

Proposed Amendments to Banking (Capital) Rules (“BCR”)¹

Implementation of Capital Requirements for Banks’ Equity Investments in Funds

Part 1 of BCR

[Amendments that are significantly different from those set out in the consultative document issued on 18 January 2019 (“2019 consultative document”) are shaded for ease of review.]

1. Section 2 (interpretation)

- (1) Section 2(1), definition of *ECAI issue specific rating*, paragraph (a)—

Repeal

“, (e)”.

- (2) Section 2(1), definition of *ECAI issue specific rating*, paragraph (d)—

Repeal

“subject to paragraphs (b), (c), (e), (f), (g) and (h)”

Substitute

“subject to paragraphs (b), (c), (f), (g) and (h)”.

- (3) Section 2(1), definition of *ECAI issue specific rating*—

Repeal paragraph (e).

- (4) Section 2(1), definition of *underlying exposures*, paragraph (a)—

Repeal

“or”.

- (5) Section 2(1), definition of *underlying exposures*, after paragraph (a)—

Add

“(ab) in relation to a collective investment scheme, means—

- (i) an on-balance sheet exposure held by the scheme, including such an exposure arising from variation margin receivable in respect of transactions cleared by CCPs;
- (ii) an exposure of the scheme to the underlying exposure of a derivative contract (within the meaning given by section 226A), or to the asset underlying an SFT, entered into by the scheme where, if the scheme were an authorized institution, it would be required to hold regulatory capital in respect of such exposure to the underlying exposure or asset under Part 4, 5, 6, 6A or 7, as the case requires;
- (iii) a default risk exposure of the scheme arising from derivative contracts or SFTs entered into by the scheme; or
- (iv) any other off-balance sheet exposure incurred by the scheme where, if the scheme were an authorized institution, it would be required to hold regulatory capital in respect of such exposure under Part 4, 5, 6, 6A or 7, as the case requires;”.

¹ Unless otherwise stated, any existing provisions or section numbers cited in this document refer to those of the Banking (Capital) Rules as revised by the Banking (Capital) (Amendment) Rules 2020.

- (6) Section 2(1), definition of *underlying exposures*, paragraph (b)—

Repeal

“paragraph (a)”

Substitute

“paragraphs (a) and (ab)”.

- (7) Section 2(1)—

Add in alphabetical order

“*CIS exposure* means the collective investment scheme exposure;

collective investment scheme exposure means an on-balance sheet exposure, or an off-balance sheet exposure, to a collective investment scheme in the form of, or having the same credit risk as, an equity investment in the scheme, including such an exposure arising from—

- (a) the holding of units or shares in the scheme; and
- (b) a commitment to subscribe to the scheme’s future capital calls;”.

Part 4 of BCR

[Amendments that are significantly different from those set out in the 2019 consultative document are shaded for ease of review.]

2. Section 52 (calculation of risk-weighted amount of exposures)

- (1) Section 52(2)—

Repeal paragraph (a)

Substitute

“(a) subject to paragraph (b), an authorized institution must—

- (i) calculate the risk-weighted amount of the institution's on-balance sheet exposures (except CIS exposures) by multiplying the principal amount of each such exposure, net of specific provisions, by the relevant risk-weight attributable to the exposure determined under Division 3; and
- (ii) calculate the risk-weighted amount of the institution’s on-balance sheet exposures that are CIS exposures in accordance with Division 3A;”.

- (2) Section 52(3)—

Repeal paragraph (ab)

Substitute

“(ab) subject to paragraph (b), in the case of an authorized institution’s off-balance sheet exposures that do not fall within paragraph (a), the institution must—

- (i) calculate the credit equivalent amount of each such exposure in accordance with section 71 or 73, as the case requires;
- (ii) determine the risk-weight applicable to each such exposure in accordance with Division 3 or 3A, as the case requires; and
- (iii) calculate the risk-weighted amount of each such exposure by—
 - (A) if the exposure is a CIS exposure to which Subdivision 3 of Division 3A applies—using Formula 1A in section X12;
 - (B) in any other case—multiplying the credit equivalent amount by the risk-weight;”.

(3) Section 52(4), definition of *ECAI issue specific rating*, paragraph (a), at the end—

Add

“or”.

(4) Section 52(4), definition of *ECAI issue specific rating*—

Repeal paragraph (b).

3. Part 4, Division 3 (determination of risk-weights applicable to on-balance sheet exposures)

Part 4, Division 3, heading—

Repeal

“On-balance Sheet Exposures”

Substitute

“Exposures other than CIS Exposures”.

[Explanatory note: In order to improve the organization of the provisions in Divisions 3 and 4 to better accommodate the new Division to be added for CIS exposures, it is proposed to expand the scope of Division 3 to cover not only on-balance sheet exposures but also off-balance sheet exposures so that:

- *Division 3 will deal with determination of risk-weights of both on-balance sheet exposures and off-balance sheet exposures, but except those that are CIS exposures;*
- *New Division added after Division 3 will deal with determination of risk-weights of on-balance sheet CIS exposures and off-balance sheet CIS exposures; and*
- *Division 4 will deal with calculations of credit equivalent amounts of off-balance sheet exposures (including off-balance sheet CIS exposures) and calculation of risk-weighted amounts of SFT-related off-balance sheet exposures.]*

4. Section added

Before section 55—

Add

“54A. Application of Division 3

This Division applies to both on-balance sheet exposures and off-balance sheet exposures, except such exposures that are CIS exposures.”.

[Explanatory note: The new section is proposed to clarify the scope of application of Division 3.]

5. Section 62 (collective investment scheme exposures)

Section 62—

Repeal the section.

6. Section 66 (other exposures which are not past due exposures)

(1) Section 66(1)(b)(i)—

Repeal

“62 or 68A”

Substitute

“68A and are not CIS exposures to which Division 3A applies”.

(2) Section 66(1)(b)(ii)—

Repeal

“on-balance sheet”.

[Explanatory note: The above amendment is to make section 66 applicable to off-balance sheet exposures.]

- (3) Section 66(1)(b)(ii)—

Repeal

“62, 63, 63A, 64, 65 and 67”

Substitute

“63, 63A, 64, 65 and 67 and are not CIS exposures to which Division 3A applies”.

7. Section 67 (past due exposures)

Section 67(1)—

Repeal

“62,”.

8. Section 68 (credit-linked notes)

- (1) Section 68(d)(i)—

Repeal

“62, 63, 64, 65, 66 and 67”

Substitute

“63, 64, 65, 66 and 67 and Division 3A”.

- (2) Section 68(e)—

Repeal

“74(3)(b), (4)(b), (5) or (6)”

Substitute

“68B(d), (e), (f) or (g)”.

[Explanatory note: The new amendment proposed to section 68(e) is due to the relocation of section 74 from Division 4 to Division 3.]

9. Section added

Before section 69—

Add

“68B. Determination of risk-weight applicable to certain off-balance sheet exposures

In determining the risk-weight applicable to an off-balance sheet exposure of an authorized institution (*subject exposure*) in accordance with this Division—

- (a) if the subject exposure is an asset sale with recourse or a forward asset purchase, the risk-weight applicable to the subject exposure is the risk-weight applicable to the assets sold or purchased;
- (b) if the subject exposure is partly paid-up shares and securities, the risk-weight applicable to the subject exposure is the risk-weight applicable to the relevant shares or securities;
- (c) subject to paragraphs (d), (e), (f) and (g), if the subject exposure is a direct credit substitute arising from the selling of a credit derivative contract in the form of total return swap or credit default swap in the institution’s banking book, the risk-weight applicable to the subject exposure is the risk-weight applicable to the relevant reference obligation in respect of the credit derivative contract;

- (d) if the subject exposure referred to in paragraph (c) arises from a first-to-default credit derivative contract—
 - (i) subject to subparagraph (ii), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract; and
 - (ii) the risk-weight applicable to the subject exposure is subject to a cap of 1,250%;
- (e) if the subject exposure referred to in paragraph (c) arises from a second-to-default credit derivative contract—
 - (i) subject to subparagraph (ii), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract but excluding the lowest of those risk-weights; and
 - (ii) the risk-weight applicable to the subject exposure is subject to a cap of 1,250%;
- (f) if the subject exposure referred to in paragraph (c) arises from any other subsequent-to-default credit derivative contract, paragraph (e), with all necessary modifications, applies to that contract as that paragraph applies to a second-to-default credit derivative contract so that the reference to “lowest” in paragraph (e)(i) is construed to mean “lowest and second lowest” in the case of a third-to-default credit derivative contract and “lowest, second lowest and third lowest” in the case of a fourth-to-default credit derivative contract and likewise for other subsequent-to-default credit derivative contracts;
- (g) if the subject exposure referred to in paragraph (c) arises from a credit derivative contract that provides credit protection proportionately in respect of the reference obligations in the basket of reference obligations specified in the contract, the risk-weight applicable to the subject exposure is calculated by using Formula 1;

Formula 1

Calculation of Risk-weight of Off-balance Sheet Exposure Arising from Credit Derivative Contract that falls within paragraph (g)

$$RW_a = \sum_i (a_i \cdot RW_i)$$

where—

- (i) RW_a = weighted average risk-weight of a basket of reference obligations;
 - (ii) a_i = proportion of credit protection allocated to reference obligation i; and
 - (iii) RW_i = risk-weight of reference obligation i;
- (h) if the subject exposure is a default risk exposure in respect of a single-name credit default swap that falls within section 226J(1) and the amount of the default risk exposure is determined in accordance with section 226J(3), the risk-weight applicable to the subject exposure is the attributed risk-weight of the counterparty in respect of the swap without taking into account any recognized credit risk mitigation afforded to the swap;
 - (i) if the subject exposure arises from a commitment to extend a residential mortgage loan, a risk-weight determined in accordance with section 65 may be allocated to the subject exposure only if the institution has no reason to believe that any of the provisions of that section will not be satisfied immediately after the loan that is the subject of that commitment is drawn down.”.

[Explanatory note: The requirements set out in the new section proposed above are essentially those that are currently set out in section 74(2) to (7). Because of the expansion of the scope of application of Division 3 to cover off-balance sheet exposures, the requirements in section 74 should be set out in Division 3 instead of Division 4.]

10. Section 69 (application of ECAI ratings)

(1) Section 69—

Repeal subsection (1)

Substitute

“(1) An authorized institution must, in complying with a requirement under section 55, 57, 59, 60 or 61 in relation to an exposure (*concerned exposure A*) of the institution consisting of a debt obligation issued or undertaken by a person where the debt obligation has one or more than one ECAI issue specific rating assigned to it, determine the rating to be used in accordance with subsection (2).”

(2) Section 69(11), definition of *ECAI issue specific rating*, paragraph (a), at the end—

Add

“or”.

(3) Section 69(11), definition of *ECAI issue specific rating*—

Repeal paragraph (b).

11. Section 70 (authorized institutions required to nominate ECAIs to be used)

(1) Section 70(7)—

Repeal

“, debt obligation, or collective investment scheme,”

Substitute

“or debt obligation”.

(2) Section 70(8), definition of *ECAI ratings based portfolio*, paragraph (d), at the end—

Add

“or”.

(3) Section 70(8), definition of *ECAI ratings based portfolio*, paragraph (e)—

Repeal

“; or”

Substitute a full stop.

(4) Section 70(8), definition of *ECAI ratings based portfolio*—

Repeal paragraph (f).

12. Part 4, Division 3A added

[Explanatory note: It is proposed to add the new Division for CIS exposures after Division 3 (instead of Division 4 as previously proposed). The new Division is divided into 3 subdivisions:

- *Subdivision 1 defines terms used in the new Division and the scope of application of the new Division;*
- *Subdivision 2 contains provisions on the capital treatments of CIS exposures that constitute an AI's holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities;*
- *Subdivision 3 contains provisions on the capital treatments of CIS exposures to which Subdivision 2 does not apply.]*

Part 4, after Division 3—

Add

“Division 3A—Calculation of Risk-weighted Amount of Authorized Institution’s CIS Exposures

Subdivision 1—Interpretation and Application

X5. Application of Division 3A

This Division applies to an authorized institution’s calculation of the risk-weighted amounts of its CIS exposures booked in its banking book.

