Annex 1

Proposed amendments to the Banking (Exposure Limits) Rules ("BELR")

1. The proposed amendments to the BELR set out in this document are largely consequential to the concurrent process to amend the Banking (Capital) Rules (Cap. 155L) ("BCR") for the implementation of the Basel III final reform package. Please therefore read this set of proposed BELR amendments together with the Hong Kong Monetary Authority ("HKMA")'s earlier consultations on amending the regulatory capital framework under the BCR, which can be found at the HKMA's supervisory communication website (under the "Closed" tab at https://www.stet.iclnet.hk/PWS/CMS.nsf/html/ConsultationPapers_3_13.htm):
   - Implementation of Basel III final reform package – credit risk and output floor dated 30 June 2022: Please see Annex 1 (referred to as "CR-Proposal-Annex 1" in this document); and
   - Soft consultation on market and CVA risk dated 11 October 2022: Please see Annex 1 (referred to as "MAR-Proposal-Annex 1" in this document).

2. Unless otherwise stated—
   - tables, formulas, rules, subdivisions, divisions, parts and schedules mentioned in this document are those of the BELR; and
   - chapters of the Basel Framework mentioned in this document are those chapters that are effective on 1 January 2023[1].

[1] https://www.bis.org/basel_framework/index.htm

I. AMENDMENTS TO PART 1 (PRELIMINARY)

Item 1. Amend rule 2 (Interpretation)

Amendments to be made	**Remarks (including references)**
(1) Add the following definitions under rule 2(1) to give the following effect— ***Specified SFT*** has the meaning given by [the new subsection as proposed in CR-Proposal-Annex 1 Item 71(5)] of the BCR.	Consequential to the proposal set out under Item 6 and Item 20 below.
(2) Add the following definitions under rule 2(2)— (a) ***securities financing transaction***; (b) ***SFT***.	(a) Existing definition of "securities financing transaction" in rule 39(2) to be relocated to rule 2(2) (see Item 11(6)) in light that its acronym, "SFT", is proposed to be added to rule 2(2) (see below). (b) Consequential to wider references to "SFT" in Parts 2 and 7 as proposed in this document.

Item 2. Amend rule 6 (Monetary Authority may require applying these Rules on unconsolidated or consolidated basis)

Amendments to be made	Remarks (including references)
(1) [Before rule 6(1), add a new subrule] to give the following effect— An AI shall comply with the requirements of any Part of the BELR applicable to it on an unconsolidated basis, unless otherwise required in a notice given to the AI by the MA under rule 6(1). (2) Repeal "For applying" in rule 6(1) and replace with "Subject to [the new subrule proposed under paragraph (3) below], for applying". (3) [After rule 6(1) but before rule 6(2), add a new subrule] to give the following effect— For the application of any provision of the BELR to an AI on an unconsolidated basis under rule 6(1)(a) or (c), the MA may require the AI to apply the provision on a solo-consolidated basis instead of an unconsolidated basis in respect of such of its subsidiaries which are members of its consolidation group as specified in the notice given to the AI under rule 6(1). (4) Add [a new paragraph (aa) immediately after paragraph (a) of rule 6(2)] to give the following effect—	Paragraph (1) of this item—Rule 6(1) empowers the MA to give notice to an AI incorporated in Hong Kong that has any subsidiary to require it to apply any provision of the BELR on a certain specified basis or bases. The proposed new subrule makes it clear that specifying a basis for complying with the BELR is relevant for all AIs, including an AI incorporated in Hong Kong that does not have any subsidiary as well as an AI incorporated outside Hong Kong, depending on the scope of application specified in each Part of the BELR (see rules 10, 22, 26, 30, 34, 43 and 86). Paragraphs (2), (3) and (4) of this item—The structure of rule 6 mirrors that of the parallel provision in the BCR regarding the basis of calculation of an AI's capital adequacy ratio (see section 3C(1) of the BCR). However, unlike the BCR (for example, sections 27(1), 28 and 30 thereof), there is no provision in the BELR that clearly provides for a locally incorporated AI that has any subsidiary may be required to adopt a solo-consolidated basis instead of an unconsolidated basis. These three proposed paragraphs serve to clarify this. Guidance on the application of solo-consolidated basis under the BELR are provided in section 2.4 of the

Amendments to be made	Remarks (including references)
applying a provision on a solo-consolidated basis means applying the provision on the basis that the business of the AI includes those mentioned in rule 6(2)(a), and the business of its subsidiaries as may be specified in the notice given to the AI under rule 6(1) to give effect to [the new subrule proposed in paragraph (3) above]. (5) [After rule 6(3) but before rule 6(4), add a new subrule] to give the following effect— Where a notice has been given to an AI under rule 6(1) to apply any provision of the BELR on a solo-consolidated basis, a consolidated basis or both bases and such notice remains in effect (a "Rule 6 Notice"), the AI shall give notice in writing to the MA of any of the following matters as soon as is practicable after the AI is aware of the matter or ought to be aware of the matter— (a) a subsidiary specified in a Rule 6 Notice ceasing to be a subsidiary of the AI; (b) an entity has newly become a subsidiary of the AI; (c) the principal activities of the subsidiary referred to in subparagraph (b) above;	SPM module, CR-L-1 "Consolidated Supervision of Concentration Risks: BELR Rule 6", which will be updated where necessary. Paragraph (5) of this item—Where a locally incorporated AI is required to apply any provisions of the BELR on a solo-consolidated basis and/or consolidated basis under rule 6, the MA would like to ensure that he will be informed of any material change in respect of the AI and/or its subsidiaries that are in-scope for solo-consolidation or consolidation on a timely basis. This is to enable the MA to assess the impact of such change on the AI's compliance with the relevant BELR rules on applicable specified basis. Hence, the notification requirement is proposed along the lines of the parallel requirements set out in section 27(4) of the BCR.

Amendments to be made	Remarks (including references)
(d) any significant change to the principal activities of the AI or any of its subsidiaries (including a subsidiary specified in a Rule 6 Notice and a subsidiary referred to in subparagraph (b) above).	

Item 3. Amend rule 7 (Notifiable event—prescribed notification requirement under section 81C of Ordinance)

Amendments to be made	Remarks (including references)
Repeal rule 7(2)(k)(i).	Consequential to the proposal to repeal rule 48(1)(e) and (f) under Item 12(1) below.

II. AMENDMENTS TO PART 2 (EQUITY)

II(i) Amendments to Division 1

Item 4. Amend rule 9 (Interpretation: equity exposure)

Amendments to be made	Remarks (including references)
Repeal the entire content of rule 9 and substitute with a provision to give	The meaning of equity exposure in rule 9 was adapted from the definition

Amendments to be made	Remarks (including references)
the following effect— (1) For this Part, an equity exposure of an AI means an exposure that meets any of the following descriptions— (a) subject to paragraph (2), an exposure that is classified by the AI as an equity exposure under [the new BCR section as proposed in CR-Proposal-Annex 1 Item 34]; or (b) an exposure that arises from the AI's holding in the equity components of a CIS[2] that is engaged in the business of investing in equity or the acquisition and disposal of equity interests, provided that such holding is not consolidated for determining the AI's capital base in accordance with Part 3 of the BCR. (2) For the purposes of subrule (1)(a)— (a) [paragraph (1)(c) of the new BCR section proposed in CR-Proposal-Annex 1 Item 34] is deemed to read as— "(c) (if classification of the exposure is for the purpose of	of "equity exposure" used in the internal ratings-based approach for credit risk ("IRB approach") (see section 145 of the BCR), which in turn came from the 2006 Basel II framework. Under the Basel III final reform package, the treatment of equity exposures (other than CIS exposures[3]) will be migrated from the IRB approach to the revised standardized approach for credit risk ("STC approach"). In this connection, CR-Proposal-Annex 1 Item 34 proposes a new definition of "equity exposure" under the STC approach for the BCR. As a consequence, and for better consistency, it is proposed that the IRB approach-based meaning of equity exposure in rule 9 be modified to refer to this new definition of "equity exposure" under the STC approach. CR-Proposal-Annex 1 Item 34 carves out CIS exposure from the definition of "equity exposure" in order to accommodate the different prescribed capital treatment for CIS exposures set out in Part 6B of the BCR. On the other hand, Part 2 of the BELR captures AIs' equity exposures arising from investments in CISs. Therefore, paragraph (1)(b) seeks to reinstate CIS exposures of an AI as a component of equity exposure for the purposes of rule 9 of the BELR, drawing on the relevant

[2] The term "CIS" is defined in rule 2(1) of the BELR.
[3] The term "CIS exposure" is defined in section 2(1) of the BCR.

