Revisions / clarifications to policy proposals in consultation paper on "Implementation of the Basel III Final Reform Package" (CP 20.02)

Seq.	Original proposal	Industry comments	Revised policy / clarification
III[1]	**Revised Standardised Approach for Credit Risk**		
2.2[1]	**Exposures to banks**		
1.	CP – paras. 23(ii) & 24[1] Unrated exposures must follow the treatment of the Standardised Credit Risk Assessment Approach ("SCRA") which categorises exposures into three grades (Grade A, Grade B and Grade C) based on their respective levels of risk as characterised, inter alia, by their positions vis-à-vis published regulatory requirement.	The industry sought clarification regarding the timeliness expected of the information to be used for assessment if, at the time of a quarter-end capital reporting, the capital position of the counterparty bank is not made available to the public. The industry suggested the frequency for SCRA categorisation assessment be set as annual to align with AIs' annual credit review processes using the latest available published results of their counterparty banks.	The assessment can be based on the annual credit review conducted by an AI using the latest available published information, but the assessment must be updated when new published information is available or when there are any material adverse changes in the business, financial or economic conditions.
2.	CP – para. 23(ii)(b) If an unrated exposure to a bank is not denominated in the local currency of the bank's jurisdiction of incorporation (or the local currency of the bank's branch in a foreign jurisdiction where the exposure is booked), the risk-weight applicable to the exposure must not be lower than the risk-weight applicable to	The industry sought clarification on whether the exemption stipulated in CRE20.32,[2] i.e. "The sovereign floor will not apply to short-term (i.e. with a maturity below one year) self-liquidating, trade-related contingent items that arise from the movement of goods", will be adopted by the HKMA.	The exemption set out in CRE20.32 will be adopted.

[1] Reference number of a part, a heading / sub-heading, or a paragraph in CP 20.02.

[2] Chapter reference of the 2023 version of the consolidated Basel framework.

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	exposures to the sovereign of the country where the bank is incorporated.		
3.	CP – para. 23(iii) Exposures to banks arising from the movement of goods across national borders with an original maturity of 6 months or less are eligible for the preferential risk-weights applicable to short-term exposures.	The industry sought clarification on whether movement between Mainland China and Hong Kong would be treated as movement across national borders.	Trades between Mainland China and Hong Kong will be treated as if they were trades across national borders.
4.	CP – para. 25(ii) The HKMA sought industry's comments on whether it is necessary to exercise the national discretion of allowing the use of external ratings which incorporate assumptions of implicit government support for up to a period of five years.	The industry suggested that the HKMA exercise the discretion due to limited visibility and operational difficulties for AIs to verify the inclusion of implicit government support by individual ECAIs.	AIs may continue to use external ratings which incorporate assumptions of implicit government support for up to a period of five years, from the date of implementation of the revised standardised approach for credit risk ("revised SACR").
2.3	**Exposures to covered bonds**		
5.	CP – paras. 26 & 27 The HKMA proposed to introduce exposures to covered bonds as a new exposure type as set out in the revised SACR, where the risk-weighting scales (a rated and an unrated) for covered bonds issued by banks or mortgage institutions are generally more preferential than those available	The industry sought clarification on whether unrated covered bonds issued by a mortgage institution can also be risk-weighted according to the risk weight table for unrated covered bond exposures (i.e. Table 9 of CRE20.38) since the table only specifies (as basis) "Risk weight of the issuing bank".	If unrated covered bonds issued by a mortgage institution are subject by law to special public supervision designed to protect bond holders and meet the criteria set out in CRE20.34 to 20.37, the HKMA considers it reasonable to presume that the mortgage institution is subject to adequate supervision by a competent supervisory authority. Hence, AIs may, for the purpose of determining the risk-weight applicable to the covered bonds in

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	to unsecured exposures to the same counterparties.		accordance with Table 9 of CRE20.38, treat the mortgage institution as if it were an issuing bank.
2.4	**Exposures to securities firms and other financial institutions**		
6.	CP – para. 29 For rated exposures to non-bank financial institutions ("NBFIs") that are subject to a regulatory regime comparable to that applicable to banks, the risk-weighting treatment for rated bank exposures will apply. For unrated exposures to these NBFIs, a flat risk-weight of 100% will apply.	(a) The industry sought further guidance on comparable regulatory regime, especially on how insurance companies will be assessed as they are not identical to banks. (b) The industry sought clarification on whether the risk-weighting treatment for short-term exposures under the External Credit Risk Assessment Approach ("ECRA") will also be applicable to exposures to NBFIs. (c) The industry also requested reconsideration of the proposal of 100% risk-weight for unrated exposures as CRE20.40 does not exclude unrated exposures to NBFIs.	(a) AIs may risk-weight exposures to NBFIs in a jurisdiction outside Hong Kong as bank exposures if the supervisor in that jurisdiction— (i) determines that the regulatory and supervisory framework governing NBFIs in the jurisdiction is equivalent to that which is applied to banks in the jurisdiction; or (ii) allows banks incorporated in the jurisdiction to treat NBFIs in the jurisdiction as banks for Basel capital adequacy purposes. In the case of NBFIs supervised by the Insurance Authority and the Securities and Futures Commission, the HKMA will make a determination in consultation with the two regulators and specify in supervisory guidance the treatment for NBFIs supervised by them. (b) The risk-weighting treatment for short-term exposures under ECRA will also be

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			applicable to exposures to NBFIs that can be treated as banks for risk-weighting purposes. (c) For unrated exposures to NBFIs, the HKMA will further consider the feasibility of applying the SCRA set out in CRE20.21 to 20.32 to these exposures. [Note: NBFIs include holding companies of financial institutions.]
2.5	**Exposures to corporates**		
7.	CP – para. 30(iii) The HKMA proposed to follow the revised SACR for the treatment of exposures to corporates. For unrated specialized lending exposures, the risk-weights applicable are 100% for object and commodities finance exposures and project finance exposures during operational phase, and 130% for project finance exposures during pre-operational phase.	The industry suggested the HKMA consider implementing the preferential risk-weight of 80% for high quality project finance in operational phase as allowed in CRE20.51 and CRE20.52. The industry also requested the definition of specialized lending be widened to accommodate aircraft and ships finance under operating leases given their operational features.	The preferential risk-weight of 80% will be implemented in accordance with the criteria set out in CRE20.52. Possible flexibilities are being considered for aircraft and ships finance under operating leases to be classified as specialized lending (e.g. AIs to demonstrate that the repayment of the obligation is the income generated by these specific assets instead of a specific asset either in legal form or in economic substance) provided the spirit of the relevant Basel standards are not violated. The HKMA will consult the industry on any further guidance in due course.
8.	CP – para. 31 The HKMA proposed to follow the revised SACR for the treatment of exposures to	The industry sought clarification on the expected frequency and source of information required of AIs for the purpose of reviewing the turnover of a	AIs are expected to determine the turnover of a borrower based on the latest information they obtained in their usual credit risk management process. If audited financial reports are not

