	Remarks (including references)
section 207 of the BCR and replace with "the right to examine and revalue the collateral whenever it is deemed necessary".	

Item 38. Amend section 209 of the BCR (Recognized netting)

Amendments to be made	Remarks (including references)
(1) Amend section 209(3) of the BCR as follows– (a) replace "repo-style transactions" with "SFTs"; (b) repeal "or 17, as the case requires" in subparagraph (a); and (c) repeal ", 17" in subparagraph (b)(i).	Item 38(1)(a): Basel Framework reference: CRE32.20 and CRE32.38

Item 39. Amend section 210 of the BCR (Recognized guarantees and recognized credit derivative contracts)

Amendments to be made	Remarks (including references)
(1) Repeal ", 218" in section 210(1) of the BCR.	
(2) Amend section 210(2) of the BCR as follows– (a) repeal ", 218" in paragraph (a); and (b) repeal "subject to section 214(2)," in paragraph (b).	

Item 40. Amend section 211 of the BCR (Recognized guarantees and recognized credit derivative contracts under substitution framework for corporate, sovereign and bank exposures under foundation IRB approach and for equity exposures under PD/LGD approach)

Amendments to be made	Remarks (including references)
(1) Repeal "**and for equity exposures under PD/LGD approach**" in the heading of section 211 of the BCR.	Basel Framework reference: CRE30.43

Amendments to be made	Remarks (including references)
(2) Amend section 211(1) of the BCR as follows– (a) repeal "–" in the chapeau; (b) repeal "(a)" and replace "; and" with a full stop in paragraph (a); and (c) repeal paragraph (b)	Ditto.
(3) Replace subsection (2) along the following line: For the purpose of subsection (1), the references in sections 98(a) and 99(1)(b) to the new section proposed in Item 99 in the STC DIs are construed as the new subsections set out in Item 40(4) below.	The proposed rewrite of existing sections 98 and 99 of the BCR renders the reference to "sections 98(a)(vi) and 99(1)(b)(vi)" in section 211(2) no longer valid.
(4) Add the three new subsections after subsection (2) along the following line: (a) An entity that provides credit protection to an exposure is an eligible credit	

Amendments to be made	Remarks (including references)
protection provider if both of the conditions set out in paragraph (b) below are met. (b) The conditions are – (i) the entity is – (A) a sovereign; (B) a public sector entity; (C) a multilateral development bank; (D) an unspecified multilateral body; (E) a bank; (F) a qualifying CCP; (G) a prudentially regulated financial institution;	

Amendments to be made	Remarks (including references)
(H) an entity not listed above that has an ECAI issuer rating; or (I) a corporate to which an authorized institution has an exposure that is assessed under the institution's rating system and assigned to an obligor grade with an estimate of PD; and (ii) 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. (c) In the above instructions – ***prudentially regulated financial institution*** means – (i) a regulated financial institution other than qualifying CCP; (ii) an entity (other than regulated financial institution and qualifying CCP) that is–	

Amendments to be made	Remarks (including references)
(A) authorized by a regulator pursuant to the law of a jurisdiction to carry on financial activities in that jurisdiction; and (B) subject to supervisory standards imposed by the regulator that are substantially consistent with international norms; or (iii) entity that is a member of a group of companies (comprised the ultimate holding company and all of its subsidiaries) where any major entity in the group falls within sub-subparagraph (i) or (ii).	

Item 41. Amend section 212 of the BCR (Recognized guarantees and recognized credit derivative contracts under substitution framework for corporate, sovereign and bank exposures under advanced IRB approach and for retail exposures under retail IRB approach)

Amendments to be made	Remarks (including references)
(1) Replace "**corporate, sovereign and bank**" with "**corporate and sovereign**" in the heading	Basel Framework reference: CRE30.34(2)