Amendments to be made	Remarks (including references)
applying any provision of this Part on a solo-consolidated basis as specified in a notice given to the AI under rule 6(1) that is in force) the issuer is the subject of solo-consolidation specified in the notice given to the AI; or"; (b) [paragraph (1)(d) of the new BCR section proposed in CR-Proposal-Annex 1 Item 34] is deemed to read as— "(d) (if classification of the exposure is for the purpose of applying any provision of this Part on a consolidated basis as specified in a notice given to the AI under rule 6(1) that is in force) the issuer is the subject of consolidation specified in the notice given to the AI.".	description in the proposed repealed rule 9(2)(c). Paragraph (2) adapts CR-Proposal-Annex 1 Items 34(1)(c) and 34(1)(d) so that they fit in the context of the BELR.

II(ii) Amendments to Division 3

Item 5. Amend rule 14 (Equity exposure disregarded)

Amendments to be made	Remarks (including references)
(1) Repeal "that falls within the description under rule 9(2)(i)" in rule	Consequential to the proposed amendments to rule 9 under Item 4.

Amendments to be made	Remarks (including references)
14(1)(d).	
(2) Repeal the entire content of rule 14(1)(f) and substitute with a provision to give the following effect— an equity exposure arising from the holding of any capital interest[4] to the extent that it is deducted in determining the capital base of the AI in accordance with Part 3 of the BCR.	The revised meaning of equity exposure under the STC approach proposed to be adopted under rule 9 (see Item 4) carves out all equity exposures that are required to be deducted in accordance with Division 4 of Part 3 of the BCR (see CR-Proposal-Annex 1 Item 34(1)(b)). However, as the basis of consolidation (or solo-consolidation) of an AI for BELR purposes might differ from that of the AI for BCR purposes, the revised meaning of equity exposure in rule 9 might capture an equity exposure of an AI which is deducted from the AI's capital base under the BELR but not under the BCR (i.e. where CR-Proposal-Annex 1 Item 34(1)(b) is not applicable to that exposure). Therefore, existing rule 14(1)(f) provides an avenue for an AI to exclude such equity exposure for the purposes of Part 2 of the BELR, to which the following modifications are proposed: (a) the requirement for the MA's approval is proposed to be removed in view that the carve-out of exposures deducted from capital base is a default treatment under the Basel Committee's risk-based capital framework and large exposures framework (the latter has

[4] See rule 14(4) for the definition of "capital interest".

Amendments to be made	Remarks (including references)
	been integrated into the full set of standards issued by the BCBS (i.e. the Basel Framework) under the standard "LEX—Large Exposures"[5]); and (b) the current text "under Part 3 of the Capital Rules" is proposed to be amended to cater for the case that the constituent subsidiaries of an AI subject to consolidation (or solo-consolidation) for BELR purposes and for BCR purposes may differ.

II(iii) Amendments to Division 4

Item 6. Amend rule 19 (Equity exposure arising from repo-style transaction)

Amendments to be made	Remarks (including references)
Repeal the heading and the entire content of rule 19 and substitute with a provision to give the following effect— **19. Equity exposure arising from SFTs** In valuing an AI's equity exposure arising from a specified SFT[6], the AI	Rule 19 is proposed to be revised to align it with the amendments to the relevant provisions under the STC approach as proposed in CR-Proposal-Annex 1 Item 71.

[5] https://www.bis.org/basel_framework/standard/LEX.htm.
[6] The definition of "specified SFT" is proposed to be added to rule 2(1) under Item 1(1).

Amendments to be made	Remarks (including references)
must— (1) treat the equity interest arising from the securities sold or lent, or the securities provided as collateral, under the SFT as an on-balance sheet exposure of the AI as if the AI had never entered into the SFT; and (2) value the exposure in accordance with the applicable provision in Division 4.	

III. AMENDMENTS TO PART 7 (SINGLE COUNTERPARTY AND GROUP OF LINKED COUNTERPARTIES)

III(i) Amendments to Division 1

Item 7. Amend rule 39 (Interpretation of Part 7 and Schedule 1) — To add new definitions under rule 39(1)

Matters to be provided	Remarks (including references)
gross jump-to-default risk amount has the meaning given by section 281 of the BCR as proposed in MAR-Proposal-Annex 1 Part A(3) Item 2(4).	Consequential to the proposal set out under Item 25. This Item is intended to take effect from the implementation date of the revised market risk capital framework.

Item 8. Amend rule 39 (Interpretation of Part 7 and Schedule 1) — To amend the following definitions under rule 39(1)

Amendments to be made	Remarks (including references)
(1) Repeal the definition of "recognized collateral" and replace with a definition to give the following effect— ***recognized collateral—*** (a) in relation to an AI that uses the BSC approach to calculate its credit risk for non-securitization exposures under the BCR—means a collateral that meets the requirements of section 77(1)(a) of the BCR as proposed in [CR-Proposal-Annex 1 Item 81(1)(a)]; (b) in relation to an AI that uses the STC approach, or a combination of the STC approach and IRB approach, to calculate its credit risk for non-securitization exposures under the BCR— (i) where the AI uses the simple approach to the treatment of recognized collateral in accordance with section 78 of the BCR—means a collateral that meets the requirements of section 77(1)(a) of the BCR [CR-Proposal-Annex 1 Item 81(1)(a)];	The existing definition of "recognized collateral" under rule 39(1) cross-refers to sections 77, 78, 79 and 80 of the BCR under the STC approach, which are to be revised in full or in part as proposed in CR-Proposal-Annex 1. The following consequential revisions are thus proposed: (a) paragraph (a) of the revised definition caters for an AI that uses the BSC approach for credit risk ("BSC AI"); and (b) paragraph (b) of the revised definition is designed to cater for two types of AIs, namely— • an AI that uses only the STC approach to calculate its credit risk for non-securitization exposures ("STC AI"); and • an AI that uses the IRB approach in respect of the categories of its non-securitization exposures for which an approval to use the IRB approach has been granted by the MA under section 8(2)(a) of the BCR, and the STC approach for the remaining categories of its non-securitization exposures ("IRB AI").

Amendments to be made	Remarks (including references)
(ii) where the AI uses the comprehensive approach to the treatment of recognized collateral in accordance with section 78 of the BCR—means a collateral that meets the requirements of section 77(1)(b) of the BCR [CR-Proposal-Annex 1 Item 81(1)(b)].	
(2) Repeal the definition of "recognized credit derivative contract" and replace with a definition to give the following effect— ***recognized credit derivative contract***, in relation to an exposure of an AI, has the meaning given by section 51(1) of the BCR, as if section 99 and [the new section proposed in CR-Proposal-Annex 1 Item 100] of the BCR were applicable to the AI, with the modification that it does not include a credit-linked note.	The current definition of "recognized credit derivative contract" makes reference to its meaning under section 51(1) of the BCR, which would be revised by CR-Proposal-Annex 1 Item 28(5) to include cross-reference to not only section 99 of the BCR but also a new section proposed in CR-Proposal-Annex 1 Item 100. Consequential amendments to such definition under the BELR are therefore proposed.

Item 9. Amend rule 39 (Interpretation of Part 7 and Schedule 1) — To repeal the following definitions under rule 39(1)

Amendments to be made	Remarks (including references)
(1) ***forward asset purchase***	This definition is no longer necessary given the proposed change under

Amendments to be made	Remarks (including references)
	Item 19.
(2) ***original maturity period***	Ditto.
(3) ***residential mortgage loan***	Consequential to the proposed amendments under Item 23.
(4) ***Table A***	This definition is no longer necessary given the proposed change under Item 19.

Item 10. Amend rule 39 (Interpretation of Part 7 and Schedule 1) — To add the following definitions under rule 39(2)

Matters to be provided	Remarks (including references)
(1) ***CCF***	Consequential to the proposed amendments under Item 19 and Item 26.
(2) ***delivery-versus-payment basis***	Consequential to the proposed amendments under Item 21.
(3) ***internal model***	Consequential to the proposed amendments under Item 17 and Item 18.
(4) ***loss given default***	Consequential to [new rule 77B(2)(a)] proposed under Item 25(3).

Matters to be provided	Remarks (including references)
(5) ***positive current exposure***	Consequential to the proposed amendments under Item 21.
(6) ***SA-CCR approach***	To incorporate a defined term in the BCR introduced by the Banking Capital (Amendment) Rules 2020 ("BCAR 2020").
(7) ***SSTM approach***	Consequential to amendments driven by the implementation of the revised market risk capital framework under the BCR. This Item is intended to take effect from the implementation date of the revised market risk capital framework.
(8) ***STM approach***	Ditto (i.e. this Item is also intended to take effect from the implementation date of the revised market risk capital framework under the BCR).
(9) ***unsegregated collateral***	Consequential to the proposed amendments under Item 24.

