



HONG KONG MONETARY AUTHORITY

香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/187C
S4/7C

22 July 2024

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

BCBS recalibration of shocks for IRRBB

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued a document titled “*Recalibration of shocks for interest rate risk in the banking book*”¹ on 16 July 2024 to make targeted adjustments to the specified interest rate shocks in the interest rate risk in the banking book (IRRBB) standard², consistent with commitments in the standard to periodically update the calibration.

The BCBS has also incorporated the following targeted adjustments to the current methodology in recalibrating the shocks for IRRBB standard:

- expanding the time series used in the calibration from 2000-2015 to 2000-2023;
- replacing the global shock factors with local shock factors calculated for each currency using the averages of absolute changes in interest rates calculated over a rolling six-month period;
- moving from a 99th percentile value in determining the shock factor to a 99.9th percentile value, to maintain sufficient conservatism in the proposed recalibration; and
- reducing the rounding of the interest rate shocks from a multiple of 50 basis points to a multiple of 25 basis points.

¹ <https://www.bis.org/bcbs/publ/d578.pdf>

² <https://www.bis.org/bcbs/publ/d368.pdf>

These targeted adjustments aim at improving the calibration methodology and addressing some issues arising from the extended period of low interest rates experienced in many jurisdictions.

The HKMA intends to locally implement the recalibrated interest rate shocks by 1 January 2026, in accordance with the BCBS timetable, and to update the Supervisory Policy Manual module IR-1 in due course.

Should you have any questions on the recalibration, please feel free to contact Mr Jule Chong (2878 1611, jckchong@hkma.gov.hk) or Mr Marco Wong (2597 0458, mpkwong@hkma.gov.hk).

Yours faithfully,

Donald Chen
Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairperson, The DTC Association
FSTB (Attn: Mr Justin To)