Annex

This set of proposed amendments to the Banking (Disclosure) Rules (Cap. 155M) ("BDR") mainly reflects the new/revised disclosure requirements associated with the Basel III final reform package, and consequential amendments arising from the proposed amendments to the Banking (Capital) Rules (Cap. 155L) for implementing the Basel III final reform package ("BCAR 2023").

The proposed amendments are prepared based on the current version of the BDR (https://www.elegislation.gov.hk/hk/cap155M).

Unless otherwise stated—

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

(A) AMENDMENTS TO BE EFFECTIVE ON THE SAME DATE AS THE IMPLEMENTATION DATE OF THE REVISED FRAMEWORKS ON CREDIT RISK, OPERATIONAL RISK, THE OUTPUT FLOOR AND THE LEVERAGE RATIO

I. AMENDMENTS TO PART 1 (PRELIMINARY)

Item 1. Amend section 2 (Interpretation)

Amendments to be made		Remarks (including references)
(1)	In subsection (1), repeal the definition of "***capital requirements***" and substitute the following new definition: "***capital requirements***, in relation to— (a) the measure of an authorized institution's non-securitization exposures to credit risk calculated in accordance with any one or more of Parts 4, 5 and 6 and Division 4 of Part 6A, as the case requires, of the Capital Rules; (b) the measure of an authorized institution's securitization exposures to credit risk calculated in accordance with Part 7 of the Capital Rules; and (c) the measure of an authorized institution's sovereign concentration risk calculated in accordance with Part 10 of the	This is a consequential amendment to align the definition with the calculation approach(es) that an authorized institution ("AI") may use for measuring the required capital for various types of credit risk exposures under the revised credit risk framework as implemented by the BCAR 2023.

Amendments to be made		Remarks (including references)
	Capital Rules, means the amount of capital required to be held by the institution for that risk based on the risk-weighted amount for that risk multiplied by 8%;".	
(2)	After subsection (3), add a new subsection (3A) along the following lines: "(3A) Unless otherwise approved by the Monetary Authority, if the effective date of any section of these Rules falls within a reporting period, an authorized institution must comply with that section in respect of the required disclosure for the reporting period.".	<u>Basel Framework reference:</u> DIS10.4[1] and DIS99.1[2] Recognising that different jurisdictions may have different interpretations on how to define the implementation dates of new/revised disclosure templates for fiscal periods of banks that do not coincide with the calendar year (i.e. 1 January to 31 December), the Consolidated Basel Framework of the Basel Committee on Banking Supervision ("BCBS") now includes an explanatory guidance (paragraph DIS10.4) to clarify that "[d]isclosure requirements are applicable for Pillar 3 reports related to fiscal periods that include or come after the specific calendar implementation date." The proposed new subsection aims to put the implementation date of a

[1] See https://www.bis.org/basel_framework/chapter/DIS/10.htm?inforce=20230101&published=20211111.
[2] See https://www.bis.org/basel_framework/chapter/DIS/99.htm?inforce=20230101&published=20211111.

Amendments to be made		Remarks (including references)
		new/revised disclosure requirement beyond doubt. Worked examples illustrating the application of paragraph DIS10.4 under paragraph DIS99.1 will be included in relevant application guidance (i.e. the supervisory policy manual module CA-D-1 of the Monetary Authority ("MA")). The proposed new subsection also provides some flexibility for the MA to respond swiftly to exceptional situations where an AI has practical difficulties in complying with the requirement.
(3)	In subsection (4), repeal paragraph (b) and substitute a new paragraph (b) along the following lines: "(b) if approved by the Monetary Authority—on the internet website of the institution's holding company (or a section of the internet website of such holding company).".	This amendment is to cater for the situation where an AI's parent holding company (including ultimate holding company) is itself not a bank. Corresponding amendment to section 6(10A)(b)(ii) of the BDR is also proposed under Item 3 below. The term "holding company" is defined in section 2(1) of the Banking Ordinance ("BO").

II. AMENDMENTS TO PART 2 (GENERAL REQUIREMENTS FOR AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG)

Item 2. Amend section 5 (Disclosure policy)

Amendments to be made	Remarks (including references)
Repeal paragraph (b) and substitute a new paragraph (b) along the following lines: "(b) which is subject to regular and independent review and approval by the institution's senior management and board of directors.".	Basel standard reference: Principle 12 at paragraph 68 of the BCBS document *"Revisions to the Principles for the Sound Management of Operational Risk" (March 2021)*[3]. Paragraph 68 of this BCBS document requires banks to have a formal disclosure policy that is subject to regular and independent review and approval by senior management and the board of directors. The proposed amendment aims to bring the BDR into line with this BCBS new requirement. The term "senior management' is defined in section 2(1) of the Banking (Capital) Rules ("BCR").