Item 11. Amend rule 39 (Interpretation of Part 7 and Schedule 1)—To repeal the following existing definitions under rule 39(2)

Amendments to be made	Remarks (including references)
(1) ***asset sale with recourse***	This definition is no longer necessary given the proposed change under Item 19.
(2) ***direct credit substitute***	Ditto.
(3) ***forward forward deposits placed***	Ditto.
(4) ***note issuance and revolving underwriting facilities***	Ditto.
(5) ***partly paid-up shares and securities***	Ditto.
(6) ***securities financing transaction***	This definition is proposed to be relocated to rule 2(2) under Item 1(2)(a) to cater for wider references to it as proposed in this document.
(7) ***trade-related contingency***	This definition is no longer necessary given the proposed change under Item 19.
(8) ***transaction-related contingency***	Ditto.

III(ii) Amendments to Division 3

Item 12. Amend rule 48 (Exposure disregarded)

Amendments to be made	Remarks (including references)
(1) Repeal rule 48(1)(e) and (f).	Paragraphs (e) and (f) of rule 48(1), respectively, provide exemption from the large exposures limits under rule 44 in respect of: (1) an exposure arising from any share capital, debt securities or investment structure acquired by an AI in the course of the satisfaction of debts due to it; and (2) an exposure arising from any share capital or debt securities acquired under an underwriting or sub-underwriting contract. These are legacy exemptions carried over from the obsolete section 81 of the BO and are not provided for in the LEX standard. To address a finding of a peer review conducted by the BCBS in 2019 under the Regulatory Consistency Assessment Programme ("RCAP") on Hong Kong's large exposures framework[7], the MA proposes to repeal rule 48(1)(e) and (f) to bring the local regulation to a closer alignment with the LEX standard. Based on empirical data collected at the time of the RCAP and in the quantitative impact study conducted in December 2021, this proposal is not expected to have a significant impact on AIs.

[7] https://www.bis.org/bcbs/publ/d492.pdf

Amendments to be made	Remarks (including references)
(2) Amend rule 48(1)(l) to give the following effect— (a) add "subject to [rule 48A(b) proposed under paragraph (5) below]," before "an exposure" in the chapeau; and (b) add "in respect of the IPO" before "received by the receiving bank" in rule 48(1)(l)(ii). (3) [8]Add a [new paragraph (la) before rule 48(1)(m)] to give the following effect— (la) subject to [rule 48A proposed under paragraph (5) below], an exposure of the AI under the following circumstances— (i) the AI acts as a designated bank in an IPO; and (ii) the exposure is incurred to another AI for placing the subscription monies in respect of the IPO received by the designated bank to the interbank market, including by means of a swap contract in relation to foreign exchanges.	Existing exemption for receiving banks under rule 48(1)(l) Rule 48(1)(l) provides an exemption to the exposures, incurred by an AI that acts as a receiving bank in an initial public offering ("IPO") to other AIs, when the AI recycles the subscription monies it receives in the interbank market. This local feature was assessed as a deviation from the LEX standard[7]. However, given the MA's statutory function to promote the general stability and effective working of the banking system, the MA has considered this exemption to be important for facilitating the timely recycle of subscription monies by a receiving bank during an IPO and, in turn, for ensuring the liquidity of the local interbank market. The implementation of FINI[12], which was said to be designed to (amongst other things) address "*the unique liquidity lock-up issue that extremely large or unexpectedly popular IPOs can create for the Hong Kong dollar money market*", provides an opportunity to review the continued relevance of the exemption under rule 48(1)(l). In this connection, the MA is minded to take a prudent and cautious approach to allow time for market participants (including AIs) to get

[8] This proposed paragraph mirrors the proposed amended rule 48(1)(l).
[12] FINI refers to "Fast Interface for New Issuance", which is a new IPO settlement platform promulgated by the Hong Kong Stock Exchanges and Clearing Limited ("HKEX").

Amendments to be made	Remarks (including references)
(4) Add a new definition of "designated bank" in rule 48(4) to give the following effect— ***designated bank***, in relation to an IPO, has the same meaning assigned to "Designated Bank" in Chapter 1 of the General Rules of CCASS published, and as updated from time to time (including the issuance of any replacement rules), by the Hong Kong Stock Exchanges and Clearing Limited[9]. (5) Add a [new rule 48A immediately after rule 48 (and under Subdivision 1 of Division 3 of Part 7)] to give the following effect— **48A. Provisions supplementary to rule 48(1)(l) and [(la)]** (a) [10] [Rule 48(1)(la)] will come into effect when an announcement is made by the MA to that effect in accordance with paragraph (c). (b) Rule 48(1)(l) or [(la)], or both, will cease to have effect when	familiarised with the operations of FINI. The MA thus proposes to retain the exemption for receiving banks under rule 48(1)(l) for the time being, but to add flexibility to remove it sometime after the implementation of FINI (see paragraphs (2)(a) and (5) of this item, and footnote 14 below). Paragraph (2)(b) of this item aims to make it clear that the subscription monies mentioned in rule 48(1)(l)(ii) relate to the IPO mentioned in rule 48(1)(l)(i). New exemption for designated banks under FINI Consistent with the MA's policy intent to strike a balance between consistency with the LEX standard and ensuring adequate liquidity in the local interbank market during IPOs as mentioned above, the MA proposes to— • add an exemption in favour of designated banks upon implementation of FINI on the same basis as the amended exemption for receiving banks under rule 48(1)(l) (see paragraphs (3), (4) and (5) of this item);

[9] "Designated Bank" is defined under Chapter 1 of the General Rules of CCASS as "in relation to any Participant, any bank in Hong Kong designated by that Participant and approved by HKSCC for money settlement purposes" (https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Rules/HKSCC/Rules?sc_lang=en).
[10] Reference is made to sections 3P(7) and (9) and 143(1)(e) of the BCR.

Amendments to be made	Remarks (including references)
an announcement is made by the MA to that effect in accordance with paragraph (c). (c) [11]An announcement under paragraph (a) or (b) must be made by the MA by— (i) notifying all AIs in writing; and (ii) posting a notification on the MA's website.	and • add a simple "switch-on" and "switch-off" mechanism to (i) dovetail the effective date of this new exemption to the HKEX's final implementation date for FINI[13]; and (ii) turn off the new exemption after an observation period on the operation of FINI (say, 2-3 years) (see paragraph (5) of this item) where appropriate. For any switch-off announcement, the MA is prepared to give a reasonable notification period to AIs (e.g. 3 to 6 months) to allow time for adjustment[14].
(6) Add [a new paragraph before rule 48(1)(n)] to give the following effect— an exposure that falls within [Item 10 "Exempt commitments" in the Table in the new BCR schedule on credit conversion factors as proposed in CR-Proposal-Annex 1 Item 216(1)].	Footnote 43 to CRE20.94 of the Basel Framework provides for national discretion to exempt certain specified arrangements from the definition of "commitments" ("Specified Arrangements"). The MA proposes to exercise such discretion by capturing the Specified Arrangements as a new type of off-balance sheet exposure called "Exempt commitments"

[11] Reference is made to sections 3P(11) and 143(6) of the BCR.
[13] FINI has a target implementation date of June 2023. Subject to the legislative outcome of the proposed amendments to the BELR, in the event that FINI is formally implemented on or before the effective date of the amended BELR, the MA will aim to "switch on" the new exemption for designated banks on that effective date.
[14] The arrangement for "switch-off" of the new exemption for designated banks set out in this paragraph is also relevant to a possible "switch-off" of the existing exemption for a receiving bank under the amended rule 48(1)(l) as proposed in this Item.

Amendments to be made	Remarks (including references)
	but assigning to it a credit conversion factor ("CCF")[15] of 0% (see Item 10 in the Table under CR-Proposal-Annex 1 Item 216(1)). It is thus necessary to carve out "Exempt commitment", by amending rule 48 as proposed, from an AI's calculation of ASC exposure[16] to a counterparty, otherwise a minimum CCF of 10% will be assigned to the Specified Arrangements pursuant to rule 65.

Item 13. Add a new rule under Subdivision 2 (Credit Risk Mitigation) of Division 3

Matters to be provided	Remarks (including references)
Add a [new rule 48B under Subdivision 2 of Division 3 and before rule 49] to provide for the following effect— **48B. Credit risk mitigation—General** (1) Subject to paragraphs (2), (3) and (4), an AI must reduce the value of an exposure of the AI by taking into account the effect of a	Consequential to the amended section 52(5) and (6) of the BCR as proposed in Item 31(5) and (6) of CR-Proposal-Annex 1 that requires AIs to comply with certain disclosure standards to obtain capital relief in respect of any credit risk mitigation ("CRM") techniques, a new [rule 48B] is proposed to incorporate the new CRM requirement into Part 7 of the BELR and to better align with LEX30.9.

