

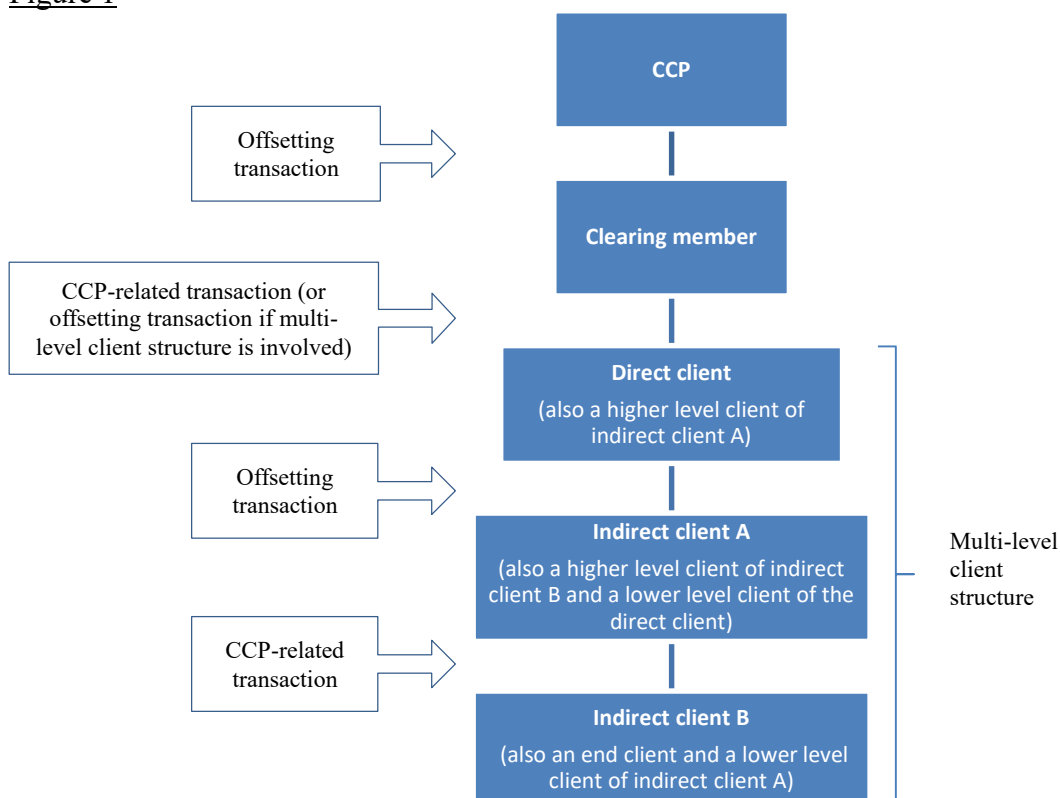
Completion Instructions

Return of Capital Adequacy Ratio Part IIIe – Risk-weighted Amount for Exposures to Central Counterparties Form MA(BS)3(IIIe)

Introduction

1. Form MA(BS)3(IIIe) of Part III should be completed by each authorized institution (AI) incorporated in Hong Kong regardless of the approach adopted by the AI for calculating its **credit risk** for **non-securitization exposures**.
2. This Form captures credit exposures to **central counterparties** (CCPs) calculated under Division 4 of Part 6A of the Banking (Capital) Rules (BCR). This Form and its completion instructions should be read in conjunction with the BCR and the relevant supervisory policy/guidance related to the capital adequacy framework. Figure 1¹ should be referred to when reading instructions related to **multi-level client structure**.

Figure 1



¹ The structure shown in Figure 1 is only a hypothetical case for ease of cross-referencing and is not meant to represent any typical or existing indirect clearing structure.