[3] See https://www.bis.org/bcbs/publ/d515.pdf.

Item 3. Amend section 6 (Medium, location and timing of disclosure)

Amendments to be made	Remarks (including references)
In subsection (10A)(b)(ii), repeal "the institution's parent bank." and substitute "the institution's holding company.".	Please see explanatory note in Item 1(3) above.

III. AMENDMENTS TO PART 2A (SPECIFIC DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG)

III(i) Amend Division 2 – Key Prudential Ratios and Overview of Risk Management and Risk-weighted Amount

Item 4. Amend section 16AB (Key prudential ratios—quarterly disclosures)

Amendments to be made		Remarks (including references)
(1)	After subparagraph (iii) of paragraph (a), add a new subparagraph (iiia) along the following lines: "(iiia) pre-floor capital ratios;".	Basel Framework reference: DIS20[4] – Template KM1 This item implements the new BCBS requirement on the quarterly disclosure of a bank's capital ratios before applying the output floor. Please refer to Item 5 below for the proposed definition of "pre-floor capital ratios".
(2)	After subparagraph (iv) of paragraph (a), add a new subparagraph (iva) along the following lines: "(iva) mean-SFT adjusted leverage ratio;".	Basel Framework reference: DIS20 – Template KM1 This item implements the new BCBS requirement on the quarterly

[4] See https://www.bis.org/basel_framework/chapter/DIS/20.htm?inforce=20230101&published=20200327.

Amendments to be made		Remarks (including references)
		disclosure of a bank's leverage ratio calculated based on averaged values of gross assets of securities financing transactions ("SFTs") to address concerns regarding potential "window-dressing" of the leverage ratio. Please refer to Item 5 below for the proposed definition of "mean-SFT adjusted leverage ratio". Related amendments for leverage ratio disclosures are also made to section 16FI of the BDR under Item 7 below.

Item 5. Add new section 16AC on the interpretation of pre-floor capital ratios and mean-SFT adjusted leverage ratio

Amendments to be made		Remarks (including references)
	After section 16AB (Key prudential ratios—quarterly disclosures), add a new section 16AC along the following lines: "**16AC. Interpretation of section 16AB** In section 16AB(a)— ***pre-floor capital ratios*** means the pre-floor CET1 capital ratio, the pre-floor Tier 1 capital ratio and the pre-floor Total capital ratio which are determined in the same way as the institution's CET1 capital ratio, Tier 1 capital ratio and Total capital ratio under sections 16AB(a)(i), 16AB(a)(ii) and 16AB(a)(iii) respectively, except that the risk-weighted amount used for	<u>Basel Framework reference:</u> DIS20 – Template KM1 This new section defines "pre-floor capital ratios" and "mean-SFT adjusted leverage ratio" which are proposed to be added to sections 16AB(a)(iiia) and 16AB(a)(iva) of the BDR respectively under Items 4(1) and 4(2) above. The term "SFT" is defined in section 2(1) of the BCR.

Amendments to be made		Remarks (including references)
	calculating these pre-floor capital ratios should exclude any adjustments required for meeting the output floor requirement as specified in Part [ ][5] of the Capital Rules; ***mean-SFT adjusted leverage ratio*** means a ratio determined in the same way as the leverage ratio, except that the institution's exposures arising from SFTs used in the calculation of the exposure measure are based on the arithmetic mean of the gross amount of SFT assets (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables) as of each day of the quarterly reporting period.".	

III(ii) Amend Division 3B – Macroprudential Supervisory Measures

Item 6. Amend section 16FF (G-SIB indicators—annual disclosures)

Amendments to be made		Remarks (including references)
(1)	In paragraph (a) of subsection (2), repeal "consolidation group" and substitute "consolidated group".	Basel standard reference: Paragraph 42 of the BCBS document *"Global systemically important*

[5] Exact part number in the BCR will be inserted when available.