[15] The term "CCF" is defined under section 2(1) of the BCR and proposed to be added under rule 39(2) of the BELR (see Item 10(1) of this document).
[16] An "ASC exposure" means an "aggregate single counterparty exposure". Both terms are defined under rule 39(1).

Matters to be provided	Remarks (including references)
recognized CRM[17] in the calculation of the AI's ASC exposure to a counterparty— (a) if the AI has taken into account the effect of the same form of recognized credit risk mitigation (within the meaning of section 2(1) of the BCR) in its calculation of the risk-weighted amount for credit risk in respect of the exposure under the BCR; and (b) in accordance with applicable requirements set out in this Subdivision and Division 6. (2) In the case of a CCR exposure[18] in respect of derivative contracts valued in accordance with rule 59, or a CCR exposure in respect of SFTs[19] valued in accordance with rule 60, an AI must not, for the purpose of paragraph (1), take into account the effect of any recognized CRM applicable to the exposure that has already been taken into account in the calculation of the amount of the default risk exposure of the contract or transaction under Part 6A of the	• Paragraph (1)(a) of this item aims for a closer alignment with LEX30.9. It gives the effect that if an AI has recognized the CRM effect of, say, a recognized collateral in its calculation of regulatory capital for credit risk under the BCR, the AI must recognize the CRM effect of the collateral provided that all BELR requirements applicable to its recognition are met as well (see next bullet). • Paragraph (1)(b) of this item requires that a recognized CRM under Part 7 of the BELR will only be available if applicable requirements (if any) set out under Part 7 are met, as mandated by LEX30.9. Examples of additional requirements include rules 50 and 51, and Division 6, etc. • Paragraph (2) of this item is consequential to the proposed revisions of rules 59 and 60 (on valuation of CCR exposures in respect of derivative contracts and SFTs) proposed under Item 17 and Item 18, respectively. It models on the amended section 52(9) of the BCR as proposed in CR-Proposal-Annex 1 Item 31(9).

[17] See rule 39(1) for the definition of "recognized CRM".
[18] See rule 39(1) for the definition of "CCR exposure".
[19] The BCR definition of "SFT" is proposed to be added to rule 2(2) under Item 1(2)(b).

Matters to be provided	Remarks (including references)
BCR. (3) In the case of a CCR exposure in respect of SFTs valued in accordance with rule 60, an AI that uses the STC approach, or a combination of the STC approach and IRB approach, to calculate its credit risk for non-securitization exposures under the BCR must, for the purpose of paragraph (1), take into account the recognized collateral by using the comprehensive approach to the treatment of recognized collateral. (4) An AI must not recognize the effect of a recognized CRM if the AI has not taken into account the effect of the same form of recognized credit risk mitigation (within the meaning of section 2(1) of the BCR) in its calculation of the risk-weighted amount for credit risk in respect of the exposure under the BCR. (5) In this rule, "risk-weighted amount for credit risk" has the meaning given by section 2(1) of the BCR.	• Paragraph (3) of this item seeks to implement LEX30.5. • Paragraph (4) of this item adds clarity to, and complements, paragraph (1) of this item.

Item 14. Amend rule 50 (Credit risk mitigation—Category A institution)

Amendments to be made	Remarks (including references)
Repeal the entire content of rule 50 and replace with a provision to give the following effect— A Category A institution must adjust the value of a CRM covered exposure[20] of the AI to the value of the CRM uncovered portion[21] of the exposure in accordance with Division 6.	Rule 50 is proposed to be refined to improve the clarity of its meaning and its scope of application, in particular about the following current text— • The meaning of the text "*[i]f the recognized CRM that covers the exposure is not yet considered in valuing the exposure*" in rule 50(2) (emphasis added) is not sufficiently clear, leaving room for an AI to recognize the effect of, say, a collateral in respect of an exposure under Part 7 of the BELR when the AI is not eligible to do so in respect of the same exposure and collateral under the BCR. • The reference to "*an item in its banking book*" in rule 50(1) seems to carve out the CCR exposure arising from an item in the AI's trading book, which is not intended (see amended section 53(1)(b) of the BCR proposed in CR-Proposal-Annex 1 Item 32(1)(b) in respect of the type of CCR exposure arising from certain trading book positions captured under the STC approach for calculation of regulatory capital

[20] See rule 39(1) for the definition of "CRM covered exposure".
[21] See rule 39(1) for the definition of "CRM uncovered portion".

Amendments to be made	Remarks (including references)
	for credit risk).

Item 15. Amend rule 51 (Credit risk mitigation—Category B institution)

Amendments to be made	Remarks (including references)
Repeal the entire content of rule 51 and replace with a provision to give the following effect— A Category B institution must adjust the value of the following exposure of the AI to the value of the CRM uncovered portion of the exposure in accordance with Division 6— (a) a CRM covered exposure that is a CCR exposure; and (b) a CRM covered exposure that is a non-CCR exposure, if the recognized CRM that covers the exposure is— (i) a recognized netting done under a valid bilateral netting agreement; or (ii) a recognized collateral that is a cash deposit.	Rule 51, the structure of which is the same as that of rule 50, has the issues as mentioned above regarding rule 50. It is thus proposed to be refined in a similar manner for better clarity and closer alignment with LEX30.9.

Item 16. Amend rule 54 (Credit protection provider)

Amendments to be made	Remarks (including references)
(1) In the chapeau of rule 54(2), repeal "The institution" and replace with "Subject to [subrule (3) as proposed under paragraph (2) of this item], the institution".	Consequential to the amendments proposed under paragraph (2) of this item.
(2) Add a [new subrule (3) after rule 54(2)] to give the following effect— If the recognized credit derivative contract is an internal risk transfer recognized under [new BCR section proposed in CR-Proposal-Annex 1 Item 100[22]], the protection provider of the relevant external hedge mentioned under that BCR section should be regarded as the credit protection provider. (3) Add a [new subrule (4) after the new subrule proposed under paragraph (2) of this item] to give the following effect—	The term "recognized credit derivative contract" as defined under rule 39(1) cross-refers to the meaning given by section 51(1) of the BCR. Since the latter will be amended to include an internal risk transfer (see CR-Proposal-Annex 1 Item 28(5)), consequential corresponding amendment to rule 54 is thus proposed.

[22] Whilst CR-Proposal-Annex 1 Item 28(5) refers to "an internal hedge recognized under section [see Item 100(1)] or [see Item 100(2)(a)]", this document makes reference to CR-Proposal-Annex 1 Item 101(1)(b), which refers to "an internal hedge recognized under Item 100". We consider the latter description better fits BELR purposes.

Amendments to be made	Remarks (including references)
In this rule, ***internal risk transfer***[23] has the meaning given by [the new BCR section proposed in CR-Proposal-Annex 1 Item 100(3)].	

III(iii) Amendments to Division 4

Item 17. Amend rule 59 (Derivative contract)

Amendments to be made	Remarks (including references)
Repeal the entire content of rule 59 and replace with a provision to give the following effect— A CCR exposure arising from a derivative contract entered into by an AI with a counterparty is valued at the amount of the default risk exposure calculated by using the following methods— (1) if the AI does not use any internal model[24] based approach to calculate the amount of the default risk exposure of its derivative contracts for calculating its capital adequacy ratio under the BCR—	This update is to reflect the introduction under BCAR 2020 of the SA-CCR approach for calculating the CCR exposure in respect of derivative contracts, and for closer alignment with LEX30.4.

[23] The defined term "internal hedge" set out in CR-Proposal-Annex 1 Item 100(3) will be amended as "internal risk transfer" (see separate definition set out in MAR-Proposal-Annex 1 Part A(2) Item 2(1)).

[24] See section 2(1) of the BCR for the definition of "internal model", which is proposed to be added to rule 39(2) of the BELR under Item 10(3).

Amendments to be made	Remarks (including references)
the approach or method under Part 6A of the BCR that the AI currently uses for that calculation; and (2) if the AI uses any internal model based approach to calculate the amount of the default risk exposure of its derivative contracts for calculating its capital adequacy ratio under the BCR—the SA-CCR approach.	

Item 18. Amend rule 60 (Securities financing transaction)

Amendments to be made	Remarks (including references)
Repeal the entire content of rule 60 and replace with a provision to give the following effect— A CCR exposure arising from an SFT[25] entered into by an AI with a counterparty is valued at the amount of the default risk exposure calculated by using the methods set out in Division 2B of Part 6A of the BCR except the internal model based approach specified under section	This update is to reflect related amendments on the recognition of CRM effect for default risk exposure in respect of SFTs as introduced by BCAR 2020. In line with the spirit of the LEX standard to adopt only non-internal model based valuation methodologies, the method provided for under section 226ML of the BCR is carved out on the ground that it is an internal model based on value-at-risk.

