

## PART 4

### CALCULATION OF CREDIT RISK FOR NON-SECURITIZATION EXPOSURES: STC APPROACH

#### Division 1—General

#### 50. Application of Part 4

(1) This Part applies to an authorized institution which uses the STC approach to calculate its credit risk for non-securitization exposures.

(2) Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which uses the STC approach to calculate its credit risk for non-securitization exposures.

#### 51. Interpretation of Part 4

In this Part, unless the context otherwise requires—  
“attributed risk-weight” (歸屬風險權重), in relation to a person to whom an authorized institution has an exposure—

(a) if—

(i) the risk-weight of the exposure is determined in accordance with any of sections 55, 56, 57, 58, 59, 60 and 61; and

(ii) the person (or, where the person is a public sector entity or sovereign foreign public sector entity, the sovereign of the jurisdiction in which the person is incorporated) has an ECAI issuer rating,

means the risk-weight which would be attributable, in accordance with those sections, to a senior and unsecured debt obligation of the person based on that ECAI issuer rating, and on the assumption that no ECAI issue specific rating has been assigned to any debt obligation of the person (or, where the person is a public sector entity or sovereign foreign public sector entity, the sovereign of the jurisdiction in which the person is incorporated);

(b) if—

(i) the risk-weight of the exposure is determined in accordance with any of sections 55, 56, 57, 58, 59, 60 and 61; and

(ii) the person (or, where the person is a public sector entity or sovereign foreign public sector entity, the sovereign of the jurisdiction in which the person is incorporated) does not have an ECAI issuer rating,

means the risk-weight which would be attributable, in accordance with those sections, to an exposure to the person as an obligor who has neither an ECAI issuer rating nor any ECAI issue specific rating assigned to any debt obligation of the person (or, where the person is a public sector entity or sovereign foreign public sector entity, the risk-weight which would be attributable, in accordance with section 57, to an exposure to the person on the assumption that the sovereign of the jurisdiction in which the person is incorporated does not have an ECAI issuer rating);

- (c) if the risk-weight of the exposure is determined in accordance with section 64, 66 or 67, means the risk-weight which would be attributable to the exposure pursuant to those sections;

“cash items” (現金項目), in relation to an authorized institution, means all or any of the following—

- (a) legal tender notes or other notes, and coins, representing the lawful currency of a country held by the institution;
- (b) the institution’s holdings of certificates of indebtedness issued by the Government for the issue of legal tender notes;
- (c) gold bullion held by the institution, or gold bullion held on an allocated basis for the institution by another person, which is backed by gold bullion liabilities;
- (d) gold bullion held on an unallocated basis for the institution by another person which is backed by gold bullion liabilities;
- (e) gold bullion held by the institution, or gold bullion held for the institution by another person, which is not backed by gold bullion liabilities;
- (f) cheques, drafts and other items drawn on other banks—  
(i) which are payable to the account of the institution immediately upon presentation; and  
(ii) which are in the process of collection;
- (g) unsettled clearing items of the institution which are being processed through any interbank clearing system in Hong Kong;
- (h) receivables from transactions in securities (other than repo-style transactions), foreign exchange, and commodities which are not yet due for settlement;
- (i) positive current exposure incurred by the institution under transactions in securities (other than repo-style transactions), foreign exchange, and commodities—  
(i) which are entered into on a delivery-versus-payment basis; and  
(ii) which are outstanding after the settlement date in respect of the transaction concerned;

- (j) the amounts of payment made or the current market value of the thing delivered, and the positive current exposure incurred, by the institution under transactions in securities (other than repo-style transactions), foreign exchange, and commodities—
- (i) which are entered into on a non-delivery-versus-payment basis; and
  - (ii) which are outstanding up to and including the fourth business day after the settlement date in respect of the transaction concerned;

“comprehensive approach” (全面方法), in relation to the use by an authorized institution of recognized collateral which falls within section 80 to reduce the risk-weighted amount of the institution’s exposures, means the method of using the recognized collateral set out in Division 7;