X5A. Interpretation of Division 3A

In this Division—

fall-back approach means the approach for determining the risk-weight of a CIS exposure or an underlying exposure of a collective investment scheme set out in section X10;

future holding, in relation to an authorized institution, means the institution’s potential future holding of a regulatory deductible item referred to in section 44(2)(c), 47(2)(c), 48(2)(b) or 48A(2);

Level 1 CIS—see section X5B;

Level 2 CIS—see section X5B;

Level n CIS—see section X5B;

look-through approach means the approach for calculating the risk-weighted amount of an underlying exposure of a collective investment scheme set out in section X7;

mandate-based approach means the approach for calculating the risk-weighted amounts of the underlying exposures of a collective investment scheme set out in section X8;

regulatory deductible item, in relation to the calculation of the risk-weighted amount of a CIS exposure by an authorized institution, means—

- (a) a CET1 capital instrument, an Additional Tier 1 capital instrument or a Tier 2 capital instrument issued by the institution or a financial sector entity other than the institution;
- (b) a non-capital LAC liability of the institution or a financial sector entity other than the institution;
- (c) a capital instrument issued by a financial sector entity other than the institution that is treated as—
 - (i) a CET1 capital instrument under section 4(1)(c) of Schedule 4F or section 1(4)(d) of Schedule 4G;
 - (ii) an Additional Tier 1 capital instrument under section 4(3) of Schedule 4F or section 1(6) of Schedule 4G; or
 - (iii) a Tier 2 capital instrument under section 4(3) of Schedule 4F or section 1(6) of Schedule 4G;

third-party approach means the approach under which an authorized institution uses the risk-weighted amounts of the underlying exposures of a collective investment scheme calculated by a third party as inputs for the institution’s own calculation of the risk-weighted amount of a CIS exposure to that scheme.

X5B. Interpretation: certain terms involving CIS exposures held by a collective investment scheme

- (1) If an authorized institution has a CIS exposure to a collective investment scheme and such CIS exposure is held directly by the institution, that collective investment scheme is a Level 1 CIS.
- (2) If a Level 1 CIS has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the Level 1 CIS, that another collective investment scheme is a Level 2 CIS.
- (3) If the Level 2 CIS has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the Level 2 CIS, the Level 1 CIS is referred to as having an indirect CIS exposure to that another collective investment scheme through one interposed collective investment scheme.
- (4) If—
 - (a) the Level 1 CIS has an indirect CIS exposure to another collective investment scheme through the Level 2 CIS and at least one interposed collective investment scheme; and
 - (b) none of the underlying exposures of that another collective investment scheme is a CIS exposure,

each interposed collective investment scheme (other than the Level 2 CIS) and that another collective investment scheme are referred to individually as a Level n CIS.

- (5) If a collective investment scheme has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the first collective investment scheme, the first collective investment scheme is referred to as a collective investment scheme at a level immediately above that another collective investment scheme.

Subdivision 2—CIS exposures that constitute holdings of regulatory deductible items

X5C. Application of Subdivision 2

This Subdivision applies to a CIS exposure of an authorized institution to a Level 1 CIS, or any part of such CIS exposure, that constitutes—

- (a) the institution's direct holding, indirect holding, synthetic holding or future holding of an item falling within paragraph (a) or (c) of the definition of *regulatory deductible item* in section X5A; or
- (b) the institution's indirect holding, synthetic holding or future holding of an item falling within paragraph (b) of the definition of *regulatory deductible item* in section X5A.

X5D. Treatment of CIS exposures falling within section X5C(a) or (b)

- (1) If a CIS exposure of an authorized institution to a Level 1 CIS, or any part of such CIS exposure, constitutes a holding falling within section X5C(a) or (b) (*subject holding*), the institution must—
 - (a) determine whether any amount of the subject holding must be deducted from its capital base in accordance with Division 4 of Part 3; and
 - (b) make any deduction so determined from its capital base accordingly.
- (2) If—
 - (a) a subject holding of an authorized institution is an insignificant LAC investment; and
 - (b) by virtue of section 5 of Schedule 4F, no amount of, or only part of, the subject holding is deducted from the institution's capital base in accordance with sections 43(1)(o), 47(1)(c) and 48(1)(c),

any amount of the subject holding that is not deducted from the institution's capital base must be allocated a risk-weight of 100%.

- (3) If—
- (a) a subject holding of an authorized institution falls within section 48A; and
 - (b) by virtue of section 48(3), no amount of, or only part of, the subject holding is deducted from the institution's capital base in accordance with section 48(1)(g)(i),
- any amount of the subject holding that is not deducted from the institution's capital base must be allocated a risk-weight of 100%.
- (4) If—
- (a) a subject holding of an authorized institution is a significant LAC investment; and
 - (b) by virtue of section 1(7) of Schedule 4G, no amount of, or only part of, the subject holding is deducted from the institution's CET1 capital in accordance with section 43(1)(p),
- any amount of the subject holding that is not deducted from the institution's CET1 capital must be allocated a risk-weight of 250%.

[Explanatory note: Sections X5C and X5D are equivalent to section X11 in the 2019 consultative document.]

Subdivision 3—CIS exposures that do not constitute holdings of regulatory deductible items

X5E. Application of Subdivision 3

- (1) Subject to subsection (2), this Subdivision applies to the calculation of the risk-weighted amount of a CIS exposure.
- (2) If the CIS exposure is a CIS exposure of an authorized institution to a Level 1 CIS, this Subdivision does not apply to —
- (a) any part of the CIS exposure (which may be all of the CIS exposure) that is required to be deducted from the institution's capital base under Division 4 of Part 3; and
 - (b) any part of the CIS exposure (which may be all of the CIS exposure) that is required to be risk-weighted in accordance with section X5D(2), (3) or (4).

X6. Approaches to be used for determining risk-weighted amount of underlying exposure of collective investment scheme

- (1) Subject to subsection (5), an authorized institution must use the look-through approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if both of the conditions set out in subsection (2) are met in respect of the scheme.
- (1A) Subject to subsection (5), an authorized institution has an option to use the third-party approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—
- (a) either or both of the conditions set out in subsection (2) are not met in respect of the scheme;
 - (b) the third party concerned recalculates and updates the risk-weighted amount of the underlying exposures of the scheme at a frequency that is the same as, or more frequent than, that of the institution's financial reporting; and
 - (c) all the conditions set out in section X6A are met.

[Explanatory note: Subsection (1A)(b) is added to mirror the requirement in subsection (3)(a).]

- (1B) Subject to subsection (5), an authorized institution must use the mandate-based approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—
 - (a) either or both of the conditions set out in subsection (2) are not met in respect of the scheme; and
 - (b) either—
 - (i) the third-party approach is infeasible (including the case where either or both of the conditions set out in subsection (1A)(b) and (c) are not met); or
 - (ii) the institution chooses not to use the third-party approach.
- (1C) Subject to subsection (5), an authorized institution must use the fall-back approach to determine the risk-weight applicable to a CIS exposure to a Level 1 CIS if—
 - (a) either or both of the conditions set out in subsection (2) are not met in respect of the scheme;
 - (b) either—
 - (i) the third-party approach is infeasible (including the case where either or both of the conditions set out in subsection (1A)(b) and (c) are not met); or
 - (ii) the institution chooses not to use the third-party approach; and
 - (c) it is not feasible to use the mandate-based approach.
- (2) The conditions are as follows—
 - (a) there is sufficient and frequent information available to the institution regarding the underlying exposures of the scheme; and
 - (b) the information and underlying exposures are verified by an independent third party who may be a depository, a custodian bank or (where applicable) a management company.
- (3) The condition in subsection (2)(a) is met in respect of the scheme only if—
 - (a) the frequency of financial reporting of the scheme is the same as, or more frequent than, that of the institution’s financial reporting; and
 - (b) the granularity of the financial information provided in the scheme’s financial report is sufficient for determining the risk-weighted amount of its underlying exposures in accordance with the look-through approach.
- (4) For the purposes of subsection (3), the financial report of a collective investment scheme needs not be an audited report.
- (5) An authorized institution may use any combination of the look-through approach, mandate-based approach and fall-back approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—
 - (a) it is not feasible to use the same approach for all the underlying exposures; and
 - (b) the requirements applicable to the approach concerned set out in this Subdivision are met in respect of the underlying exposures for which the approach is used.

X6A. Conditions for using third-party approach

The conditions specified for section X6(1A)(c) are—

- (a) the third party concerned is the depository or the management company (however described) of the collective investment scheme concerned (*subject CIS*);
- (b) the third party calculates the risk-weighted amount of all the underlying exposures of the subject CIS (*third-party output*) in accordance with either of the following—
 - (i) section X7(1) as if—

- (A) the third party were an authorized institution that holds a CIS exposure to the subject CIS directly; and
- (B) sections 66(1)(a) and (2)(b), 68A and X11 did not exist;
- (ii) the capital standards issued by the Basel Committee that are currently in force and correspond to the following Parts of these Rules—
 - (A) Part 4, other than section 66(1)(a) and (2) in respect of regulatory deductible items, section 68A, Subdivision 2 of this Division and section X11; and
 - (B) Parts 6A and 7, to the extent applicable to authorized institutions that use the STC approach to calculate their credit risk for non-securitization exposures; and
- (c) an external auditor has confirmed the correctness of the calculations that generate the third-party output.

[Explanatory note: The conditions have been revised taken into account comments received from the industry in the 2019 consultation.]

X7. Look-through approach

- (1A) This section sets out the look-through approach for calculating the risk-weighted amount of the underlying exposure of a collective investment scheme (*subject CIS*).

- (1) Subject to section X11—

- (a) if an underlying exposure of the subject CIS is a CIS exposure to another CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with—
 - (i) section X8A(2) or (4), as the case requires; and
 - (ii) section X12(3);
- (b) if an underlying exposure of the subject CIS is a capital investment in a commercial entity, the risk-weighted amount of such underlying exposure must be calculated in accordance with section X9(1);
- (c) if an underlying exposure of the subject CIS is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the subject CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with section X9(2) and (3); and
- (d) in any other case, the risk-weighted amount of the underlying exposure of the subject CIS must be calculated in accordance with Part 4 (other than this Division) or 7, or Division 4 of Part 6A, as the case requires, as if the underlying exposure were held directly by the institution.

[Explanatory note: To enhance clarity, subsection (1) has been elaborated to set out explicitly the provisions applicable to underlying exposures that are CIS exposures, capital investments in commercial entities and exposures to CVA risk.]

X7A. Third-party approach

- (1) This section applies to an authorized institution that uses the third-party approach to calculate the risk-weighted amount of the underlying exposures of a collective investment scheme (*subject CIS*).
- (2) An authorized institution must calculate the risk-weighted amount of the underlying exposures of the subject CIS as the product of—
 - (a) the third-party output in respect of the subject CIS provided by the third party concerned (see section X6A(b)); and
 - (b) 1.2.

- (3) The institution must not use an amount other than the product calculated under subsection (2) as the aggregate risk-weighted amount of the underlying exposures of the subject CIS for the purposes of Formula 1A in section X12.

X8. Mandate-based approach

- (1A) This section sets out the mandate-based approach for calculating the risk-weighted amounts of the underlying exposures of a collective investment scheme (*subject CIS*).

- (1) An authorized institution must calculate the risk-weighted amounts of the underlying exposures of the subject CIS in accordance with subsection (2) and based on the information contained in any one or more of the following documents—

- (a) the mandate of the subject CIS;
- (b) other disclosures of the subject CIS; and
- (c) if applicable, the legislation or regulations governing the subject CIS.

- (2) Subject to section X11—

- (a) if an underlying exposure of the subject CIS is a CIS exposure to another CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with—

- (i) section X8A(2) or (4), as the case requires; and
- (ii) section X12(3);

- (b) if an underlying exposure of the subject CIS is a capital investment in a commercial entity, the risk-weighted amount of such underlying exposure must be calculated in accordance with section X9(1);

- (c) if an underlying exposure of the subject CIS is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the subject CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with section X9(2) and (3); and

- (d) in any other case, the risk-weighted amount of an underlying exposure of the subject CIS must be calculated in accordance with Part 4 (other than this Division) or 7, or Division 4 of Part 6A, as the case requires, as if the underlying exposures were held directly by the institution.