[25] The definition of "SFT" under section 2(1) of the BCR is proposed to be added under Item 1(2)(b).

Amendments to be made	Remarks (including references)
226ML of the BCR.	

III(iv) Amendments to Division 5

Item 19. Amend rule 65 (Off-balance sheet item specified in Table A)

Amendments to be made	Remarks (including references)
Amend the heading of rule 65, and repeal the entire content of that rule and replace with a provision to give the following effect— **65. Off-balance sheet exposure other than default risk exposure** (1) Subject to paragraph (2), a non-CCR exposure that is an off-balance sheet exposure specified in column 2 of [the Table under the new schedule on credit conversion factors proposed in CR-Proposal-Annex 1 Item 216(1)] must be valued at the credit equivalent amount of the exposure calculated in accordance with— (a) for an AI that uses the BSC approach to calculate its credit risk for non-securitization exposures—[new subsections of	The current rule 65 and Table A in Schedule 1 replicate, with some modifications, the related treatment of off-balance sheet exposures set out in section 71(1) of the BCR and its Table 10. For improved consistency and coherency with the BCR and closer alignment with LEX30.6, paragraph (1) of this item proposes to cross-refer to the relevant updated capital treatments for off-balance sheet exposures under the BSC approach and STC approach, instead of importing the related amendments to the BCR into Part 7 of the BELR (by amending various rules and also Table A in Schedule 1). Paragraph (2)(a) of this item imposes a CCF floor of 10% as specified in LEX30.6, whereas paragraph (2)(b) retains the policy intent to carve out put options from the definition of "forward asset purchase" (see its existing definition under rule 39(1), which is proposed

Amendments to be made	Remarks (including references)
section 118 of the BCR proposed in CR-Proposal-Annex 1 Item 143(2) and (3)]; (b) for an AI that uses the STC approach, or a combination of the STC approach and IRB approach, to calculate its credit risk for non-securitization exposures—[section 71(1) of the BCR as repealed and replaced as proposed in CR-Proposal-Annex 1 Item 77(2) and the new subsection proposed in CR-Proposal-Annex 1 Item 77(3)]. (2) For the purpose of calculating the credit equivalent amount of an off-balance sheet exposure under paragraph (1)— (a) the applicable CCF specified in [column 3 of the Table under the new schedule on credit conversion factors proposed in CR-Proposal-Annex 1 Item 216(1)] is subject to a floor of 10%; and (b) Item 4 "Forward asset purchases" specified in [the Table under the new schedule on credit conversion factors proposed in CR-Proposal-Annex 1 Item 216(1)] does not include a put option contract written by the AI.	to be repealed under Item 9(1)).

Item 20. Amend rule 67 (Securities financing transaction)

Amendments to be made	Remarks (including references)
(1) Revise the heading of rule 67 to "Assets underlying SFTs". (2) Repeal the entire content of rule 67 and replace with a provision to give the following effect— (a) This rule applies to the valuation of a non-CCR exposure arising from the assets underlying a specified SFT. (b) For a specified SFT, the AI must— (i) treat the securities sold or lent, or the securities provided as collateral, under the SFT as an on-balance sheet exposure of the AI as if the AI had never entered into the SFT; and (ii) value the exposure in accordance with the applicable provision in Division 5.	The heading and the main text of rule 67 are proposed to be revised to align with the amendments to the relevant provisions under the STC approach as proposed in CR-Proposal-Annex 1 Item 71.

Item 21. Add a new rule under Subdivision 3 of Division 5

Matters to be provided	Remarks (including references)
Add a [new rule 67A under Subdivision 3 of Division 5 (between rules 67 and 68)] to give the following effect— **67A. Unsettled transactions in securities, foreign exchange and commodities** (1) In the case of transactions in securities, foreign exchange and commodities (other than repo-style transactions)[26] that are entered into by an AI on a delivery-versus-payment basis[27], if any of those transactions is outstanding on or after the fifth business day after the settlement date in respect of the transaction concerned, the AI must recognize an exposure to the counterparty to the transaction at the positive current exposure incurred by the AI under the transaction. (2) In the case of transactions in securities, foreign exchange and commodities (other than repo-style transactions)[26] that are entered into by an AI on a basis other than a delivery-versus-payment basis, if any of those transactions is outstanding after the settlement date	Consequential to the introduction of credit exposures to counterparties in respect of certain unsettled transactions booked in AIs' trading book (instead of only in respect of the banking book of AIs) in section 53 of the BCR amended as proposed in CR-Proposal-Annex 1 Item 32(1)(b)(ii) and the related capital treatment under CR-Proposal-Annex 1 Item 66(3) and (4), we propose to add a new rule to provide for the valuation of exposures arising from such transactions in the banking book or trading book of AIs.

[26] Scoping text aligned to the latest development of CR-Proposal-Annex 1 Item 32(1)(b)(ii).
[27] The term "delivery-versus-payment basis" is defined in section 2(1) of the BCR and proposed to be added to rule 39(2) under Item 10(2).

Matters to be provided	Remarks (including references)
in respect of the transaction concerned, the AI must recognize an exposure to the counterparty to the transaction as the sum of— (i) the amount of payment made, or the current market value of the thing delivered, by the AI under the transaction; and (ii) any positive current exposure incurred by the AI under the transaction.	

Item 22. Amend rule 68 (Option contract)

Amendments to be made	Remarks (including references)
Repeal the entire content of rule 68(2) and replace with a provision to give the following effect upon implementation of the revised market risk capital framework under Part 8 of the BCR[28]— The exposure is valued at the gross jump-to-default risk amount in accordance with [rule 77B proposed in Item 25(3)].	Upon the implementation of the revised market risk capital framework, AIs that will use the STM approach or IMA[29] for market risk will be required to apply the new valuation method specified in LEX30.17 to LEX30.19, as proposed under Item 25(3) in respect of all non-CCR exposures (including those arising from an option contract) booked in their trading books. For better coherence in the valuation of a non-CCR exposure arising from an option contract, it is proposed to extend the new

[28] Please refer to the "Remarks" column of Item 25(1) for background information on the revised market risk capital framework to be incorporated into the BCR.
[29] Please refer to the "Remarks" column of Item 25(1) for further information about the STM approach and IMA.

Amendments to be made	Remarks (including references)
	treatment of options under Item 25(3) to all AIs, and irrespective of whether the option is booked in their banking book or trading book. It is believed that the revised valuation approach should be technically similar to the current approach under existing rule 68.

Item 23. Amend rule 70 (Covered bond)

Amendments to be made	Remarks (including references)
(1) Repeal the entire content of subparagraph (ii) under rule 70(3)(a) and replace with a provision [say, in the form of new subparagraphs (ii) and (iii)] to give the following effect— (ii) a claim that would constitute a regulatory residential real estate exposure (within the meaning of [the BCR new section proposed in CR-Proposal-Annex 1 Item 56(1)]) if it had been incurred by the AI with the following attributes— (A) the exposure would qualify for a risk-weight of 35% or lower under [the BCR new section proposed in CR-Proposal-Annex 1 Item 56]; and	LEX30.39(2)(b) and (c), respectively, specifies the type of residential mortgage loans and commercial mortgage loans that can be held in the pool of underlying assets of a covered bond to qualify for a more lenient measurement treatment. LEX30.39(2)(c) is yet to be implemented in Hong Kong. On the other hand, the Basel III final reform package prescribes a revamped treatment for banks' residential and commercial real estate exposures under the STC approach. Amendments are thus proposed to revise rule 70(3)(a) by replacing the existing reference to "residential mortgage loan" with "regulatory residential real estate exposure", and adding LEX30.39(2)(c) by making a reference to "regulatory commercial real estate exposure" and their respective revised

Amendments to be made	Remarks (including references)
(B) in aggregate has a loan-to-value ratio not exceeding 80%; or (iii) a claim that would constitute a regulatory commercial real estate exposure (within the meaning of [the BCR new section proposed in CR-Proposal-Annex 1 Item 57(1)]) if it had been incurred by the AI with the following attributes— (A) the exposure would qualify for a risk-weight of 100% or lower under [the BCR new section proposed in CR-Proposal-Annex 1 Item 57]; and (B) in aggregate has a loan-to-value ratio not exceeding 60%.	risk-weighting requirements under the STC approach as amended by CR-Proposal-Annex 1.
(2) Repeal "a residential mortgage loan mentioned in subrule (3)(a)(ii)" in rule 70(4) and replace with "a regulatory residential real estate exposure under [subrule (3)(a)(ii)] or a regulatory commercial real estate exposure under [subrule 3(a)(iii)]".	Consequential to the proposed amendments under paragraph (1) of this item.
(3) Under rule 70(5)— (a) repeal the definition of "covered bond" and replace with a	Paragraph (3)(a) of this item—Given the proximity of the treatment of

Amendments to be made	Remarks (including references)
definition to give the following effect— ***covered bond*** has the meaning given by section 2(1) of the BCR [see CR-Proposal-Annex 1 Item 1(3)], with the modification that the reference to the calculation of the risk-weighted amount for credit risk is treated as a reference to the calculation of the value of an exposure; (b) repeal the definition of "loan-to-value ratio" and replace with a definition to give the following effect— ***loan-to-value ratio*** means the amount of the exposure divided by the value of the residential or non-residential property securing the exposure.	covered bond under the BELR to the STC approach under the BCR, it is proposed to revise the anchor for the definition of "covered bond" under rule 70 to the new corresponding definition under section 2(1) of the BCR as proposed in CR-Proposal-Annex 1 Item 1(3). Paragraph (3)(b) of this item—Consequential to the repeal of section 65(10) and addition of a proposed new section of the BCR as reflected in CR-Proposal-Annex 1 Items 35(3) and 54.