3. This Form is divided into two divisions:
 - (a) Division A is for reporting the reporting AI's credit exposures to CCPs arising from **default fund contributions**; and
 - (b) Division B is for reporting the reporting AI's credit exposures to CCPs set out in paragraph 4 below by reference to the role played by the AI in respect of the centrally cleared transactions concerned.
4. **Exposures covered by Division B of this Form**
 - (a) Reporting AI as **clearing member** of a CCP
 - (i) The AI's **default risk exposures** to the CCP in respect of **derivative contracts** and **securities financing transactions** (SFTs) entered into with the CCP for the AI's own purposes.
 - (ii) The AI's default risk exposures to the CCP in respect of **offsetting transactions** entered into with the CCP in the capacity of a **clearing intermediary** between the CCP and the AI's **direct clients** if the AI is obliged to reimburse the direct clients for any loss suffered by them due to changes in the value of their transactions in the event that the CCP defaults.
 - (iii) The AI's default risk exposures to the CCP arising from guarantees provided by the AI to its direct clients for any loss due to changes in the value of the direct clients' transactions in the event that the CCP defaults.
 - (b) Reporting AI as **direct client of a clearing member** of a CCP
 - (i) Exposures listed below if they are eligible for being risk-weighted in a manner as if they were default risk exposures to **qualifying CCPs** (QCCPs) under section 226ZA(3) or (4) or section 226ZB(2) or (3) of the BCR—
 - (A) the AI's default risk exposures in respect of **CCP-related transactions** entered into with the clearing member in the capacity of an **end client**;
 - (B) the AI's default risk exposures in respect of offsetting transactions entered into with the clearing member in the capacity of a clearing intermediary within a multi-level client structure; and
 - (C) the AI's default risk exposures in respect of transactions entered into with the CCP under which the AI's performance is guaranteed by the clearing member.
 - (c) Reporting AI as **indirect client and clearing intermediary** within a multi-level client structure (e.g. indirect client A in Fig. 1)

- (i) The AI's default risk exposures in respect of offsetting transactions entered into with a **higher level client** within the structure (e.g. the direct client in Fig. 1) if such exposures are eligible for being risk-weighted in a manner as if they were default risk exposures to QCCPs under section 226ZBA(5)(a) or (b) of the BCR.
- (d) Reporting AI as indirect client and end client (e.g. indirect client B in Fig. 1) within a multi-level client structure
 - (i) The AI's default risk exposures in respect of CCP-related transactions entered into with a higher level client within the structure (e.g. indirect client A in Fig. 1) if such exposures are eligible for being risk-weighted in a manner as if they were default risk exposures to QCCPs under section 226ZBA(5)(a) or (b) of the BCR.
- (e) Regardless of the role played by the reporting AI, its credit exposures to a CCP arising from any **unsegregated collateral** posted by the AI and held by the CCP where neither of the following is true—
 - (i) the collateral is included as part of the AI's default risk exposures to the CCP under section 226V(2)(a) of the BCR;
 - (ii) the collateral is included as part of the AI's default risk exposures to the CCP under Division 1A, 2, 2A or 2B of Part 6A of the BCR.

5. Exposures not covered by this Form

This Form does not cover the following exposures which should be risk-weighted in accordance with Part 4, 5 or 6 of the BCR and reported in Form MA(BS)3(IIIa), (IIIb) or (IIIc), as the case requires—

- (a) credit exposures arising from delayed or failed settlement of—
 - (i) cash transactions in securities (other than **repo-style transactions**);
 - (ii) cash transactions in foreign exchange or commodities; and
 - (iii) cash-settled derivative contracts;
- (b) if the reporting AI is a clearing member of a CCP, its default risk exposures in respect of—
 - (i) **offsetting transactions and** CCP-related transactions entered into with its direct clients; and
 - (ii) guarantees provided by the AI to the CCP on the performance of its direct clients;
- (c) if the reporting AI is a direct client of a clearing member of a CCP (regardless of whether the clearing member acts as a clearing intermediary or guarantees the AI's transactions with the CCP)—

- (i) the AI's exposures to the clearing member mentioned in paragraph 4(b)(i)(A), (B) and (C) above if they are not eligible for being risk-weighted in a manner as if they were default risk exposures to QCCPs under sections 226ZA(3) or (4) or section 226ZB(2) or (3) of the BCR; and
 - (ii) the AI's default risk exposures in respect of offsetting transactions or CCP-related transactions entered into with a **lower level client** within a multi-level client structure (e.g. indirect client A in Fig. 1);
- (d) if the reporting AI is an indirect client and a clearing intermediary within a multi-level client structure (e.g. indirect client A in Fig. 1)—
- (i) the AI's exposures mentioned in paragraph 4(c)(i) above if they are not eligible for being risk-weighted in a manner as if they were default risk exposures to QCCPs under section 226ZBA(5)(a) or (b) of the BCR; and
 - (ii) the AI's default risk exposures in respect of offsetting transactions or CCP-related transactions entered into with a lower level client within the structure (e.g. indirect client B in Fig. 1);
- (e) if the reporting AI is an indirect client and end client within a multi-level client structure (e.g. indirect client B in Fig. 1)—
- (i) the AI's exposures mentioned in paragraph 4(d)(i) above if they are not eligible for being risk-weighted in a manner as if they were default risk exposures to QCCPs under section 226ZBA(5)(a) or (b) of the BCR;
- (f) if—
- (i) the reporting AI has posted unsegregated collateral with a CCP, a clearing member or a higher level client;
 - (ii) the collateral is held by a person other than the CCP; and
 - (iii) the collateral is not included as part of the AI's default risk exposures to the CCP, clearing member or higher level client under section 226V(2)(a) and Division 1A, 2, 2A or 2B of Part 6A of the BCR,
- the credit exposures to that person in respect of the unsegregated collateral.