- (2A) For the purposes of subsection (2), the institution must estimate the amounts of the underlying exposures of the subject CIS as follows—

- (a) underlying exposures that fall within paragraph (ab)(i) of the definition of *underlying exposures* in section 2(1) must be estimated by assuming that the subject CIS—

- (i) first invests in those assets that would attract the highest risk-weight under Parts 4 and 7, to the maximum extent allowed under the mandate of the subject CIS (or, if applicable, under the relevant legislation or regulations); and
- (ii) then continues to invest in other assets in descending order of risk-weight, to the maximum extent allowed under the mandate of the subject CIS (or, if applicable, under the relevant legislation or regulations);

- (b) underlying exposures that fall within paragraph (ab)(ii) of the definition of *underlying exposure* in section 2(1) and arise from derivative contracts must be estimated as—

- (i) the notional amount of the subject CIS's position in the underlying exposures of the derivative contracts (within the meaning given by section 226A) entered into by the subject CIS;
- (ii) if the underlying exposures of the derivative contracts are unknown—the full notional amount of the derivative contracts; or

- (iii) if the notional amount of the derivative contracts is unknown—the maximum notional amount of derivative contracts allowed under the subject CIS’s mandate (or, if applicable, under the relevant legislation or regulations);
- (c) underlying exposures that fall within paragraph (ab)(iii) of the definition of ***underlying exposures*** in section 2(1) and arise from derivative contracts must be calculated by using the SA-CCR approach; and
- (d) any other underlying exposures (including those that fall within paragraph (ab)(iv) of the definition of ***underlying exposures*** in section 2(1)) must be estimated as—
 - (i) the contracted amount of the underlying exposures; or
 - (ii) if the contracted amount is unknown—the maximum contracted amount allowed under the subject CIS’s mandate (or, if applicable, under the relevant legislation or regulations).

(3) For the purposes of using the SA-CCR approach under subsection (2A)(c)—

(a) if the replacement cost of a netting set is unknown—

- (i) the sum of the notional amounts of the derivative contracts in the netting set must be regarded as the replacement cost of the netting set; and
- (ii) the value of the multiplier in Formula 23AM in section 226BR(1) must be set at 1;

- (b) if the potential future exposure of a netting set is unknown, the product of the sum of the notional amounts of the derivative contracts in the netting set and 15% must be regarded as the potential future exposure of the netting set.

[Explanatory note: Subsection (3) reflects the treatment set out in paragraph 60.7(3) of CRE60² of the Basel Framework.]

- (4) If the information available to the institution is not sufficient such that more than one risk-weight are applicable to an underlying exposure of the subject CIS, the institution must assign to the underlying exposure the highest of those applicable risk-weights.

X8A. Provisions supplementary to sections X7 and X8—treatments for underlying exposures that are CIS exposures

- (1) If an authorized institution has a CIS exposure to a Level 1 CIS, subsection (2) applies to any CIS exposure to a Level 2 CIS directly held by the Level 1 CIS (***Level 2 CIS exposure***).
- (2) For the purpose of calculating the risk-weighted amount of a Level 2 CIS exposure, the institution must—
 - (a) determine the approach or approaches to be used to calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS in accordance with section X6 as if the Level 2 CIS exposure were a CIS exposure to a Level 1 CIS held directly by the institution; and
 - (b) calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS—
 - (i) by using the approach or approaches determined under paragraph (a); and
 - (ii) in accordance with the provisions in this Subdivision applicable to that approach or those approaches.

² https://www.bis.org/basel_framework/chapter/CRE/60.htm?inforce=20191215

- (3) Subsection (4) applies to any CIS exposure to a Level n CIS (*Level n CIS exposure*) if neither of the following is true in respect of the Level 2 CIS that interposes between the Level 1 CIS and the Level n CIS—
 - (a) the institution allocates a risk-weight of 1250% to the Level 2 CIS exposure concerned under the fall-back approach in accordance with section X10(1);
 - (b) the institution uses the third-party approach to calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS.
- (4) For the purpose of calculating the risk-weighted amount of a Level n CIS exposure—
 - (a) the institution may calculate the risk-weighted amount of the underlying exposures of the Level n CIS by using the look-through approach only if—
 - (i) the risk-weighted amount of all or part of the underlying exposures of the CIS at the level immediately above the Level n CIS is also calculated by using the look-through approach;
 - (ii) the Level n CIS exposure is one of those underlying exposures that are subject to the look-through approach; and
 - (iii) both of the conditions set out in section X6(2) are met in respect of the Level n CIS and all of its underlying exposures;
 - (b) in any other case, the institution must allocate a risk-weight of 1250% to the Level n CIS exposure under the fall-back approach in accordance with section X10(1).

[Explanatory note: The requirements above are essentially the same as those set out in the 2019 consultative document.]

X9. Provisions supplementary to sections X7 and X8—treatments for underlying exposures related to commercial entities and CVA risk

[Explanatory note: Revised section X11 replaces section X9(2) and (4) in the 2019 consultative document.]

- (1) If an underlying exposure of a collective investment scheme is a capital investment in a commercial entity (*concerned investment*), an authorized institution must allocate a risk-weight to the concerned investment in accordance with those provisions of this Part that would be applicable to the concerned investment if—
 - (a) the concerned investment were held directly by the institution; and
 - (b) sections 43(1)(n), 46(1) and 68A did not exist.
- (2) Subject to subsection (3), if an underlying exposure of a collective investment scheme is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the scheme with a counterparty, an authorized institution must, instead of using the methods set out in Division 3 of Part 6A, calculate the risk-weighted amount of the underlying exposure in accordance with paragraph (a) or (b), as the case requires, as if the derivative contracts or SFTs were entered into by the institution—
 - (a) in the case of derivative contracts or SFTs for which the default risk exposure is not calculated under section 226MJ, the risk-weighted amount of the underlying exposure is equal to the product of the following 3 items—
 - (i) the default risk exposure in respect of the derivative contracts or SFTs, as the case may be;
 - (ii) 0.5;
 - (iii) the risk-weight applicable to the counterparty.

- (b) in the case of SFTs for which the default risk exposures are calculated under section 226MJ, the risk-weighted amount of the underlying exposure is equal to the product of the following 2 items—
 - (i) the sum of the risk-weighted amounts of the default risk exposures in respect of the SFTs calculated in accordance with section 85, or sections 88 and 93, as the case requires;
 - (ii) 0.5.

[Explanatory note: Subsection (2) is equivalent to section X9(5) in the 2019 consultative document, with elaboration to enhance clarity.]

- (3) The institution may exclude the default risk exposures in respect of the following items from the calculations under subsection (2)—
 - (a) derivative contracts and SFTs of the scheme that are entered into with qualifying CCPs; and
 - (b) SFTs of the scheme that are not entered into with qualifying CCPs, where no information obtained by the institution for the purposes of using the look-through approach or the mandate-based approach suggests that the scheme’s CVA risk arising from those SFTs is material.

[Explanatory note: Subsection (3) is a simplified version of section X9(6) in the 2019 consultative document, with industry comments taken into consideration.]

X10. Fall-back approach

- (1A) This section sets out the fall-back approach for determining the risk-weight applicable to a CIS exposure or an underlying exposure of a collective investment scheme.
 - (1) Subject to subsection (2), an authorized institution must allocate a 1250% risk-weight to a CIS exposure.
 - (2) If the fall-back approach is used in combination with one or more than one other approach to calculate the risk-weighted amount of the underlying exposures of a collective investment scheme, any underlying exposure of such scheme that is subject to the fall-back approach must be allocated a 1250% risk-weight.

[Explanatory note: Section X10(2) in the 2019 consultative document is no longer needed as the treatment for regulatory deductible items has been revised in light of industry comments (see Subdivision 2 proposed above and revised section X11 below).]

X11. Treatment of certain regulatory deductible items held by collective investment schemes

[Explanatory note: The requirements set out in section X11 in the 2019 consultative document are moved to Subdivision 2.]

- (1) This section applies to a CIS exposure of an authorized institution to a Level 1 CIS if both of the following circumstances occur—
 - (a) the whole or any part of the CIS exposure constitutes one or more than one holding that falls within section X5C(a) or (b) (*portion A*); and
 - (b) the holding referred to in paragraph (a) is—
 - (i) fully deducted from the capital base of the institution under Division 4 of Part 3;
 - (ii) partially deducted from the capital base of the institution under Division 4 of Part 3 and partially risk-weighted under section X5D(2), (3) or (4); or
 - (iii) fully risk-weighted under section X5D(2), (3) or (4).

(2) For the purpose of calculating the aggregate risk-weighted amount of underlying exposures referred to in section X12(1)(b)(i) in respect of such portion of the CIS exposure that is not portion A, the institution may—

- (a) if the regulatory deductible items concerned are held directly by the Level 1 CIS—exclude such regulatory deductible items from the underlying exposures of the Level 1 CIS;
- (b) if the regulatory deductible items concerned are held directly by another collective investment scheme that is a Level 2 CIS or a Level n CIS—exclude such regulatory deductible items from the underlying exposures of that another scheme.

[Explanatory note: The treatment for eliminating double-counting of regulatory deductible items in the calculation of risk-weighted amounts of CIS exposures has been revised in light of industry comments received during the 2019 consultation.]

X12. Calculation of risk-weighted amount of CIS exposure

(1) The risk-weighted amount of a CIS exposure ($RWA_{CIS\ exposure}$) to a Level 1 CIS is calculated by using Formula 1A—

Formula 1A

$$RWA_{CIS\ exposure} = \text{Effective RW} * P_{CIS\ exposure}$$

where—

- (a) Effective RW is—
 - (i) if the CIS exposure is risk-weighted by using the fall-back approach in accordance with section X10(1)—1250%; or
 - (ii) in any other case—the effective risk-weight applicable to the CIS exposure calculated by multiplying Avg RW_{CIS} by Leverage, subject to a cap of 1250%;
- (b) Subject to section X11, Avg RW_{CIS} is the amount calculated by dividing the amount specified in subparagraph (i) by the amount specified in subparagraph (ii)—
 - (i) the aggregate risk-weighted amount of the underlying exposures of the Level 1 CIS calculated by using—
 - (A) the look-through approach;
 - (B) the third-party approach;
 - (C) the mandate-based approach; or
 - (D) a combination of any two or more of the look-through approach, the mandate-based approach and the fall-back approach;
 - (ii) the total assets of the scheme;
- (c) Leverage is—
 - (i) if the risk-weighted amount of all or part of the underlying exposures of the scheme is determined by using the look-through approach—the ratio of the total assets of the scheme to its total equity; or
 - (ii) if subparagraph (i) is not applicable and the risk-weighted amount of all or part of the underlying exposures of the scheme is determined by using the mandate-based approach—the maximum financial leverage permitted by the scheme’s mandate or by the legislation or regulations governing the scheme, as the case may be;
- (d) subject to subsection (2), $P_{CIS\ exposure}$ is—
 - (i) if the CIS exposure is an on-balance sheet exposure—the principal amount of the CIS exposure;

(ii) if the CIS exposure is an off-balance sheet exposure—the credit equivalent amount of the CIS exposure.

(2) If the maximum financial leverage of the scheme is used as an input to Formula 1A, P_{CIS} exposure of the CIS exposure to the scheme may be adjusted by regarding the total equity implied by the maximum financial leverage as the actual total equity of the scheme.

[Explanatory note:

Please see paragraph 99.121 of CRE99³ of the Basel Framework for an example of how the amount of a bank's investment in a fund is calculated based on the fund's total assets and maximum financial leverage.

Section X12(2) in the 2019 consultative document is replaced by revised section X11 above.]

(3) For the purposes of sections X7(1)(a) and X8(2)(a), the risk-weighted amount of a CIS exposure to a collective investment scheme that is a Level 2 CIS or a Level n CIS (*subject CIS*) must be calculated by using Formula 1A with the following modifications—

(a) any reference to “Level 1 CIS” or “scheme” in subsections (1) and (2) must be construed as a reference to “subject CIS”; and

(b) paragraph (b)(i) in that formula must be construed to read “the aggregate risk-weighted amount of the underlying exposures of the subject CIS calculated by using the approach or approaches determined in accordance with section X8A(2) or (4), as the case requires.”.

