HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

25 May 2007

Implementation guidance on Banking (Capital) Rules

Our Ref.: B9/75C
B1/15C

25 May 2007

The Chief Executive
All locally incorporated authorized institutions

Dear Sir/Madam,

Implementation guidance on Banking (Capital) Rules

I am pleased to inform you that we have developed a set of questions and answers ("Q&As") to assist AIs in understanding the approach being taken by the Monetary Authority to implementing the Banking (Capital) Rules ("the Rules") which came into effect on 1 January 2007. A copy of the Q&As is attached.

As you are aware, the Rules provide a spectrum of approaches for the calculation of credit risk, market risk and operational risk under the revised capital adequacy framework. These approaches range from the relatively simple and straightforward calculation approaches (i.e. basic and standardized approaches for the calculation of credit risk and operational risk) to some highly sophisticated ones which rely on the use of internal rating systems, financial formulae or statistical models (e.g. the various IRB calculation approaches for non-securitization exposures, the supervisory formula method for securitization exposures and the internal models approach for market risk exposures). Given the complexity of, and the greater industry demand for clarification on, these sophisticated approaches, we believe that it would be useful to provide specific guidance on the Rules, in the form of Q&As, in relation to the following areas:

(i) the calculation of credit risk for non-securitization exposures under the IRB approach (i.e. Part 2, Part 6 and Schedule 2);

(ii) the calculation of credit risk for securitization exposures (i.e. Part 2, Part 7, Schedule 9 and Schedule 10); and

(iii) the calculation of market risk (i.e. Part 2, Part 8 and Schedule 3).

The Q&As mainly cover various issues and enquiries pertaining to the above-mentioned areas that have arisen during the consultation and rule-making processes undertaken in respect of the Rules, as well as relevant information included in the consultative proposals and other guidance issued by the HKMA as part of those processes and the publications of the Basel Committee on Banking Supervision ("BCBS"). The Q&As are therefore explanatory in nature, without seeking to introduce any new requirements or replace any of those specified in the Rules. It should also be noted that the answers given in the Q&As are general in their scope and do not take into account the particular circumstances of individual AIs. As such, reading the Q&As is no substitute for reading the Rules themselves or obtaining, where necessary, legal and other professional advice on particular aspects of the Rules.

To make the Q&As more user-friendly, they are drafted in simple, non-legal language as far as possible and are organised by subject, with an introduction to describe their scope and purposes and explain how they can be used in general. To enable easy access by AIs, we have set up a web-based version of the Q&As under the icon of Basel II in the HKMA's public website (www.hkma.gov.hk), with built-in hyperlinks to facilitate cross-referencing to other documents issued by the HKMA and the BCBS.

We will keep under review the need to update or add to the Q&As, or provide other forms of guidance as appropriate, having regard to AIs' practical implementation of the Rules, any issues arising therefrom and further guidance issued by the BCBS in the future.

Should you have any questions on this letter, please contact Mr Angus Chan at 2878-1287 or Miss Kennis Hui at 2878-1626.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

Encl. Questions and Answers (PDF file, 500KB)

c.c. The Chairman, Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Angelina Kwan)

Last revision date : 01 August 2011