6. The transactions mentioned in paragraph 5(b), (c), (d) and (e) above are also subject to **CVA capital charge**. Reporting AIs should calculate the CVA capital charge for these transactions in accordance with Division 3 of Part 6A of the BCR and report the amount in Form MA(BS)3(III f).

Section A: Definitions and General Instructions

7. If a CCP is no longer qualified as a QCCP, a reporting AI may, unless otherwise instructed by the Monetary Authority, within 3 months from the date the CCP

lost its QCCP status, continue to calculate the risk-weighted amounts of its default fund contribution and default risk exposures to the CCP as if the CCP were a QCCP. When the 3-month period expires, the AI should calculate the risk-weighted amounts of its exposures to the CCP in accordance with the requirements applicable to a **non-qualifying CCP** (non-QCCP).

8. In Division B of this Form—

(a) “Principal Amount”—

- (i) in the case of derivative contracts, means the **nominal notional amounts** of the contracts, which should not be confused with any effective notional amount or adjusted notional calculated for the contracts under Part 6A of the BCR. The amount reported should be the gross sum of the nominal notional amounts of the contracts (which is the sum of the nominal notional amounts of the contracts, without the nominal notional amounts of contracts with positive replacement costs being reduced by the nominal notional amounts of contracts with negative or zero replacement costs, regardless of whether the contracts are subject to **recognized netting**);
 - (ii) in the case of SFTs, means the **principal amounts** (within the meaning of section 226MG of the BCR) of—
 - (A) any securities sold or lent to counterparties by the reporting AI under the SFTs;
 - (B) any money paid or lent to counterparties by the reporting AI under the SFTs; and
 - (C) any securities or money provided to counterparties as collateral by the reporting AI under the SFTs; and
 - (iii) in the case of **unsegregated collateral** posted, means the **amount calculated in accordance with section 71(2), 118(2), 163(2A) or 164(2)(b) of the BCR, as the case requires.**
- (b) “**Non-IMM(CCR) Default Risk Exposure**”, in relation to derivative contracts and SFTs for which the reporting AI does not have an **IMM(CCR) approval** or for which the reporting AI is permitted under section 10B(5) or (7) of the BCR not to use the **IMM(CCR) approach**, means—
- (i) the **outstanding default risk exposure** of the derivative contracts calculated by using the **current exposure method** or **SA-CCR approach**; or
 - (ii) the default risk exposure of the SFTs calculated under **Division 2B of Part 6A of the BCR.**
- (c) “**IMM(CCR) Default Risk Exposure**”, in relation to derivative contracts and SFTs for which the reporting AI has an IMM(CCR) approval, means

the outstanding default risk exposure of the derivative contracts and the default risk exposure of the SFTs calculated by using the IMM(CCR) approach.

(d) “**Collateral posted Principal Amount**” means the total principal amount of the credit exposures mentioned in paragraph 4(e) above (e.g. unsegregated collateral held by a CCP for purposes other than securing the default risk exposures in respect of contracts or transactions of the AI cleared by the CCP), and does not include **variation margins** mentioned in paragraph 9 below.