[Explanatory note: Subsection (3) is intended to clarify how risk-weighted amounts of CIS exposures held by other collective investment schemes should be calculated.]

13. Section 74 (determination of risk-weights applicable to off-balance sheet exposures)

Section 74—

Repeal the section.

[Explanatory note: The requirements in section 74 will be relocated to Division 3.]

14. Section 82 (determination of risk-weight to be allocated to recognized collateral under simple approach)

Section 82(1)(a)(i)—

Repeal

“62, 63, 66 and 68”

Substitute

“63, 66 and 68 and Division 3A”.

15. Section 94 (on-balance sheet netting)

Section 94(1), after “on-balance sheet exposures”—

Add

“(other than CIS exposure)”.

³ https://www.bis.org/basel_framework/chapter/CRE/99.htm?inforce=20191215

Part 5 of BCR

[Amendments that are significantly different from those set out in the 2019 consultative document are shaded for ease of review.]

16. Section 106 (calculation of risk-weighted amount of exposures)

(1) Section 106(2)—

Repeal paragraph (a)

Substitute

“(a) subject to paragraph (b), an authorized institution must—

- (i) calculate the risk-weighted amount of the institution's on-balance sheet exposures (except CIS exposures) by multiplying the principal amount of each such exposure, net of specific provisions, by the relevant risk-weight attributable to the exposure determined under Division 3; and
- (ii) calculate the risk-weighted amount of the institution's on-balance sheet exposures that are CIS exposures in accordance with Division 3A;”.

(2) Section 106(3)—

Repeal paragraph (ab)

Substitute

“(ab) subject to paragraph (b), in the case of an authorized institution's off-balance sheet exposures that do not fall within paragraph (a), the institution must—

- (i) calculate the credit equivalent amount of each such exposure in accordance with section 118 or 120, as the case requires;
- (ii) determine the risk-weight applicable to each such exposure in accordance with Division 3 or 3A, as the case requires; and
- (iii) calculate the risk-weighted amount of each such exposure by—
 - (A) if the exposure is a CIS exposure to which Subdivision 3 of Division 3A applies—using Formula 12A in section Y12;
 - (B) in any other case—multiplying the credit equivalent amount by the risk-weight;”.

17. Section 108 (classification of exposures)

Section 108, after paragraph (f)—

Add

“(fa) CIS exposures;”.

18. Part 5, Division 3 (determination of risk-weights applicable to on-balance sheet exposures)

Part 5, Division 3, heading—

Repeal

“On-balance Sheet Exposures”

Substitute

“Exposures other than CIS Exposures”.

[Explanatory note: It is proposed to expand the scope of Division 3 to cover not only on-balance sheet exposures but also off-balance sheet exposures. See paragraph 3 for details.]

19. Section added

Before section 109—

Add

“108A. Application of Division 3

This Division applies to both on-balance sheet exposures and off-balance sheet exposures, except such exposures that are CIS exposures.”.

[Explanatory note: A new section is proposed to clarify the scope of application of Division 3.]

20. Section 116 (other exposures)

(1) Section 116(1)(b)(i)—

Repeal

“117A”

Substitute

“117A and are not CIS exposures to which Division 3A applies”.

(2) Section 116(1)(b)(ii)—

Repeal

“on-balance sheet”.

[Explanatory note: The above amendment is to make section 116 applicable to off-balance sheet exposures.]

(3) Section 116(1)(b)(ii)—

Repeal

“115”

Substitute

“115 and are not CIS exposures to which Division 3A applies”.

21. Section 117 (credit-linked notes)

(1) Section 117(a)(i)—

Repeal

“116”

Substitute

“116 and Division 3A”.

(2) Section 117(a)(ii)—

Repeal

“121(3), (4), (5) or (6)”

Substitute

“117AA(d), (e), (f) or (g)”.

[Explanatory note: The new amendment proposed to section 117(a)(ii) is due to the relocation of section 121 from Division 4 to Division 3.]

22. Section added

After section 117A—

Add

“117AA. Determination of risk-weight applicable to certain off-balance sheet exposures

In determining the risk-weight applicable to an off-balance sheet exposure of an authorized institution (*subject exposure*) in accordance with this Division—

- (a) if the subject exposure is an asset sale with recourse or a forward asset purchase, the risk-weight applicable to the subject exposure is the risk-weight applicable to the assets sold or purchased;
- (b) if the subject exposure is partly paid-up shares and securities, the risk-weight applicable to the subject exposure is the risk-weight applicable to the relevant shares or securities;
- (c) subject to paragraphs (d), (e), (f) and (g), if the subject exposure is a direct credit substitute arising from the selling of a credit derivative contract in the form of total return swap or credit default swap in the institution’s banking book, the risk-weight applicable to the subject exposure is the risk-weight applicable to the relevant reference obligation in respect of the credit derivative contract;
 - (d) if the subject exposure referred to in paragraph (c) arises from a first-to-default credit derivative contract—
 - (i) subject to subparagraph (ii), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract; and
 - (ii) the risk-weight applicable to the subject exposure is subject to a cap of 1,250%;
 - (e) if the subject exposure referred to in paragraph (c) arises from a second-to-default credit derivative contract—
 - (i) subject to subparagraph (ii), the risk-weight applicable to the subject exposure is the sum of the risk-weights applicable to the reference obligations in the basket of reference obligations specified in the contract but excluding the lowest of those risk-weights; and
 - (ii) the risk-weight applicable to the subject exposure is subject to a cap of 1,250%;
 - (f) if the subject exposure referred to in paragraph (c) arises from any other subsequent-to-default credit derivative contract, paragraph (e), with all necessary modifications, applies to that contract as that paragraph applies to a second-to-default credit derivative contract so that the reference to “lowest” in paragraph (e)(i) is construed to mean “lowest and second lowest” in the case of a third-to-default credit derivative contract and “lowest, second lowest and third lowest” in the case of a fourth-to-default credit derivative contract and likewise for other subsequent-to-default credit derivative contracts;
 - (g) if the subject exposure referred to in paragraph (c) arises from a credit derivative contract that provides credit protection proportionately in respect of the reference obligations in the basket of reference obligations specified in the contract, the risk-weight applicable to the subject exposure is calculated by using Formula 13.

Formula 13

Calculation of Risk-weight of Off-balance Sheet Exposure Arising from Credit Derivative Contract that falls within paragraph (g)

$$RW_a = \sum_i (a_i \cdot RW_i)$$

where—

- (i) RW_a = weighted average risk-weight of a basket of reference obligations;

- (ii) a_i = proportion of credit protection allocated to reference obligation i; and
- (iii) RW_i = risk-weight of reference obligation i;

- (h) if the subject exposure is a default risk exposure in respect of a single-name credit default swap that falls within section 226J(1) and the amount of the default risk exposure is determined in accordance with section 226J(3), the risk-weight applicable to the subject exposure is the attributed risk-weight of the counterparty in respect of the swap without taking into account any recognized credit risk mitigation afforded to the swap;
- (i) if the subject exposure arises from a commitment to extend a residential mortgage loan, a risk-weight determined in accordance with section 115 may be allocated to the subject exposure only if the institution has no reason to believe that any of the provisions of that section will not be satisfied immediately after the loan that is the subject of that commitment is drawn down.”.

[Explanatory note: The requirements set out in the new section proposed above are essentially those that are currently set out in section 121(2) to (7). Because of the expansion of the scope of application of Division 3 to cover off-balance sheet exposures, the requirements in section 121 should be set out in Division 3 instead of Division 4.]

23. Part 5, Division 3A added

[Explanatory note: See paragraph 12 above.]

Part 5, after Division 3—

Add

“Division 3A—Calculation of Risk-weighted Amount of Authorized Institution’s CIS Exposures

Subdivision 1—Interpretation and Application

Y5. Application of Division 3A

This Division applies to an authorized institution’s calculation of the risk-weighted amounts of its CIS exposures booked in its banking book.

Y5A. Interpretation of Division 3A

In this Division—

fall-back approach means the approach for determining the risk-weight of a CIS exposure or an underlying exposure of a collective investment scheme set out in section Y10;

future holding, in relation to an authorized institution, means the institution’s potential future holding of a regulatory deductible item referred to in section 44(2)(c), 47(2)(c), 48(2)(b) or 48A(2);

Level 1 CIS—see section Y5B;

Level 2 CIS—see section Y5B;

Level n CIS—see section Y5B;

look-through approach means the approach for calculating the risk-weighted amount of an underlying exposure of a collective investment scheme set out in section Y7;

mandate-based approach means the approach for calculating the risk-weighted amounts of the underlying exposures of a collective investment scheme set out in section Y8;

regulatory deductible item, in relation to the calculation of the risk-weighted amount of a CIS exposure by an authorized institution, means—

- (a) a CET1 capital instrument, an Additional Tier 1 capital instrument or a Tier 2 capital instrument issued by the institution or a financial sector entity other than the institution;
- (b) a non-capital LAC liability of the institution or a financial sector entity other than the institution;
- (c) a capital instrument issued by a financial sector entity other than the institution that is treated as—
 - (i) a CET1 capital instrument under section 4(1)(c) of Schedule 4F or section 1(4)(d) of Schedule 4G;
 - (ii) an Additional Tier 1 capital instrument under section 4(3) of Schedule 4F or section 1(6) of Schedule 4G; or
 - (iii) a Tier 2 capital instrument under section 4(3) of Schedule 4F or section 1(6) of Schedule 4G;

third-party approach means the approach under which an authorized institution uses the risk-weighted amounts of the underlying exposures of a collective investment scheme calculated by a third party as inputs for the institution’s own calculation of the risk-weighted amount of a CIS exposure to that scheme.

Y5B. Interpretation: certain terms involving CIS exposures held by a collective investment scheme

- (1) If an authorized institution has a CIS exposure to a collective investment scheme and such CIS exposure is held directly by the institution, that collective investment scheme is a Level 1 CIS.
- (2) If a Level 1 CIS has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the Level 1 CIS, that another collective investment scheme is a Level 2 CIS.
- (3) If the Level 2 CIS has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the Level 2 CIS, the Level 1 CIS is referred to as having an indirect CIS exposure to that another collective investment scheme through one interposed collective investment scheme.
- (4) If—
 - (a) the Level 1 CIS has an indirect CIS exposure to another collective investment scheme through the Level 2 CIS and at least one interposed collective investment scheme; and
 - (b) none of the underlying exposures of that another collective investment scheme is a CIS exposure,

each interposed collective investment scheme (other than the Level 2 CIS) and that another collective investment scheme are referred to individually as a Level n CIS.

- (5) If a collective investment scheme has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the first collective investment scheme, the first collective investment scheme is referred to as a collective investment scheme at a level immediately above that another collective investment scheme.

Subdivision 2—CIS exposures that constitute holdings of regulatory deductible items

Y5C. Application of Subdivision 2

This Subdivision applies to a CIS exposure of an authorized institution to a Level 1 CIS, or any part of such CIS exposure, that constitutes—

- (a) the institution’s direct holding, indirect holding, synthetic holding or future holding of an item falling within paragraph (a) or (c) of the definition of *regulatory deductible item* in section Y5A; or
- (b) the institution’s indirect holding, synthetic holding or future holding of an item falling within paragraph (b) of the definition of *regulatory deductible item* in section Y5A.

Y5D. Treatment of CIS exposures falling within section Y5C(a) or (b)

- (1) If a CIS exposure of an authorized institution to a Level 1 CIS, or any part of such CIS exposure, constitutes a holding falling within section Y5C(a) or (b) (*subject holding*), the institution must—
 - (a) determine whether any amount of the subject holding must be deducted from its capital base in accordance with Division 4 of Part 3; and
 - (b) make any deduction so determined from its capital base accordingly.
- (2) If—
 - (a) a subject holding of an authorized institution is an insignificant LAC investment; and
 - (b) by virtue of section 5 of Schedule 4F, no amount of, or only part of, the subject holding is deducted from the institution’s capital base in accordance with sections 43(1)(o), 47(1)(c) and 48(1)(c),
 any amount of the subject holding that is not deducted from the institution’s capital base must be allocated a risk-weight of 100%.
- (3) If—
 - (a) a subject holding of an authorized institution falls within section 48A; and
 - (b) by virtue of section 48(3), no amount of, or only part of, the subject holding is deducted from the institution’s capital base in accordance with section 48(1)(g)(i),
 any amount of the subject holding that is not deducted from the institution’s capital base must be allocated a risk-weight of 100%.
- (4) If—
 - (a) a subject holding of an authorized institution is a significant LAC investment; and
 - (b) by virtue of section 1(7) of Schedule 4G, no amount of, or only part of, the subject holding is deducted from the institution’s CET1 capital in accordance with section 43(1)(p),
 any amount of the subject holding that is not deducted from the institution’s CET1 capital must be allocated a risk-weight of 250%.

