Template TLAC1: LAC composition of resolution entity (at LAC consolidation group level)

Purpose:	To provide details of the composition of a resolution entity's external loss-absorbing capacity.
Scope of application:	This template is mandatory for all resolution entities under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules").
Content:	Carrying values (corresponding to the values reported in financial statements).
Frequency:	Semi-annual.
Format:	Fixed.
Accompanying narrative:	Resolution entities should supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such change(s). Qualitative narrative on the preferred resolution strategy covering the resolution entity, as identified by the resolution authority under rule 3 of the LAC Rules, may be included to facilitate understanding of the TLAC templates.
Corresponding LAC Rules rule	48

		(a)
		Amount
	Regulatory capital elements of external loss-absorbing capacity and adjustments	
1	Common Equity Tier 1 ("CET1") capital	
2	Additional Tier 1 ("AT1") capital before LAC adjustments	
3	AT1 capital instruments ineligible as external loss-absorbing capacity as issued by a member of the resolution entity's LAC consolidation group other than the resolution entity	
4	Other adjustments	
5	AT1 capital eligible under the LAC Rules	
6	Tier 2 ("T2") capital before LAC adjustments	
7	Amortized portion of T2 capital instruments that are external LAC debt instruments issued by the resolution entity	
8	T2 capital instruments ineligible as external loss-absorbing capacity as issued by a member of the resolution entity's LAC consolidation group other than the resolution entity	
9	Other adjustments	
10	T2 capital eligible under the LAC Rules	
11	**External loss-absorbing capacity arising from regulatory capital**	
	Non-regulatory capital elements of external loss-absorbing capacity	
12	External non-capital LAC debt instruments issued directly by the resolution entity and that meet subordination requirements set out in the LAC Rules	
13	External non-capital LAC debt instruments issued directly by the resolution entity and that do not meet subordination requirements but meet all other LAC eligibility requirements	Not applicable
14	Of which: amount eligible as external loss-absorbing capacity after application of the caps	Not applicable

		(a)
		Amount
15	External non-capital LAC debt instruments issued by funding vehicles prior to 1 January 2022	Not applicable
16	Eligible ex ante commitments to recapitalise a resolution entity in resolution	Not applicable
17	**External loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments**	
	Non-regulatory capital elements of external loss-absorbing capacity: adjustments	
18	**External loss-absorbing capacity before deductions**	
19	Deductions of exposures between the resolution entity's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for external loss-absorbing capacity	
20	Deduction of holdings of its own non-capital LAC liabilities	
21	Other adjustments to external loss-absorbing capacity	
22	**External loss-absorbing capacity after deductions**	
	Risk-weighted amount and exposure measure under the LAC Rules for external loss-absorbing capacity purposes	
23	Risk-weighted amount under the LAC Rules	
24	Exposure measure under the LAC Rules	
	External LAC ratios and buffers	
25	**External LAC risk-weighted ratio**	
26	**External LAC leverage ratio**	
27	**CET1 capital (as a percentage of RWA under the Banking (Capital) Rules ("BCR")) available after meeting the LAC consolidation group's minimum capital and LAC requirements**	
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA under the BCR)	
29	Of which: capital conservation buffer requirement	
30	Of which: institution-specific countercyclical capital buffer requirement	
31	Of which: higher loss absorbency requirement	

Points to note:

(i) *Under the BCBS's standards on Pillar 3 disclosure requirements – consolidated and enhanced framework (March 2017), template TLAC1 applies to the disclosure of loss-absorbing capacity composition at the resolution group level. In tailoring template TLAC1 for Hong Kong, the HKMA has made necessary adjustments so that the template applies to the disclosure of external loss-absorbing capacity composition at the LAC consolidation group level, instead of the resolution group level, to reflect that a requirement of a resolution entity to maintain, on a consolidated basis, its external LAC risk-weighted ratio or its external LAC leverage ratio at or above a specified minimum under the LAC Rules is imposed with respect to its LAC consolidation group.*

(ii) *Where the LAC consolidation group of the resolution entity under the LAC Rules is the same as the capital consolidation group, those rows that refer to regulatory capital before adjustments coincide with information provided under template CC1. Otherwise, the capital and RWA for regulatory capital purposes for a LAC consolidation group reported in this template will not directly correspond to the capital and RWA for regulatory capital purposes reported in template CC1.*