(e) “Total Exposure After CRM” means—

(i) subject to subparagraphs (ii) and (iii)—

(A) in the case of items 1b, 3b and 3c—the total of the amounts reported in columns (B2) and (B3);

(B) in the case of items 2a to 2g—the total of the amounts reported in columns (B2), (B3) and (B4);

(C) in the case of items 1c, 3d to 4f—the amount reported in column (B4);

(ii) if any of the amounts reported in columns (B2) and (B3) is covered by **recognized credit risk mitigation** (CRM) that has not been taken into account in the default risk exposure calculations conducted pursuant to Part 6A of the BCR—the amounts determined in accordance with paragraphs 20 and 21 below; or

(iii) if any of the amounts reported in column (B4) is covered by recognized CRM—the amounts determined in accordance with paragraphs 20 and 21 below.

(f) “Risk-weighted Amount” means the amount calculated by multiplying the amount reported in column (B5) by the risk-weight specified in column (B6).

9. In cases where the reporting AI is a clearing member of a CCP, any variation margin held by the CCP that is due to, but not yet received by, the reporting AI should be regarded as a default risk exposure to the CCP. The amount of such variation margin should be reported in column (B1) and in either column (B2) or column (B3), as the case requires.

Section B: Reporting Arrangement for Division A (Default Fund Contribution) of Part IIIe

B.1 Default fund contributions made to QCCPs

10. Reporting AIs that are clearing members of QCCPs should report their credit exposures to the QCCPs arising from default fund contributions in item 1 as follows—

Item no. Nature of Item and Instructions

1. Qualifying CCPs

Column (A1) - Default fund contribution

Report in this column the total amount of funded default fund contributions made by the reporting AI to QCCPs' mutualized loss-sharing arrangements.

Column (A2) - Capital Charge

- For CCPs that fall within paragraph (a) of the definition of “qualifying CCP” in section 226V(1) of the BCR, report in this column the aggregate regulatory capital for the AI's funded default fund contributions made to the QCCPs calculated in accordance with sections 226X(4) and 226Y(3) of the BCR.
- For CCPs that fall within paragraph (b) of the definition of “qualifying CCP” in section 226V(1) of the BCR—
 - if the capital charge for the funded default fund contribution made to a QCCP is calculated by using Formula 23K in the ***pre-amended Rules*** (as defined in Schedule 16 to the BCR), report in this column the capital charge so calculated;
 - if the capital charge for the funded default fund contribution made to a QCCP is calculated by applying a risk-weight of 1250% in accordance with section 226X(4) and (6) of the pre-amended Rules, report in this column the adjusted capital charge calculated by the following formula—

$$K = \frac{\min\{(2\% \cdot TE + 1250\% \cdot DF); 20\% \cdot TE\} - 2\% \cdot TE}{12.5}$$

where—

K = adjusted capital charge

TE = the AI's total default risk exposure to the QCCP

DF = the AI's funded default fund contribution made to the QCCP

Column (A4) - Risk-weighted Amount

Report in this column the risk-weighted amount of the AI's funded default fund contributions made to QCCPs calculated by multiplying the amount reported in column (A2) by 12.5.

B.2 Default fund contributions made to non-QCCPs

11. Reporting AIs that are clearing members of non-QCCPs should report their credit exposures to the non-QCCPs arising from default fund contributions in item 2 as follows—

Item no. Nature of Item and Instructions

2. **Non-qualifying CCPs**

Column (A1) - Default fund contribution

Report in this column the total amount of funded default fund contributions made by the reporting AI, and the unfunded default fund contributions that the reporting AI is liable to pay, to non-QCCPs' mutualized loss-sharing arrangements.

Column (A4) - Risk-weighted Amount

Report in this column the risk-weighted amount of the AI's default fund contributions to non-QCCPs calculated by multiplying the amount reported in column (A1) by the risk-weight of 1250%.

Section C: Reporting Arrangement for Division B (Default Risk Exposures) of Part IIIe

C.1 Items 1a to 1c - clearing members' exposures to QCCPs

12. Reporting AIs that are clearing members of QCCPs should report their credit exposures to the QCCPs (i.e. default risk exposures and exposures arising from unsegregated collateral posted) in item 1 as follows—

Item no. Nature of Item and Instructions

1. **Qualifying CCPs**

1a. **Risk-weight 0%**

This item is for reporting credit exposures to QCCPs that are covered by recognized CRM of which the applicable risk-weight is 0% (see detailed reporting arrangements in paragraphs 20 and 21 below).

Item no. Nature of Item and Instructions

1b. **Risk-weight 2%**

Column (B1) “Derivative Contracts and SFTs Principal Amount”

Report in this column—

- the total principal amount of the derivative contracts and SFTs with QCCPs in respect of the default risk exposures mentioned in paragraph 4(a) above; and
- the amount of variation margin mentioned in paragraph 9, if any.