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	corporates (including the application of the €50 million annual sales threshold for defining "corporate SMEs").	borrower for the purpose of determining whether it is a corporate SME.	available or not up-to-date, other recent information such as management accounts that are considered by AIs as reliable may be used.
2.6	**Subordinated debt, equity and other capital instruments**		
9.	CP – para. 34 Under the revised SACR, a 400% risk-weight must be assigned to speculative unlisted equity exposures which are defined as *"equity investments in unlisted companies that are invested for short-term resale purposes or are considered venture capital or similar investments which are subject to price volatility and are acquired in anticipation of significant future capital gains."*	The industry sought clarification on: (a) the interpretation for the expression "short-term"; and (b) whether equity exposures incurred as part of the business facilitation (e.g. membership of payment systems and exchanges), which are usually unlisted, should not be treated as speculative.	(a) AIs are expected to make their own judgement as to whether their intended holding period of the unlisted equities is "short-term". Since unlisted equities are not traded in a liquid secondary market, it is less likely that a profitable resale deal could be closed within months after acquisition of the equities. As such, a holding period of 3 to 5 years could still be considered as "short-term" in the case of highly illiquid investments. (b) Equity exposures incurred as part of the business facilitation (e.g. membership of payment systems and exchanges) do not fall within the definition of "speculative unlisted equity exposures" set out in CRE20.58. Hence, these exposures will not be subject to the 400% risk-weight.
10.	CP – paras. 34 & 35 Under the revised SACR, speculative unlisted equity exposures must be risk-weighted at 400% and other equity exposures 250%. For any amounts of capital instruments or non-capital	The industry sought clarification on: • whether the new risk-weights (400%, 250% or 150%, as the case requires) are applicable to loans, facilities or other credit exposures	Any loans, facilities or other non-equity credit exposures provided by an AI to any of its connected company falling within the scope of section 46 of the Banking (Capital) Rules ("BCR") will be regarded as part of the AI's capital investment in the connected company for

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	LAC liabilities (including those in the form of subordinated debt) issued by financial sector entities that are not deducted from regulatory capital and currently risk-weighted at 100% will be risk-weighted at: • 400% or 250%, as the case requires, for capital instruments that are equities; and • 150% for non-capital LAC liabilities and capital instruments other than equities	provided by an AI to a connected company; and • the treatment of a mix of equity exposures and other non-equity credit exposures of the AI to a connected company.	the purpose of capital treatment under the BCR. It follows that all non-equity credit exposures must be added to any equity exposures of the AI to the connected company to determine whether the aggregate amount exceeds the relevant threshold(s) (of exemption from deduction) under the BCR. The portion that is within the threshold must then be subject to the risk weights applicable to equity exposures (i.e. 400%, 250% or 150%, as the case requires).
11.	CP – paras. 36 and 78 The HKMA consulted the industry on whether to apply the five-year linear phase-in arrangement for the existing risk-weights of equity exposures to be migrated to those under the revised SACR and IRB approaches.	The industry preferred for simplicity that no phase-in be allowed.	The phase-in arrangement will not be made available.
2.7	**Retail exposures**		
12.	CP – paras. 38(i) and 39 The HKMA proposed to adopt the granularity criterion as one of the eligibility criteria for regulatory retail exposures, i.e. no aggregated exposure of an AI to one counterparty can exceed 0.2% of the AI's overall regulatory retail portfolio.	The industry sought clarification on: (a) whether the granularity criterion would be applied on a consolidated basis to cover exposures to a single retail customer extended by the AI and its subsidiaries (including those outside Hong Kong). The industry expressed that the application on a consolidated basis would result in severe operational challenges as personal data privacy requirements vary	(a) For the purpose of calculating the capital ratios on a consolidated basis, the granularity criterion should be met at the consolidated group level. For AIs that have overseas branches or overseas subsidiaries, the granularity criterion must be applied on a consolidated basis covering their overseas branches and subsidiaries to the extent possible (i.e. as allowed by the relevant

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		across multiple jurisdictions in Asia. For example, the Personal Information Protection Act (Act 16930) of Korea entitles data subjects (the clients of the Korean subsidiary) with the right to opt-out from export of their own data (article 17(2)(5) and article 17(3)), without prejudice of any other service rendered by the subsidiary locally to the data subjects; and (b) how "one counterparty" should be defined.	governing regulations in the overseas jurisdictions). (b) In line with the existing requirement in section 64(1)(a) of the BCR, "one counterparty" will include a group of obligors considered by an AI as a group of obligors for risk management purposes (including, but not limited to, those grouped under the Banking (Exposure Limits) Rules).
13.	CP – paras. 38(ii) & 39 The HKMA proposed to adopt the new key elements in the risk-weighting framework for retail exposures introduced under the revised SACR, including the application of the 45% risk-weight to regulatory retail exposure to any obligor who qualifies as "transactors" (i.e. obligors in relation to facilities such as credit cards and charge cards where the balance has been repaid in full at each scheduled repayment date for the previous 12 months, or to overdraft facilities if there has been no drawdown over the previous 12 months).	The industry sought clarification on— (a) whether the 45% risk-weight is applicable to other revolving facilities such as personal revolving loans; (b) whether the definition of transactor is applied at product level or customer level. The industry prefers adopting a product-level definition; (c) whether new unsecured facilities (opened for less than 12 months) could be classified as "transactors"; and (d) whether exposures to personal term loans and leases will be excluded from the obligor level assessment when determining whether the counterparty is a "transactor".	(a) For personal revolving loans and other similar revolving facilities that can be drawn and repaid at any time, there should not be any drawdown over the previous 12 months in order for the obligors concerned to be considered as "transactors". (b) The definition of "transactor" should be applied at obligor level in order to avoid opening opportunities for gaming and understating the credit risk of those borrowers who, for instance, draw on a revolving line in order to repay an outstanding loan under another revolving line. (c) The standard risk-weight of 75% is appropriate for new facilities as there is no sufficient track record to substantiate that the obligors are transactors.

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			(d) The preferential treatment for transactors is not intended to apply to loans and advances, such as term loans and leases, that are not revolving in nature. If both revolving credit and non-revolving credit are granted to the same obligor, the non-revolving credit is subject to 75% risk-weight and whether the revolving credit is subject to 45% risk-weight will be assessed independently.
14.	CP – paras. 38(iii) and 39, 40(vi) and 41 A risk-weight multiplier of 1.5 times will be applicable to unhedged retail exposures to individuals where the lending currency differs from the currency of the borrower's source of income.	The industry— (a) suggested providing exemptions to certain exposures due to reasons such as there are prudential measures imposed by regulators or collateral, or the exposure is in a currency (e.g. HKD) that is pegged to the currency in which the borrower's income is denominated (e.g. USD); (b) asked whether the cap of 150% for the multiplier set out in CRE20.92 applies to local implementation; (c) sought clarification on whether the multiplier should only be applied to the unhedged portion of a retail exposure, and whether the reference of "90%" in CRE20.93 would be interpreted as a minimum threshold such that if the hedged portion in respect of a loan is less than the minimum threshold, the total amount of the loan would be deemed unhedged and therefore	(a) The HKMA does not intend to exempt any exposures having considered the following factors: (i) the multiplier is intended to address potential increase in default probability of a borrower due to foreign exchange risk incurred by the borrower and such probability is independent of the risk management measures imposed by regulators or taken by lending banks; (ii) the credit risk mitigation (CRM) effect of any collateral available has already been taken into consideration through the CRM framework and therefore should not be counted again; and (iii) the Basel Committee's policy intent is that the multiplier should also apply to pegged currencies including HKD. (b) The cap of 150% will be implemented