(iii) *The regulatory capital elements of external loss-absorbing capacity of a LAC consolidation group shall include only capital instruments issued by entities belonging to the LAC consolidation group. The external loss-absorbing capacity position is based on the risk-weighted amount under the LAC Rules (as set out in paragraph (a)(ii) or paragraph (b) (as the case requires) of the definition of "risk-weighted amount" under rule 2 of the LAC Rules) and exposure measure under the LAC Rules (as set out in paragraph (a)(ii) or paragraph (b) (as the case requires) of the*

	(a)
	Amount

definition of "exposure measure" under rule 2 of the LAC Rules) calculated at the level of the LAC consolidation group.

(iv) *Unless otherwise specified, any holdings of non-capital LAC liabilities issued by financial sector entities that are group companies that are not members of the resolution entity's LAC consolidation group which should be deducted from external loss-absorbing capacity under the LAC Rules are to be reported in row 19. If applicable, any holdings of non-capital LAC liabilities issued by such financial sector entities which should be deducted pursuant to the BCR (or, for a resolution entity that is not an AI, which should be deducted as if the BCR applied to it) should have been reflected in the figures reported for rows 1, 2, and 6 (i.e. the figures reported for rows 1, 2 and 6 should be net of such holdings), following BCR provisions governing the mechanism for deduction of the holdings, i.e. only the amount of such holdings which exceeds the sum of the non-capital LAC debt instruments issued by the resolution entity are deducted from its T2 capital, AT1 capital or CET1 capital, as applicable.*

(v) *In the case of a resolution entity that is an AI and whose LAC consolidation group is the same as its capital consolidation group, the resolution entity may, pursuant to rule 52(2) of the LAC Rules and subject to the specified conditions being met, set out figures for rows 28 to 31 in a separate document (e.g. a document for reporting under template KM1) that is signposted in this template, instead of reporting the figures in these rows in this template.*

(vi) *All figures should be reported in absolute amount regardless of whether the amount is to be added to or deducted from the total.*

(vii) *Where the functional currency of a resolution entity is a currency other than Hong Kong dollars and the resolution entity reports amounts in this template in Hong Kong dollars, the closing middle market T/T rates prevailing at the end of the current reporting period should be used for conversion purposes.*

(viii) *Regarding the shading:*

- *A row shaded dark grey introduces a new section detailing one of the main components of external loss-absorbing capacity.*
- *A row shaded light grey with no thick border reports the sum of the rows in the relevant section.*
- *A row shaded light grey with a thick border reports one of the main components of external loss-absorbing capacity*
- *A row shaded yellow identifies an item that is not applicable in Hong Kong.*

(ix) *The following table provides guidance in relation to each row of the above template.*

Explanatory Note	
Rows	
1	CET1 capital of the resolution entity, calculated as if the BCR applied to the entity with respect to its LAC consolidation group as defined in the LAC Rules.
2	AT1 capital before LAC adjustments of the resolution entity, calculated as if the BCR applied to the entity with respect to its LAC consolidation group as defined in the LAC Rules.
3	AT1 capital instruments issued by a member of the LAC consolidation group other than the resolution entity that do not count towards external loss-absorbing capacity pursuant to rule 37(a)(ii) of the LAC Rules. For a resolution entity whose LAC consolidation group is either the same as or referenced against its capital consolidation group for calculating regulatory capital, the amount is equal to that reported in row 34 in template CC1 if the latter is ineligible external loss-absorbing capacity according to rule 37(a)(ii) of the LAC Rules.
4	Other elements of AT1 capital that are ineligible as external loss-absorbing capacity (excluding those already incorporated in row 3). For example, any AT1 capital instrument that is not an external LAC debt instrument (i.e.