[Explanatory note: Sections Y5C and Y5D are equivalent to section X11 in the 2019 consultative document.]

Subdivision 3—CIS exposures that do not constitute holdings of regulatory deductible items

Y5E. Application of Subdivision 3

- (1) Subject to subsection (2), this Subdivision applies to the calculation of the risk-weighted amount of a CIS exposure.
- (2) If the CIS exposure is a CIS exposure of an authorized institution to a Level 1 CIS, this Subdivision does not apply to —
 - (a) any part of the CIS exposure (which may be all of the CIS exposure) that is required to be deducted from the institution’s capital base under Division 4 of Part 3; and

- (b) any part of the CIS exposure (which may be all of the CIS exposure) that is required to be risk-weighted in accordance with section Y5D(2), (3) or (4).

Y6. Approaches to be used for determining risk-weighted amount of underlying exposure of collective investment scheme

- (1) An authorized institution may, at its own discretion, choose to determine the risk-weight applicable to a CIS exposure to a Level 1 CIS by—
 - (a) using the fall-back approach in accordance with section Y10(1); or
 - (b) calculating the risk-weighted amount of the underlying exposures of the scheme with the use of the approach determined in accordance with subsections (1A), (1B) and (1C).
- (1A) Subject to subsection (5), an authorized institution must use the look-through approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if both of the conditions set out in subsection (2) are met in respect of the scheme.
- (1B) Subject to subsection (5), an authorized institution has an option to use the third-party approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—
 - (a) either or both of the conditions set out in subsection (2) are not met in respect of the scheme;
 - (b) the third party concerned recalculates and updates the risk-weighted amount of the underlying exposures of the scheme at a frequency that is the same as, or more frequent than, that of the institution's financial reporting; and
 - (c) all the conditions set out in section Y6A are met.

[Explanatory note: Subsection (1B)(b) is added to mirror the requirement in subsection (3)(a).]
- (1C) Subject to subsection (5), an authorized institution must use the mandate-based approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—
 - (a) either or both of the conditions set out in subsection (2) are not met in respect of the scheme; and
 - (b) either—
 - (i) the third-party approach is infeasible (including the case where either or both of the conditions set out in subsection (1B)(b) and (c) are not met); or
 - (ii) the institution chooses not to use the third-party approach.
- (2) The conditions are as follows—
 - (a) there is sufficient and frequent information available to the institution regarding the underlying exposures of the scheme; and
 - (b) the information and underlying exposures are verified by an independent third party who may be a depository, a custodian bank or (where applicable) a management company.
- (3) The condition in subsection (2)(a) is met in respect of the scheme only if—
 - (a) the frequency of financial reporting of the scheme is the same as, or more frequent than, that of the institution's financial reporting; and
 - (b) the granularity of the financial information provided in the scheme's financial report is sufficient for determining the risk-weighted amount of its underlying exposures in accordance with the look-through approach.
- (4) For the purposes of subsection (3), the financial report of a collective investment scheme needs not be an audited report.

- (5) An authorized institution may use any combination of the look-through approach, mandate-based approach and fall-back approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—
 - (a) it is not feasible to use the same approach for all the underlying exposures; and
 - (b) the requirements applicable to the approach concerned set out in this Subdivision are met in respect of the underlying exposures for which the approach is used.

Y6A. Conditions for using third-party approach

The conditions specified for section Y6(1B)(c) are—

- (a) the third party concerned is the depository or the management company (however described) of the collective investment scheme concerned (*subject CIS*);
- (b) the third party calculates the risk-weighted amount of all the underlying exposures of the subject CIS (*third-party output*) in accordance with either of the following—
 - (i) section X7(1) as if—
 - (A) the third party were an authorized institution that holds a CIS exposure to the subject CIS directly; and
 - (B) sections 66(1)(a) and (2)(b), 68A and X11 did not exist;
 - (ii) the capital standards issued by the Basel Committee that are currently in force and correspond to the following Parts of these Rules—
 - (A) Part 4, other than section 66(1)(a) and (2) in respect of regulatory deductible items, section 68A, Subdivision 2 of this Division and section X11; and
 - (B) Parts 6A and 7, to the extent applicable to authorized institutions that use the STC approach to calculate their credit risk for non-securitization exposures; and
- (c) an external auditor has confirmed the correctness of the calculations that generate the third-party output.

[Explanatory note: The conditions have been revised taken into account comments received from the industry in the 2019 consultation.]

Y7. Look-through approach

- (1A) This section sets out the look-through approach for calculating the risk-weighted amount of the underlying exposure of a collective investment scheme (*subject CIS*).
 - (1) Subject to section Y11—
 - (a) if an underlying exposure of the subject CIS is a CIS exposure to another CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with—
 - (i) section Y8A(2) or (4), as the case requires; and
 - (ii) section Y12(3);
 - (b) if an underlying exposure of the subject CIS is a capital investment in a commercial entity, the risk-weighted amount of such underlying exposure must be calculated in accordance with section Y9(1);
 - (c) if an underlying exposure of the subject CIS is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the subject CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with section Y9(2) and (3); and
 - (d) in any other case, the risk-weighted amount of the underlying exposure of the subject CIS must be calculated in accordance with Part 5 (other than this Division) or 7, or

Division 4 of Part 6A, as the case requires, as if the underlying exposure were held directly by the institution.

[Explanatory note: To enhance clarity, subsection (1) has been elaborated to set out explicitly the provisions applicable to underlying exposures that are CIS exposures, capital investments in commercial entities and exposures to CVA risk.]

Y7A. Third-party approach

- (1) This section applies to an authorized institution that uses the third-party approach to calculate the risk-weighted amount of the underlying exposures of a collective investment scheme (*subject CIS*).
- (2) An authorized institution must calculate the risk-weighted amount of the underlying exposures of the subject CIS as the product of—
 - (a) the third-party output in respect of the subject CIS provided by the third party concerned (see section Y6A(b)); and
 - (b) 1.2.
- (3) The institution must not use an amount other than the product calculated under subsection (2) as the aggregate risk-weighted amount of the underlying exposures of the subject CIS for the purposes of Formula 12A in section Y12.

Y8. Mandate-based approach

- (1A) This section sets out the mandate-based approach for calculating the risk-weighted amounts of the underlying exposures of a collective investment scheme (*subject CIS*).
- (1) An authorized institution must calculate the risk-weighted amounts of the underlying exposures of the subject CIS in accordance with subsection (2) and based on the information contained in any one or more of the following documents—
 - (a) the mandate of the subject CIS;
 - (b) other disclosures of the subject CIS; and
 - (b) if applicable, the legislation or regulations governing the subject CIS.
- (2) Subject to section Y11—
 - (a) if an underlying exposure of the subject CIS is a CIS exposure to another CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with—
 - (i) section Y8A(2) or (4), as the case requires; and
 - (ii) section Y12(3);
 - (b) if an underlying exposure of the subject CIS is a capital investment in a commercial entity, the risk-weighted amount of such underlying exposure must be calculated in accordance with section Y9(1);
 - (c) if an underlying exposure of the subject CIS is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the subject CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with section Y9(2) and (3); and
 - (d) in any other case, the risk-weighted amount of an underlying exposure of the subject CIS must be calculated in accordance with Part 5 (other than this Division) or 7, or Division 4 of Part 6A, as the case requires, as if the underlying exposures were held directly by the institution.
- (2A) For the purposes of subsection (2), the institution must estimate the amounts of the underlying exposures of the subject CIS as follows—

- (a) underlying exposures that fall within paragraph (ab)(i) of the definition of ***underlying exposures*** in section 2(1) must be estimated by assuming that the subject CIS—
 - (i) first invests in those assets that would attract the highest risk-weight under Parts 5 and 7, to the maximum extent allowed under the mandate of the subject CIS (or, if applicable, under the relevant legislation or regulations); and
 - (ii) then continues to invest in other assets in descending order of risk-weight, to the maximum extent allowed under the mandate of the subject CIS (or, if applicable, under the relevant legislation or regulations);
- (b) underlying exposures that fall within paragraph (ab)(ii) of the definition of ***underlying exposure*** in section 2(1) and arise from derivative contracts must be estimated as—
 - (i) the notional amount of the subject CIS’s position in the underlying exposures of the derivative contracts (within the meaning given by section 226A) entered into by the subject CIS;
 - (ii) if the underlying exposures of the derivative contracts are unknown—the full notional amount of the derivative contracts; or
 - (iii) if the notional amount of the derivative contracts is unknown—the maximum notional amount of derivative contracts allowed under the subject CIS’s mandate (or, if applicable, under the relevant legislation or regulations);
- (c) underlying exposures that fall within paragraph (ab)(iii) of the definition of ***underlying exposure*** in section 2(1) and arise from derivative contracts must be calculated, at the institution’s discretion, by using either—
 - (i) the SA-CCR approach; or
 - (ii) the current exposure method; and
- (d) any other underlying exposures (including those that fall within paragraph (ab)(iv) of the definition of ***underlying exposures*** in section 2(1)) must be estimated as—
 - (i) the contracted amount of the underlying exposures; or
 - (ii) if the contracted amount is unknown—the maximum contracted amount allowed under the subject CIS’s mandate (or, if applicable, under the relevant legislation or regulations).

(3) For the purposes of using the SA-CCR approach under subsection (2A)(c)(i)—

- (a) if the replacement cost of a netting set is unknown—
 - (i) the sum of the notional amounts of the derivative contracts in the netting set must be regarded as the replacement cost of the netting set; and
 - (ii) the value of the multiplier in Formula 23AM in section 226BR(1) must be set at 1;
- (b) if the potential future exposure of a netting set is unknown, the product of the sum of the notional amounts of the derivative contracts in the netting set and 15% must be regarded as the potential future exposure of the netting set.

[Explanatory note: Subsection (3) reflects the treatment set out in paragraph 60.7(3) of CRE60⁴ of the Basel Framework.]

- (3A) For the purposes of using the current exposure method under subsection (2A)(c)(ii)—
 - (a) if the replacement cost of a derivative contract is unknown, the notional amount of the contract must be regarded as the replacement cost of the contract; and

⁴ https://www.bis.org/basel_framework/chapter/CRE/60.htm?inforce=20191215

- (b) if the CCF applicable to a derivative contract is unknown, 47% must be regarded as the CCF applicable to the contract.
- (4) If the information available to the institution is not sufficient such that more than one risk-weight are applicable to an underlying exposure of the subject CIS, the institution must assign to the underlying exposure the highest of those applicable risk-weights.

Y8A. Provisions supplementary to sections Y7 and Y8—treatments for underlying exposures that are CIS exposures

- (1) If an authorized institution has a CIS exposure to a Level 1 CIS, subsection (2) applies to any CIS exposure to a Level 2 CIS directly held by the Level 1 CIS (*Level 2 CIS exposure*).
- (2) For the purpose of calculating the risk-weighted amount of a Level 2 CIS exposure, the institution must—
 - (a) determine the approach or approaches to be used to calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS in accordance with section Y6 as if the Level 2 CIS exposure were a CIS exposure to a Level 1 CIS held directly by the institution; and
 - (b) calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS—
 - (i) by using the approach or approaches determined under paragraph (a); and
 - (ii) in accordance with the provisions in this Subdivision applicable to that approach or those approaches.
- (3) Subsection (4) applies to any CIS exposure to a Level n CIS (*Level n CIS exposure*) if neither of the following is true in respect of the Level 2 CIS that interposes between the Level 1 CIS and the Level n CIS —
 - (a) the institution allocates a risk-weight of 1250% to the Level 2 CIS exposure concerned under the fall-back approach in accordance with section Y10(1);
 - (b) the institution uses the third-party approach to calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS.
- (4) For the purpose of calculating the risk-weighted amount of a Level n CIS exposure—
 - (a) the institution may calculate the risk-weighted amount of the underlying exposures of the Level n CIS by using the look-through approach only if—
 - (i) the risk-weighted amount of all or part of the underlying exposures of the CIS at the level immediately above the Level n CIS is also calculated by using the look-through approach;
 - (ii) the Level n CIS exposure is one of those underlying exposures that are subject to the look-through approach; and
 - (iii) both of the conditions set out in section Y6(2) are met in respect of the Level n CIS and all of its underlying exposures;
 - (b) in any other case, the institution must allocate a risk-weight of 1250% to the Level n CIS exposure under the fall-back approach in accordance with section Y10(1).