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		fully subject to the multiplier; (d) sought clarification on whether the multiplier will be applied to loans without standard instalment payments (e.g. those with bullet repayment or irregular repayment structure), and if so, how the 90% threshold should be calculated; and (e) asked whether a proxy (such as the currency of the jurisdiction of residence of the borrower) could be used to determine "the currency of the borrower's source of income" if there is a data gap for the latest borrower's source of income.	locally. (c) If less than 90% of the loan instalment is hedged, the whole loan amount is subject to the multiplier. (d) Subject to any guidance that may be issued by the Basel Committee, the HKMA's current thinking is that AIs should use the following amounts to determine whether the 90% threshold is met: (i) in the case of non-revolving loans with pre-specified repayment schedules and repayment amounts (including those with an irregular repayment structure)—the scheduled repayment with the largest amount; (ii) in the case of non-revolving loans with bullet payment—the whole outstanding loan amount; (iii) in the case of newly established revolving facilities that have no drawdown since establishment or revolving facilities that have no drawdown over the previous 12 months or no outstanding balance at the time of reporting—the credit equivalent amount of the undrawn portion of the facility; and

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			(iv) in the case of revolving facilities that do not fall within subparagraph (iii) above—the outstanding balance of the facility at the time of reporting (to avoid doubt, the multiplier, if applicable, should be applied to both drawn and undrawn portions of the facility). (e) AIs must consider all available information such as the borrower's occupation to determine the currency of source of income, and should not rely solely on the borrower's country of residence as other information may suggest a different conclusion. Subject to any guidance that may be issued by the Basel Committee: • for regulatory residential real estate exposures, personal instalment loans and credit facilities with regular scheduled repayment dates, an AI may continue to rely on the information obtained at loan origination to determine the currency of the borrower's source of income unless the AI is aware of a change in the currency of the borrower's source of income; and • for other types of credit facility that are subject to periodic credit review based on updated information provided by borrowers, AIs are expected to verify whether there is any change in the

Seq.	Original proposal	Industry comments	Revised policy / clarification
			currency of a borrower's source of income.
2.8	**Real estate exposure class**		
15.	CP – paras. 40(i), (ii) & (iii) Among other things, the risk-weighting framework of real estate exposures under the revised SACR includes: • more elaborate eligibility criteria (in terms of nature of property, legal enforceability, mortgagee rights, repayment ability, property valuation, required documentation, etc.) for exposures to be treated as qualifying exposures; and • more risk-sensitive approach to risk-weighting qualifying residential and commercial real estate exposures based on loan-to-value ("LTV") ratio calculated by using the property value at loan origination (subject to the downward adjustments described below as necessary). CP – para. 44(iii) For "LTV calculation", in view of the volatile nature of the local property market, the HKMA intends to implement the national discretion to require banks to revise the property value downward as necessary in the determination of	The industry sought clarification on / suggested: (a) how the eligibility criteria for qualifying exposures should be applied to undrawn commitments, viz., before the actual loan drawdown when the first legal charge and other rights may not yet be conferred to the bank; (b) whether in the case of refinancing a real estate exposure with an increase property current market value ("CMV"), the property CMV at the time of refinancing can be used for determining the LTV; (c) whether the real estate exposure class could involve any types of obligors and other types of facilities (such as overdraft, revolving loan, term loan, trade finance, etc.) secured by real estate collaterals; (d) whether the national discretion to cap subsequent upward adjustment of property value not to a higher value than the value at origination would be applicable to exposures under the IRB approach; and (e) the HKMA consider applying grandfathering treatment to those existing real estate	(a) The HKMA intends to apply the same principle as described in section 74(7) of the BCR for risk-weighting undrawn commitments of real estate exposures. When assessing compliance with the requirements, an AI should take into account all relevant information available including but not limited to the terms and conditions of the facility. (b) The HKMA considers it acceptable that an AI uses the CMV of the mortgaged property to calculate the LTV of any genuine refinancing loan (e.g. one provided by the AI to refinance an outstanding mortgage loan owed to another AI), whether or not with an increase in loan amount. (c) The "real estate exposure class" can include any type of obligors, and real estate exposures other than "regulatory residential real estate" ("RRE") exposures or "regulatory commercial real estate" ("CRE") exposures should be categorised into other real estate exposures instead of obligor-based asset classes for risk-weighting purposes. A regulatory RRE or CRE exposure only includes loans for financing/refinancing the

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	the LTV ratio of a loan, which is consistent with the risk management practice expected of AIs. If the value has been adjusted downwards, a subsequent upward adjustment can be made but not to a higher value than the value at origination.	exposures for which the information on property value at origination are not available (especially for those booked long times ago), by referring to the latest property value revaluated as a replacement of property value at origination onwards.	acquisition of the relevant property or cashing out home equity. The HKMA considers that loan purpose is an important feature contributing to the relatively low delinquency rate (hence credit risk) of conventional mortgages locally, and it is necessary to build in some local categorisation requirements to ensure that the minimum risk weights are applicable only to those exposures that are of lower credit risk. (d) The discretion does not apply to exposures falling within the IRB subclass of residential mortgages to individuals or property-holding shell companies under the IRB approach. (e) The HKMA does not consider it acceptable to use the latest property value as the property value at origination where the latter is not available, especially for RRE exposures originated a long time ago given the significant difference between the two values in most cases. We appreciate that while an AI should have in its possession proper property valuation record at loan origination, it may be burdensome in some cases (e.g. for a loan granted a long time ago) to have to locate such record. A possible proxy for determining the LTV ratio of any such exposure could be to base the property value on one that is not higher than:

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			• for RRE exposure, the original loan amount multiplied by the reciprocal of the maximum LTV ratio allowed in the HKMA's prevailing supervisory guideline at origination. For an exposure covered by mortgage insurance provided by HKMC or another mortgage insurance company, a higher maximum LTV ratio taking into account the amount covered by the insurance should be used instead in order to align with the treatment of mortgage insurance in the Basel III final reform package; and • for CRE exposure, the original loan amount multiplied by the reciprocal of the maximum LTV ratio allowed in the lending AI's prevailing internal underwriting policy at origination.
16.	CP – para. 40(iv) The risk-weighting framework of real estate exposures under the revised SACR requires qualifying exposures whose repayment is "materially dependent" on cash flows generated by the properties concerned – "income-producing residential real estate" ("IPRRE") exposures and "income-producing commercial real estate" ("IPCRE") exposures to be subject to higher risk-weights than those that are not.	The industry sought clarification on how "material dependence" should be assessed where the borrower has income derived from holding a number of other properties (apart from the one / those securing the exposure). The industry suggested that grandfathering arrangements be made available to cater for cases where information required is not available for: • qualifying existing real estate exposures based on the criteria under CRE20.71; and	An AI should consider only the property(ies) securing the relevant real estate exposure in assessing the material dependence criteria. The borrower's holding of other properties should be excluded from the assessment. The number of income producing real estate held by the borrower is irrelevant to the assessment of material dependence. For grandfathering arrangements, the HKMA would consider:

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		• classifying existing real estate exposures into IPRRE and IPCRE is non-available.	• allowing those residential mortgage loans currently eligible for the 35% risk weight to be grandfathered from the eligibility criteria under CRE20.71; and • allowing AIs for practical reasons to grandfather existing real estate exposures (where relevant information for classification is not available) as non-IPRRE or non-IPCRE. For the purpose, it is proposed that this grandfathering treatment be made available only for loans granted before 1 July 2022.
17.	CP – para. 40(v) The revised SACR introduces a "land acquisition, development and construction exposures" ("ADC") subclass, which is similar to the high-volatility commercial real estate ("HVCRE") subclass of specialized lending in the IRB approach, and will be subject to a flat risk-weight of 150%, or 100% if the designated criteria are fulfilled. The designated criteria according to CRE20.91 include the requirement that *"pre-sale or pre-lease contracts amount to a significant portion of total contracts or substantial equity at risk"*.	The industry sought clarification on: (a) what the threshold % is (of the pre-sale or pre-lease contracts amount to the total contracts) for an ADC exposure to residential real estate to be qualified for the 100% risk weight; (b) whether the financing of revitalization projects and renovation projects (e.g. revitalization of industrial building, renovation of hotel buildings, etc.) can be excluded from being classified as ADC exposure; (c) whether the same definition / criteria for HVCRE which the IRB banks have implemented would be applied across to ADC subclass under the Standardised approach;	(a) For ADC exposures to residential real estate in Hong Kong, the HKMA does not prefer specifying a fixed pre-sale or pre-lease threshold to define significance in this context. On the other hand, where any such exposure complies with the relevant guidance on property construction finance set out in the circular issued by the HKMA on 12 May 2017, it is acceptable to see this as an indication of the borrower having substantial equity at risk and apply the 100% risk-weight to the exposure. For ADC exposures to residential real estate in other jurisdictions, the HKMA proposes to: • for any jurisdiction that has implemented an iteration of the BCBS risk-based capital framework, reciprocate the

Seq.	Original proposal	Industry comments	Revised policy / clarification
		(d) with reference to CRE20.90 that the ADC exposures "refers to loans to companies or SPVs", whether loan to individual borrower for the construction of residential real estate is not classified as ADC exposure.	treatment for those exposures as applied by the jurisdiction; and • for any other jurisdiction, require those exposures to be subject to the 150% risk weight. (b) An exposure arising from revitalization projects and renovation projects that do not involve development and construction of residential or commercial properties can be excluded from being classified as ADC exposure. (c) The HKMA does not intend to adopt the same criteria for these two exposure types since the scope and the criteria for HVCRE under the IRB approach and ADC subclass under the revised SACR are different. For example, HVCRE under the IRB approach covers commercial real estate only while ADC subclass under the revised SACR covers both residential and commercial real estates. The HKMA considers that the revised SACR for ADC exposures is designed to be relatively more broad-based. CRE20.91 captures exposures with relatively lower volatility and CRE20.90 captures those other exposures with relatively higher volatility. (d) Having considered the local circumstances (e.g. financing of ADC by indigenous borrowers in the New Territories), the HKMA

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<tr><th>Seq.</th><th>Original proposal</th><th>Industry comments</th><th>Revised policy / clarification</th></tr>
<tr><td></td><td></td><td></td><td>plans to include under ADC exposure lending to an individual borrower for the construction of residential real estate.</td></tr>
<tr><td>18.</td><td>CP – para. 40(vi)

Under the revised SACR, a risk-weight multiplier of 1.5 times will be applicable to unhedged RRE exposures to individuals where the lending currency differs from the currency of the borrower’s source of income (i.e. in the case of loans made in HK$, any currency other than HK$).</td><td>The industry suggested AIs be allowed to adopt a plausible method (e.g. country of residence or nationality of the borrower) to proxy the currency of a borrower’s source of income.</td><td>For any loans granted before 1 July 2022, the HKMA intends to allow AIs to adopt a plausible method to proxy the currency of a borrower’s source of income. In this regard, relative to "nationality", the HKMA considers that a borrower's place of residence may generally be more indicative of the currency of the borrower's source of income. Even so, AIs should use a borrower's place of residence only as a base reference and evaluate this against other relevant circumstantial factors.</td></tr>
<tr><td>19.</td><td>CP – para. 41

The HKMA proposed to adjust the risk-weighting scales for RRE exposures by a “1 notch shift” to the right as follows:

<table>
<tr><th>1 notch shift</th><th>LTV ≤ 50%</th><th>50% < LTV ≤ 60%</th><th>60% < LTV ≤ 80%</th><th>80% < LTV ≤ 90%</th><th>90% < LTV ≤ 100%</th><th>LTV > 100%</th></tr>
<tr><td>RRE that is not IPRRE</td><td>25%</td><td>30%</td><td>40%</td><td>50%</td><td>70%</td><td>70%</td></tr>
<tr><td>IPRRE</td><td>35%</td><td>45%</td><td>60%</td><td>75%</td><td>105%</td><td>105%</td></tr>
</table>
</td><td>The industry raised concerns on the proposal based on various reasons covering level-playing field vis-à-vis banks in other jurisdictions, local prudential requirements (e.g. on debt servicing ratio and LTV ratio) already in place, etc.</td><td>The HKMA intends to adopt the Basel Committee’s risk-weighting scales for RRE exposures, except that to align with the risk-weight floor that IRB AIs will continue to be subject to when the Basel III final reform package is implemented, the 20% minimum risk-weight applicable to non-IPRRE exposures in the LTV ≤ 50% bucket will be adjusted to 25%.</td></tr>
<tr><td>20.</td><td>CP – para. 43(ii)</td><td>The industry sought clarification on:</td><td>(a) Under the revised SACR, the same risk-weighting treatment for commercial real estate exposures applies to all types of</td></tr>
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Seq.	Original proposal	Industry comments	Revised policy / clarification
	The HKMA proposed to retain the treatment under the existing standardized approach under the BCR to allow a residential mortgage loan ("RML") with a property-holding shell company as borrower to receive the same risk-weight treatment as an RML to an individual.	(a) whether a commercial real estate exposure to a property–holding shell company as borrower will similarly receive the same risk-weight treatment when the borrower is an individual; and (b) whether an RML to a property-holding shell company as borrower who receives the same risk-weight treatment as an RML to an individual will also be subjected to currency mismatch add-on imposed to RML to an individual.	borrowers (i.e. including those that are individuals and those that are property holding shell companies). (b) As they are considered as of equivalent credit risk, an RML to a borrower who is an individual and one to a property holding shell company should be subject to the same capital treatment, including the application of the currency mismatch add-on. In this regard, the currency mismatch assessment should be based on the income source of the personal guarantor of the RML to the property holding shell company unless servicing of the RML materially depends on the cash flows (e.g. rental incomes) generated by the property held by the company.
21.	CP – para. 44(i) For the "Finished property" criterion under CRE20.71 for qualifying RRE exposures, the HKMA proposed for simplicity's sake not to exercise the national discretion to apply the same risk-weighting treatment as qualifying RRE exposures to loans to individuals that are secured by residential property under construction or land upon which residential property would be constructed and fulfil certain conditions.	The industry suggested the HKMA consider exercising the national discretion where banks can demonstrate whether sovereigns and PSEs have legal powers to ensure completion of such properties in their jurisdictions, which is considered to be achievable in most circumstances under local jurisdictions. The industry also asked the HKMA to exclude the criterion of "one-to-four family residential housing unit" from the conditions applied as it seems overly restrictive and not a relevant indicator of a family unit in an Asian context.	The HKMA intends to make available the exception where AIs are able to demonstrate (with the support of legal opinions) the relevant sovereign or PSE has the legal powers and ability to ensure completion of the property under construction. As to the exception for one-to-four family residential housing units under construction, the HKMA considers it as mainly to cater for specific circumstances of certain other jurisdictions which are not prevalent in Hong Kong and therefore not necessary for exposures secured by local property.