Column (B2) “Non-IMM(CCR) Default Risk Exposure”

Report in this column—

- default risk exposures or outstanding default risk exposures, as the case may be, to QCCPs calculated by using the current exposure method, the SA-CCR approach or the methods set out in Division 2B of Part 6A of the BCR, including those in respect of guarantees mentioned in paragraph 4(a)(iii) above; and
- the amount of variation margin mentioned in paragraph 9 that relates to the contracts or transactions reported in this column, if any.

Column (B3) “IMM(CCR) Default Risk Exposure”

Report in this column—

- default risk exposures or outstanding default risk exposures, as the case may be, to QCCPs calculated by using the IMM(CCR) approach, including those in respect of guarantees mentioned in paragraph 4(a)(iii) above; and
- the amount of variation margin mentioned in paragraph 9 that relates to the contracts or transactions reported in this column, if any.

Column (B5) “Total Exposure After CRM”

Report in this column the amounts mentioned in paragraph 8(e) above and, if applicable, in accordance with the reporting arrangements set out in paragraphs 20 and 21 below.

Column (B7) “Risk-weighted Amount”

Report in this column the total risk-weighted amount, that is the product of the amount reported in column (B5) and the risk-weight of 2%.

<u>Item no.</u>	<u>Nature of Item and Instructions</u>
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<i>1c.</i>	Other risk-weights not specified above
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This item is for reporting the following credit exposures to QCCPs—

- credit exposures that are covered by recognized CRM of which the applicable risk-weight is neither 0% nor 2% (see detailed reporting arrangements in paragraphs 20 and 21 below); and
- credit exposures that are risk-weighted in accordance with Part 4, 5 or 6 of the BCR (i.e. collateral mentioned in paragraph 4(e) held by a QCCP).

Column (B5) should be completed in the same manner as column (B5) of item 1b.

The AI should report the corresponding risk-weight in column (B6) and report the total risk-weighted amount (i.e. the product of the amounts reported in columns (B5) and (B6) of this item) in column (B7).

C.2 Items 2a to 2h - clearing members' exposures to non-QCCPs

13. Reporting AIs that are clearing members of non-QCCPs should report their credit exposures to the non-QCCPs (i.e. default risk exposures and exposures arising from unsegregated collateral posted) in item 2 as follow—

<u>Item no.</u>	<u>Nature of Item and Instructions</u>
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2.	Non-qualifying CCPs
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2a. to 2g.	The credit exposures to a non-QCCP should be reported in <u>columns (B1) to (B4)</u> of the item for the risk-weight applicable to the non-QCCP under the STC approach as follows—
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Column (B1) “Derivative Contracts and SFTs Principal Amount”

Report in this column—

- the total principal amount of the derivative contracts and SFTs with the non-QCCP in respect of the default risk exposures mentioned in paragraph 4(a) above; and
- the amount of variation margin mentioned in paragraph 9 held by the non-QCCP, if any.

Column (B2) “Non-IMM(CCR) Default Risk Exposure”

Report in this column—

- default risk exposures or outstanding default risk exposures, as the case may be, to the non-QCCP calculated by using the current exposure method, the SA-CCR approach or the methods set out

in **Division 2B of Part 6A of the BCR**, including those in respect of guarantees mentioned in paragraph 4(a)(iii) above; and

- the **amount of variation margin** mentioned in paragraph 9 held by the non-QCCP that relates to the contracts or transactions reported in this column, if any.

Column (B3) “**IMM(CCR)** Default Risk Exposure”

Report in this column—

- default risk exposures or outstanding default risk exposures, as the case may be, to the non-QCCP calculated by using the IMM(CCR) approach, including those in respect of guarantees mentioned in paragraph 4(a)(iii) above; and
- the **amount of variation margin** mentioned in paragraph 9 held by the non-QCCP that relates to the contracts or transactions reported in this column, if any.

Column (B4) “**Collateral posted** Principal Amount”

Report in this column the total principal amount of the AI’s credit exposures to the non-QCCP **that fall within paragraph 4(e) above, if any.**

Column (B5) “Total Exposure After CRM”

If the credit exposures to the non-QCCP are not covered by any recognized CRM, the total exposure after CRM should be reported in the same row in which the total principal amount of the credit exposures is reported.