Explanatory Note	
	it does not meet all the qualifying criteria set out in Schedule 1 to the LAC Rules) under rule 37(a)(i) of the LAC Rules or any item of AT1 capital instrument that a resolution entity is required by the resolution authority to exclude from, or to discontinue inclusion in, the calculation of its external loss-absorbing capacity under rule 42 of the LAC Rules.
5	AT1 capital eligible to be included under the LAC Rules, calculated as the value in row 2 minus the values in rows 3 and 4.
6	Tier 2 capital before LAC adjustments of the resolution entity, calculated as if the BCR applied to the entity with respect to its LAC consolidation group as defined in the LAC Rules.
7	Amortized portion of T2 capital instruments that are external LAC debt instruments issued by the resolution entity. This row recognises that as long as a T2 capital instrument has more than one year of residual maturity as required under section 1(1)(e) of Schedule 1 to the LAC Rules, the full amount may be included in external loss-absorbing capacity, even if the instrument is partially derecognised from regulatory capital under the BCR due to the requirement to amortise the instrument in the five years before maturity. Only the amount not recognised in regulatory capital aforementioned but meeting all external loss-absorbing capacity eligibility criteria should be reported in this row.
8	T2 capital instruments issued by a member of the LAC consolidation group other than the resolution entity that do not count towards external loss-absorbing capacity under rule 37(a)(ii) of the LAC Rules. For a resolution entity whose LAC consolidation group is either the same as or referenced against its capital consolidation group for calculating regulatory capital, the amount is equal to that reported in row 48 of template CC1 if the latter is ineligible external loss-absorbing capacity according to rule 37(a)(ii) of the LAC Rules.
9	Other elements of T2 capital that are ineligible as external loss-absorbing capacity (excluding those already incorporated in row 8). For example, any T2 capital instrument that is not an external LAC debt instrument (i.e. it does not meet all the qualifying criteria set out in Schedule 1 to the LAC Rules) under rule 37(a)(i) of the LAC Rules or any item of T2 capital instrument that a resolution entity is required by the resolution authority to exclude from, or to discontinue inclusion in, the calculation of its external loss-absorbing capacity under rule 42 of the LAC Rules.
10	T2 capital eligible to be included under the LAC Rules, calculated as value in row 6, add the value in row 7, and then minus the values in rows 8 and 9.
11	External loss-absorbing capacity arising from regulatory capital, calculated as the sum of values in rows 1, 5 and 10.
12	External non-capital LAC debt instruments issued directly by the resolution entity and that meet the subordination requirements set out in section 1(1)(i) of Schedule 1 to the LAC Rules, after eliminating any fair value gains or losses on those instruments resulting from changes in the resolution entity's own credit risk as described in BCR §38(2)(b) and included in row 14 in Template CC1.

Explanatory Note	
13	The subordination exemptions in Section 11 of the FSB TLAC Term Sheet that relate to liabilities that rank pari passu with excluded liabilities do not apply in Hong Kong under the LAC Rules.
14	The subordination exemptions in Section 11 of the FSB TLAC Term Sheet that relate to liabilities that rank pari passu with excluded liabilities do not apply in Hong Kong under the LAC Rules.
15	The exemptions for instruments issued by funding vehicles in Section 8 of the FSB TLAC Term Sheet do not apply in Hong Kong under the LAC Rules.
16	The provision for ex ante commitments to recapitalise a resolution entity to count towards TLAC requirements as set out in Section 7 of the FSB TLAC Term Sheet do not apply in Hong Kong under the LAC Rules.
17	External loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments. The value in row 17 is the same as the value in row 12.
18	External loss-absorbing capacity before adjustments, calculated as the sum of values in rows 11 and 17.
19	Deductions of exposures between the resolution entity's LAC consolidation group and group companies outside that group that correspond to items eligible for external loss-absorbing capacity. This row reports the amount of holdings of non-capital LAC liabilities issued by financial sector entities that are group companies that are not members of the resolution entity's LAC consolidation group, calculated in accordance with rule 38(1)(b) of, and Schedule 4 to, the LAC Rules.
20	Deductions of holdings of its own non-capital LAC liabilities. This row reports the amount to be deducted from the resolution entity's external loss-absorbing capacity resources in accordance with rule 38(1)(a) of, and Schedule 4 to, the LAC Rules.
21	Other adjustments to external loss-absorbing capacity. For example, any item of non-capital LAC liabilities that the resolution entity is required by the resolution authority to exclude from, or to discontinue inclusion in, the calculation of its external loss-absorbing capacity under rule 42 of the LAC Rules.
22	External loss-absorbing capacity of the resolution entity at the LAC consolidation group level after deductions, calculated as the value in row 18 minus the sum of values in rows 19, 20 and 21.
23	Risk-weighted amount under the LAC Rules of the resolution entity at the LAC consolidation group level. For a resolution entity whose LAC consolidation group is the same as its capital consolidation group for calculating regulatory capital and which does not have items deducted from its external loss-absorbing capacity in accordance with rule 38 of the LAC Rules (save in cases that there is a variation in the methodology applied in determining the risk-weighted amount under the LAC Rules further to written approval by the resolution authority under rule 15(4) or rule 16(4) of the LAC Rules), the amount reported in this row will be equal to that in row 60 of template CC1.
24	Exposure measure under the LAC Rules of the resolution entity at the LAC consolidation group level.
25	External LAC risk-weighted ratio, calculated as the value in row 22 divided by that in row 23.