Seq.	Original proposal	Industry comments	Revised policy / clarification
			Other than loans falling within the exception mentioned above, the HKMA considers that: • loans to individuals that are secured by residential property under construction should be under "other real estate" exposure; and • loans for financing acquisition of land upon which residential property would be constructed or for financing construction of residential property should be under ADC exposure. Loans for other purposes (e.g. working capital) secured by land should be classified as "other real estate" exposures.
22.	CP – para. 45 As under the existing STC, for RRE exposures secured by overseas properties, it is proposed that risk-weighting treatment may follow the capital standards in those overseas jurisdictions that have likewise implemented the revised SACR under the Basel III final reform package.	The industry enquired whether it is possible to follow the existing capital standards in overseas jurisdictions that are yet to have a clear schedule to implement the revised SACR under the Basel III final reform package.	In relation to RRE exposures secured by overseas properties, the HKMA will continue to allow an AI to follow the risk-weighting treatment of the overseas jurisdiction provided that the jurisdiction has implemented the relevant Basel II or Basel III capital requirements.
2.9	**Off-balance sheet items**		
23.	CP – para. 46(i) The revised SACR requires that commitments that are unconditionally cancellable at any time by the bank without prior notice, or that	The industry asked whether exemption from the definition of commitments could be given to those off-balance sheet items pending mandatory	As long as there is a possibility that the mandatory approval would be granted by the regulatory or government body, there is a possibility that the commitment would be drawn. Hence, the commitment cannot be exempted.

Seq.	Original proposal	Industry comments	Revised policy / clarification
	effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness ("UCCs"), will receive a 10% CCF instead of 0%.	approval from an independent regulatory or government body, until such approval is granted.	The second last sentence of CRE20.94 (i.e. "It also includes any … under the arrangement.") should not be read as a definitive criterion for excluding commitments where drawdown is predicated upon mandatory events whose occurrence is beyond the control of the obligor and the AI.
24.	CP – para. 47 The HKMA proposed not to exercise the national discretion of excluding "pro forma" commitments to corporates and SMEs from the definition of "commitment".	The industry suggested the HKMA consider exercising the national discretion, taking into account, among other things, the discretion is particularly relevant to trade finance business which is a key part of the Hong Kong financial sector. Not exercising the discretion would impact trade facilities and put Hong Kong at a competitive disadvantage to other parts of the region (e.g. Singapore) that intend to exercise the discretion, potentially shifting trade business to other countries.	The HKMA intends to exercise the national discretion as set out in footnote 43 to CRE20.94. The HKMA will also keep in view the implementation approach of other major jurisdictions in order to ensure a level playing field. AIs will be expected to report the exempted amount periodically to the HKMA for supervisory monitoring.
2.10 Defaulted exposures			
25.	CP – paras. 48 and 49 The revised SACR introduces a new defined term of "defaulted exposure", which means an exposure that is past due for more than 90 days; or an exposure to a "defaulted borrower". The HKMA proposed to, instead of adopting the treatment set out in CRE20.106, carry forward the existing treatment of defaulted exposures (i.e. a flat 150% risk-weight) while expanding the	The industry sought clarification on— (a) whether the term "default borrower" is not applicable to retail exposure; and whether "default borrower" is also not applicable to residential real estates ("RRE"), and commercial real estates ("CRE"); and (b) whether the defaulted exposure for RRE/ CRE class under revised SACR will follow the	(a) For retail exposures, the definition of default can be applied at the level of a particular credit obligation. For exposures other than retail exposures, the definition of default must be applied at the level of the borrower. (b) The HKMA intends to adopt the treatment set out in CRE20.107 for defaulted RRE and defaulted CRE:

Seq.	Original proposal	Industry comments	Revised policy / clarification
	treatment to cover exposures to "defaulted borrower".	existing BCR that to be risk-weighted at 100% regardless of the dependency on cash flows generated by the property securing the loan.	(i) Defaulted RRE where repayments do not materially depend on cash flows generated by the property securing the loan will be risk-weighted at 100%; (ii) Defaulted RRE where repayments materially depend on cash flows generated by the property securing the loan will be risk-weighted at 150%; (iii) Defaulted CRE will be risk-weighted at 150% regardless of the extent to which repayments depend on cash flows generated by the property securing the loan. Defaulted RRE and defaulted CRE will be risk-weighted net of any specific provisions and partial write-offs. Any financial collateral or guarantee that is eligible according to the CRM framework may be taken into account in the calculation of the risk-weighted amount. Real property will not be recognised as collateral.
3	**Qualitative requirements in relation to the use of risk-weights based on external ratings**		
26.	CP – para. 50 AIs are required to exercise due diligence to assess whether the prescribed risk-weight based on external ratings (base risk-weight) applied to an exposure (other than an exposure to a	The industry expressed concerns about— • operational difficulties and disproportionate administrative burden such as duplication of internal credit assessments performed by AIs, external rating assessment performed by	The objective of the due diligence requirements is to ensure that the risk-weight assigned to an exposure is reflective of the level of credit risk assessed by an AI itself. The AI does not need

Seq.	Original proposal	Industry comments	Revised policy / clarification
	sovereign or non-central government public sector entity) is appropriate and prudent given the AIs' own assessment of the credit risk of the exposure. For instance, if an AI's own assessment suggests the credit risk of an exposure is higher than that implied by the base risk-weight, the AI must assign to the exposure a risk-weight that is at least one notch higher. In any other case, the base risk-weight must be assigned to the exposure.	external rating agencies, and oversight by other national supervisors; and • interpretation on due diligence requirements, specifically, if banks would be expected to perform a line by line comparison of underlying risk characteristics considered in the internal credit assessments vs. the external rating assessment to justify adjustments to the risk-weight look-up table. The industry is of the view that a comparison of only the final ratings shall be regarded as sufficient to justify any adjustment made.	to assess whether the external rating of the exposure is appropriate or not. The HKMA considers that to fulfil the due diligence requirement, an AI need only— • develop a mapping scheme that maps the AI's own credit assessment result (e.g. an internal credit quality grade) to an equivalent external credit rating (based on the credit standing such rating represents); and • compare the outcome of its own internal credit assessment (regardless of the extent to which such outcome is based on credit models) and the risk-weight determined based on the external credit rating assigned to the exposure. The mapping does not need to be a line by line comparison of the underlying risk characteristics considered in the AI's internal credit assessment and the external rating assessment. The HKMA will take a proportionate approach to considering the appropriateness of an AI's mapping scheme and expect AIs to be prepared to justify the reasonableness of their mapping mechanism.