Amendments to be made	Remarks (including references)
of section 212 of the BCR.	
(2) Replace "section 99(1)(n)" in section 212(e) with the reference to the new section and subsection specified in Item 98(1)(o) in the STC DIs.	
(3) Amend section 212 of the BCR as follows– (a) renumber the section as 212(1); (b) replace "corporate, sovereign or bank" with "corporate or sovereign" in paragraph (a); and (c) add two new paragraphs after paragraph (c) to provide that, in addition to existing paragraphs (c) to (e) to section 212 of the BCR, a guarantee or credit derivative contract constitutes a recognized guarantee or a recognized credit derivative contract under the substitution framework, as the case may be, only if–	Item 41(3)(b): Basel Framework reference: CRE30.34(2) Item 41(3)(c)(i): Basel Framework reference: the second sentence of CRE36.105 and CRE36.110 Item 41(3)(c)(ii): Basel Framework reference: the last sentence of CRE32.38

Amendments to be made	Remarks (including references)
(i) the guarantee or credit derivative contract is unconditional, and there is no clause in the contract outside the direct control of the institution that prevents the credit protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment due; and (ii) the credit derivative contract under which the protection buyer obtains credit protection for a basket of exposures is a first-to-default credit derivative contract.	
(4) Add a new subsection in section 212 of the BCR to provide that a guarantee or credit derivative contract which only covers the remaining loss after an authorized institution has first pursued the obligor for payment and has completed the workout process may constitute a recognized guarantee or a recognized credit derivative contract, as the case may be, under the substitution framework if the conditions set out in existing paragraphs (c), (d) and (e)	Basel Framework reference: the last sentence of CRE36.105

Amendments to be made	Remarks (including references)
to section 212 of the BCR as well as the two new paragraphs proposed in Item 41(3)(c)(i) and (ii) above, as the case requires, are met.	

Item 42. Amend section 213 of the BCR (Recognized guarantees and recognized credit derivative contracts under double default framework)

Amendments to be made	Remarks (including references)
(1) Change the heading to "**Recognized internal hedge to trading book**"	
(2) Replace the whole section with the following paragraphs to provide that: (a) Subject to paragraph (b), an internal hedge used by an authorized institution to transfer the credit risk of one or more credit exposures (***protected credit exposure***) booked in the institution's banking book to its trading book is recognized if– (i) an external hedge in the form of a credit derivative contract is	Please refer to Item 100 in the STC DIs.

Amendments to be made	Remarks (including references)
(A) entered into by the institution with a third party; and (B) booked in the institution's trading book (ii) the external hedge exactly matches the internal hedge; and (iii) the external hedge meets the requirements in section 99[(1)(a), (b), (l), (m), (n), (o), (p), (q) and (r)][17] of the BCR in respect of the protected credit exposure. (b) For the purposes of paragraph (a)– (i) if the external hedge meets the requirements specified in paragraph (a)(i), (ii) and (iii) above except that the credit events specified in the external hedge do not include the credit event described in section 99[(1)(l)(iii)][18]	

[17] Subject to the exact subsection numbers to be determined by the law draftsman for Item 98(1)(a), (b), (l), (m), (n), (o), (p), (q) and (r) in the STC DIs.
[18] Subject to the exact subsection number to be determined by the law draftsman for Item 98(1)(l)(iii) in the STC DIs.

Amendments to be made	Remarks (including references)
of the BCR– (A) in case 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; (B) in cases where the amount of the internal hedge is less than, or equal to, 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 internal hedge; (ii) if an external hedge is made up of multiple transactions with multiple third parties (***aggregate external hedge***)– (A) each of those transactions must meet the requirements in paragraph	

Amendments to be made	Remarks (including references)
(a)(i) and (iii) above; (B) the aggregate external hedge must exactly match the internal hedge; (C) the internal hedge must exactly match the aggregate external hedge. (c) In this section, "internal hedge" means an internal written record of a transfer of credit risk from the banking book of an authorized institution to its trading book.	