“corporate” (法團) means—

- (a) a company; or
- (b) a partnership or any other unincorporated body, which is neither—
- (c) a public sector entity, bank or securities firm; nor
- (d) an obligor to which an authorized institution has a regulatory retail exposure;

“credit equivalent amount” (信貸等值數額), in relation to an off-balance sheet exposure, means the credit equivalent amount of the exposure calculated under section 71 or 73, as the case requires;

“credit protection covered portion” (信用保障涵蓋部分), in relation to an exposure of an authorized institution which is covered by recognized collateral, a recognized guarantee or a recognized credit derivative contract, means that portion of the exposure (which may be all of the exposure) which is covered by the current market value of the recognized collateral, or the maximum liability of the credit protection provider to the institution under the recognized guarantee or recognized credit derivative contract, as the case may be;

“credit protection uncovered portion” (不受信用保障涵蓋部分), in relation to an exposure of an authorized institution which is covered by recognized collateral, a recognized guarantee or a recognized credit derivative contract, means that portion of the exposure which is not covered by the current market value of the recognized collateral, or the maximum liability of the credit protection provider to the institution under the recognized guarantee or recognized credit derivative contract, as the case may be;

“debt securities” (債務證券) means any securities other than shares, stocks or import or export trade bills;

“exposure” (風險承擔), in relation to an authorized institution, means a credit exposure (including an asset) of the institution;

“main index” (主要指數) means an index by reference to which futures contracts or option contracts are traded on a recognized exchange;

“minimum holding period” (最短持有期), in relation to collateral or any other thing held by an authorized institution, or by another person, for the institution’s benefit (however described), means a period—

- (a) which is reasonably likely to be required by the institution to realize the collateral or thing;
- (b) which commences on the date of the default by the obligor giving rise to the right on the part of the institution to realize the collateral or thing; and
- (c) which ends on the business day (being a day which is not a public holiday in any relevant market for the collateral or thing) on which the institution would be reasonably likely to be able to realize the collateral or thing;

“non-qualifying reference obligation” (不合資格參照義務) means a reference obligation which is not a qualifying reference obligation;

“past due exposure” (逾期風險承擔) means an exposure which—

- (a) is overdue for more than 90 days; or
- (b) has been rescheduled;

“principal amount” (本金額)—

- (a) in relation to an on-balance sheet exposure of an authorized institution, means the book value (including accrued interest and revaluations) of the exposure;
- (b) in relation to an off-balance sheet exposure of an authorized institution, means—
  - (i) subject to subparagraph (ii), in the case of an exposure listed in Table 10, the contracted amount of the exposure;
  - (ii) in the case of an exposure listed in Table 10 which is an undrawn facility or the undrawn portion of a partially drawn facility, the amount of the undrawn commitment;
  - (iii) subject to subparagraph (iv), in the case of an exposure listed in Table 11, the notional amount of the exposure;
  - (iv) in the case of an exposure listed in Table 11 where the stated notional amount of the exposure is leveraged or enhanced by the structure of the exposure, the effective notional amount of the exposure taking into account that the stated notional amount is so leveraged or enhanced, as the case may be;

“qualifying reference obligation” (合資格參照義務) means a reference obligation which falls within section 287(4) or is issued by a sovereign with a credit quality grade of 1, 2 or 3 as determined in accordance with section 287;

“recognized collateral” (認可抵押品) means collateral recognized under section 77;

“recognized credit derivative contract” (認可信用衍生工具合約) means—

- (a) a credit derivative contract recognized under section 99(1); or
- (b) a credit derivative contract which falls within section 99(2) or (3) to the extent that it is deemed under that section to be a recognized credit derivative contract;

“recognized guarantee” (認可擔保) means a guarantee recognized under section 98;

“regulatory retail exposure” (監管零售風險承擔) means an exposure of an authorized institution which shall be allocated a risk-weight of 75% under section 64;

“rescheduled” (重組), in relation to an on-balance sheet exposure of an authorized institution—

- (a) subject to paragraph (b), means the original terms of repayment of the exposure have been revised because of the inability of the obligor to meet the original repayment terms;
- (b) does not include an exposure, the original terms of repayment of which have been revised as referred to in paragraph (a), where the exposure has subsequently been serviced by the obligor in accordance with the revised repayment terms continuously for—
  - (i) in the case of an exposure with monthly payments (including both interest and principal), a period of not less than 6 months; or
  - (ii) in any other case, a period of not less than 12 months;