Seq.	Original proposal	Industry comments	Revised policy / clarification
V	**Revised Internal Ratings-based Approach for Credit Risk**		
1	**Introduction / overview**		
27.	CP – para. 71 The major changes introduced under the revised IRB approach include: (i) prohibition on the use of the advanced IRB approach ("AIRB") for low-default portfolios ("LDPs") including exposures to banks, other financial institutions and large corporates; (ii) specification of new or revised input floors for bank-estimates of probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"); (iii) removal of certain Basel II calculation methodologies and refinements to some others for greater simplicity and robustness; and (iv) enhancement of estimation and data requirements.	(a) The industry suggested that HKMA need not implement both the asset value correlation and the 0.05% PD floor on AI's exposures to financial institutions since these exposures are considered less risky than corporate exposures. (b) Due to the prohibition on the use of the AIRB to LDPs, the industry sought to clarify the method of recognising credit protection (e.g. guarantee) issued by financial institutions or large corporates if an AI's exposures to these entities should mandatorily be measured under the foundation IRB approach ("FIRB") upon the implementation of Basel III final reform package.	(a) The HKMA considers it necessary and prudent to implement these two capital requirements and does not intend to deviate from Basel standards. (b) As set out in CRE32.27, if an AI applies FIRB to direct exposures to the guarantor, the institution may only recognise the guarantee using the FIRB. As a result, for exposures which are subject to the AIRB, the AI may only use FIRB to recognise the portion of exposures which are guaranteed by the financial institutions or large corporates.

Seq.	Original proposal	Industry comments	Revised policy / clarification
2	**General approach and presumptions**		
28.	CP – para. 73 The general implementation approach proposed by the HKMA is to align closely with the revised IRB approach set out under the Basel III final reform package.	(a) The industry sought to clarify if the "cross-approach" guarantee recognition set out in CRE32.24(3) and CRE32.27 will be implemented as opposed to the current BCR treatment in which it is not allowed per section 214(3)(b) of the BCR. (b) The industry proposed allowing AIs to incorporate the 12-month fixed-horizon approach for EAD estimation as set out in CRE36.93 at the occasion of their next EAD model enhancement (or modification) and claimed that such flexibility would improve AIs' ability to prioritize changes for other models and make more efficient use of modelling resources.	(a) The HKMA will implement both requirements for treatment of recognition of guarantees in cases where an AI applies standardised approach to direct exposures to the guarantors and will amend section 214(3) of the BCR to reflect the changes accordingly. (b) While the HKMA expects that AIs should comply with the requirement set out in CRE36.93 upon the implementation of the Basel III final reform package, the HKMA intends to allow the AIs to fully comply with such requirement by 31 December 2023.
3.1	**Migration of specified asset portfolios**		
29.	CP – para. 76 In assessing the revenue threshold for large corporates, such figure must be the higher of that computed based on the average amount calculated over the prior three years or on the latest amount updated every three years by the AI.	(a) The industry sought to clarify the meaning of "on the latest amount updated every three years by the AI" in the condition. (b) The industry commented that taking the higher of the "average amount calculated over the prior three years" and "on the latest amount updated every three years" would be challenging to operationalise.	(a) To serve the purpose of this condition, the HKMA considers the AI should minimally obtain the revenue information every three years to determine whether the corporate meets the revenue threshold. (b) The HKMA intends to remove the requirement of "taking the higher of" (i) the "average amount calculated over the prior three years" and (ii) "on the latest amount

Seq.	Original proposal	Industry comments	Revised policy / clarification
			updated every three years" to minimise the operational complexities.
30.	CP – para. 79 The HKMA intended to reduce the associated compliance burdens on AIs due to the mandatory migration of the LDPs and equity exposures upon implementing the Basel III final reform package.	The industry sought confirmation if AIs are not required to apply to the HKMA for the mandatory migration of exposures under the ongoing IRB implementation framework.	AIs are generally not required to apply for changes in the use of IRB calculation approaches as a result of those mandatory requirements arising from the implementation of the Basel III final reform package. However, AIs are still required to obtain the MA's prior consent for any material changes in the IRB models even if such model changes result from mandatory requirements arising from the implementation of the Basel III final reform package.
3.2	**Treatment of maturity under the foundation IRB approach**		
31.	CP – para. 80 To provide greater flexibility, the HKMA proposed to amend section 167(c) of the BCR requiring an AI to inform the Monetary Authority ("MA") by notice in writing within 7 calendar days if the institution has switched to the maturity treatment under AIRB as set out in section 168 of the BCR subject to certain conditions set out in paragraph 80(i) to (iii) of CP20.02 instead of seeking prior consent from the MA to do so.	The industry sought to clarify several implementation issues of the proposed new requirements as well as technicalities on the three conditions facilitating the new notification framework.	In light of the comments and questions received from the industry, the HKMA provides further clarity on the operation of the proposed simplified framework: Implementation issues – • The switch of the maturity treatment from FIRB to AIRB is optional for AIs that are currently using FIRB for their corporate, sovereign and bank exposures. • The HKMA expects AIs currently using the advanced maturity treatment to inform the MA in writing if they continue to use advanced maturity treatment for the

Seq.	Original proposal	Industry comments	Revised policy / clarification
			exposures to be migrated to FIRB upon the implementation of the Basel III final reform package. • The HKMA intends to grandfather the consents previously granted to AIs using advanced maturity treatments to calculate the maturity of exposures currently subject to FIRB, provided that the institutions agree with the HKMA on a plan to switch to use the advanced maturity treatment for other relevant exposures. <u>Conditions set out in paragraph 80(i) to (iii)</u> – ▪ AIs are expected to switch the maturity treatment of all their corporate, sovereign and bank exposures under FIRB to AIRB, and such change should not be effected by phases. ▪ AIs should demonstrate to the HKMA that their internal processes and systems are capable of capturing the relevant data and calculating the maturity of exposures accurately in fulfilling 80(ii). Institutions are expected to put in place adequate controls and monitoring to ensure the reliability and accuracy of the maturity used in regulatory capital calculation. • The “independent party” and the “third party” described in 80(iii) can be managed by the departments or units within an AI, provided