If the credit exposures to the non-QCCP are covered by recognized CRM, the AI should fill in this column in accordance with the reporting arrangements set out in paragraphs 20 and 21 below.

Column (B7) “Risk-weighted Amount”

For each item, report in this column the total risk-weighted amount calculated by multiplying the amount reported in column (B5) of the item by the risk-weight specified in column (B6) of the same row.

2h

Other risk-weights not specified above

If the credit exposures to a non-QCCP are covered by recognized CRM and the risk-weight applicable to the recognized CRM is other than those specified in items 2a to 2g, **the AI should—**

- report the **credit protection covered portion** of the credit exposures in column (B5) of this item;
- specify the risk-weight applicable to the recognized CRM in column (B6); and

- report the product of the amounts reported in columns (B5) and (B6) in column (B7).

See detailed reporting arrangements in paragraphs 20 and 21 below.

C.3 Items 3a to 3d - clearing clients' exposures to clearing members and higher level clients in respect of QCCPs

14. Reporting AIs that are **clearing** clients should report in items 3a to 3c—
- their default risk exposures to clearing members **or higher level clients** if those exposures are eligible for being risk-weighted in a manner as if they were exposures to QCCPs (see section 226ZA(3) and (4), section 226ZB(2) and (3) and section **226ZBA(5)** of the BCR); and
 - their credit exposures to QCCPs arising from unsegregated collateral mentioned in paragraph 4(e) above.

Item no. Nature of Item and Instructions

3. Qualifying CCPs

3a. Risk-weight of 0%

This item is for reporting credit exposures to clearing members **or higher level clients** that are covered by recognized CRM of which the applicable risk-weight is 0% (see detailed reporting arrangements in paragraphs 20 and 21 below).

3b. Risk-weight 2%

This item captures default risk exposures that are eligible for being risk-weighted in a manner as if they were default risk exposures to QCCPs under the following sections of the BCR—

- section 226ZA(3) or section 226ZB(2) **if the AI is a direct client;**
- **section 226ZBA(5)(a) if the AI is an indirect client within a multi-level client structure.**

Column (B1) “Derivative Contracts and SFTs Principal Amount”

- **If the AI is a direct client of a clearing member,** report in this column—
 - **the total principal amount of the AI's offsetting transactions and CCP-related transactions with the clearing member (see paragraph 4(b)(i)(A) and (B) above);**

- the total principal amount of the AI's transactions with the QCCP concerned that are guaranteed by the clearing member (see paragraph 4(b)(i)(C) above).
- If the AI is an indirect client other than an end client (e.g. indirect client A in Fig. 1 above), report in this column the total principal amount of the AI's offsetting transactions with higher level clients (e.g. the direct client in Fig. 1) (see paragraph 4(c) above).
- If the AI is an indirect client and end client (e.g. indirect client B in Fig. 1 above), report in this column the total principal amount of the AI's CCP-related transactions with higher level clients (e.g. indirect client A in Fig. 1) (see paragraph 4(d) above).

Column (B2) “Non-IMM(CCR) Default Risk Exposure”

Report in this column default risk exposures or outstanding default risk exposures, as the case may be, calculated by using the current exposure method, the SA-CCR approach or the methods set out in Division 2B of Part 6A of the BCR.

Column (B3) “IMM(CCR) Default Risk Exposure”

Report in this column default risk exposures or outstanding default risk exposures, as the case may be, calculated by using the IMM(CCR) approach.

Column (B5) “Total Exposure After CRM”

Report in this column the amounts mentioned in paragraph 8(e) above and, if applicable, in accordance with the reporting arrangements set out in paragraphs 20 and 21 below.

Column (B7) “Risk-weighted Amount”

Report in this column the total risk-weighted amount, that is the product of the amount reported in column (B5) and the risk-weight of 2%.

3c. Risk-weight of 4%

Report in this item default risk exposures that are eligible for being risk-weighted in a manner as if they were default risk exposures to QCCPs under the following sections of the BCR—

- section 226ZA(4) or section 226ZB(3) if the AI is a direct client; and
- section 226ZBA(5)(b) if the AI is an indirect client in a multi-level client structure.

The detailed reporting arrangements for columns (B1) to (B7) are same as those for item 3b, except that the risk-weight used to

calculate the risk-weighted amount reported in column (B7) is 4% instead of 2%.