“simple approach” (簡易方法), in relation to the use by an authorized institution of recognized collateral which falls within section 79 to reduce the risk-weighted amount of the institution’s exposures, means the method of using the recognized collateral set out in Division 6;

“small business” (小型企業), in relation to a regulatory retail exposure—

(a) means—

- (i) subject to paragraph (b), an unlisted company with an annual turnover not exceeding \$50 million which, if required to give consent under the small business consent provisions, has given its consent for the disclosure of its credit data to a commercial credit reference agency; or
- (ii) an unincorporated enterprise with an annual turnover not exceeding \$50 million which, if required to give consent under the small business consent provisions, has given its consent for the disclosure of its credit data to a commercial credit reference agency;

(b) does not include an unlisted company which belongs to a group of companies with an annual turnover exceeding \$50 million;

“small business consent provisions” (小型企業同意條文) means the provisions of—

- (a) the Commercial Credit Reference Agency framework set out in the Monetary Authority’s Supervisory Policy Manual Module 1C – 7 entitled “The Sharing and Use of Commercial Credit Data through a Commercial Credit Reference Agency”; or
- (b) any guidelines issued by the Monetary Authority, The Hong Kong Association of Banks, or The DTC Association, relating to the framework referred to in paragraph (a);

“sovereign foreign public sector entity” (屬官方實體的非本地公營單位)—

- (a) subject to paragraph (b), means a foreign public sector entity which is regarded as a sovereign for the purposes of calculating the capital adequacy ratio of a bank by the relevant banking supervisory authority of the jurisdiction in which the entity and the bank are incorporated;
- (b) does not include a restricted foreign public sector entity;

“standard supervisory haircut” (標準監管扣減), in relation to the comprehensive approach to the treatment of recognized collateral, means a haircut specified in Schedule 7.

**Division 2—Calculation of credit risk under STC approach,  
exposures to be covered in calculation,  
and classification of exposures**

**52. Calculation of risk-weighted amount of exposures**

(1) Subject to section 53, an authorized institution shall calculate an amount representing the degree of credit risk to which the institution is exposed by aggregating—

- (a) the risk-weighted amount of the institution’s on-balance sheet exposures; and
- (b) the risk-weighted amount of the institution’s off-balance sheet exposures.

(2) For the purposes of subsection (1)(a)—

- (a) subject to paragraph (b), an authorized institution shall calculate the risk-weighted amount of the institution’s on-balance sheet exposures by multiplying the principal amount of each such exposure, net of specific provisions, by the relevant risk-weight attributable to the exposure determined under sections 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67 and 68;

- (b) subject to paragraph (c), an authorized institution may reduce the risk-weighted amount of the institution's on-balance sheet exposure by taking into account the effect of any recognized credit risk mitigation in respect of the exposure in the manner set out in Divisions 5, 6, 7, 8, 9 and 10;
      - (c) where an on-balance sheet exposure of an authorized institution has an ECAI issue specific rating, the institution shall not under paragraph (b) take into account the effect of any recognized credit risk mitigation applicable to the exposure which has already been taken into account in that rating.
- (3) For the purposes of subsection (1)(b)—
  - (a) subject to paragraph (b), an authorized institution shall calculate the risk-weighted amount of the institution's off-balance sheet exposures by—
    - (i) in the case of any such exposure which is an OTC derivative transaction or credit derivative contract—
      - (A) converting the principal amount of the exposure into its credit equivalent amount in the manner set out in section 71 or 73, as the case requires; and
      - (B) multiplying the credit equivalent amount, net of specific provisions, by the exposure's relevant risk-weight determined under section 74;
    - (ii) in any other case—
      - (A) converting the principal amount of each such exposure, net of specific provisions, into its credit equivalent amount in the manner set out in section 71 or 73, as the case requires; and
      - (B) multiplying the credit equivalent amount by the exposure's relevant risk-weight determined under section 74;
  - (b) subject to paragraph (c), an authorized institution may reduce the risk-weighted amount of the institution's off-balance sheet exposure by taking into account the effect of any recognized credit risk mitigation in respect of the exposure in the manner set out in Divisions 5, 6, 7, 8, 9 and 10;
  - (c) where an off-balance sheet exposure of an authorized institution has an ECAI issue specific rating, the institution shall not under paragraph (b) take into account the effect of any recognized credit risk mitigation applicable to the exposure which has already been taken into account in that rating.