Seq.	Original proposal	Industry comments	Revised policy / clarification
			that these parties are independent from developing the rating systems and related process in the determination of maturity.
3.3	**Exemption from definition of commitments**		
32.	CP – para. 81 To ensure consistency between the revised SACR and revised IRB approach, the national discretion to exclude certain arrangements in respect of corporate and SME from the definition of commitment will not be exercised under the IRB approach.	N.A.	The HKMA intends to exercise the national discretion as set out in footnote 43 to CRE20.94. Please refer to item 24 above for details.
3.4	**Residential mortgages**		
33.	CP – para. 83 The HKMA proposed to maintain LGD floor for RMLs at 10% taking into account local market characteristics.	The industry requested to relax the LGD floor to 5% to maintain comparability and consistency across jurisdictions, having regard also to non-level playing field given macro-prudential measures implemented in Hong Kong.	The HKMA intends to retain a 10% LGD floor level for RMLs, taking into account the special characteristics of property market in Hong Kong and long-standing prudential standards for AIs' property exposures. Further, LGD is a measure of loss when tail events realise and is highly dependent on the volatility of the local property market, and some other jurisdictions also propose the same floor level (of 10%) to add a degree of conservatism regarding LGD estimation over the BCBS minimum requirement.

Seq.	Original proposal	Industry comments	Revised policy / clarification
3.6 Adoption of IRB approach for asset classes			
34.	CP – para. 87 The HKMA intended to replace the "wholesale" approach to adopting the IRB approach under Basel II with an "asset class-based" approach to adopting the IRB approach in line with the Basel III final reform package.	(a) The industry suggested the HKMA allowing AIs to adopt the phased rollout across an asset class and migrate portfolios to IRB approach progressively. (b) The industry sought to clarify whether the HKMA could approve an AI to adopt the revised IRB approach for some of the institution's business units within an asset class.	(a) The HKMA does not intend to allow phased rollout across an asset class. The HKMA believes that AIs which would like to apply for the use of the IRB approach should have sufficient time and resources preparing for the development of the necessary internal rating systems, data and relevant expertise for the implementation of the IRB approach. AIs should consult the HKMA in any exceptional circumstances. (b) The HKMA will not approve the use of the IRB approach for some business units within an IRB adoption class only, unless the institution finds it not practicable to use the IRB approach for some exposures falling within a business unit of an IRB adoption class and such exposures are immaterial in size.
35.	CP – para. 88 • The HKMA proposed mapping the major IRB classes and subclasses specified in the BCR into seven "IRB adoption class" on which the adoption of the IRB approach by an AI will be based, along the relevant standards set out in the 2023 version of the consolidated Basel Framework.	(a) The industry sought to clarify if financial institutions other than banks and securities firms should be classified as corporates under the revised IRB approach. (b) The industry sought to confirm if the existing exemptions granted to AIs to calculate credit risk to specific exposures by the IRB approach will be grandfathered.	(a) Any financial institutions which do not fall within the IRB class of bank exposures should be classified as corporate exposures. Please refer to item 6 above for details. (b) The HKMA intends to grandfather the existing exemptions granted under section 12(2)(a) of the BCR exempting AIs to calculate the credit risk of specific exposures in an IRB class by the IRB approach upon the

Seq.	Original proposal	Industry comments	Revised policy / clarification
	• The HKMA proposed to remove the existing BCR requirements relating to minimum IRB coverage ratio.	(c) The industry enquired whether AIs are required to maintain the minimum IRB coverage ratio until the revised IRB framework takes effect on 1 July 2023.	implementation of the Basel III final reform package. (c) AIs which are currently using the IRB approach should continue to maintain the IRB coverage ratio of 85% before the implementation of the Basel III final reform package.
4	**Preliminary implementation arrangements**		
36.	CP – para. 90 The HKMA proposed several preliminary implementation arrangements to facilitate the implementation planning and preparation work of both AIs and the HKMA.	(a) The industry sought to clarify the coordination with home supervisors to ensure a smooth implementation for those AIs, which are "subsidiaries of foreign banking groups" and subject to home supervisors' approach and timeline of model reviews and approvals. (b) The industry suggested the HKMA to provide indicative timelines on the update of the Questionnaires on "Self-Assessment of Compliance with Minimum Requirements for Adoption of the IRB Approach" and SPM CA-G-4.	(a) In assessing whether AIs that are subsidiaries of foreign banking groups meet the applicable HKMA requirements for the use of the IRB approach, the HKMA will co-ordinate with the home supervisors and take into account the assessment of them. This is, however, on condition that the HKMA is satisfied that the capital adequacy standards adopted by the AI's home supervisor for assessing credit risk under the IRB approach are not materially different from those laid down in the BCR. Besides, AIs are advised to synchronise the timeline of model submissions to the home supervisors and the HKMA to facilitate the coordination between the HKMA and the home supervisors on reviews and approval of models.

Seq.	Original proposal	Industry comments	Revised policy / clarification
			(b) The HKMA targets to update the Questionnaires on self-assessment in H1 2022, and SPM CA-G-4 at around Q3 2023.
	Others		
37.	N.A.	Some AIs approached the HKMA and asked if institutions are allowed to adopt both AIRB and FIRB to calculate credit risk of exposures within the same IRB adoption class (i.e. hybrid approach), and whether an AI currently using AIRB to calculate its credit risk for corporate, sovereign and bank exposures be allowed to switch some of the institution's exposures back to FIRB or standardized approach.	In general, the HKMA is of the view that the hybrid approach should be used and approved in limited circumstances and the switch to a less sophisticated calculation approach should only be approved in exceptional circumstances. That said, as the adoption of the hybrid approach is consistent with the emphasis of the BCBS on modellability in the Basel III final reform package, the HKMA is considering to revise the relevant FAQ (Q.3 under the subject IRB calculation approaches) in the HKMA's guidance Questions and Answers on the BCR by setting out an additional example of "exceptional circumstances" where "an AI's rating system is no longer able to reliably estimate one or more than one of the credit risk components[3]". Along with the above intent, in case an AI anticipates switching to use FIRB or standardized approach from AIRB or FIRB, the AI must reasonably justify to the HKMA how its existing models cannot provide a reliable estimate of the credit risk component and must also satisfy the

[3] This may arise from the requirements from the Basel Committee or the home supervisor of an AI (in case where the AI is the subsidiary of a foreign banking group) in estimation practices of credit risk components.

Seq.	Original proposal	Industry comments	Revised policy / clarification
			HKMA that such switching is not for regulatory capital arbitrage. The HKMA will assess each of the applications on a case-by-case basis to ensure that the switching will not be abused by the AIs.
VI	**Revised Operational Risk Framework**		
1	**Introduction**		
38.	CP – Part VI General comment	The industry sought clarification on whether an AI can exclude "boundary events" under its internal policy on operational risk management. Boundary events represent losses that are related to both operational risk and credit risk, and are embedded within losses on credit exposures and are currently recognized as credit losses (i.e. included in the provision for credit losses) but are caused or contributed (e.g. failure to manage collateral properly) by operational risk factors.	While boundary events can be excluded from operational risk capital charge calculation based on the principles set out in OPE25.20, relevant data should still be maintained for operational risk management and, for instance, reported for regulatory monitoring purposes in the HKMA's Operational Risk Management Data Submission Exercise.
2.1	**Calculation of minimum operational risk capital**		
39.	CP – para. 94 A key component for calculating the minimum operational risk capital under the revised SAOR is the Business Indicator Component ("BIC"), a financial-statement-based proxy.	The industry sought clarification on: • the mapping between the income statement / balance sheet items used in the calculation of the BIC and the items reported in MA(BS)1C (Return of Current Year's Profit & Loss Account; and	AIs should refer to OPE10.2 - 10.3, and the proposed amendments to the BCR and supervisory guidance released for industry consultation on 30 September 2021.