Item 24. Add a new rule under Subdivision 3 (Non-CCR Exposure (Banking Book or Trading Book)) of Division 5

Matters to be provided	Remarks (including references)
Add a [new rule 71A under Subdivision 3 of Division 5 (say, after rule 71)] to give the following effect—	An update to reflect the introduction under BCAR 2020 of the capital treatment for unsegregated collateral, which will also ensure

Matters to be provided	Remarks (including references)
71A. Off-balance sheet exposure—Unsegregated collateral (1) This rule applies to the valuation of an off-balance sheet exposure of an AI to a counterparty arising from unsegregated collateral posted by the AI to the counterparty for a transaction or contract booked in the AI's banking book or trading book. (2) The exposure must be valued— (a) for an AI that uses the BSC approach to calculate its credit risk for non-securitization exposures—at the credit equivalent amount calculated in accordance with the relevant provisions for unsegregated collateral set out in Division 4 of Part 5 of the BCR; and (b) for an AI that uses the STC approach, or a combination of the STC approach and IRB approach, to calculate its credit risk for non-securitization exposures—at the credit equivalent amount calculated in accordance with the relevant provisions for unsegregated collateral set out in Division 4 of Part 4 of the BCR.	completeness in the capture of exposure types under Part 7 of the BELR.

Item 25. Amend Subdivision 4 (Non-CCR Exposure (Trading Book)), and add [a new Subdivision 4A], in Division 5

Amendments to be made / Matters to be provided	Remarks (including references)
(1) All the proposed amendments set out below are intended to take effect on the implementation date of the revised market risk capital framework under Part 8 of the BCR.	**A. Implementation of the revised market risk capital framework under the BCR** The bulk of the proposed amendments to the BELR set out in this document and the proposed amendments to the BCR set out in CR-Proposal-Annex 1 are planned to be implemented on a date no earlier than [1 January 2024]. However, if the final implementation date for the revised market risk capital framework under the amended BCR is later than that date[30], the proposed amendments to the BELR that are consequential to the implementation of the revised market risk capital framework under the BCR must also follow the (later) implementation date of the revised market risk capital framework. All the amendments to the BELR proposed under this Item are intended to take effect on the same date that the revised market risk capital framework under the BCR becomes effective.

[30] See HKMA circular "Implementation of Basel III final reform package" issued on 25 November 2022.

Amendments to be made / Matters to be provided	Remarks (including references)
	B. Key elements of the revised market risk capital framework relevant to the BELR The key elements of the revised market risk capital framework under the BCR that are essential for this Item are highlighted below— • the new "standardized (market risk) approach" ("STM approach")[31] (MAR-Proposal-Annex 1 Part A(1) Item 2(3))—This is the default approach for market risk to be set out in the new divisions of Part 8 of the BCR. The short form of this term is proposed to be added to rule 39(2) under Item 10(8); • the new "internal models approach" ("IMA") (MAR-Proposal-Annex 1 Part A(1) Items 2(1) and 1(1))—An AI must obtain the prior consent of the MA to use this new internal model-based approach for market risk. As in the case of the IRB approach for credit risk, the use of the IMA is not allowed in the context of the large exposures framework; • the "simplified standardized approach" ("SSTM approach")

[31] The existing "STM approach" for market risk as defined under section 2(1) of the BCR will be modified and renamed as the "SSTM approach" under the amended BCR. Unless otherwise specified, a reference to "STM approach" in this document refer to the new STM approach under the revised market risk capital framework.

Amendments to be made / Matters to be provided	Remarks (including references)
	(MAR-Proposal-Annex 1 Part A(1) Item 1(3) and (4))—An AI must obtain the prior consent of the MA to use this approach for market risk, which is set out in existing Divisions 2 to 10 of Part 8 of the BCR, subject to necessary modifications. The short form of this term is proposed to be added to rule 39(2) under Item 10(7); • "SA-DRC (non-securitization)" (MAR-Proposal-Annex 1 Part A(3) Item 2(13))—There are three types of default risk charges that an AI is required to calculate under the STM approach for its exposures in the trading book. The calculation of SA-DRC (non-securitization) (MAR-Proposal-Annex 1 Part A(3) Item 7.2) is referred to in LEX30.17 to LEX30.19 for the purposes of valuing specified trading book exposures under the large exposures framework (please see below for more details). This term is proposed to be added under new [rule 77B(3)] under this Item; • "gross jump-to-default risk amount" ("gross JTD") (MAR-Proposal-Annex 1 Part A(3) Item 2(4))—A first step in calculating the SA-DRC (non-securitization) is to determine the gross JTD for all the relevant trading book exposures on an exposure-by-exposure basis (MAR-Proposal-Annex 1 Part A(3) Item 7.2(3)(a)). Pursuant to LEX30.17 to LEX30.19, AIs will be required to

Amendments to be made / Matters to be provided	Remarks (including references)
	calculate the gross JTD for their non-CCR exposures in the trading book that are exposed to the risk of counterparty default. This term is proposed to be added to rule 39(1) under Item 7.
(2) Amend Subdivision 4 of Division 5 to give the following effect— (a) amend the heading of Subdivision 4 by adding ": Authorized institution that uses the SSTM approach for market risk" after "(Trading Book)". (b) amend rule 72 by repealing "an authorized institution's trading book" and replace with "the trading book of an authorized institution that uses the SSTM approach to calculate its regulatory capital for market risk".	Upon implementation of the revised market risk capital framework under the BCR, AIs that will use the STM approach or the IMA for market risk will be subject to the revised requirements as set out in LEX30.17 to LEX30.19 for valuing their trading book positions as proposed under Item 25(3). However, the valuation requirements set out under the current Subdivision 4 of Division 5 will, subject to the modifications proposed under this Item, continue to be applicable to AIs that will use the SSTM approach for market risk.
(3) Add a [new Subdivision 4A under Division 5 and after rule 77] to give the following effect— **Subdivision 4A—Non-CCR Exposure (Trading Book): Authorized**	This new Subdivision implements the revised treatment for trading book exposures set out in LEX30.17 to LEX30.19, under which AIs must calculate, subject to specified modifications, the "*gross jump-to-default amount defined in MAR22.9 to MAR22.14*"[32] under the STM approach for market risk. It will thus be applicable only to AIs that will use the

[32] A reference to "MAR22.xx" refers to the specified paragraph of module MAR22, "Standardised approach: default risk capital requirement" (version effective 1 January 2023) of the revised market risk capital framework in the Basel Framework (see https://www.bis.org/basel_framework/standard/MAR.htm).

Amendments to be made / Matters to be provided	Remarks (including references)
institution that does not use the SSTM approach for market risk **77A. Application of Subdivision 4A** This Subdivision applies to a non-CCR exposure arising from an item in the trading book of an AI that does not use the SSTM approach to calculate its regulatory capital for market risk (referred to as "***relevant exposure***" for the purposes of this Subdivision), unless Subdivision 3 contains a provision that specifically provides for the valuation of the exposure.	STM approach or IMA to calculate their regulatory capital for market risk under the BCR.
77B. Gross jump-to-default risk amount (1) Subject to the modifications set out in subrule (2), an AI must calculate the gross jump-to-default risk amount in respect of a relevant exposure of the AI to a counterparty in accordance with [the BCR section proposed in MAR-Proposal-Annex 1 Part A(3) Item 7.2(3)(a)] as if the AI were calculating the SA-DRC (non-securitization) under the STM approach. (2) The modifications to the calculation of SA-DRC (non-securitization) mentioned in subrule (1) are—	See LEX30.17. See LEX30.17 and LEX30.18.