### **53. On-balance sheet exposures and off-balance sheet exposures to be covered**

An authorized institution shall, for the purposes of calculating an amount representing the degree of credit risk to which the institution is exposed under section 52, take into account and risk-weight—

- (a) all of the institution's on-balance sheet exposures and off-balance sheet exposures booked in its banking book except such exposures—
  - (i) which under sections 48 and 49 are required to be deducted from any of the institution's core capital and supplementary capital; or
  - (ii) which are subject to the requirements of Part 7;
- (b) all of the institution's exposures to counterparties under credit derivative contracts, OTC derivative transactions, or repo-style transactions, booked in its trading book; and
- (c) all of the institution's market risk exposures which are exempted from section 17 under section 22, except for its total net open position in foreign exchange exposures as derived in accordance with section 296.

### **54. Classification of exposures**

An authorized institution shall classify each of its exposures, according to the obligor or the nature of the exposure, into one only of the following classes—

- (a) sovereign exposures;
- (b) public sector entity exposures;
- (c) multilateral development bank exposures;
- (d) bank exposures;
- (e) securities firm exposures;
- (f) corporate exposures;
- (g) collective investment scheme exposures;
- (h) cash items;
- (i) regulatory retail exposures;
- (j) residential mortgage loans;
- (k) other exposures which are not past due exposures; or
- (l) past due exposures.



**Division 3—Determination of risk-weights applicable  
to on-balance sheet exposures**

**55. Sovereign exposures**

(1) Where a sovereign has an ECAI issuer rating, or an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the sovereign, an authorized institution shall map the ECAI issuer rating or ECAI issue specific rating, as the case may be, to a scale of credit quality grades represented by the numerals 1, 2, 3, 4, 5 and 6 in accordance with Table A in Schedule 6.

(2) Subject to sections 56 and 69, an authorized institution shall allocate a risk-weight to a sovereign exposure which falls within subsection (1) in accordance with Table 2.

TABLE 2

RISK-WEIGHTS FOR SOVEREIGN EXPOSURES

Credit quality grade (sovereigns)	Risk-weight
1	0%
2	20%
3	50%
4	100%
5	100%
6	150%

(3) Subject to section 56, where a sovereign has neither an ECAI issuer rating, nor an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the sovereign, an authorized institution shall allocate a risk-weight of 100% to an exposure of the institution to the sovereign.

**56. Exceptions to section 55**

(1) Where a sovereign exposure of an authorized institution consists of a domestic currency exposure to the Government (including an exposure to the Exchange Fund), the institution shall allocate a risk-weight of 0% to the exposure.

(2) Where—

- (a) a sovereign exposure of an authorized institution consists of a domestic currency exposure to a sovereign (other than the Government or a restricted sovereign); and
- (b) the relevant banking supervisory authority for the jurisdiction of the sovereign would permit banks carrying on banking business in the jurisdiction to allocate a risk-weight to the exposure which is lower than the risk-weight which would be allocated under section 55 to the exposure,

the institution may allocate the lower risk-weight to the exposure.

(3) Where—

- (a) a sovereign exposure of an authorized institution consists of a domestic currency exposure to a sovereign (other than the Government or a restricted sovereign); and
- (b) subsection (2) is not applicable to the exposure,

the institution may allocate to the exposure a risk-weight of—

- (c) 0% if the exposure arises from a loan by the institution to the sovereign;
- (d) 10% if the exposure arises from fixed rate debt securities with a residual maturity of less than one year or floating rate debt securities of any maturity; or
- (e) 20% if the exposure arises from fixed rate debt securities with a residual maturity of not less than one year.