Explanatory Note	
26	External LAC leverage ratio, calculated as the value in row 22 divided by that in row 24.
27	(Not applicable for a resolution entity that is not an AI). The resolution entity's CET1 ratio available after meeting its minimum capital requirements and LAC requirements, calculated as the ratio of (a) its CET1 less any common equity used to meet CET1, Tier 1, total minimum capital and LAC requirements; to (b) its RWA under the BCR. For example, suppose the LAC consolidation group of a resolution entity has 100 risk-weighted amount, 10 CET1 capital and 1.5 AT1 capital (both assumed to be eligible as loss-absorbing capacity), no T2 capital and 9 external non-capital LAC debt instruments, its pillar 2A requirement is 1%, and the Monetary Authority does not exercise his powers under rule 19(2) of the LAC Rules to vary the resolution component ratio. The resolution entity will have to earmark its CET1 capital to meet the 8% minimum capital requirement and 18% LAC requirement (i.e. 2 times of minimum capital requirement and pillar 2A requirements). The net CET1 capital left to meet other requirements (which could include Pillar 2 or buffers) will be 10 – 4.5 – 2 – 1 = 2.5.
28	(Only applicable to a resolution entity that is an AI and whose LAC consolidation group is the same as its capital consolidation group). Institution-specific buffer requirements, calculated as the sum of: (i) the capital conservation buffer requirement; (ii) the countercyclical capital buffer requirement; and (iii) the higher loss absorbency requirement, in each case calculated as if the BCR applied to the resolution entity at the LAC consolidation group level. The value reported in this row should be equal to the sum of values for capital conservation buffer requirement, countercyclical capital buffer requirement and higher loss absorbency requirement reported in row 11 of template KM1.
29	(Only applicable to a resolution entity that is an AI and whose LAC consolidation group is the same as its capital consolidation group). The portion of the amount in row 28 (expressed as a percentage of the RWA under the BCR) that relates to the capital conservation buffer requirement. The value reported in this row should be equal to the value for capital conservation buffer requirement reported in row 8 of template KM1.
30	(Only applicable to a resolution entity that is an AI and whose LAC consolidation group is the same as its capital consolidation group). The portion of the amount in row 28 (expressed as a percentage of the RWA under the BCR) that relates to the countercyclical capital buffer requirement. The value reported in this row should be equal to the value for countercyclical capital buffer requirement reported in row 9 of template KM1.
31	(Only applicable to a resolution entity that is an AI and whose LAC consolidation group is the same as its capital consolidation group). The portion of the amount in row 28 (expressed as a percentage of the RWA under the BCR) that relates to the higher loss absorbency requirement. The value reported in this row should be equal to the value for higher loss absorbency requirement reported in row 10 of template KM1.

Template TLAC1(A): LAC composition of material subsidiary (at LAC consolidation group level)

Purpose:	To provide details of the composition of a material subsidiary's internal loss-absorbing capacity.
Scope of application:	This template is mandatory for all material subsidiaries under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules").
Content:	Carrying values (corresponding to the values reported in financial statements).
Frequency:	Semi-annual.
Format:	Fixed.
Accompanying narrative:	Material subsidiaries should supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such change(s). Qualitative narrative on the preferred resolution strategy covering the material subsidiary, as identified by the resolution authority under rule 3 of the LAC Rules, may be included to facilitate understanding of the TLAC templates.
Corresponding LAC Rules rule	48

		(a)
		Amount
	Regulatory capital elements of internal loss-absorbing capacity and adjustments	
1	Common Equity Tier 1 ("CET1") capital	
2	Additional Tier 1 ("AT1") capital before LAC adjustments	
3	AT1 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	
4	Other adjustments	
5	AT1 capital eligible under the LAC Rules	
6	Tier 2 ("T2") capital before LAC adjustments	
7	Amortized portion of T2 capital instruments that are internal LAC debt instruments issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	
8	T2 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	
9	Other adjustments	
10	T2 capital eligible under the LAC Rules	
11	**Internal loss-absorbing capacity arising from regulatory capital**	
	Non-regulatory capital elements of internal loss-absorbing capacity	
12	Internal non-capital LAC debt instruments issued directly or indirectly to, and held indirectly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	