Y9. Provisions supplementary to sections Y7 and Y8—treatments for underlying exposures related to commercial entities and CVA risk

[Explanatory note: Revised section Y11 replaces section X9(2) and (4) in the 2019 consultative document.]

- (1) If an underlying exposure of a collective investment scheme is a capital investment in a commercial entity (*concerned investment*), an authorized institution must allocate a risk-weight to the concerned investment in accordance with those provisions of this Part that would be applicable to the concerned investment if—

- (a) the concerned investment were held directly by the institution; and
 - (b) sections 43(1)(n), 46(1) and 117A did not exist.
- (2) Subject to subsection (3), if an underlying exposure of a collective investment scheme is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the scheme with a counterparty, an authorized institution must, instead of using the methods set out in Division 3 of Part 6A, calculate the risk-weighted amount of the underlying exposure in accordance with paragraph (a), (b), (c) or (d), as the case requires, as if the derivative contracts or SFTs were entered into by the institution—
- (a) if the SA-CCR approach is used to calculate the default risk exposure in respect of the derivative contracts, the risk-weighted amount of the underlying exposure is equal to the product of the following 3 items—
 - (i) the default risk exposure in respect of the contracts;
 - (ii) 0.5;
 - (iii) the risk-weight applicable to the counterparty;
 - (b) if the current exposure method is used to calculate the default risk exposures in respect of the derivative contracts, the risk-weighted amount of the underlying exposure is equal to the product of the following 2 items—
 - (i) the sum of risk-weighted amounts of the default risk exposures in respect of the contracts calculated in accordance with section 129;
 - (ii) 0.5;
 - (c) if the default risk exposure in respect of the SFTs is not calculated under section 226MJ, the risk-weighted amount of the underlying exposure is equal to the product of the following 3 items—
 - (i) the default risk exposure in respect of the SFTs;
 - (ii) 0.5;
 - (iii) the risk-weight applicable to the counterparty;
 - (d) if the default risk exposures in respect of the SFTs are calculated under section 226MJ, the risk-weighted amount of the underlying exposure is equal to the product of the following 2 items—
 - (i) the sum of the risk-weighted amounts of the default risk exposures in respect of the SFTs calculated in accordance with section 129;
 - (ii) 0.5.

[Explanatory note: Subsection (2) is equivalent to section X9(5) in the 2019 consultative document, with elaboration to enhance clarity.]

- (3) The institution may exclude the default risk exposures in respect of the following items from the calculations under subsection (2)—
- (a) derivative contracts and SFTs of the scheme that are entered into with qualifying CCPs; and
 - (b) SFTs of the scheme that are not entered into with qualifying CCPs, where no information obtained by the institution for the purposes of using the look-through approach or the mandate-based approach suggests that the scheme's CVA risk arising from those SFTs is material.

[Explanatory note: Subsection (3) is a simplified version of section X9(6) in the 2019 consultative document, with industry comments taken into consideration.]

Y10. Fall-back approach

- (1A) This section sets out the fall-back approach for determining the risk-weight applicable to a CIS exposure or an underlying exposure of, a collective investment scheme.
- (1) Subject to subsection (2), an authorized institution must allocate a 1250% risk-weight to a CIS exposure.
- (2) If the fall-back approach is used in combination with one or more than one other approach to calculate the risk-weighted amount of the underlying exposures of a collective investment scheme, any underlying exposure of such scheme that is subject to the fall-back approach must be allocated a 1250% risk-weight.

[Explanatory note: Section X10(2) in the 2019 consultative document is no longer needed as the treatment for regulatory deductible items has been revised in light of industry comments (see Subdivision 2 proposed above and revised section Y11 below).]

Y11. Treatment of certain regulatory deductible items held by collective investment schemes

[Explanatory note: The requirements set out in section X11 in the 2019 consultative document are moved to Subdivision 2.]

- (1) This section applies to a CIS exposure of an authorized institution to a Level 1 CIS if both of the following circumstances occur—
- (a) the whole or any part of the CIS exposure constitutes one or more than one holding that falls within section Y5C(a) or (b) (**portion A**); and
- (b) the holding referred to in paragraph (a) is—
- (i) fully deducted from the capital base of the institution under Division 4 of Part 3;
- (ii) partially deducted from the capital base of the institution under Division 4 of Part 3 and partially risk-weighted under section Y5D(2), (3) or (4); or
- (iii) fully risk-weighted under section Y5D(2), (3) or (4).
- (2) For the purpose of calculating the aggregate risk-weighted amount of underlying exposures referred to in section Y12(1)(b)(i) in respect of such portion of the CIS exposure that is not portion A, the institution may—
- (a) if the regulatory deductible items concerned are held directly by the Level 1 CIS—exclude such regulatory deductible items from the underlying exposures of the Level 1 CIS;
- (b) if the regulatory deductible items concerned are held directly by another collective investment scheme that is a Level 2 CIS or a Level n CIS—exclude such regulatory deductible items from the underlying exposures of that another scheme.

[Explanatory note: The treatment for eliminating double-counting of regulatory deductible items in the calculation of risk-weighted amounts of CIS exposures has been revised in light of industry comments received during the 2019 consultation.]

Y12. Calculation of risk-weighted amount of CIS exposure

- (1) The risk-weighted amount of a CIS exposure ($RWA_{CIS\ exposure}$) of a Level 1 CIS is calculated by using Formula 12A—

Formula 12A

$$RWA_{CIS\ exposure} = \text{Effective RW} * P_{CIS\ exposure}$$

where—

- (a) Effective RW is—
- (i) if the CIS exposure is risk-weighted by using the fall-back approach in accordance with section Y10(1)—1250%; or

- (ii) in any other case—the effective risk-weight applicable to the CIS exposure calculated by multiplying Avg RW_{CIS} by Leverage, subject to a cap of 1250%;
 - (b) Subject to section Y11, Avg RW_{CIS} is the amount calculated by dividing the amount specified in subparagraph (i) by the amount specified in subparagraph (ii)—
 - (i) the aggregate the risk-weighted amount of the underlying exposures of the Level 1 CIS calculated by using—
 - (A) the look-through approach;
 - (B) the third-party approach;
 - (C) the mandate-based approach; or
 - (D) a combination of any two or more of the look-through approach, the mandate-based approach and the fall-back approach;
 - (ii) the total assets of the scheme;
 - (c) Leverage is—
 - (i) if the risk-weighted amount of all or part of the underlying exposures of the scheme is determined by using the look-through approach—the ratio of the total assets of the scheme to its total equity; or
 - (ii) if subparagraph (i) is not applicable and the risk-weighted amount of all or part of the underlying exposures of the scheme is determined by using the mandate-based approach—the maximum financial leverage permitted by the scheme’s mandate or by the legislation or regulations governing the scheme, as the case may be;
 - (d) subject to subsection (2), P_{CIS exposure} is—
 - (i) if the CIS exposure is an on-balance sheet exposure—the principal amount of the CIS exposure;
 - (ii) if the CIS exposure is an off-balance sheet exposure—the credit equivalent amount of the CIS exposure.
- (2) If the maximum financial leverage of the scheme is used as an input to Formula 12A, P_{CIS exposure} of the CIS exposure to the scheme may be adjusted by regarding the total equity implied by the maximum financial leverage as the actual total equity of the scheme.

[Explanatory note:

Please see paragraph 99.121 of CRE99⁵ of the Basel Framework for an example of how the amount of a bank’s investment in a fund is calculated based on the fund’s total assets and maximum financial leverage.

Section X12(2) in the 2019 consultative document is replaced by revised section Y11 above.]

- (3) For the purposes of sections Y7(1)(a) and Y8(2)(a), the risk-weighted amount of a CIS exposure to a collective investment scheme that is a Level 2 CIS or a Level n CIS (**subject CIS**) must be calculated by using Formula 12A with the following modifications—
- (a) any reference to “Level 1 CIS” or “scheme” in subsections (1) and (2) must be construed as a reference to “subject CIS”; and
 - (b) paragraph (b)(i) in that formula must be construed to read “the aggregate risk-weighted amount of the underlying exposures of the subject CIS calculated by using the approach or approaches determined in accordance with section Y8A(2) or (4), as the case requires.”.

⁵ https://www.bis.org/basel_framework/chapter/CRE/99.htm?inforce=20191215

[Explanatory note: Subsection (3) is intended to clarify how risk-weighted amounts of CIS exposures held by other collective investment schemes should be calculated.]

24. Section 121 (determination of risk-weights applicable to off-balance sheet exposures)

Section 121—

Repeal the section.

[Explanatory note: The requirements in section 121 will be relocated to Division 3.]

25. Section 130 (on-balance sheet netting)

Section 130(1), after “on-balance sheet exposures”—

Add

“(other than CIS exposure)”.

Part 6 of BCR

26. Section 139 amended (interpretation of Part 6)

Section 139(1)—

Add in alphabetical order

“*CIS calculation approach* means—

- (a) the look-through approach;
- (b) the third-party approach;
- (c) the mandate-based approach; or
- (d) the fall-back approach.

fall-back approach means the approach for determining the risk-weighted amount of a CIS exposure or an underlying exposure of a collective investment scheme set out in section Z10;

look-through approach means the approach for determining the risk-weighted amount of an underlying exposure of a collective investment scheme set out in section Z7;

mandate-based approach means the approach for determining the risk-weighted amount of an underlying exposure of a collective investment scheme set out in section Z8;

third-party approach means the approach under which an authorized institution uses the risk-weighted amounts of the underlying exposures of a collective investment scheme calculated by a third party as inputs for the institution’s own calculation of the risk-weighted amount of a CIS exposure to that scheme.”.

27. Section 140 amended (calculation of risk-weighted amount of exposures)

(1) Section 140(1), after “(1B)—

Add

“, (1BA)”.

(2) Section 140(1A), after “(1B)—

Add

“, (1BA)”.

(3) Section 140, after subsection (1B)—

Add

“(1BA) For an equity exposure that is a CIS exposure, the authorized institution must calculate the risk-weighted amount of the exposure in accordance with Division 7A.”.

28. Section 142 amended (classification of exposures)

(1) Section 142(1)(b)—

Repeal

“26”

Substitute

“27”.

(2) Section 142(1), Table 16, item 5, column 3, after item (f)—

Add

“(g) Equity exposures (CIS exposures)”.

29. Section 145 amended (equity exposures)

(1) Section 145(1)(b)—

Repeal subparagraph (iii)

Substitute

“(iii) holdings of any CIS exposures;”.

(2) Section 145(1)(b)(vii), after “scheme”—

Add

“(other than a collective investment scheme)”.

(3) Section 145(1)(c), after “equity holding”—

Add

“(other than equity holding in a collective investment scheme)”.

30. Section 147 amended (IRB calculation approaches)

Section 147(1), Table 17, item 5, column 3, after paragraph (c)—

Add

“(d) CIS calculation approach”.

31. Section 183 amended (equity exposures—general)

(1) Section 183(1), after “subsections”—

Add

“(1A)”.

(2) Section 183(1)—

Repeal everything after “using—”

Substitute

“(a) the market-based approach;

(b) the PD/LGD approach; or

(c) the CIS calculation approach.”

- (3) Section 183, after subsection (1)—

Add

“(1A) An authorized institution must use the CIS calculation approach to calculate the risk-weighted amount of a CIS exposure or the underlying exposures of a collective investment scheme, as the case may be, in accordance with Division 7A.”.

- (4) Section 183—

Repeal subsection (4).

32. Section 184 amended (Market-based approach)

- (1) Section 184(2), after “section 186(1)”—

Add

“and the application of section Z6A(1)(b)(i)(A), Z7(2)(a), or Z8(2)(d)(i) wherever required in Division 7A”.