Amendments to be made		Remarks (including references)
		banks: revised assessment methodology and the higher loss absorbency requirement" (July 2018)[6]. This amendment is not related to the Basel III final reform package. We take the opportunity to implement the revised BCBS disclosure requirement that the threshold of exposure measure (i.e. Euro 200 billion) that will subject a bank to making annual disclosures on the 13 indicators used in the assessment methodology for assessing the systemic importance of a global systemically important bank should take into account the bank's exposures arising from its insurance subsidiaries.
(2)	Add a new subsection (7) along the following lines: "(7) In subsection 2(a)— ***consolidated group***, in relation to an authorized institution, means a consolidation group and, where the institution has any subsidiary which is an insurance firm [that is not included in the consolidation group], includes that subsidiary.".	This item defines "consolidated group" used in the proposed amended section 16FF(2)(a) of the BDR under Item 6(1) above. The term "subsidiary" is defined in section 2(1) of the BO. The terms "consolidation group" and "insurance firm" are defined in section 2(1) of the BCR.

[6] See https://www.bis.org/bcbs/publ/d445.pdf.

III(iii) Amend Division 3C – Leverage Ratio

Item 7. Amend section 16FI (Leverage ratio—quarterly disclosures)

Amendments to be made		Remarks (including references)
(1)	Repeal paragraph (a) and substitute the following new paragraph (a) along the following lines: "(a) the following information— (i) its leverage ratio; (ii) the minimum leverage ratio applicable to it; (iii) a breakdown of the components of the exposure measure determined in accordance with section 3ZB of the Capital Rules; (iv) the mean-SFT adjusted leverage ratio; and (v) the denominator, including the mean value of gross assets of SFTs, used in the calculation of the ratio referred to in subparagraph (iv).".	Basel Framework reference: DIS80[7] – Template LR2 This amendment implements the new BCBS requirement on the quarterly disclosure of the mean value of gross assets of SFTs, leverage ratio and total exposure measures calculated based on the said mean value of gross assets of SFTs, and minimum leverage ratio applicable to the bank. Please see explanatory note in Item 4(2) above.
(2)	In paragraph (b), repeal "those changes." and substitute "those changes;".	This is a consequential amendment due to the proposed addition of paragraphs (c) and (d) to section 16FI of the BDR in Item 7(3) below.

[7] See https://www.bis.org/basel_framework/chapter/DIS/80.htm?inforce=20230101&published=20200327.

Amendments to be made		Remarks (including references)
(3)	After paragraph (b), add new paragraphs (c) and (d) along the following lines: "(c) an explanation of any material differences between the gross amount of SFT assets that are used in the calculation of the leverage ratio under paragraph (a)(i) and the mean value of gross assets of SFTs specified under paragraph (a)(v); and (d) in paragraph (a)(iv), ***mean-SFT adjusted leverage ratio*** has the meaning given by section 16AC of these Rules.".	Basel Framework reference: DIS80 – Template LR2 This item implements the new BCBS requirement on the quarterly disclosure of the key drivers that explain the material differences between the gross assets of SFTs calculated on quarter-end and averaged values bases.

III(iv) Amend Division 4 – Credit Risk for Non-securitization Exposures

Item 8. Amend section 16U (IRB approach: specialized lending under supervisory slotting criteria approach and equities under simple risk-weight method—semi-annual disclosures)

Amendments to be made		Remarks (including references)
(1)	In the heading, repeal "**and equities under simple risk-weight method**".	Basel Framework reference: DIS40[8] – Template CR10

[8] See https://www.bis.org/basel_framework/chapter/DIS/40.htm?inforce=20230101&published=20200327.

Amendments to be made		Remarks (including references)
		This amendment brings the BDR into line with the revised credit risk capital framework of the Basel III final reform package, under which the calculation of credit risk with respect to equity exposures (except for CIS exposures) will only be subject to the revised standardized approach and the simple risk-weight method will no longer be available.
(2)	In paragraph (a), repeal "and its equity exposures for which it uses the simple risk-weight method".	Please see the explanatory note in Item 8(1) above.

III(v) New Division 8A – Operational Risk

Item 9. Add new Division 8A on Operational Risk

Matters to be provided	Remarks (including references)
Add a new Division 8A with the following division heading: "**Division 8A—Operational Risk**".	The new quantitative and qualitative disclosure requirements concerning a bank's operational risk will take effect concurrently with the local implementation date of the revised BCBS operational risk framework. The revised disclosure requirements will supersede the existing operational risk disclosure requirements under section 51C of the BDR which is proposed to be repealed under Item 19 below.

Item 10. Add new section 16ZQA on general information on operational risk framework—annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZQA along the following lines: "**Section 16ZQA. General information on operational risk framework—annual disclosures** An authorized institution must disclose, for each annual reporting period, the main characteristics and elements of its operational risk management framework.".	Basel Framework reference: DIS60[9] – Table ORA This item implements the new BCBS requirement on the annual disclosure of qualitative information regarding a bank's operational risk management framework.