		(a)
		Amount
17	**Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments**	
	Non-regulatory capital elements of internal loss-absorbing capacity: adjustments	
18	**Internal loss-absorbing capacity before deductions**	
19	Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for internal loss-absorbing capacity	
20	Deduction of holdings of its own non-capital LAC liabilities	
21	Other adjustments to internal loss-absorbing capacity	
22	**Internal loss-absorbing capacity after deductions**	
	Risk-weighted amount and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes	
23	Risk-weighted amount under the LAC Rules	
24	Exposure measure under the LAC Rules	
	Internal LAC ratios and buffers	
25	**Internal LAC risk-weighted ratio**	
26	**Internal LAC leverage ratio**	
27	**CET1 capital (as a percentage of RWA under the Banking (Capital) Rules ("BCR")) available after meeting the LAC consolidation group's minimum capital and LAC requirements**	
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA under the BCR)	
29	Of which: capital conservation buffer requirement	
30	Of which: institution-specific countercyclical capital buffer requirement	
31	Of which: higher loss absorbency requirement	

Points to note:

(i) *Under the BCBS's standards on Pillar 3 disclosure requirements – consolidated and enhanced framework (March 2017), template TLAC1 applies to the disclosure of loss-absorbing capacity composition at the resolution group level. The disclosure requirements under the LAC Rules apply to a disclosure entity, including a material subsidiary. In designing template TLAC1(A) for Hong Kong by modelling template TLAC1, the HKMA has made necessary adjustments so that template TLAC1(A) applies to the disclosure of internal loss-absorbing capacity composition at the LAC consolidation group level to reflect that a requirement of a material subsidiary to maintain, on a consolidated basis, its internal LAC risk-weighted ratio or its internal LAC leverage ratio at or above a specified minimum under the LAC Rules is imposed with respect to its LAC consolidation group.*

(ii) *The regulatory capital elements of internal loss-absorbing capacity of a LAC consolidation group shall include only capital instruments issued by entities belonging to the LAC consolidation group. The internal loss-absorbing capacity position is based on the risk-weighted amount under the LAC Rules (as set out in paragraph (a)(ii) or paragraph (b) (as the case requires) of the definition of "risk-weighted amount" under rule 2 of the LAC Rules) and exposure measure under the LAC Rules (as set out in paragraph (a)(ii) or paragraph (b) (as the case requires) of the definition of "exposure measure" under rule 2 of the LAC Rules) calculated at the level of the LAC consolidation group.*

(iii) *Unless otherwise specified, any holdings of non-capital LAC liabilities issued by financial sector entities that are group companies that are not members of the material subsidiary's LAC consolidation group which should be deducted from internal loss-absorbing capacity under the LAC Rules are to be reported in row 19. If applicable, any holdings of non-capital LAC liabilities issued by such financial sector entities which should be deducted pursuant to the BCR (or, for a material subsidiary that is not an AI, which should be deducted as if the BCR applied*

	(a)
	Amount

to it) should have been reflected in the figures reported for rows 1, 2 and 6 (i.e. the figures reported for rows 1, 2 and 6 should be net of such holdings), following BCR provisions governing the mechanism for deduction of the holdings, i.e. only the amount of such holdings which exceeds the sum of the non-capital LAC debt instruments issued by the material subsidiary are deducted from its T2 capital, AT1 capital or CET1 capital, as applicable.

(iv) In the case of a material subsidiary that is an AI and whose LAC consolidation group is the same as its capital consolidation group, the material subsidiary may, pursuant to rule 52(2) of the LAC Rules and subject to the specified conditions being met, set out figures for rows 28 to 31 in a separate document (e.g. a document for reporting under template KM1) that is signposted in this template, instead of reporting the figures in these rows in this template.

(v) All figures should be reported in absolute amount regardless of whether the amount is to be added to or deducted from the total.

(vi) Where the functional currency of a material subsidiary is a currency other than Hong Kong dollars and the material subsidiary reports amounts in this template in Hong Kong dollars, the closing middle market T/T rates prevailing at the end of the current reporting period should be used for conversion purposes.