- (2) Section 184(3), after “in its banking book”—

Add

“except the application of section Z6A(1)(b)(i)(A), Z7(2)(a), or Z8(2)(d)(i) wherever required in Division 7A.”.

33. Part 6, Division 7A added

Part 6, after Division 7—

Add

“Division 7A—Calculation of Risk-weighted Amount of Authorized Institution’s CIS Exposures

Z5. Application of Division 7A

This Division applies to an authorized institution’s calculation of the risk-weighted amounts of its CIS exposures booked in its banking book.

Z5A. Interpretation of Division 7A

In this Division—

future holding, in relation to an authorized institution, means the institution’s potential future holding of a regulatory deductible item referred to in section 44(2)(c), 47(2)(c), 48(2)(b) or 48A(2);

Level 1 CIS—see section Z5B;

Level 2 CIS—see section Z5B;

Level n CIS—see section Z5B;

regulatory deductible item, in relation to the calculation of the risk-weighted amount of a CIS exposure by an authorized institution, means—

- (a) a CET1 capital instrument, an Additional Tier 1 capital instrument or a Tier 2 capital instrument issued by the institution or a financial sector entity other than the institution;
- (b) a non-capital LAC liability of the institution or a financial sector entity other than the institution;
- (c) a capital instrument issued by a financial sector entity other than the institution that is treated as—

- (i) a CET1 capital instrument under section 4(1)(c) of Schedule 4F or section 1(4)(d) of Schedule 4G;
- (ii) an Additional Tier 1 capital instrument under section 4(3) of Schedule 4F or section 1(6) of Schedule 4G; or
- (iii) a Tier 2 capital instrument under section 4(3) of Schedule 4F or section 1(6) of Schedule 4G;

Z5B. Interpretation: certain terms involving CIS exposures held by a collective investment scheme

- (1) If an authorized institution has a CIS exposure to a collective investment scheme and such CIS exposure is held directly by the institution, that collective investment scheme is a Level 1 CIS.
- (2) If a Level 1 CIS has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the Level 1 CIS, that another collective investment scheme is a Level 2 CIS.
- (3) If the Level 2 CIS has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the Level 2 CIS, the Level 1 CIS is referred to as having an indirect CIS exposure to that another collective investment scheme through one interposed collective investment scheme.
- (4) If—
 - (a) the Level 1 CIS has an indirect CIS exposure to another collective investment scheme through the Level 2 CIS and at least one interposed collective investment scheme; and
 - (b) none of the underlying exposures of that another collective investment scheme is a CIS exposure,
 each interposed collective investment scheme (other than the Level 2 CIS) and that another collective investment scheme are referred to individually as a Level n CIS.
- (5) If a collective investment scheme has a CIS exposure to another collective investment scheme and such CIS exposure is held directly by the first collective investment scheme, the first collective investment scheme is referred to as a collective investment scheme at a level immediately above that another collective investment scheme.

Z6. Approaches to be used for determining risk-weighted amount of underlying exposure of collective investment scheme

- (1) Subject to subsection (5), an authorized institution must use the look-through approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if both of the conditions set out in subsection (2) are met in respect of the scheme.
- (1A) Subject to subsection (5), an authorized institution has an option to use the third-party approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—
 - (a) either or both of the conditions set out in subsection (2) are not met in respect of the scheme;
 - (b) the third party concerned recalculates and updates the risk-weighted amount of the underlying exposures of the scheme at a frequency that is the same as, or more frequent than, that of the institution’s financial reporting; and
 - (c) all the conditions set out in section Z6A are met.
- (1B) Subject to subsection (5), an authorized institution must use the mandate-based approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—

- (a) either or both of the conditions set out in subsection (2) are not met in respect of the scheme; and
 - (b) either—
 - (i) the third-party approach is infeasible (including the case where either or both of the conditions set out in subsection (1A)(b) and (c) are not met); or
 - (ii) the institution chooses not to use the third-party approach.
- (1C) Subject to subsection (5), an authorized institution must use the fall-back approach to determine the risk-weight applicable to a CIS exposure to a Level 1 CIS if—
- (a) either or both of the conditions set out in subsection (2) are not met in respect of the scheme;
 - (b) either—
 - (i) the third-party approach is infeasible (including the case where either or both of the conditions set out in subsection (1A)(b) and (c) are not met); or
 - (ii) the institution chooses not to use the third-party approach; and
 - (c) it is not feasible to use the mandate-based approach.
- (2) The conditions are as follows—
- (a) there is sufficient and frequent information available to the institution regarding the underlying exposures of the scheme; and
 - (b) the information and underlying exposures are verified by an independent third party who may be a depository, a custodian bank or (where applicable) a management company.
- (3) The condition in subsection (2)(a) is met in respect of the scheme only if—
- (a) the frequency of financial reporting of the scheme is the same as, or more frequent than, that of the institution’s financial reporting; and
 - (b) the granularity of the financial information provided in the scheme’s financial report is sufficient for determining the risk-weighted amount of its underlying exposures in accordance with the look-through approach.
- (4) For the purposes of subsection (3), the financial report of a collective investment scheme needs not be an audited report.
- (5) An authorized institution may use any combination of the look-through approach, mandate-based approach and fall-back approach to calculate the risk-weighted amount of the underlying exposures of a Level 1 CIS if—
- (a) it is not feasible to use the same approach for all the underlying exposures; and
 - (b) the requirements applicable to the approach concerned set out in this Division are met in respect of the underlying exposures for which the approach is used.

Z6A. Conditions for using third-party approach

- (1) The conditions specified for section Z6(1A)(c) are—
 - (a) the third party concerned is the depository or the management company (however described) of the collective investment scheme concerned (*subject CIS*);
 - (b) the third party calculates the risk-weighted amount of all the underlying exposures of the subject CIS (*third-party output*) in accordance with either of the following—
 - (i) subject to section Z7(1)(a), (b) and (c), the following requirements as if it were an authorized institution that holds a CIS exposure to the subject CIS directly—
 - (A) use the simple risk-weight method if the exposure is an equity exposure (other than CIS exposure);

- (B) use the SEC-ERBA, SEC-SA or SEC-FBA under Part 7, as the case requires, if the exposure is a securitization exposure; and
 - (C) apply Part 4 (other than Division 3A), or Division 4 of Part 6A, as the case requires, if the exposure does not fall under sub-subparagraph (A) or (B), except that section 66(1)(a) and (2) in respect of regulatory deductible items do not apply to the determination of third-party output;
- (ii) the capital standards issued by the Basel Committee that are currently in force with the conditions specified in subparagraph (i)(A), (B) and (C) above; and
- (c) an external auditor has confirmed the correctness of the calculations that generate the third-party output.
- (2) To avoid doubt, if an authorized institution that uses the third-party approach to determine the risk-weighted amount of the underlying exposures of a Level 1 CIS knows that the institution's CIS exposure to such Level 1 CIS (or any part of such CIS exposure) constitutes one or more than one of the following holdings—
- (a) the institution's direct holding, indirect holding, synthetic holding or future holding of an item falling within paragraph (a) or (c) of the definition of *regulatory deductible item* in section Z5A; and
 - (b) the institution's indirect holding, synthetic holding or future holding of an item falling within paragraph (b) of the definition of *regulatory deductible item* in section Z5A;
- such CIS exposure must continue to be subject to the requirement set out in Division 4 of Part 3, section 183(1) and (7), where appropriate.
- [Explanatory note: Subsection (2) is intended to set out the capital treatment of the CIS exposures constituting holdings of regulatory deductible items, which aligns with the provisions in section X5D under the STC approach.]*

Z7. Look-through approach

- (1A) This section sets out the look-through approach for calculating the risk-weighted amount of the underlying exposure of a collective investment scheme (*subject CIS*).
- (1) Subject to section Z11—
 - (a) if an underlying exposure of the subject CIS is a CIS exposure to another CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with—
 - (i) section Z8A(2) or (4), as the case requires; and
 - (ii) section Z12(3);
 - (b) if an underlying exposure of the subject CIS is a capital investment in a commercial entity, the risk-weighted amount of such underlying exposure must be calculated in accordance with section Z9(1);
 - (c) if an underlying exposure of the subject CIS is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the subject CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with section Z9(2) and (3); and
 - (d) in any other case, subject to subsections (2) and (3), the risk-weighted amount of the underlying exposure of the subject CIS must be calculated in accordance with Part 6 (other than this Division) or 7, or Division 4 of Part 6A, as the case requires, as if the underlying exposure were held directly by the institution.
 - (2) If it is not feasible for an authorized institution to use the IRB calculation approaches set out in Table 17 or the SEC-IRBA, as the case may be, to determine the risk-weighted amount of an underlying exposure of a collective investment scheme in accordance with the applicable

requirements set out in Part 6 (other than this Division) or Part 7, whichever is applicable, the institution must determine the risk-weighted amount of the underlying exposure by—

- (a) using the simple risk-weight method if the exposure is an equity exposure (other than CIS exposure);
 - (b) using the SEC-ERBA, SEC-SA or SEC-FBA under Part 7, as the case requires, if the exposure is a securitization exposure; and
 - (c) applying Part 4 (other than Division 3A) if the exposure does not fall under paragraph (a) or (b).
- (3) If an underlying exposure is not a securitization exposure and to which an existing exemption (within the meaning of section 12(5)(a)) relates, an authorized institution must, subject to section Z9, apply Part 4 (other than Division 3A) or Division 4 of Part 6A, as the case requires, to determine the risk-weighted amount of the underlying exposure.

Z7A. Third-party approach

- (1) This section applies to an authorized institution that uses the third-party approach to calculate the risk-weighted amount of the underlying exposures of a collective investment scheme (*subject CIS*).
- (2) An authorized institution must calculate the risk-weighted amount of the underlying exposures of the subject CIS as the product of—
 - (a) the third-party output in respect of the subject CIS provided by the third party concerned (see section Z6A(1)(b)); and
 - (b) 1.2.
- (3) The institution must not use an amount other than the product calculated under subsection (2) as the aggregate risk-weighted amount of the underlying exposures of the subject CIS for the purposes of Formula 1A in section Z12.

Z8. Mandate-based approach

- (1A) This section sets out the mandate-based approach for calculating the risk-weighted amounts of the underlying exposures of a collective investment scheme (*subject CIS*).
- (1) An authorized institution must calculate the risk-weighted amounts of the underlying exposures of the subject CIS in accordance with subsection (2) and based on the information contained in any one or more of the following documents—
 - (a) the mandate of the subject CIS;
 - (b) other disclosures of the subject CIS; and
 - (c) if applicable, the legislation or regulations governing the subject CIS.
- (2) Subject to section Z11—
 - (a) if an underlying exposure of the subject CIS is a CIS exposure to another CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with—
 - (i) section Z8A(2) or (4), as the case requires; and
 - (ii) section Z12(3);
 - (b) if an underlying exposure of the subject CIS is a capital investment in a commercial entity, the risk-weighted amount of such underlying exposure must be calculated in accordance with section Z9(1);
 - (c) if an underlying exposure of the subject CIS is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the subject CIS, the risk-weighted amount of such underlying exposure must be calculated in accordance with section Z9(2) and (3); and