Seq.	Original proposal	Industry comments	Revised policy / clarification
		• the methodology for calculating the "three year average" of the amount for each of the income statement / balance sheet items.	
40.	CP – para. 97 A qualifying criterion to the use of the Loss Component ("LC") for the calculation of the Internal Loss Multiplier ("ILM") is that an AI must have its operational loss data reviewed by a competent independent party to ensure that the minimum loss data standards are met before using the data to calculate the LC.	The industry sought clarification on: (a) whether the internal audit department of an AI is regarded as an independent party; and (b) whether the independent party is required to submit the review report to the HKMA, if yes, what is the timeline.	(a) The internal audit department is regarded as an independent party, provided that the key qualities expected of internal audit function including "independence" as set out in SPM IC-2 are met, following the existing practice re "annual ORM Independent Compliance Assessment. (b) AIs are not required to submit the review report to the HKMA but are expected to (a) confirm with the HKMA that the review and any remedial actions resulted from the review have been completed at least 3 months prior to the use of the LC in the operational risk capital charge calculation and (b) keep the review report (together with records of assessment work supporting the report findings) for the HKMA's inspection upon request.
3	**Proposed approach for local implementation**		
41.	CP – para. 100 Since the revised SAOR will be the only approach available in the revised operational risk framework, all locally-incorporated AIs are	The industry sought clarification on whether the revised operational risk framework is only applicable to locally-incorporated AIs or also their local and/or overseas subsidiaries.	The revised operational risk framework is applicable to a locally-incorporated AI on a solo basis and/or a consolidated basis in accordance with the notice issued by the MA to the AI under §3C(1) of the BCR.

Seq.	Original proposal	Industry comments	Revised policy / clarification
	required to adopt the approach to calculate minimum ORC requirements.		
42.	CP – para 102(i) The HKMA proposed not to exercise the discretion (at least initially) to allow bucket 1 AIs to calculate ILM based on internal loss data instead of requiring them to set ILM at 1.	The industry suggested the HKMA exercise this national discretion to cater, say, for AIs within international banking groups that are subject to the same operational risk framework requirements globally.	The HKMA intends to allow bucket 1 AIs that are subsidiaries of a larger banking group to calculate ILM so as to facilitate their conformance with the framework for the calculation of operational risk capital charge on a group basis. Any bucket 1 AI intending to calculate ILM for capital purpose should notify the HKMA that the following conditions are met at least 3 months prior to adopting this approach: (i) the parent company of the AI calculates ILM on a consolidated basis under the capital rules applicable to it and the data of the AI are either included in the calculation or would be included in the calculation were it not for justifiable considerations such as the materiality of the AI in relation to its banking group; and (ii) the AI has at least 5 years' operational loss data that meet the prescribed data quality standards (Note: the requirement on independent review of operational loss data applies).

Seq.	Original proposal	Industry comments	Revised policy / clarification
VII	**Output Floor**		
43.	CP – paras. 104 and 105 The Basel III final reform package introduced an output floor as a replacement to the Basel I-based capital floor under the Basel II framework, and accompanied by a five-year phase-in arrangement. The HKMA proposed an accelerated phase-in arrangement for the implementation of output floor: • 65% during 2023 and 2024; • 70% during 2025 to 2027; and • 72.5% from 2028 onward The HKMA also proposed not to exercise the national discretion to apply a cap that limits the RWA increase resulting from the application of the floor to 1.25 times of an AI's RWA calculated before the application of the floor.	(a) The industry did not support the accelerated phase-in and suggested adopting the BCBS' phase-in arrangement for the output floor calibration. They indicated that aligning with BCBS' phase-in arrangement place fewer constraints on AIs' business growth and provide a level playing field during the transitional period. (b) The industry enquired the calculation basis of output floor for the purpose to compute capital adequacy ratio and clarified whether the adjustments to capital floor calculation under existing sections 226(3)(d), (3A)(d), (5)(e), and (7)(e) of the BCR should continue to be applied and reflected in the calculation of output floor. (c) The industry sought to clarify if the risk-weighted amounts calculated by the existing capital calculation approaches for both market risk and CVA risk can be used for output floor calculation during the transitional time gap derived from the uneven implementation date of the revised market risk and CVA risk frameworks (not earlier than 1 January 2014) versus other Pillar 1 risk (1 July 2023). (d) The industry asked if IRB AIs could use IRB-specific capital treatments and collateral treatment of credit risk mitigation techniques	(a) Having considered the pandemic's impact on the industry and the robustness of AI's capital adequacy, the HKMA intends to adjust the phase-in schedule with a lower starting output floor level: • 60% during 2023; • 65% during 2024 to 2025; • 70% during 2026 to 2027; and • 72.5% from 2028 onward It should however be noted that the phase-in period is a transitional arrangement and AIs need to prepare themselves for eventually meeting the end-state 72.5% level in their capital management decision. The HKMA is of the view that any capital release arising from the application of a lower output floor level during the phase-in period should not be used by AIs for distributions. (b) Consistent with the existing practice in calculating the capital adequacy ratio, AIs should calculate the output floor on a solo basis (or on a solo-consolidated basis if it has the approval to do so under section 28(2)(a) of the BCR), and on a consolidated basis (subject to the exemption set out in section 33 of the BCR).

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		(which are different from the revised SACR approach) to determine the output floor, and clarified whether the revised SACR's supervisory requirements on due diligence assessment is also applicable to IRB AIs for such purpose.	Based on the rule text set out in RBC20 of the 2023 version of the consolidated Basel framework, the adjustments applied to the existing capital floor framework according to section 226 of the BCR are no longer applicable for calculating the output floor. (c) The HKMA considers that, before the revised market risk and CVA risk capital frameworks become effective, the AIs should exclude the risk-weighted amount for market risk and CVA risk from both floor risk-weighted amount and actual risk-weighted amount for output floor calculation. (d) AIs should follow the requirements set out in the revised SACR for calculating the output floor.
IX	**Implementation Timeline**		
44.	CP – para. 118 The HKMA proposed to bring into force the new requirements described in CP 20.02 on 1 January 2023.	The industry requested ample and sufficient time for system development, User Acceptance Test and Parallel Run, and indicated concern on potential impact of the current pandemic on implementation.	To provide the industry with additional time to prepare for the implementation amid competing priorities, the target effective date of the new requirements is adjusted to 1 July 2023.