(vii) Regarding the shading:

- *A row shaded dark grey introduces a new section detailing one of the main components of internal loss-absorbing capacity.*
- *A row shaded light grey with no thick border reports the sum of the rows in the relevant section.*
- *A row shaded light grey with a thick border reports one of the main components of internal loss-absorbing capacity*

(viii) The following table provides guidance in relation to each row of the above template.

Explanatory Note	
Rows	
1	CET1 capital of the material subsidiary, calculated as if the BCR applied to the entity with respect to its LAC consolidation group as defined in the LAC Rules.
2	AT1 capital before LAC adjustments of the material subsidiary, calculated as if the BCR applied to the entity with respect to its LAC consolidation group as defined in the LAC Rules.
3	AT1 capital instruments not issued directly to or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group that do not count towards internal loss-absorbing capacity pursuant to rule 39(a)(ii) of the LAC Rules, but otherwise fulfil all the qualifying criteria set out in Schedule 2 to the LAC Rules.
4	Other elements of AT1 capital that are ineligible as internal loss-absorbing capacity (excluding those already incorporated in row 3). For example, any AT1 capital instrument that is not an internal LAC debt instrument (i.e. it does not meet all the qualifying criteria set out in Schedule 2 to the LAC Rules) under rule 39(a)(i) of the LAC Rules or any item of AT1 capital instrument that a material subsidiary is required by the resolution authority to exclude from, or to discontinue inclusion in, the calculation of its internal loss-absorbing capacity under rule 42 of the LAC Rules.
5	AT1 capital eligible to be included under the LAC Rules, calculated as the value in row 2 minus the values in rows 3 and 4.

Explanatory Note	
6	Tier 2 capital before LAC adjustments of the material subsidiary, calculated as if the BCR applied to the entity with respect to its LAC consolidation group as defined in the LAC Rules.
7	Amortized portion of T2 capital instruments that are internal LAC debt instruments issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group. This row recognises that as long as a T2 capital instrument has more than one year of residual maturity as required under section 1(1)(d) of Schedule 2 to the LAC Rules, the full amount may be included in internal loss-absorbing capacity, even if the instrument is partially derecognised from regulatory capital under the BCR due to the requirement to amortise the instrument in the five years before maturity. Only the amount not recognised in regulatory capital aforementioned but meeting all internal loss-absorbing capacity eligibility criteria should be reported in this row.
8	T2 capital instruments not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group that do not count towards internal loss-absorbing capacity under rule 39(a)(ii) of the LAC Rules, but otherwise fulfil all the qualifying criteria set out in Schedule 2 to the LAC Rules.
9	Other elements of T2 capital that are ineligible as internal loss-absorbing capacity (excluding those already incorporated in row 8). For example, any T2 capital instrument that is not an internal LAC debt instrument (i.e. it does not meet all the qualifying criteria set out in Schedule 2 to the LAC Rules) under rule 39(a)(i) of the LAC Rules or any item of T2 capital instrument that a material subsidiary is required by the resolution authority to exclude from, or to discontinue inclusion in, the calculation of the internal loss-absorbing capacity of the material subsidiary under rule 42 of the LAC Rules.
10	T2 capital eligible to be included under the LAC Rules, calculated as value in row 6, add the value in row 7, and then minus the values in rows 8 and 9.
11	Internal loss-absorbing capacity arising from regulatory capital, calculated as the sum of values in rows 1, 5 and 10.
12	Internal non-capital LAC debt instruments issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group, counting towards internal loss-absorbing capacity under rule 39(c) of the LAC Rules, after eliminating any fair value gains or losses on those instruments resulting from changes in the material subsidiary's own credit risk as described in BCR §38(2)(b) and included in row 14 in Template CC1.
17	Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments. The value in row 17 will be the same as the value reported in row 12.
18	Internal loss-absorbing capacity before adjustments, calculated as the sum of values in rows 11 and 17.
19	Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to items eligible for internal loss-absorbing capacity. This row reports the amount of holdings of non-capital LAC liabilities issued by financial sector entities that are group companies that