Item 43. Amend section 214 of the BCR (Capital treatment of recognized guarantees and recognized credit derivative contracts)

Amendments to be made	Remarks (including references)
(1) Add "(other than internal hedge recognized under section 213)" after "derivative contract" in section 214(1) of the BCR.	
(2) Replace section 214(2) of the BCR with the following to provide that–	

Amendments to be made	Remarks (including references)
Subject to section 219, an authorized institution which takes into account the credit risk mitigating effect of an internal hedge recognized under section 213 in calculating the risk-weighted amount of an exposure of the institution must– (a) treat the amount of the credit protection covered portion of the exposure as zero provided that the capital charges are held for the trading book leg of the internal hedge and the corresponding external hedge in accordance with the requirement in Part 8; and (b) if there is any credit protection uncovered portion, calculate the risk-weighted amount of the unprotected amount of the exposure in the same manner as for any other direct exposure to the obligor	
(3) Repeal section 214(3) of the BCR.	The requirement in section 214(3) of the BCR will no longer be valid under the Basel III final reform

Amendments to be made	Remarks (including references)
	package.

Item 44. Amend section 215 of the BCR (Provisions supplementary to section 214(1)–substitution framework (general))

Amendments to be made	Remarks (including references)
(1) Replace "bank, retail or equity" with "bank or retail" in the chapeau of section 215 of the BCR.	Basel Framework reference: CRE30.43

Item 45. Amend section 216 of the BCR (Provisions supplementary to section 214(1)–substitution framework for corporate, sovereign and bank exposures under foundation IRB approach and for equity exposures under PD/LGD approach)

Amendments to be made	Remarks (including references)
(1) Repeal "**and for equity exposures under PD/LGD approach**" in the heading of	Basel Framework reference: CRE30.43

Amendments to be made	Remarks (including references)
section 216 of the BCR.	
(2) Amend section 216(1) of the BCR as follows– (a) repeal "–" in the chapeau; (b) repeal "(a)" and "; or" in paragraph (a); (c) repeal paragraph (b); and (d) provide that an AI shall take into account the credit risk mitigating effect of a recognized guarantee or recognized credit derivative contract in respect of the exposure in accordance with the new subsection proposed in Item 45(5) below in addition to existing subsections (2), (3), (3A), (3B), (4), (5), (6) and (7) to section 216 of the BCR.	
(3) Repeal section 216(2)(a) of the BCR and replace with a provision to provide that where	

Amendments to be made	Remarks (including references)
the covered portion and uncovered portion of the underlying exposure are of equal seniority in terms of ranking for payment to the institution– (i) in the case where the institution uses the IRB approach to calculate its credit risk for exposures to the guarantor or the counterparty, as the case may be–the covered portion of the underlying exposure receives the treatment set out in subsections (3), (3A) and (3B) to section 216 of the BCR and the uncovered portion of the underlying exposure receives the treatment set out in subsection (4) to section 216 of the BCR; (ii) in the case where the institution uses the STC approach to calculate its credit risk for exposures to the guarantor or the counterparty, as the case may be–the covered portion of the underlying exposure receives the treatment set out in subsections (3A) and (3B) to section 216 of the BCR as well as the new subsection proposed in Item 45(5) below and the uncovered portion of the underlying exposure receives	Item 45(3)(ii): Basel Framework reference: CRE32.43(3) and the first part of CRE36.103

Amendments to be made	Remarks (including references)
the treatment set out in subsection (4) to section 216 of the BCR.	
(4) Amend section 216(3) of the BCR as follows– (a) repeal "subject to paragraph (b)," in paragraph (a); and (b) repeal paragraph (b).	
(5) Add a new subsection after section 216(3) of the BCR to provide that subject to subsection (3B) to section 216 of the BCR, an authorized institution may allocate to the covered portion of the exposure a relevant risk-weight attributable to that portion of the exposure determined under Part 4 of the BCR, provided that the guarantee or contract falls within section 98 or 99, as the case requires.	Basel Framework reference: CRE32.43(3), the first part of CRE36.103 and CRE36.106
(6) Repeal "the original guarantee and" in section 216(3A)(c) of the BCR.	

Amendments to be made		Remarks (including references)
(7)	Add the reference to the new subsection proposed in Item 101(4) in the STC DIs after "section 100" in section 216(5) of the BCR.	
(8)	Amend section 216(7) of the BCR to provide that if the credit protection in respect of an authorized institution's exposure consists of a recognized credit derivative contract 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 institution must, in calculation its capital adequacy ratio, allocate a risk-weight of 1250% to the portion of the exposure that is below the materiality threshold.	