Item 11. Add new section 16ZQB on historical losses—annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZQB along the following lines: "**Section 16ZQB. Historical losses—annual disclosures** An authorized institution that is classified under section [ ][10] of the Capital Rules as: (a) Bucket 2 AI or Bucket 3 AI; or (b) Bucket 1 AI which has obtained the prior consent of the Monetary	Basel Framework reference: DIS60 – Template OR1 This item implements the new BCBS requirement on the annual disclosure of historical losses. The requirement only applies to an AI that is i) in the second or third business indicator bucket; or ii) in

[9] See https://www.bis.org/basel_framework/chapter/DIS/60.htm?inforce=20230101&published=20200327.
[10] Exact section number in the BCR will be inserted when available.

Matters to be provided	Remarks (including references)
Authority or met specified conditions to include its operational loss data in the calculation of its capital charge for operational risk under section [ ][11] of the Capital Rules must disclose, for each annual reporting period— (i) its aggregate operational risk losses incurred over the last 10 years or, if permitted by the Monetary Authority to use fewer years to calculate its operational risk capital charge, such number of years, based on the accounting date of the incurred losses; and (ii) an explanation of the rationale for any new exclusions of operational risk losses since the previous disclosure, and any other material information relating to its historical operational risk losses and loss recoveries during the annual reporting period.".	the first business indicator bucket that has received the MA's consent or met specified conditions to include operational loss data to calculate its operational risk capital charge.

[11] Exact section number in the BCR will be inserted when available.

Item 12. Add new section 16ZQC on business indicator and business indicator components breakdown—annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZQC along the following lines: "**Section 16ZQC. Business indicator and business indicator components breakdown—annual disclosures** (1) An authorized institution must disclose, for each annual reporting period— (a) the business indicator and a breakdown of the business indicator components that are used by the institution for the operational risk capital charge calculation; (b) an explanation of any material changes in the matters referred to in paragraph (a) during the annual reporting period, including key drivers of those changes; and (c) divested businesses and activities that the institution has obtained the Monetary Authority's approval under Part 9 of the Capital Rules to exclude from the calculation of the business indicator. (2) In subsection (1), ***business indicator*** and ***business indicator components***, in relation to an authorized institution, have the meanings given to them in Part 9 of the Capital Rules.".	<u>Basel Framework reference:</u> DIS60 – Template OR2 This item implements the new BCBS requirement on the annual disclosure of the business indicator and the corresponding components breakdown in operational risk capital requirement calculation.

Item 13. Add new section 16ZQD on minimum operational risk capital requirement—annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZQD along the following lines: "**Section 16ZQD. Minimum operational risk capital requirement—annual disclosures** An authorized institution must disclose, for each annual reporting period, information for the calculation of its minimum operational risk capital requirement.".	Basel Framework reference: DIS60 – Template OR3 This item implements the new BCBS requirement on the annual disclosure of minimum operational risk capital requirement.

III(vi) New Division 8B – Comparison of modelled and standardized risk-weighted amounts

Item 14. Add new Division 8B on comparison of modelled and standardized risk-weighted amounts

Matters to be provided	Remarks (including references)
Add a new Division 8B with the following division heading: "**Division 8B—Comparison of Modelled and Standardized Risk-weighted Amounts**".	This item provides that an AI which uses any of the model-based approaches referred to in the new Part after Part 10 of the BCR to calculate its credit risk and/or market risk will be subject to the new disclosure requirements under a new Division 8B of Part 2A of the BDR. The disclosures involve a comparison of an AI's actual risk-weighted amounts ("RWAs") and RWAs calculated under full standardized approaches for the purpose of output floor calculation. There will be two new disclosure templates taking effect concurrently with the local implementation date of the output floor.

Item 15. Add new section 16ZQE on comparison of modelled and standardized risk-weighted amounts at risk level—quarterly disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZQE along the following lines: "**Section 16ZQE. Comparison of modelled and standardized risk-weighted amounts at risk level—quarterly disclosures** (1) An authorized institution which has the approval of the Monetary Authority to use any of the model-based approaches referred to in [ ][12] to calculate its credit risk or market risk or both for some or all of its exposures must disclose, for each quarterly reporting period— (a) subject to subsection (2), a comparison of the actual risk-weighted amount for credit risk, market risk, CVA risk and operational risk referred to in [ ][13] against the risk-weighted amount for credit risk, market risk, CVA risk and operational risk calculated using only standardized approaches as set out in [ ][14], as applicable, at risk level; and (b) subject to subsection (3), an explanation of the main drivers of the differences between the two risk-weighted amounts stated under paragraph (a) above.	<u>Basel Framework reference:</u> DIS21[16] – Template CMS1 This item implements the new BCBS requirement on the quarterly disclosure of the comparison of a bank's actual and full standardized RWAs. The full standardized RWAs required in Template CMS1 is the base of the output floor i.e. RWA before multiplying the output floor level as required in the output floor framework. This requirement applies to AIs using the internal models to calculate the capital requirement for any of their credit risk and/or market risk. The terms "SEC-ERBA", "SEC-SA", "SEC-FBA" and "banking book" are defined in the BCR.