(4) Where a sovereign exposure of an authorized institution consists of an exposure to a relevant international organization, the institution shall allocate a risk-weight of 0% to the exposure.

## **57. Public sector entity exposures**

(1) Where a public sector entity exposure of an authorized institution consists of an exposure to a domestic public sector entity, the institution shall allocate a risk-weight to the exposure which is—

- (a) the next higher risk-weight than the risk-weight attributable to the credit quality grade applicable to the Government in accordance with section 55 on the basis of an ECAI issuer rating assigned to the Government or, if there is no such higher risk-weight, the risk-weight so attributed to the credit quality grade applicable to the Government;
- (b) if a credit quality grade of 4 or 5 has been allocated to the Government on the basis of an ECAI issuer rating assigned to the Government, a risk-weight of 100%; or
- (c) if the Government does not have an ECAI issuer rating, a risk-weight of 100%.

(2) Where a public sector entity exposure of an authorized institution consists of an exposure to a foreign public sector entity—

- (a) subject to paragraphs (b), (c) and (d), the institution shall allocate a risk-weight to the exposure which is the next higher risk-weight than the risk-weight attributable to the credit quality grade applicable to the sovereign of the jurisdiction in which that entity is incorporated in accordance with section 55 on the basis of an ECAI issuer rating assigned to the sovereign or, if there is no such higher risk-weight, the risk-weight so attributed to the credit quality grade applicable to the sovereign;
- (b) if the entity is a sovereign foreign public sector entity, section 55, with all necessary modifications, applies to the exposure as if the entity were a sovereign, using the ECAI issuer rating of the sovereign of the jurisdiction in which that entity is incorporated;
- (c) if a credit quality grade of 4 or 5 has been allocated to the sovereign referred to in paragraph (a) on the basis of an ECAI issuer rating assigned to the sovereign, the institution shall allocate a risk-weight of 100% to the exposure;
- (d) if the sovereign referred to in paragraph (a) does not have an ECAI issuer rating, the institution shall allocate a risk-weight of 100% to the exposure.

#### **58. Multilateral development bank exposures**

An authorized institution shall allocate a risk-weight of 0% to an exposure of the institution to a multilateral development bank.

#### **59. Bank exposures**

(1) Subject to subsection (2), where a bank has an ECAI issuer rating, or an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the bank, an authorized institution shall map the ECAI issuer rating or ECAI issue specific rating, as the case may be, to a scale of credit quality grades represented by the numerals 1, 2, 3, 4 and 5 in accordance with Table B in Schedule 6.

(2) Where an ECAI issue specific rating referred to in subsection (1) is a short-term ECAI issue specific rating as referred to in subsection (6), then subsections (6) and (7) apply.

(3) Subject to subsections (4), (5), (6), (7), (8), (9), (10) and (11) and section 69, an authorized institution shall allocate a risk-weight to a bank exposure in accordance with Table 3.

TABLE 3

## RISK-WEIGHTS FOR BANK EXPOSURES

Credit quality grade (banks)	Risk-weight for general exposures	Risk-weight for 3 months' exposures (other than an exposure which has a short-term ECAI issue specific rating)
1	20%	20%
2	50%	20%
3	50%	20%
4	100%	50%
5	150%	150%

(4) Subject to subsections (8), (9), (10) and (11), where an authorized institution has an exposure to a bank which has none of the following—

- (a) an ECAI issuer rating;
- (b) a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the bank;
- (c) a short-term ECAI issue specific rating assigned to the exposure, subject to subsection (5), the institution shall allocate—
- (d) a risk-weight of 50% to the exposure if it is a general exposure; or
- (e) a risk-weight of 20% to the exposure if it is a 3 months' exposure.

(5) Where a bank falls within subsection (4)—

- (a) subject to paragraph (b), an authorized institution shall not allocate a risk-weight to an exposure to the bank which is lower than the risk-weight applicable to the credit quality grade allocated to the sovereign of the jurisdiction in which the bank is incorporated in accordance with section 55 on the basis of an ECAI issuer rating assigned to the sovereign;
- (b) if the sovereign referred to in paragraph (a) does not have an ECAI issuer rating, an authorized institution shall allocate a risk-weight of 100% to the exposure.