Item 46. Amend section 217 of the BCR (Provisions supplementary to section 214(1)–substitution framework for corporate, sovereign and bank exposures under advanced IRB approach and for retail exposures under retail IRB approach)

Amendments to be made	Remarks (including references)
(1) Replace "**corporate, sovereign and bank**" with "**corporate and sovereign**" in the heading of section 217 of the BCR.	Basel Framework reference: CRE30.34(2)
(2) Amend section 217(1) of the BCR as follows– (a) provide that this section is subject to the current subsections (2) and (5) to section 217(1) as well as the new subsection proposed in Item 46 (3) below; and (b) replace "corporate, sovereign or bank" with "corporate or sovereign".	
(3) Add a new subsection after section 217(1) of the BCR to provide that if– (a) a recognized guarantee is provided to an authorized institution or a recognized credit derivative contract is entered into by the institution; and (b) the institution uses the foundation IRB approach or STC approach to calculate its	Basel Framework reference: CRE32.27 and the latter part of CRE36.103

Amendments to be made	Remarks (including references)
credit risk for exposures to the guarantor or counterparty, as the case may be, the institution must divide the EAD of an underlying exposure into the portion covered by the recognized guarantee or recognized credit derivative contract (referred to in this section as ***covered portion*****)** and the portion not covered by the recognized guarantee or recognized credit derivative contract (referred to in this section as ***uncovered portion*****)** such that– (c) in the case where the institution uses the foundation IRB approach to calculate its credit risk for exposures to the guarantor or the counterparty, as the case may be– the covered portion of the underlying exposure receives the treatment set out in existing subsections (4) and (5) to section 217 of the BCR as well as the new subsection proposed in Item 46(4)(i) below and the uncovered portion of the underlying exposure receives the treatment set out in the new subsection proposed in Item 46(6) below;	

Amendments to be made	Remarks (including references)
(d) in the case where the institution uses the STC approach to calculate its credit risk for exposures to the guarantor or the counterparty, as the case may be–the covered portion of the underlying exposure receives the treatment set out in existing subsections (4) and (5) to section 217 of the BCR and the new subsection proposed in Item 46(4)(ii) below and the uncovered portion of the underlying exposure receives the treatment set out in the new subsection proposed in Item 46(6) below.	
(4) Add two new subsections after section 217(3) of the BCR to provide that– (i) Subject to existing subsection (5) to section 217 of the BCR, an authorized institution may allocate to the covered portion of the exposure a relevant risk-weight attributable to that portion of the exposure determined using the foundation IRB approach. (ii) Subject to existing subsection (5) to section 217 of the BCR, an authorized	

Amendments to be made		Remarks (including references)
	institution may allocate to the covered portion of the exposure a relevant risk-weight attributable to that portion of the exposure determined under Part 4 of the BCR, provided that the guarantee or contract falls within section 98 or 99, as the case requires.	
(5)	Repeal "the original guarantee and" in section 217(4)(c) of the BCR.	
(6)	Add a new subsection after section 217(5) of the BCR to provide that an authorized institution shall, in the case of an uncovered portion of an underlying exposure, assign a risk-weight calculated in the same manner as for any other direct exposure to the obligor in respect of the underlying exposure.	

Item 47. Repeal section 218 of the BCR (Provisions supplementary to section 214(2)-double default framework)

Amendments to be made	Remarks (including references)
(1) Repeal the whole section.	BCBS removed the double default framework which will cease to operate upon the implementation of Basel III final reform package.

Item 48. Amend section 219 of the BCR (Capital treatment of recognized guarantees and recognized credit derivative contracts in respect of purchased receivables)

Amendments to be made	Remarks (including references)
(1) Replace "216, 217 and 218" with "216 and 217" in section 219(1)(a) of the BCR.	
(2) Repeal section 219(5) and (6) of the BCR.	BCBS removed the double default framework which will cease to operate upon the implementation of Basel III final reform package.

Item 49. Amend section 222 of the BCR (EL amount–equity exposures subject to market-based approach and CIS exposures)

Amendments to be made	Remarks (including references)
(1) Repeal "**equity exposures subject to market-based approach and**" in the heading of section 222 of the BCR.	Basel Framework reference: CRE30.43
(2) Repeal section 222(1) of the BCR.	Ditto.