[12] Exact part number in the BCR will be inserted when available.
[13] Exact section number in the BCR will be inserted when available.
[14] Exact section number in the BCR will be inserted when available.

Matters to be provided	Remarks (including references)
(2) For the purpose of disclosing the comparison of modelled and standardized risk-weighted amounts under subsection 1(a), before [ ][15], an authorized institution must exclude the risk-weighted amount for each of market risk and CVA risk from both legs of the comparison. (3) The disclosure under subsection (1)(b) must include the extent to which the authorized institution is using the SEC-ERBA [(except the use of internal assessment approach set out in section 266A of the Capital Rules)], the SEC-SA or the SEC-FBA for the calculation of risk-weighted amount for securitization exposures if the risk-weighted amount for securitisation exposures in the banking book is a main driver of the differences.".	

[16] See https://www.bis.org/basel_framework/chapter/DIS/21.htm?inforce=20230101&published=20201126.

[15] It should refer to the time when the revised market risk and CVA risk capital frameworks under the BCAR 2023 take effect.

Item 16. Add new section 16ZQF on comparison of modelled and standardized risk-weighted amounts for credit risk at asset class level—semi-annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZQF along the following lines: "**Section 16ZQF. Comparison of modelled and standardized risk-weighted amounts for credit risk at asset class level—semi-annual disclosures** An authorized institution which uses the IRB approach to calculate credit risk for non-securitization exposures must disclose, for each semi-annual reporting period— (a) a comparison of risk-weighted amount of credit risk for non-securitization exposures calculated according to the STC approach at the asset class level against the corresponding risk-weighted amount calculated under the calculation approach(es) used by the institution for credit risk; and (b) an explanation of the main drivers of the differences between the two risk-weighted amounts stated under paragraph (a).".	Basel Framework reference: DIS21 – Template CMS2 This item implements the new BCBS requirement on the semi-annual disclosure of the comparison of a bank's actual and full standardized RWA of credit risk for non-securitization exposures at asset class level. This requirement only applies to AIs using the IRB approach to calculate their capital requirement for any of their credit risk for non-securitization exposures. The term "STC approach" and "IRB approach" are defined in section 2(1) of the BCR.

III(vii) New Division 8C – Asset Encumbrance

Item 17. Add new Division 8C on asset encumbrance

Matters to be provided	Remarks (including references)
Add a new Division 8C with the following division heading: "**Division 8C—Asset Encumbrance**".	This item implements the new BCBS disclosure requirements on asset encumbrance under a new Division 8C of Part 2A of the BDR.

Item 18. Add new section 16ZQG on asset encumbrance—semi-annual disclosures

Matter to be provided	Remarks (including references)
Add a new section 16ZQG along the following lines: "**Section 16ZQG. Asset encumbrance—semi-annual disclosures** (1) An authorized institution must disclose, for each semi-annual reporting period— (a) the carrying value amounts of assets on its financial statement distinguishing encumbered assets and unencumbered assets; and	Basel Framework reference: DIS31[17] – Template ENC This item implements the new BCBS requirement on the semi-annual disclosure of the carrying value amounts of encumbered and unencumbered assets on the financial statements and the relevant qualitative information. All the discretionary disclosure

[17] See https://www.bis.org/basel_framework/chapter/DIS/31.htm?inforce=20230101&published=20200327.

Matter to be provided	Remarks (including references)
(b) information relevant to the matters referred to in paragraph (a), including an explanation of any material change in the matters during the reporting period. (2) In subsection (1)— ***encumbered assets***, in relation to an authorized institution, means any assets that the institution is restricted or prevented from liquidating, selling, transferring or assigning, due to legal, regulatory, contractual or other limitations; ***unencumbered assets***, in relation to an authorized institution, means any assets other than encumbered assets.".	requirements (i.e. assets supporting central bank facilities, and breakdown of encumbered assets by type of transactions and unencumbered assets by categories) in the BCBS Template ENC will not be implemented in Hong Kong. DIS31.3 – The meaning of "encumbered assets" in Template ENC is different from the concept of the same term in the BCBS liquidity coverage ratio framework in that the definition in Template ENC excludes the aspect of asset monetization. Such difference will be further elaborated in the new MA standard disclosure template.