(6) Where a bank has a short-term ECAI issue specific rating assigned to an exposure of an authorized institution to the bank, the institution shall map that rating to a scale of credit quality grades represented by the numerals 1, 2, 3 and 4 in accordance with Table E in Schedule 6.

(7) Subject to subsection (11) and section 69, where a bank has a short-term ECAI issue specific rating assigned to an exposure of an authorized institution to the bank, the institution shall allocate a risk-weight to the exposure in accordance with Table 4.

TABLE 4

RISK-WEIGHTS FOR BANK EXPOSURES WITH SHORT-TERM  
ECAI ISSUE SPECIFIC RATINGS

Credit quality grade (banks)	Risk-weight for exposures to banks with a short-term ECAI issue specific rating
1	20%
2	50%
3	100%
4	150%

(8) Subject to subsections (10) and (11), where—

- (a) a 3 months' exposure (referred to in this subsection as "concerned exposure") of an authorized institution to a bank does not have a short-term ECAI issue specific rating;
- (b) the institution or another person (including another authorized institution) has another exposure (referred to in this subsection as "reference exposure") to the bank which has a short-term ECAI issue specific rating; and
- (c) if subsections (6) and (7) applied to the reference exposure, the risk-weight which would be allocated pursuant to those subsections to the reference exposure would be—
  - (i) higher than the risk-weight which would be allocated to the concerned exposure pursuant to subsection (3) if—
    - (A) the bank has an ECAI issuer rating, or a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the bank; and
    - (B) subsection (3) is applied to the concerned exposure; or
  - (ii) higher than 20% if the bank has neither an ECAI issuer rating, nor a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the bank,

the institution shall allocate to the concerned exposure the same risk-weight which would be allocated to the reference exposure pursuant to subsections (6) and (7).

- (9) Subject to subsections (10) and (11), where—
- (a) a 3 months' exposure (referred to in this subsection as "concerned exposure") of an authorized institution to a bank does not have a short-term ECAI issue specific rating;
  - (b) the institution or another person (including another authorized institution) has another exposure (referred to in this subsection as "reference exposure") to the bank which has a short-term ECAI issue specific rating; and
  - (c) if subsections (6) and (7) applied to the reference exposure, the risk-weight which would be allocated pursuant to those subsections to the reference exposure would be—
    - (i) lower than the risk-weight which would be allocated to the concerned exposure pursuant to subsection (3) if—
      - (A) the bank has an ECAI issuer rating, or a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the bank; and
      - (B) subsection (3) is applied to the concerned exposure; or
    - (ii) 20% if the bank has neither an ECAI issuer rating, nor a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the bank,

the institution shall allocate to the concerned exposure—

- (d) the risk-weight which would be allocated to the concerned exposure pursuant to subsection (3) if the bank has an ECAI issuer rating, or a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the bank; or
  - (e) a risk-weight of 20% if the bank has neither an ECAI issuer rating, nor a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the bank.
- (10) Where—
- (a) pursuant to subsections (6) and (7), an authorized institution allocates a risk-weight of 150% to an exposure to a bank; or
  - (b) the institution knows that—
    - (i) another person (including another authorized institution) has an exposure to the bank which has a short-term ECAI issue specific rating; and
    - (ii) if subsections (6) and (7) applied to the exposure referred to in subparagraph (i), it would be allocated a risk-weight of 150% pursuant to those subsections,

the institution shall allocate a risk-weight of 150% to each other general exposure or 3 months' exposure it has to the bank which does not have an ECAI issue specific rating.

(11) Notwithstanding any other provision of this section, an authorized institution may allocate a risk-weight of 20% to a 3 months' exposure to a bank if the exposure is denominated and funded in Hong Kong dollars.

(12) In this section—

“general exposure” (一般風險承擔) means any exposure of an authorized institution to a bank other than a 3 months' exposure;

“3 months' exposure” (3個月風險承擔) means an exposure of an authorized institution to a bank with an original contractual period of time for full repayment of not more than 3 months where the institution does not expect or anticipate that the facility to which the exposure relates will be rolled over at the expiration of the contractual period.