- (d) in any other case, the risk-weighted amount of the underlying exposure of the subject CIS must be calculated as if the underlying exposures were held directly by the institution by—
 - (i) using the simple risk-weight method if the exposure is an equity exposure not covered by an existing exemption (within the meaning of section 12(5)(a));
 - (ii) using the SEC-ERBA, SEC-SA or SEC-FBA under Part 7, as the case requires, if the exposure is a securitization exposure; and
 - (iii) applying Part 4 (other than Division 3A), or Division 4 of Part 6A, as the case requires, if the exposure does not fall under subparagraph (i) or (ii).
- (2A) For the purposes of subsection (2), the institution must estimate the amounts of the underlying exposures of the subject CIS as follows—
 - (a) underlying exposures that fall within paragraph (ab)(i) of the definition of ***underlying exposures*** in section 2(1) must be estimated by assuming that the subject CIS—
 - (i) first invests in those assets that would attract the highest risk-weight under Parts 4 and 7, to the maximum extent allowed under the mandate of the subject CIS (or, if applicable, under the relevant legislation or regulations); and
 - (ii) then continues to invest in other assets in descending order of risk-weight, to the maximum extent allowed under the mandate of the subject CIS (or, if applicable, under the relevant legislation or regulations);
 - (b) underlying exposures that fall within paragraph (ab)(ii) of the definition of ***underlying exposure*** in section 2(1) and arise from derivative contracts must be estimated as—
 - (i) the notional amount of the subject CIS’s position in the underlying exposures of the derivative contracts (within the meaning given by section 226A) entered into by the subject CIS;
 - (ii) if the underlying exposures of the derivative contracts are unknown—the full notional amount of the derivative contracts; or
 - (iii) if the notional amount of the derivative contracts is unknown—the maximum notional amount of derivative contracts allowed under the subject CIS’s mandate (or, if applicable, under the relevant legislation or regulations);
 - (c) underlying exposures that fall within paragraph (ab)(iii) of the definition of ***underlying exposures*** in section 2(1) and arise from derivative contracts must be calculated by using the SA-CCR approach; and
 - (d) any other underlying exposures (including those that fall within paragraph (ab)(iv) of the definition of ***underlying exposures*** in section 2(1)) must be estimated as—
 - (i) the contracted amount of the underlying exposures; or
 - (ii) if the contracted amount is unknown—the maximum contracted amount allowed under the subject CIS’s mandate (or, if applicable, under the relevant legislation or regulations).
- (3) For the purpose of using the SA-CCR approach under subsection (2A)(c)—
 - (a) if the replacement cost of a netting set is unknown—
 - (i) the sum of the notional amounts of the derivative contracts in the netting set must be regarded as the replacement cost of the netting set; and
 - (ii) the value of the multiplier in Formula 23AM in section 226BR(1) must be set at 1;
 - (b) if the potential future exposure of a netting set is unknown, the product of the sum of the notional amounts of the derivative contracts in the netting set and 15% must be regarded as the potential future exposure of the netting set.

- (4) If the information available to the institution is not sufficient such that more than one risk-weight are applicable to an underlying exposure of the subject CIS, the institution must assign to the underlying exposure the highest of those applicable risk-weights.

Z8A. Provisions supplementary to sections Z7 and Z8—treatments for underlying exposures that are CIS exposures

- (1) If an authorized institution has a CIS exposure to a Level 1 CIS, subsection (2) applies to any CIS exposure to a Level 2 CIS directly held by the Level 1 CIS (*Level 2 CIS exposure*).
- (2) For the purpose of calculating the risk-weighted amount of a Level 2 CIS exposure, the institution must—
 - (a) determine the approach or approaches to be used to calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS in accordance with section Z6 as if the Level 2 CIS exposure were a CIS exposure to a Level 1 CIS held directly by the institution; and
 - (b) calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS—
 - (i) by using the approach or approaches determined under paragraph (a); and
 - (ii) in accordance with the provisions in this Division applicable to that approach or those approaches.
- (3) Subsection (4) applies to any CIS exposure to a Level n CIS (*Level n CIS exposure*) if neither of the following is true in respect of the Level 2 CIS that interposes between the Level 1 CIS and the Level n CIS—
 - (a) the institution allocates a risk-weight of 1250% to the Level 2 CIS exposure concerned under the fall-back approach in accordance with section Z10(1);
 - (b) the institution uses the third-party approach to calculate the risk-weighted amount of the underlying exposures of the Level 2 CIS.
- (4) For the purpose of calculating the risk-weighted amount of a Level n CIS exposure—
 - (a) the institution may calculate the risk-weighted amount of the underlying exposures of the Level n CIS by using the look-through approach only if—
 - (i) the risk-weighted amount of all or part of the underlying exposures of the CIS at the level immediately above the Level n CIS is also calculated by using the look-through approach;
 - (ii) the Level n CIS exposure is one of those underlying exposures that are subject to the look-through approach; and
 - (iii) both of the conditions set out in section Z6(2) are met in respect of the Level n CIS and all of its underlying exposures;
 - (b) in any other case, the institution must allocate a risk-weight of 1250% to the Level n CIS exposure under the fall-back approach in accordance with section Z10(1).

Z9. Provisions supplementary to sections Z7 and Z8—treatments for underlying exposures related to commercial entities and CVA risk

- (1) If an underlying exposure of a collective investment scheme is a capital investment in a commercial entity (*concerned investment*), an authorized institution must allocate a risk-weight to the concerned investment in accordance with those provisions of this Part that would be applicable to the concerned investment if—
 - (a) the concerned investment were held directly by the institution; and
 - (b) sections 43(1)(n), 46(1), 183(5) and 183(6) did not exist.

- (2) Subject to subsection (3), if an underlying exposure of a collective investment scheme is an exposure to CVA risk in respect of derivative contracts or SFTs entered into by the scheme with a counterparty, an authorized institution must, instead of using the methods set out in Division 3 of Part 6A, calculate the risk-weighted amount of the underlying exposure in accordance with paragraph (a) or (b), as the case requires, as if the derivative contracts or SFTs were entered into by the institution—
 - (a) in the case of derivative contracts or SFTs for which the default risk exposure is not calculated under section 226MJ, the risk-weighted amount of the underlying exposure is equal to the product of the following 3 items—
 - (i) the default risk exposure in respect of the derivative contracts or SFTs, as the case may be;
 - (ii) 0.5;
 - (iii) the risk-weight applicable to the counterparty.
 - (b) in the case of SFTs for which the default risk exposures are calculated under section 226MJ, the risk-weighted amount of the underlying exposure is equal to the product of the following 2 items—
 - (i) the sum of the risk-weighted amounts of the default risk exposures in respect of the SFTs calculated in accordance with section 202;
 - (ii) 0.5.
- (3) The institution may exclude the default risk exposures in respect of the following items from the calculations under subsection (2)—
 - (a) derivative contracts and SFTs of the scheme that are entered into with qualifying CCPs; and
 - (b) SFTs of the scheme that are not entered into with qualifying CCPs, where no information obtained by the institution for the purposes of using the look-through approach or the mandate-based approach suggests that the scheme’s CVA risk arising from those SFTs is material.

Z10. Fall-back approach

- (1A) This section sets out the fall-back approach for determining the risk-weight applicable to a CIS exposure or an underlying exposure of a collective investment scheme.
 - (1) Subject to subsection (2), an authorized institution must allocate a 1250% risk-weight to a CIS exposure.
 - (2) If the fall-back approach is used in combination with one or more than one other approach to calculate the risk-weighted amount of the underlying exposures of a collective investment scheme, any underlying exposure of such scheme that is subject to the fall-back approach must be allocated a 1250% risk-weight.

Z11. Treatment of regulatory deductible items held by collective investment schemes

- (1) This section applies to a CIS exposure of an authorized institution to a Level 1 CIS if both of the following circumstances occur—
 - (a) the whole or any part of the CIS exposure (*portion A*) constitutes one or more than one holding in respect of—
 - (i) the institution’s direct holding, indirect holding, synthetic holding or future holding of an item falling within paragraph (a) or (c) of the definition of *regulatory deductible item* in section Z5A; and

- (ii) the institution's indirect holding, synthetic holding or future holding of an item falling within paragraph (b) of the definition of *regulatory deductible item* in section Z5A; and
- (b) the holding referred to in paragraph (a) is —
 - (i) fully deducted from the capital base of the institution under Division 4 of Part 3;
 - (ii) partially deducted from the capital base of the institution under Division 4 of Part 3 and partially risk-weighted under section 183(1) or (7); or
 - (iii) fully risk-weighted under section 183(1) or (7).
- (2) For the purpose of calculating the aggregate risk-weighted amount of underlying exposures referred to in section Z12(1)(b)(i) in respect of such portion of the CIS exposure that is not portion A, the institution may—
 - (a) if the regulatory deductible items concerned are held directly by the Level 1 CIS—exclude such regulatory deductible items from the underlying exposures of the Level 1 CIS
 - (b) if the regulatory deductible items concerned are held directly by another collective investment scheme that is a Level 2 CIS or a Level n CIS—exclude such regulatory deductible items from the underlying exposures of that another scheme.
- (3) To avoid doubt, if a CIS exposure of an authorized institution to a Level 1 CIS (or any part of such CIS exposure) constitutes one or more than one of the holdings falling within subsection (1)(a)(i) or (ii), such CIS exposure must continue to be subject to the requirement set out in Division 4 of Part 3, section 183(1) and (7), where appropriate.

[Explanatory note: Subsection (3) is intended to set out the capital treatment of the CIS exposures constituting holdings of regulatory deductible items, which aligns with the provisions in section X5D under the STC approach.]

Z12. Calculation of risk-weighted amount of CIS exposure

- (1) The risk-weighted amount of a CIS exposure ($RWA_{CIS\ exposure}$) to a Level 1 CIS is calculated by using Formula 1A—

Formula 1A

$$RWA_{CIS\ exposure} = \text{Effective RW} * P_{CIS\ exposure}$$

where—

- (a) Effective RW is—
 - (i) if the CIS exposure is risk-weighted by using the fall-back approach in accordance with section Z10(1)—1250%; or
 - (ii) in any other case—the effective risk-weight applicable to the CIS exposure calculated by multiplying Avg RW_{CIS} by Leverage, subject to a cap of 1250%;
- (b) Subject to section Z11, Avg RW_{CIS} is the amount calculated by dividing the amount specified in subparagraph (i) by the amount specified in subparagraph (ii)—
 - (i) the aggregate risk-weighted amount of the underlying exposures of the Level 1 CIS calculated by using—
 - (A) the look-through approach;
 - (B) the third-party approach;
 - (C) the mandate-based approach; or
 - (D) a combination of any two or more of the look-through approach, the mandate-based approach and the fall-back approach;
 - (ii) the total assets of the scheme;

- (c) Leverage is—
 - (i) if the risk-weighted amount of all or part of the underlying exposures of the scheme is determined by using the look-through approach—the ratio of the total assets of the scheme to its total equity; or
 - (ii) if subparagraph (i) is not applicable and the risk-weighted amount of all or part of the underlying exposures of the scheme is determined by using the mandate-based approach—the maximum financial leverage permitted by the scheme’s mandate or by the legislation or regulations governing the scheme, as the case may be;
- (d) subject to subsection (2), $P_{CIS\ exposure}$ is—
 - (i) if the CIS exposure is an on-balance sheet exposure—the principal amount of the CIS exposure;
 - (ii) if the CIS exposure is an off-balance sheet exposure—the credit equivalent amount of the CIS exposure.
- (2) If the maximum financial leverage of the scheme is used as an input to Formula 1A, $P_{CIS\ exposure}$ of the CIS exposure to the scheme may be adjusted by regarding the total equity implied by the maximum financial leverage as the actual total equity of the scheme.
- (3) For the purposes of sections Z7(1)(a) and Z8(2)(a), the risk-weighted amount of a CIS exposure to a collective investment scheme that is a Level 2 CIS or a Level n CIS (*subject CIS*) must be calculated by using Formula 1A with the following modifications—
 - (a) any reference to “Level 1 CIS” or “scheme” in subsections (1) and (2) must be construed as a reference to “subject CIS”; and
 - (b) paragraph (b)(i) in that formula must be construed to read “the aggregate risk-weighted amount of the underlying exposures of the subject CIS calculated by using the approach or approaches determined in accordance with section Z8A(2) or (4), as the case requires.”.

34. Section 202 amended (securities financing transactions)

Section 202(4)—

Repeal paragraphs (b) and (c)

Substitute

- “(b) the risk-weight function for retail exposures;
- (c) the market-based approach or the PD/LGD approach for equity exposures (except CIS exposures); or
- (d) Division 7A for CIS exposures.”.

35. Section 222 amended (equity exposures—market-based approach)

(1) Section 222, heading—

Repeal

“—market-based approach”

Substitute

“subject to market-based approach and CIS exposures”.

(2) Section 222—

Renumber the section as section 222(1).

(3) Section 222, after subsection (1)—

Add

“(2) The EL amount of CIS exposures, regardless of the approach used by the authorized institution concerned in calculating the risk-weighted amount of the CIS exposures, is taken to be zero.”.

Schedules to BCR

36. Schedule 6 (credit quality grades)

Schedule 6—

Repeal Table D.