IV. AMENDMENTS TO PART 4 (ADDITIONAL ANNUAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG)

Item 19. Repeal section 51C (Operational risk)

Amendments to be made	Remarks (including references)
Repeal entire section 51C.	Section 51C of the BDR will be repealed and replaced by the new disclosure requirements for operational risk under the new Division 8A of Part 2A of the BDR proposed in Items 9 to 13 above.

(B) AMENDMENTS TO BE EFFECTIVE ON THE SAME DAY AS THE REVISED MARKET RISK AND CREDIT VALUATION ADJUSTMENT ("CVA") RISK FRAMEWORKS COME INTO FORCE

V. AMENDMENTS TO PART 2 (GENERAL REQUIREMENTS FOR AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG)

Item 20. Amend section 12 (Basis of disclosure)

Amendments to be made		**Remarks (including references)**
(1)	Amend section 12(1)(a), (b) and (c) by adding ", CVA risk" after "market risk" (wherever appearing).	Since CVA risk will no longer be considered as part of credit risk and will be treated as a distinct type of risk when the revised market risk and CVA risk frameworks come into force (tentatively at a date no earlier than 1 January 2024 to be specified by the MA in a gazette notice), there is a need to add CVA risk into sections 12(1)(a), (b) and (c) and 12(2) of the BDR.
(2)	Amend section 12(2) by adding ", CVA risk" after "market risk" (wherever appearing).	Please see explanatory note in Item 20(1) above.

VI. AMENDMENTS TO PART 2A (SPECIFIC DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG)

VI(i) Amend Division 5 – Counterparty Credit Risk

Item 21. Amend section 16W (Analysis of counterparty default risk exposures, other than those to CCPs, by approaches—semi-annual disclosures)

Amendments to be made	Remarks (including references)
In the section heading, repeal "**counterparty default risk exposures**" and substitute "**counterparty credit risk exposures**".	The proposed amendment on the definition of "counterparty credit risk" in section 2(1) of the BCR will incorporate the content of the proposed repealed definition of "counterparty default risk".

Item 22. Amend section 16X (CVA capital charge—semi-annual disclosures)

Amendments to be made	Remarks (including references)
Repeal entire section 16X.	Section 16X of the BDR will be repealed and replaced by the new Division 7B of Part 2A of the BDR proposed in Items 33 to 39 below when the revised CVA risk framework comes into effect, tentatively at a date no earlier than 1 January 2024 to be specified by the MA in a gazette notice. Please refer to Items 33 to 39 below for detailed explanation.

Item 23. Amend section 16Y (STC approach or BSC approach: counterparty default risk exposures, other than those to CCPs, by asset classes and by risk-weights—semi-annual disclosures)

Amendments to be made	Remarks (including references)
In the section heading, repeal "**counterparty default risk exposures**" and substitute "**counterparty credit risk exposures**".	Please see explanatory note in Item 21 above.

Item 24. Amend section 16Z (IRB approach: counterparty default risk exposures, other than those to CCPs, by portfolio and PD scale—semi-annual disclosures)

Amendments to be made		Remarks (including references)
(1)	In the section heading, repeal "**counterparty default risk exposures**" and substitute "**counterparty credit risk exposures**".	Please see explanatory note in Item 21 above.
(2)	In paragraph (a), repeal "counterparty default risk capital requirements" and substitute "counterparty credit risk capital requirements".	Please see explanatory note in Item 21 above.

Item 25. Amend section 16ZA (Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)—semi-annual disclosures)

Amendments to be made		Remarks (including references)
(1)	In the section heading, repeal "**counterparty default risk exposures**" and substitute "**counterparty credit risk exposures**".	Please see explanatory note in Item 21 above.
(2)	In paragraph (a), repeal "counterparty default risk exposures" and substitute "counterparty credit risk exposures".	Please see explanatory note in Item 21 above.

VI(ii) Amend Division 7 – Market Risk

Item 26. Repeal Division 7 (Market Risk)

Amendments to be made	Remarks (including references)
Repeal the entire Division 7.	Division 7 will be repealed and substituted by a new Division 7A when the latter comes into effect, tentatively at a date no earlier than 1 January 2024 to be specified by the MA in a gazette notice which will be same as the effective date of the revised market risk framework. Please refer to Items 27 to 32 below for detailed explanation.