## 60. Securities firm exposures

(1) Subject to subsection (2), where a securities firm has an ECAI issuer rating, or an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the firm, an authorized institution shall map the ECAI issuer rating or ECAI issue specific rating, as the case may be, to a scale of credit quality grades represented by the numerals 1, 2, 3, 4 and 5 in accordance with Table B in Schedule 6.

(2) Where an ECAI issue specific rating referred to in subsection (1) is a short-term ECAI issue specific rating as referred to in subsection (6), then subsections (6) and (7) apply.

(3) Subject to subsections (4), (5), (6), (7), (8) and (9) and section 69, an authorized institution shall allocate a risk-weight to a securities firm exposure in accordance with Table 5.

TABLE 5

### RISK-WEIGHTS FOR SECURITIES FIRM EXPOSURES

Credit quality grade (securities firms)	Risk-weight
1	20%
2	50%
3	50%
4	100%
5	150%

(4) Subject to subsections (8) and (9), where an authorized institution has an exposure to a securities firm which has none of the following—

(a) an ECAI issuer rating;

- (b) a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the firm;
- (c) a short-term ECAI issue specific rating assigned to the exposure, subject to subsection (5), the institution shall allocate a risk-weight of 50% to the exposure.

(5) Where a securities firm falls within subsection (4)—

(a) subject to paragraph (b), an authorized institution shall not allocate a risk-weight to an exposure to the firm which is lower than the risk-weight applicable to the credit quality grade allocated to the sovereign of the jurisdiction in which the firm is incorporated in accordance with section 55 on the basis of an ECAI issuer rating assigned to the sovereign;

(b) if the sovereign referred to in paragraph (a) does not have an ECAI issuer rating, an authorized institution shall allocate a risk-weight of 100% to the exposure.

(6) Where a securities firm has a short-term ECAI issue specific rating assigned to an exposure of an authorized institution to the firm, the institution shall map that rating to a scale of credit quality grades represented by the numerals 1, 2, 3 and 4 in accordance with Table E in Schedule 6.

(7) Subject to section 69, where a securities firm has a short-term ECAI issue specific rating assigned to an exposure of an authorized institution to the firm, the institution shall allocate a risk-weight to the exposure in accordance with Table 6.

TABLE 6

RISK-WEIGHTS FOR SECURITIES FIRM EXPOSURES WITH  
SHORT-TERM ECAI ISSUE SPECIFIC RATINGS

Credit quality grade (securities firms)	Risk-weight for exposures to securities firms with a short-term ECAI issue specific rating
1	20%
2	50%
3	100%
4	150%

(8) Where—

(a) pursuant to subsections (6) and (7), an authorized institution allocates a risk-weight of 150% to an exposure to a securities firm; or



- (b) the institution knows that—
  - (i) another person (including another authorized institution) has an exposure to the securities firm which has a short-term ECAI issue specific rating; and
  - (ii) if subsections (6) and (7) applied to the exposure referred to in subparagraph (i), it would be allocated a risk-weight of 150% pursuant to those subsections,

the institution shall allocate a risk-weight of 150% to each other exposure it has to the securities firm which does not have an ECAI issue specific rating.

(9) Where—

- (a) pursuant to subsections (6) and (7), an authorized institution allocates a risk-weight of 50% or 100% to an exposure to a securities firm; or
- (b) the institution knows that—
  - (i) another person (including another authorized institution) has an exposure to the securities firm which has a short-term ECAI issue specific rating; and
  - (ii) if subsections (6) and (7) applied to the exposure referred to in subparagraph (i), it would be allocated a risk-weight of 50% or 100% pursuant to those subsections,

the institution shall—

- (c) subject to paragraph (d), allocate a risk-weight of 100% to each other exposure it has to the securities firm which—
  - (i) does not have an ECAI issue specific rating; and
  - (ii) has a residual maturity of not greater than—
    - (A) the original maturity of the exposure referred to in paragraph (a); or
    - (B) the original maturity of the exposure referred to in paragraph (b),whichever is the greater;
- (d) if the securities firm has an ECAI issuer rating, or an exposure of another person (including another authorized institution) to the firm has a long-term ECAI issue specific rating, which maps to a risk-weight of 150% in accordance with subsections (1) and (3), allocate a risk-weight of 150% to an exposure which would otherwise fall within paragraph (c).