Explanatory Note	
	are not members of the material subsidiary's LAC consolidation group, calculated in accordance with rule 40(1)(b) of, and Schedule 4 to, the LAC Rules.
20	Deductions of holdings of its own non-capital LAC liabilities. This row reports the amount to be deducted from the material subsidiary's internal loss-absorbing capacity resources in accordance with rule 40(1)(a) of, and Schedule 4 to, the LAC Rules.
21	Other adjustments to internal loss-absorbing capacity. For example, any item of non-capital LAC liabilities that the material subsidiary is required by the resolution authority to exclude from, or to discontinue inclusion in, the calculation of its internal loss-absorbing capacity under rule 42 of the LAC Rules.
22	Internal loss-absorbing capacity of the material subsidiary at the LAC consolidation group level after deductions, calculated as the value in row 18 minus the sum of values in rows 19, 20 and 21.
23	Risk-weighted amount under the LAC Rules of the material subsidiary at the LAC consolidation group level. For a material subsidiary whose LAC consolidation group is the same as its capital consolidation group for calculating regulatory capital and which does not have items deducted from its internal loss-absorbing capacity in accordance with rule 40 of the LAC Rules (save in cases that there is a variation in the methodology applied in determining the risk-weighted amount under the LAC Rules further to written approval by the resolution authority under rule 15(4) or rule 16(4) of the LAC Rules), the amount reported in this row will be equal to that in row 60 of template CC1.
24	Exposure measure under the LAC Rules of the material subsidiary at the LAC consolidation group level..
25	Internal LAC risk-weighted ratio, calculated as the value in row 22 divided by that in row 23.
26	Internal LAC leverage ratio, calculated as the value in row 22 divided by that in row 24.
27	(Not applicable for a material subsidiary that is not an AI). The material subsidiary's CET1 ratio available after meeting its minimum capital requirements and LAC requirements, calculated as the ratio of (a) its CET1 less any common equity used to meet CET1, Tier 1, total minimum capital and LAC requirements; to (b) its RWA under the BCR. For example, suppose the LAC consolidation group of a material subsidiary has 100 risk-weighted amount, 10 CET1 capital and 1.5 AT1 capital (both assumed to be eligible as loss-absorbing capacity), no T2 capital and 5 internal non-capital LAC debt instruments, its pillar 2A requirement is 1%, its internal LAC scalar is 75% as the Monetary Authority does not exercise his powers under rule 26(2) to vary the internal LAC scalar, and the Monetary Authority does not exercise his powers under rule 19(2) of the LAC Rules to vary the resolution component ratio. The material subsidiary will have to earmark its CET1 capital to meet the 8% minimum capital requirement and 13.5% LAC requirement (i.e. 2 times of minimum capital requirement and pillar 2A requirements, multiplied with an internal LAC scalar of 75%). The net CET1 capital left to meet other requirements (which could include Pillar 2 or buffers) will be 10 – 4.5 – 2 – 0.5 = 3.
28	(Only applicable to a material subsidiary that is an AI and whose LAC consolidation group is the same as its capital consolidation group). Institution-specific buffer requirements, calculated as the sum of: (i) the capital

Explanatory Note	
	conservation buffer requirement; (ii) the countercyclical capital buffer requirement; and (iii) the higher loss absorbency requirement, in each case calculated as if the BCR applied to the material subsidiary at the LAC consolidation group level. The value reported in this row should be equal to the sum of values for capital conservation buffer requirement, countercyclical capital buffer requirement and higher loss absorbency requirement reported in row 11 of template KM1.
29	(Only applicable to a material subsidiary that is an AI and whose LAC consolidation group is the same as its capital consolidation group). The portion of the amount in row 28 (expressed as a percentage of the RWA under the BCR) that relates to the capital conservation buffer requirement. The value reported in this row should be equal to the value for capital conservation buffer requirement reported in row 8 of template KM1.
30	(Only applicable to a material subsidiary that is an AI and whose LAC consolidation group is the same as its capital consolidation group). The portion of the amount in row 28 (expressed as a percentage of the RWA under the BCR) that relates to the countercyclical capital buffer requirement. The value reported in this row should be equal to the value for countercyclical capital buffer requirement reported in row 9 of template KM1.
31	(Only applicable to a material subsidiary that is an AI and whose LAC consolidation group is the same as its capital consolidation group). The portion of the amount in row 28 (expressed as a percentage of the RWA under the BCR) that relates to the higher loss absorbency requirement. The value reported in this row should be equal to the value for higher loss absorbency requirement reported in row 10 of template KM1.