VI(iii) New Division 7A – Market Risk

Item 27. Add new Division 7A on Market Risk

Matters to be provided	Remarks (including references)
Add a new Division 7A with the following division heading: "**Division 7A—Market Risk**".	See Item 26 above. To add a new Division 7A to provide for the new and revised disclosure requirements for market risk.

Item 28. Add new section 16ZOA on qualitative disclosures related to market risk—annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOA along the following lines: "**Section 16ZOA. Qualitative disclosures related to market risk—annual disclosures** An authorized institution must disclose, for each annual reporting period, a description of its market risk management objectives and policies.".	Basel Framework reference: DIS50[18] – Table MRA Equivalent to existing section 16ZJ of the BDR which will be repealed under Item 26 above. The MA considers the drafting of the new section 16ZOA can be modelled on section 16ZJ of the BDR (to be repealed) as the content is sufficient and it is not necessary to make further amendments to cover the revised requirements in Table MRA.

[18] See https://www.bis.org/basel_framework/chapter/DIS/50.htm?inforce=20230101&published=20211111.

Item 29. Add new section 16ZOB on market risk under STM approach—semi-annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOB along the following lines: "**Section 16ZOB. Market risk under STM approach—semi-annual disclosures** An authorized institution using the STM approach to calculate part or all of its market risk capital charge must disclose, for each semi-annual reporting period— (a) the components of its market risk capital charge calculated using the STM approach; and (b) an explanation of any material changes in the components referred to in paragraph (a) during the semi-annual reporting period, including key drivers of those changes.".	Basel Framework reference: DIS50 – Template MR1 The MA considers that the drafting of the new section 16ZOB can be modelled on section 16ZL of the BDR (to be repealed) as the content with slight refinements is sufficient to cover the revised requirements in Template MR1.

Item 30. Add new section 16ZOC on additional qualitative disclosures for authorized institution using IMA—annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOC along the following lines: "**Section 16ZOC. Additional qualitative disclosures for authorized institution using IMA—annual disclosures** An authorized institution using the IMA to calculate part or all of its market risk capital charge must disclose, for each annual reporting period—	Basel Framework reference: DIS50 – Table MRB The new section 16ZOC is similar to section 16ZK of the BDR which will be repealed under Item 26 above. "IMA" refers to the

Matters to be provided	Remarks (including references)
(a) the scope and the main characteristics of the different models used for calculating the market risk capital charge; and (b) the key modelling choices adopted in respect of the models.".	internal models approach under the new market risk framework.

Item 31. Add new section 16ZOD on market risk under IMA—quarterly disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOD along the following lines: "**Section 16ZOD. Market risk under IMA—quarterly disclosures** An authorized institution using the IMA to calculate part or all of its market risk capital charge must disclose, for each quarterly reporting period— (a) the components of its market risk capital charge calculated using the IMA; (b) the corresponding components referred to in paragraph (a) for the immediately preceding quarterly reporting period; and (c) an explanation of any material changes in the components referred to in paragraph (a) during the quarterly reporting period, including key drivers of those changes.".	<u>Basel Framework reference:</u> DIS50 – Template MR2 To implement the revised BCBS requirement on the quarterly disclosure of (i) the components of market risk capital charge calculated using IMA for the quarterly reporting period; (ii) the corresponding figures for the last preceding quarterly reporting period; and (iii) the material changes.

Item 32. New section 16ZOE on market risk under SSTM approach—semi-annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOE along the following lines: "**Section 16ZOE. Market risk under SSTM approach—semi-annual disclosures** An authorized institution using the SSTM approach to calculate its market risk capital charges must disclose, for each semi-annual reporting period— (a) the components of its market risk capital charge calculated using the SSTM approach; and (b) an explanation of any material changes in the components referred to in paragraph (a) during the semi-annual reporting period, including key drivers of those changes.".	<u>Basel Framework reference:</u> DIS50 – Template MR3 To implement the new BCBS requirement on the semi-annual disclosure of the components of market risk capital charges calculated using the simplified standardized approach. "SSTM approach" refers to simplified standardized approach in the revised market risk framework.

VI(iv) New Division 7B – CVA Risk

Item 33. New Division 7B on CVA Risk

Matters to be provided	Remarks (including references)
Add a new Division 7B with the following division heading: "**Division 7B—CVA Risk**".	The revised risk disclosure requirements for CVA risk as set out in this new division will be implemented at a later stage concurrently with the implementation of the revised CVA risk framework in Hong Kong, at which point the revised requirements in this division will supersede

Matters to be provided	Remarks (including references)
	the corresponding current requirements prescribed in section 16X of the BDR. The MA expects the implementation date of the revised CVA risk framework as amended by the BCAR 2023 to be no earlier than 1 January 2024, depending on the implementation progress of other international jurisdictions.

