Our Ref.: B1/15C

29 May 2026

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Good practices on market risk capital charge calculation and related risk management

I am writing to share good industry practices that the Hong Kong Monetary Authority (HKMA) observed from its thematic reviews of authorized institutions (AIs) regarding their market risk capital charge (MRCC) calculation and related risk management for implementing the Basel III final reform package (B3F).

The HKMA observed from recent thematic reviews that many AIs have enhanced their market risk systems and control processes along the implementation of the revised capital standards. In particular, having a robust market risk management framework enables an AI to effectively identify, measure and monitor its market risk exposures, contributing to complete, accurate and consistent calculation of the MRCC. Key good industry practices are shared below:

1. **New product approval process embedding MRCC –** Adopting a robust new product approval process for identifying risks arising from trading and holding financial instruments. By comprehensively assessing the applicability of various MRCC components under the B3F to their new products, the AIs are able to capture all relevant capital charges in the calculation, including sensitivity-based method capital charge, residual risk add-on and standardized default risk charge.

2. **Granular product taxonomy** – Establishing and maintaining a granular product taxonomy for risk management and oversight. Many AIs have systematically classified financial instruments based on the instruments' characteristics and provided a clear mapping of each instrument to the MRCC components. Some AIs have also set out clear policies and procedures for timely updates and regular reviews of their product taxonomies such that they would remain accurate and appropriate over time.

3. **Robust proxy booking management** – Proper use of proxy booking to address limitations on pricing model capability and market data. In the selection and application of proxy methods, many AIs have conducted comprehensive analyses to substantiate the chosen methods and assess the associated impact on the MRCC. In addition, some AIs have made adjustments to the capital charge calculated under proxy booking in order that the resulting MRCC would be sufficiently conservative.

Details of the good industry practices and key observations can be found in the **Annex**. AIs should review respective MRCC calculation processes and market risk management frameworks, giving due consideration to good practices and observations as shared, and make enhancement as appropriate.

For any questions, please contact us at b3f_implementation@hkma.gov.hk.

Yours faithfully,

Carmen Chu
Executive Director (Banking Supervision)

Encl.