Item 50. Repeal section 223 of the BCR (EL amount–equity exposures subject to PD/LGD approach)

Amendments to be made	Remarks (including references)
(1) Repeal the whole section.	Basel Framework reference: CRE30.43

Item 51. Repeal Division 12 (Scaling Factor[19]) and section 224 of the BCR (Application of scaling factor)

[19] See footnote 3 to the "Introduction" of the Basel III final reform package (https://www.bis.org/bcbs/publ/d424.pdf)

Amendments to be made	Remarks (including references)
(1) Repeal the whole division, including section 224 of the BCR.	BCBS removed the 1.06 scaling factor that is currently applied to RWAs determined by the IRB approach to credit risk.

Item 52. Repeal Division 13 (Capital Floor), section 225 (Application of Division 13) and section 226 (Calculation of capital floor) of the BCR

Amendments to be made	Remarks (including references)
(1) Repeal the whole division, including sections 225 and 226 of the BCR.	The capital floor requirement is to be replaced by a new output floor mechanism upon the implementation of Basel III final reform package.

AMENDMENTS TO BCR TO IMPLEMENT THE OUTPUT FLOOR

Item 53. Add a new Part after Part 10 of the BCR

Matters to be provided	Remarks (including references)
(1) This new Part is to provide the requirements for the output floor calculation in a new Part after Part 10.	

Item 54. Add new sections to provide for the application and interpretations of the new Part

Matters to be provided	Remarks (including references)
(1) The new Part applies to an authorized institution which uses any of the model-based approaches to calculate its credit risk and/or market risk.	
(2) In this part, "model-based approaches" as mentioned in Item 54(1) above refers to any of the following approaches:	Basel Framework reference: RBC20.12

Matters to be provided	Remarks (including references)
(a) IRB approach (b) SEC-IRBA (c) internal assessment approach (d) IMM(CCR) approach (e) Value-at-risk (VaR) model— (i) from [1 July 2023] and until the date on which the new market risk capital framework comes into effect—as set out in the proposed amended section 226ML of the BCR under Item 166 in the STC DIs for the calculation of default risk exposure in respect of nettable repo-style transactions (ii) from the date on which the new market risk capital framework comes into effect—as set out in the proposed amended section 226ML of the BCR under Item167 in the STC DIs for the calculation of default risk exposure	

Matters to be provided	Remarks (including references)
in respect of a single SFT or nettable SFTs (f) IMA	
(3) In this Part, "output floor (出項下限)" means the risk-weighted amount calculated in accordance with Item 55(1)(a)(i) below.	Basel Framework reference: RBC20.4(2)

Item 55. Add a new section to provide for the calculation of output floor

Matters to be provided	Remarks (including references)
(1) Add a new subsection to provide that an authorized institution must– (a) calculate the difference between: (i) the floor risk-weighted amount for credit risk, market risk and operational risk determined under new subsections proposed in Item 55(2), (3), (4), (5) and	Basel Framework reference: RBC20.4 This new subsection specifies the basis of calculating the output floor.

Matters to be provided	Remarks (including references)
(6) below; and (ii) the actual risk-weighted amount for credit risk, market risk and operational risk determined under new subsection proposed in Item 55(7) below; (b) if the floor risk-weighted amount referred to in paragraph (a)(i) above is larger than the actual risk-weighted amount referred to in paragraph (a)(ii) above, the difference must be added to the total risk-weighted amount for credit risk, market risk and operational risk for the calculation of its capital adequacy ratio.	
(2) Add a new subsection after the subsection proposed in Item 55(1) above to provide that, subject to Item 55(9) below, an authorized institution must calculate the floor risk-weighted amount, for the purposes of Item 55(1) above, by multiplying the amount determined under Item 55(3) below by an appropriate output floor level set out in Table 4 under Item 55(6) below.	Basel Framework reference: RBC20.4(2) This new subsection prescribes an overview of how the floor RWA is determined.