Item 34. New section 16ZOF on qualitative disclosures related to CVA risk—annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOF along the following lines: "**Section 16ZOF. Qualitative disclosures related to CVA risk—annual disclosures** An authorized institution must disclose, for each annual reporting period, a description of its CVA risk management objectives and policies.".	Basel Framework reference: DIS51[19] – Table CVAA To implement the new BCBS requirement on the annual disclosure of qualitative information regarding the bank's CVA risk management objectives and policies.

[19] See https://www.bis.org/basel_framework/chapter/DIS/51.htm?inforce=20230101&published=20200327.

Item 35. New section 16ZOG on CVA risk under the reduced basic CVA approach—semi-annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOG along the following lines: "**Section 16ZOG. CVA risk under the reduced basic CVA approach—semi-annual disclosures** An authorized institution using the reduced basic CVA approach to calculate part or all of its CVA risk capital charge must disclose, for each semi-annual reporting period— (a) the components used for calculating the CVA risk capital charge under the reduced basic CVA approach; and (b) a description of the type of CVA risk hedges used by the institution, irrespective of whether the CVA risk hedges are eligible or not as set out in [ ][20].".	<u>Basel Framework reference:</u> DIS51 – Template CVA1 To implement the new BCBS requirement on the semi-annual disclosure of the components of a bank's CVA risk capital charge under the reduced basic CVA approach.

[20] Exact Part number will be inserted when available.

Item 36. New section 16ZOH on CVA risk under the full basic CVA approach—semi-annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOH along the following lines: "**Section 16ZOH. CVA risk under the full basic CVA approach—semi-annual disclosures** An authorized institution using the full basic CVA approach to calculate part or all of its CVA risk capital charge must disclose, for each semi-annual reporting period, the components used for calculating the CVA risk capital charge under the full basic CVA approach.".	Basel Framework reference: DIS51 – Template CVA2 To implement the new BCBS requirement on the semi-annual disclosure of the components of a bank's CVA risk capital charge under the full basic CVA approach.

Item 37. New section 16ZOI on qualitative disclosures related to CVA risk under the standardized CVA approach—annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOI along the following lines: "**Section 16ZOI. Qualitative disclosures related to CVA risk under the standardized CVA approach—annual disclosures** An authorized institution using the standardized CVA approach to calculate part or all of its CVA risk capital charge must disclose, for each annual reporting period, the main characteristics of its CVA risk management framework, including— (a) a description of the framework;	Basel Framework reference: DIS51 – Table CVAB To implement the new BCBS requirement on the annual disclosure for banks using the standardized CVA approach regarding their CVA risk management frameworks.

Matters to be provided	Remarks (including references)
(b) a description of senior management's involvement in the framework; and (c) an overview of the governance of the framework.".	

Item 38. New section 16ZOJ on CVA risk under the standardized CVA approach—semi-annual disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOJ along the following lines: "**Section 16ZOJ. CVA risk under the standardized CVA approach—semi-annual disclosures** An authorized institution using the standardized CVA approach to calculate part or all of its CVA risk capital charge must disclose, for each semi-annual reporting period, the components used for calculating the CVA risk capital charge under the standardized CVA approach.".	Basel Framework reference: DIS51 – Template CVA3 To implement the new BCBS requirement on the semi-annual disclosure of the components of a bank's CVA risk capital charge under the standardized CVA approach.

Item 39. New section 16ZOK on risk-weighted amount flow statements of CVA risk exposures under the standardized CVA approach—quarterly disclosures

Matters to be provided	Remarks (including references)
Add a new section 16ZOK along the following lines: "**Section 16ZOK. Risk-weighted amount flow statements of CVA risk exposures under the standardized CVA approach—quarterly disclosures** An authorized institution using the standardized CVA approach to calculate part or all of its CVA risk capital charge must disclose, for each quarterly reporting period— (a) a flow statement explaining changes in the risk-weighted amount for CVA risk determined under the standardized CVA approach; and (b) an explanation of any material changes in the risk-weighted amount referred to in paragraph (a) during the quarterly reporting period, including key drivers of such changes.".	Basel Framework reference: DIS51 – Template CVA4 To implement the new BCBS requirement on the quarterly disclosure for banks using the standardized CVA approach regarding the flow statement of their RWA variations over the quarterly reporting period.