Amendments to be made / Matters to be provided	Remarks (including references)
(a) a loss given default[33] of 100% shall be assigned to all relevant exposures; (b) any adjustment in relation to the maturity of an exposure set out under [the BCR section proposed in MAR-Proposal-Annex 1 Part A(3) Item 7.2] is not applicable for the purpose of this rule. (3) In this rule— ***SA-DRC (non-securitization)*** has the meaning given by section 281 of the BCR [see MAR-Proposal-Annex 1 Part A(3) Item 2(13)].	

III(v) Amendments to Division 6

Item 26. Amend rule 80 (Recognized collateral)

Amendments to be made	Remarks (including references)
(1) Repeal the entire content of rule 80(2) and replace with a provision	The key proposed refinements to rule 80 are driven by the proposed

[33] The term is defined in section 2(1) of the BCR and proposed to be added to rule 39(2) under Item 10(4).

Amendments to be made	Remarks (including references)
to give the following effect— If the AI uses the BSC approach to calculate its credit risk for non-securitization exposures, the CRM uncovered portion of the exposure is valued as follows— (a) for an exposure that is not an off-balance sheet exposure to which rule 65 applies—by using Formula 7; (b) for an off-balance sheet exposure to which rule 65 applies—by using Formula 7, with the modification that "current market value of recognized collateral" in that Formula is multiplied by the CCF applicable to that off-balance sheet exposure as determined under rule 65. (2) Revise rule 80(4) to give the following effect— (a) repeal ", under section 5(1)(a) of the Capital Rules, the STC approach to calculate the" in the chapeau and replace with "the STC approach, or a combination of the STC approach and IRB approach, to calculate its";	amendments in CR-Proposal-Annex 1 relating to the CCF for off-balance sheet exposures and certain CRM treatment for recognized collateral under the STC approach, whilst opportunity is taken to clarify and streamline the wording of the rule as appropriate. These are highlighted as follows— (a) paragraphs (1), (2)(a) and (3) of this item—The scope of application as set out under rule 80(2), (4) and (5) is to be streamlined and made clearer. The intended effect is that rule 80(2) will continue to be applicable to BSC AIs; rule 80(4) to STC AIs as well as IRB AIs; while rule 80(5) (which is applicable to IRB AIs) is to be repealed as it will be rendered redundant[34]. (b) paragraph (1)(a) and (b) of this item—to replace the existing references to "Table A" (which specifies the CCF for off-balance sheet exposures other than default risk exposure) under rule 80(2) by updated references to the CCF proposed to be adopted under the amended rule 65 (see Item 19). (c) paragraph (2)(b) and (c) of this item—The amendments aim to streamline the rules text of rule 80(4) for ease of comprehension

[34] Please see the remarks on Item 8(1) of this document for the meaning of BSC AIs, STC AIs and IRB AIs.

Amendments to be made	Remarks (including references)
(b) repeal "for an exposure with respect to which the simple approach is used, under Division 6 of Part 4 of the Capital Rules" in rule 80(4)(a), and replace with "subject to [rule 48B(3) proposed in Item 13], for an exposure with respect to which the simple approach is used"; (c) repeal "under Division 7 of Part 4 of the Capital Rules," in the chapeau of rule 80(4)(b); (d) repeal the entire content of rule 80(4)(b)(i) and replace with a provision to give the following effect— for an exposure that does not fall within subparagraph (ii)—the net credit exposure in Formula 2 under section 87, or Formula 4 under section 89, of the BCR as the case requires, subject to— (A) the applicable haircut provisions of the BCR if the recognized collateral consists of a basket of securities under section 90 of the BCR; and (B) the maturity mismatches provisions under— (I) section 103(1), (3) and (4) of the BCR; and	without changing its technicality. Paragraph (2)(b) further makes it clear that the requirement of the new [rule 48B(3) proposed in Item 13] that STC AIs and IRB AIs must use the comprehensive approach to the treatment of recognized collateral in respect of SFTs will take precedence over rule 80(4)(a). (d) paragraph (2)(d), (e) and (f) of this item—The scope of application of rule 80(4)(b)(ii) is expanded to cover default risk exposure other than a default risk exposure in respect of derivative contracts, with a view to align with the scope of application of the amended section 88 and Formula 3 of the BCR [see CR-Proposal-Annex 1 Item 91], to which rule 80(4)(b)(ii) cross-refers. Corresponding adjustment to the scope of application of rule 80(4)(b)(i) is also proposed. A minimum CCF of 10% is to be added under rule 80(4)(b)(ii)(A) in line with the requirement of LEX30.6.

Amendments to be made	Remarks (including references)
(II) section 103(2) of the BCR, with the modification that the reference to calculating a risk-weighted amount is treated as a reference to calculating the value of an exposure; (e) repeal everything before "of the Capital Rules," in the chapeau of rule 80(4)(b)(ii) and replace with "for an off-balance sheet exposure (other than a default risk exposure in respect of derivative contracts)—the net credit exposure in Formula 3 under [section 88(1) of the BCR as adjusted (where applicable) by the new subsection proposed in CR-Proposal-Annex 1 Item 91(3)]"; (f) repeal the entire content of rule 80(4)(b)(ii)(A) and replace with a provision to give the following effect— the modification that the CCF as determined under that Formula is subject to a floor of 10%. (3) Repeal rule 80(5).	

Item 27. Amend rule 81 (Recognized guarantee or recognized credit derivative contract)

Amendments to be made	Remarks (including references)
Add [a new subrule under rule 81 (say, rule 81(5))], to give the following effect— To avoid doubt, in the case of a recognized credit derivative contract to which any of the following BCR sections is applicable, the value of G in Formula 8 is capped at the maximum amount of the contract that may be recognized under that section— (a) [the BCR section as proposed in CR-Proposal-Annex 1 Item 98(3)]; (b) [the BCR section as proposed in CR-Proposal-Annex 1 Item 98(4)]; (c) [the BCR section as proposed in CR-Proposal-Annex 1 Item 100(2)(a)(i)]; and (d) [the BCR section as proposed in CR-Proposal-Annex 1 Item 100(2)(a)(ii)].	Consequential to the new capital treatment for recognition of internal risk transfer under the BCR as proposed in CR-Proposal-Annex 1 Item 100(2)(a)(i) and (ii), it is proposed to add a reminder that the maximum value of credit risk protection available under a recognised credit derivative contract may be capped at a lower amount where the aforesaid new BCR requirement is applicable to an AI. For completeness, the proposed reminder also includes a reference to a parallel treatment set out in subsections (2) and (3) of existing section 99 of the BCR, which are proposed to be repealed and replaced in CR-Proposal-Annex 1 Item 98(3) and (4).

Item 28. Repeal rule 83 (Overlap of coverage of recognized CRM)

Amendments to be made	Remarks (including references)
Repeal rule 83.	Consequential to the refinement to Subdivision 2 of Division 3 (on CRM) as proposed under Item 13, Item 14 and Item 15 above, AIs will be required to apply the CRM provisions in Part 7 of the BELR if they had done so for the purposes of calculating their regulatory capital for credit risk under the BCR, and to do so in the same manner subject to any additional requirements specified in the BELR. Rule 83, which specifies how AIs should conduct CRM recognition in the case of an exposure covered by more than one CRM, is thus no longer needed.

IV. AMENDMENTS TO PART 8 (CONNECTED PARTY)

IV(i) Amendments to Division 1

Item 29. Amend rule 85 (Meaning of connected party)

Amendments to be made	Remarks (including references)
(1) Repeal the entire content of rule 85(2)(b) and substitute with a provision to give the following effect—	This amendment is consequential to paragraph (3) in which the definition of "non-local bank" under rule 85(4) is proposed to be repealed.

Amendments to be made	Remarks (including references)
an entity approved under rule 85(3).	
(2) Repeal the entire content of rule 85(3) and substitute with a provision to give the following effect— The MA may, in relation to an AI, approve an entity for rule 85(2)(b) if— (a) in the opinion of the MA, the entity meets the description of [paragraph (b) of the definition of "bank" in the BCR proposed in CR-Proposal-Annex 1 Item 2(1)]; and (b) the MA considers that it is reasonable to do so having regard to any other factors that the MA considers relevant[35].	Paragraph (b) of the definition of "bank" in the BCR proposed in CR-Proposal-Annex 1 Item 2(1) is consistent with the definition of "bank" set out in the Basel Framework (CRE20.16 and footnote 10)[36] and is more comprehensive than the definition of "non-local bank" in the BELR. Therefore, making a direct reference to paragraph (b) of the definition of "bank" (instead of referring to "non-local bank") in rule 85(3)(a) is preferred. For the associated approval process, it is the policy intent that the entity must satisfy the entirety of paragraph (b) of the definition of "bank" in the BCR proposed in CR-Proposal-Annex 1 Item 2(1) (including not falling within any of the exceptions in paragraphs (b)(iii) and (b)(iv) of that definition). The other factors that the MA may consider for the purposes of paragraph (2)(b) may include any prudential concern of the MA regarding the entity (such as its liquidity position) and/or the nature and size of the AI's

[35] The same phrase is commonly deployed in a similar context in the current BELR, e.g. rules 12(2)(e), 23(2)(c)(ii)(C), 88(2)(d) and 92(1)(d).
[36] CRE20 - Standardised approach: individual exposures (https://www.bis.org/basel_framework/chapter/CRE/20.htm).