Matters to be provided	Remarks (including references)
(3) Add a new subsection after the subsections proposed in Item 55(1) and (2) above to provide that an authorized institution must arrive at the relevant amount for the purposes of Item 55(2) above by aggregating– (a) the risk-weighted amount for credit risk by using– (i) subject to the subsections proposed in Item 55(4), (5) and (8) below, the STC approach for non-securitization exposures; and (ii) the SEC-ERBA (except the use of internal assessment approach set out in section 266A), SEC-SA or SEC-FBA for securitization exposures; (b) subject to the subsection proposed in Item 55(8) below– (i) the risk-weighted amount for market risk by using the standardized (market risk) approach (STM approach) or subject to the approval under Item 5(5) of Part B(1) of Batch no. 2 of the DIs, the simplified standardized approach	Basel Framework reference: RBC20.4(2) and RBC20.11 This new subsection specifies how the "amount determined under Item 55(3)" in Item 55(2) above is calculated.

Matters to be provided	Remarks (including references)
(SSTM approach); and (ii) the CVA risk-weighted amount by using the calculation approach used by the institution for CVA risk; and (c) the risk-weighted amount for operational risk by using the calculation approach used by the institution for operational risk.	
(4) Add a new subsection after the subsections proposed in Item 55(1) to (3) above to provide that for the purposes of the subsection proposed in Item 55(3)(a)(i) above, an authorized institution must use (a) subject to the new paragraph proposed in Item 55(5)(b) below, the SA-CCR approach to calculate the institution's default risk exposures in respect of derivative contracts; and (b) the methods set out in Division 2B of Part 6A of the BCR (except the use of value-	Basel Framework reference: RBC20.11(4) This paragraph serves to specify the methods for measuring counterparty credit risk exposure.

Matters to be provided	Remarks (including references)
at-risk model set out in the proposed amended section 226ML of the BCR under Item 166 and 176 in the STC DIs) to calculate the institution's default risk exposures in respect of SFTs.	
(5) Add a new subsection after the subsections proposed in Item 55(1) to (4) above to provide an authorized institution that uses the BSC approach to calculate its credit risk for all its non-securitization exposures may choose to use– (a) the BSC approach for the purposes of Item 55(3)(a)(i); and (b) the current exposure method to calculate its default risk exposures in respect of derivative contracts if the institution is not given a written notice by the Monetary Authority in accordance with section 10A(2B) of the BCR to use the SA-CCR approach to calculate its default risk exposures.	This proposed paragraph serves to cater limited circumstances where an AI may, with the MA's approval under section 6(2)(a) of the BCR, use BSC approach to calculate its credit risk but use IMM(CCR) approach for its default risk exposures and IMA for its market risk, or use the IMA for its market risk.

<table>
<tr><th>Matters to be provided</th><th>Remarks (including references)</th></tr>
<tr><td>(6) Add a new subsection after the subsections proposed in Item 55(1) to (5) above to provide that subject to Item 55(9) below, an authorized institution must use the corresponding output floor level specified in Table 4:

Table 4 – [Output Floor Levels]

<table><tr><td>Date from which increasing output floor level is applicable</td><td>Output floor level</td></tr><tr><td>Between [1 July 2023] and 31 December 2023</td><td>60%</td></tr><tr><td>Between 1 January 2024 and 31 December 2025</td><td>65%</td></tr><tr><td>Between 1 January 2026 and 31 December 2027</td><td>70%</td></tr><tr><td>On or after 1 January 2028</td><td>72.5%</td></tr></table></td><td>Basel Framework reference: RBC20.4(2) and RBC90[20]</td></tr>
</table>

[20] RBC90 – Transitional arrangement (https://www.bis.org/basel_framework/chapter/RBC/90.htm?inforce=20230101&published=20200327)

Matters to be provided	Remarks (including references)
(7) Add a new subsection after the subsections proposed in Item 55(1) to (6) above to provide that subject to the subsection proposed in Item 55(8) below, the actual risk-weighted amount referred to in the subsection proposed in Item 55(1)(a)(ii) above is determined by aggregating– (a) the risk-weighted amount for credit risk by using the calculation approach used by the institution for credit risk; (b) the risk-weighted amount for market risk by using the calculation approach used by the institution for market risk; (c) the risk-weighted amount for CVA risk by using the calculation approach used by the institution for CVA risk; and (d) the risk-weighted amount for operational risk by using the calculation approach used by the institution for operational risk.	Basel Framework reference: RBC20.4(1) This is to specify how the actual RWA is determined.