3d. Other risk-weights not specified above

This item is for reporting the following credit exposures to QCCPs—

- credit exposures that are covered by recognized CRM of which the applicable risk-weight is other than 0%, 2% and 4% (see detailed reporting arrangements in paragraphs 20 and 21 below); and
- credit exposures that are risk-weighted in accordance with Part 4, 5 or 6 of the BCR (i.e. collateral mentioned in paragraph 4(e) held by a QCCP).

Column (B5) should be completed in the same manner as column (B5) of item 3b.

The AI should report the corresponding risk-weight in column (B6) and report the total risk-weighted amount (i.e. the product of the amounts reported in columns (B5) and (B6) of this item) in column (B7).

C.4 Items 4a to 4g - clearing clients' exposures in respect of non-QCCPs

15. Items 4a to 4f

- (a) If a reporting AI is a clearing client and has posted unsegregated collateral mentioned in paragraph 4(e) above to a non-QCCP, the AI should report its credit exposures to the non-QCCP arising from the unsegregated collateral in column (B4) of the item for the risk-weight applicable to the non-QCCP determined under the STC approach.

16. Item 4g

- (a) If any of the amounts reported in column (B4) of items 4a to 4f is covered by recognized CRM and the risk-weight applicable to the recognized CRM is other than those specified in items 4a to 4f, the AI should fill in columns (B5), (B6) and (B7) of item 4g in the same manner as item 2h.

C.5 Items 5 and 6 - total risk-weighted amount for exposures to CCPs

17. Report in item 5 the sum of the subtotals of the risk-weighted amounts reported in Division A and Division B.
18. Report in item 6 the total risk-weighted amount of the reporting AI's exposures to CCPs after applying the cap mentioned in section 226X(10) and (11) of the BCR.

C.6 CRM Treatments

19. In paragraphs 20 and 21, “recognized CRM” refers to the following forms of recognized CRM afforded to credit exposures that fall within the scope of this Form—

(a) **recognized guarantees** and **recognized credit derivative contracts**; and

(b) **recognized collateral** received by a reporting AI under SFTs where the default risk exposures of the SFTs are calculated in accordance with section 226MJ of the BCR.

20. A reporting AI may take into account recognized CRM only in the manner permitted under Division 4 of Part 6A of the BCR. In other words—

(a) in the case of default risk exposures to non-QCCPs, the AI, regardless of the approach adopted by it for the calculation of credit risk for non-securitization exposures, should take into account the CRM effect of recognized CRM in accordance with Part 4 of the BCR;

(b) in the case of default risk exposures to QCCPs—

(i) reporting AIs using the STC approach should take into account the CRM effect of recognized CRM in accordance with Part 4 of the BCR;

(ii) reporting AIs using the **BSC approach** should take into account the CRM effect of recognized CRM in accordance with Part 5 of the BCR; and

(iii) reporting AIs using the **IRB approach** should take into account the CRM effect of **recognized guarantees and recognized credit derivative contracts** in the following manner:

(A) subject to subparagraph (B) below, reporting AIs should apply Part 4 of the BCR for recognition of the CRM effect in determining the risk-weighted amounts of the default risk exposures to QCCPs;

(B) if—

(1) a default risk exposure to a QCCP is fully covered by a recognized guarantee or recognized credit derivative contract; and

(2) the AI uses the IRB approach to calculate its credit risk for exposures to the guarantor of the recognized guarantee concerned or the counterparty to the recognized credit derivative contract concerned, as the case may be,

the AI should apply Part 6 of the BCR for recognition of the CRM effect in determining the risk-weighted amount of the default risk exposure to the QCCP (i.e. by allocating the risk-weight

attributable to the ***credit protection provider*** as determined under the IRB approach to the default risk exposure to the QCCP).

21. The reporting AI should report exposures covered by recognized CRM in the following manner—

- (a) First, divide the exposure concerned into two portions: the ***credit protection covered portion*** and the ***credit protection uncovered portion***;
- (b) Second, report the credit protection covered portion in column (B5) and in the row for the risk-weight applicable to the credit protection provider or the recognized collateral concerned; and
- (c) Lastly, report the credit protection uncovered portion in column (B5) and in the row for the risk-weight applicable to the CCP determined in accordance with Division 4 of Part 6A of the BCR.

Hong Kong Monetary Authority
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