Amendments to be made	Remarks (including references)
	exposures to the entity.
(3) Repeal the definition of "non-local bank" in rule 85(4).	Consequential to paragraph (2) above.

IV(ii) Amendments to Division 4

Item 30. Amend rule 93 (CRM covered exposure)

Amendments to be made	Remarks (including references)
(1) Repeal "If an exposure to a connected party, arising from an item in a Category B institution's banking book," in rule 93(2) and replace with "If an exposure to a connected party of a Category B institution".	Proposed in order to align with the proposed amendments to rules 50 and 51 under Item 14 and Item 15 above that the CRM provisions are not only applicable to items booked in the banking book but also in respect of CCR exposures arising from items in both the banking book and trading book.
(2) In rule 93(3)(b), repeal "the requirements in section 77(a), (b), (c), (d), (e), (ea) and (f) of the Capital Rules are satisfied," and substitute with "the criteria specified in [BCR section 77(2) as proposed in CR-Proposal-Annex 1 Item 81] are met,".	The requirements in section 77(a), (b), (c), (d), (e), (ea) and (f) of the BCR are replicated in the subparagraphs of CR-Proposal-Annex 1 Item 81(2) with proposed amendments. As a consequence, paragraph (2) seeks to update the cross-references in rule 93(3)(b) to track the related amendments to section 77 of the BCR as proposed under CR-Proposal-Annex 1 Item 81(2).

Amendments to be made	Remarks (including references)
(3) At the end of rule 93(3), repeal "the interest in land is treated as a recognized collateral for valuing the exposure and this subrule takes effect as if section 77 of the Capital Rules were applicable to the institution (and to avoid doubt, including the case where that section is actually applicable to the institution)." and substitute with a provision to give the following effect— the interest in land is treated as if it were a recognized collateral for valuing the exposure in this Part, the value of which is determined in accordance with [the new subrule set out in paragraph (4) below].	It is considered not entirely technically accurate to refer to the full "section 77 of the Capital Rules" in rule 93(3). To improve the technical integrity of the treatment of "interest in land" under Part 8, paragraph (3) proposes to remove the reference to "section 77 of the Capital Rules" in that rule, whereas paragraph (4) aims to set out in a clearer manner the valuation methodology for interests in land.
(4) Add a [new rule 93(4) after rule 93(3)] to give the following effect— Where the recognized collateral of a CRM covered exposure of an AI is in the form of interest in land that meets all the requirements in rule 93(3), the CRM uncovered portion of the exposure is valued by using [Formula 9]— **[Formula 9]**	Paragraph (4) proposes to introduce a new formula setting out the valuation methodology for interests in land. The proposed new formula is based on Formula 7 (valuation of recognized collateral) in rule 80(3) and, for better prudence, incorporates the haircuts prescribed for real property in section 81(4) of the BCR.

<table>
<tr><th colspan="2">Amendments to be made</th><th>Remarks (including references)</th></tr>
<tr><td></td><td>
<table>
<tr><td>Value of CRM uncovered portion</td><td>=</td><td>max [0, (original exposure – current market value of interest in land x H_c)]</td></tr>
<tr><td colspan="3">where—</td></tr>
<tr><td>original exposure</td><td>=</td><td>the value of the exposure as calculated according to Part 7;</td></tr>
<tr><td>H_c</td><td>=</td><td>Haircut on current market value of interest in land—
(a) 10% in the case of residential property;
(b) 20% in the case of all other interest in land.</td></tr>
</table>
</td><td></td></tr>
<tr><td>(5)</td><td>After new [rule 93(4)] proposed in paragraph (4), add a [new rule 93(5)] to give the effect that the term “CRM uncovered portion” in rule 93 has the meaning given to it in rule 39(1).</td><td>To extend the current definition of “CRM uncovered portion” in rule 39(1) in Part 7 to rule 93 in Part 8.</td></tr>
</table>

Item 31. Add a new rule on calculation of ASCP exposure of connected party

Matters to be provided	Remarks (including references)
[After rule 93, add a new rule 93A] to give the following effect— **93A. Calculation of ASCP exposure of connected party** For the purpose of determining an ASCP exposure of an AI to a connected party in accordance with rule 46[37], the AI shall disregard rule 48(1)(a).	The objective of Part 8 is to regulate an AI's exposure to its connected parties (within the meaning of rule 85). Its methodology for valuation of connected exposures is based on those set out in Part 7. This proposed amendment is to clarify the policy intent that the intragroup exposure exemption in rule 48(1)(a) under Part 7 does not apply for the purposes of Part 8.

V. AMENDMENTS TO PART 9 (REPEAL AND TRANSITIONAL AND SAVINGS PROVISIONS)

V(i) Amendments to Division 8

Item 32. Repeal rule 121 (Non-local bank—deemed rule 85(3) approval)

Amendments to be made	Remarks (including references)
Repeal rule 121.	It is proposed that rule 121 be repealed as the definition of "non-local bank" is intended to be repealed under Item 29(3) and the deemed approval

[37] See rule 89 of the BELR.

Amendments to be made	Remarks (including references)
	arrangement in rule 121 has expired.

Item 33. Add a new rule on transition of approval under rule 85(3)

Matters to be provided	Remarks (including references)
Add a [new rule 121A after rule 121] to give the following effect— **121A. Former rule 85(3) approval** (1) Subject to subrules (2) and (3), a former rule 85(3) approval is deemed to be an approval given under rule 85(3) for rule 85(2)(b) on [1 January 2024]. (2) During the transitional period, where the MA does not have sufficient available information to form a reasonable view on whether an entity (which, in relation to an AI, is the subject of a former rule 85(3) approval) will meet [the requirement of rule 85(3) as amended in Item 29], the MA may, by written notice to the AI, require the AI to seek the MA's approval in respect of the entity under rule 85(3) for rule	The requirement relating to the approval of an entity as a non-local bank under rule 85(3) is proposed to be amended in Item 29. With due consideration of the compliance burdens of AIs and the merits of avoiding undue disruption to the existing activities between an AI and its non-local bank entities, it is proposed that— • paragraph (1) of this item—Existing non-local bank entities approved by the MA under current rule 85(3) (where such approvals are in force immediately before [1 January 2024]) will be deemed to be approved under the amended rule 85(3) for the amended rule 85(2)(a) on [1 January 2024]. However, if paragraph (2) is applicable, such deemed approval will be revoked on a date stipulated under paragraph (3). • paragraph (2) of this item—From the MA's recent internal review against the proposed amended rule 85(3), it is not clear whether a handful of the existing non-local bank entities will meet the requirements of the amended rule 85(3) based on currently available

Matters to be provided	Remarks (including references)
85(2)(b)[38]. (3) In respect of an entity to which subrule (2) applies, the deemed approval in respect of the entity mentioned in subrule (1) is deemed to be revoked on the date of the determination of the MA under rule 85(3) or the expiration of the transitional period, whichever is the later. (4) In this rule— ***former rule 85(3) approval*** means, in relation to an AI, an approval of an entity under rule 85(3) for rule 85(2)(b) where such approval was in force immediately before [1 January 2024][39]; and ***transitional period*** means the period from [1 January 2024] to [31 March 2024], both days inclusive.	information. In such a case, the MA intends to require the AI concerned to provide more information about the relevant entity by seeking a fresh approval under the amended rule 85(3) within the 3-month transitional period (defined under paragraph (4)). • paragraph (3) of this item—It specifies the revocation date of the deemed approval under paragraph (1) should paragraph (2) is applicable.

[38] Rules 85(2)(b) and 85(3) here refer to such rules as proposed to be amended under Item 29.
[39] Rules 85(2)(b) and 85(3) here refer to such rules as in force immediately prior to the effective date of the proposed amendments to the BELR (i.e. [1 January 2024]).

VI. AMENDMENTS TO SCHEDULE

Item 34. Amend Schedule 1 (Tables for Calculation)

Amendments to be made	Remarks (including references)
Repeal Table A.	Consequential to the proposed amendments to rule 65 under Item 19, Table A is no longer necessary.