Matters to be provided		Remarks (including references)
(8)	Add a new subsection after the subsections proposed in Item 55(1) to (7) above to provide that before the legislative amendments for incorporating the new market risk and CVA risk capital framework take effect, an authorized institution must exclude the risk-weighted amount for market risk and CVA risk-weighted amount from both the floor risk-weighted amount and the actual risk-weighted amount for output floor calculation.	This subsection serves to address industry's concern on how to calculate the floor RWA for both market risk and CVA risk during the transitional time gap arising from the misalignment of the implementation date of the revised market risk and CVA risk frameworks (not earlier than 1 January 2024) versus other Pillar 1 risks (1 July 2023).
(9)	Add a new subsection after the subsections proposed in Item 55(1) to (8) above to provide that the Monetary Authority may, by notice in writing given to one or more than one authorized institution, direct the institution to apply an output floor level specified in the notice if the Monetary Authority is satisfied that–	The proposed subsection is intended to empower the MA to change the output floor level when this is necessary to safeguard the resilience of individual AIs and/or the Hong Kong banking sector in exceptional circumstances.

Matters to be provided	Remarks (including references)
(a) a rating system or an internal model used by the institution to calculate its credit risk and market risk causes, or could reasonably be construed as potentially causing, [whether by itself or in conjunction with any other event,] adverse impacts on the financial soundness of the institution; or (b) there exists a [material] prudential concern in respect of one or more than one institution that causes, or could reasonably be construed as potentially causing, [whether by itself or in conjunction with any other event,] the financial soundness of the institution to be put at risk in prevailing, or likely prevailing, economic and market conditions. The institution concerned must comply with the requirements of the notice to it.	

AMENDMENTS TO THE SCHEDULES 2 (MINIMUM REQUIREMENTS TO BE SATISFIED FOR APPROVAL UNDER SECTION 8 OF THESE RULES TO USE IRB APPROACH)

Item 56. Amend Schedule 2 (Minimum requirements to be satisfied for approval under Section 8 of these Rules to use IRB approach)

Amendments to be made		Remarks (including references)
(1)	In paragraph (b)(vi)(B) of section 1 (General requirements) to Schedule 2 of the BCR, add "and" after "Monetary Authority;".	
(2)	Repeal paragraph (b)(vii) of section 1 (General requirements) to Schedule 2 of the BCR.	The minimum IRB coverage ratio will no longer be applicable upon the implementation of Basel III final reform package.

Item 57. Repeal Schedule 8 (Credit Quality Grades for Specialized Lending)

Amendments to be made	Remarks (including references)
(1) Repeal Schedule 8.	It is proposed to repeal Schedule 8 of the BCR and replace with the mapping table made by the MA and published on the MA's website.

II. AMENDMENTS TO BE EFFECTIVE ON THE SAME DAY AS THE NEW CVA CAPITAL FRAMEWORK COMES INTO FORCE

AMENDMENTS TO PART 6 (CALCULATION OF CREDIT RISK FOR NON-SECURITIZATION EXPOSURES: IRB APPROACH)

Item 58. Amend the following existing definition in section 139(1) of the BCR

Existing definitions to be amended	Remarks (including references)
(1) ***eligible provision*** (合資格準備金) – (a) replace "," with ";" in paragraph (b); and (b) repeal "exclusive of any CVA and CVA loss" after paragraph (b).	CVA risk is no longer part of credit risk framework when the new CVA capital framework becomes effective.

Item 59. Amend section 156 of the BCR (Calculation of risk-weighted amount of corporate, sovereign and bank exposures)

Amendments to be made	Remarks (including references)
(1) Repeal section 156(9) of the BCR.	As new CVA capital framework becomes effective which is not part of the credit risk, this requirement is no longer valid.
(2) Repeal section 156(10) of the BCR.	