## 61. Corporate exposures

(1) Subject to subsection (2), where a corporate has an ECAI issuer rating, or an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the corporate, an authorized institution shall map the ECAI issuer rating or ECAI issue specific rating, as the case may be, to a scale of

credit quality grades represented by the numerals 1, 2, 3, 4 and 5 in accordance with Table C in Schedule 6.

(2) Where an ECAI issue specific rating referred to in subsection (1) is a short-term ECAI issue specific rating as referred to in subsection (6), then subsections (6) and (7) apply.

(3) Subject to subsections (4), (5), (6), (7), (8) and (9) and section 69, an authorized institution shall allocate a risk-weight to a corporate exposure in accordance with Table 7.

TABLE 7

RISK-WEIGHTS FOR CORPORATE EXPOSURES

Credit quality grade (corporates)	Risk-weight
1	20%
2	50%
3	100%
4	100%
5	150%

(4) Subject to subsections (8) and (9), where an authorized institution has an exposure to a corporate which has none of the following—

- (a) an ECAI issuer rating;
- (b) a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the corporate;
- (c) a short-term ECAI issue specific rating assigned to the exposure, subject to subsection (5), the institution shall allocate a risk-weight of 100% to the exposure.

(5) Where a corporate falls within subsection (4)—

- (a) subject to paragraph (b), an authorized institution shall not allocate a risk-weight to an exposure to the corporate which is lower than the risk-weight applicable to the credit quality grade allocated to the sovereign of the jurisdiction in which the corporate is incorporated in accordance with section 55 on the basis of an ECAI issuer rating assigned to the sovereign;
- (b) if the sovereign referred to in paragraph (a) does not have an ECAI issuer rating, an authorized institution shall allocate a risk-weight of 100% to the exposure.

(6) Where a corporate has a short-term ECAI issue specific rating assigned to an exposure of an authorized institution to the corporate, the institution shall map that rating to a scale of credit quality grades represented by the numerals 1, 2, 3 and 4 in accordance with Table E in Schedule 6.

(7) Subject to section 69, where a corporate has a short-term ECAI issue specific rating assigned to an exposure of an authorized institution to the corporate, the institution shall allocate a risk-weight to the exposure in accordance with Table 8.

TABLE 8

RISK-WEIGHTS FOR CORPORATE EXPOSURES WITH  
SHORT-TERM ECAI ISSUE SPECIFIC RATINGS

Credit quality grade (corporates)	Risk-weight for exposures to corporates with a short-term ECAI issue specific rating
1	20%
2	50%
3	100%
4	150%

(8) Where—

(a) pursuant to subsections (6) and (7), an authorized institution allocates a risk-weight of 150% to an exposure to a corporate; or

(b) the institution knows that—

(i) another person (including another authorized institution) has an exposure to the corporate which has a short-term ECAI issue specific rating; and

(ii) if subsections (6) and (7) applied to the exposure referred to in subparagraph (i), it would be allocated a risk-weight of 150% pursuant to those subsections,

the institution shall allocate a risk-weight of 150% to each other exposure it has to the corporate which does not have an ECAI issue specific rating.

(9) Where—

(a) pursuant to subsections (6) and (7), an authorized institution allocates a risk-weight of 50% or 100% to an exposure to a corporate; or

(b) the institution knows that—

(i) another person (including another authorized institution) has an exposure to the corporate which has a short-term ECAI issue specific rating; and

- (ii) if subsections (6) and (7) applied to the exposure referred to in subparagraph (i), it would be allocated a risk-weight of 50% or 100% pursuant to those subsections, the institution shall—
- (c) subject to paragraph (d), allocate a risk-weight of 100% to each other exposure it has to the corporate which—
- (i) does not have an ECAI issue specific rating; and
  - (ii) has a residual maturity of not greater than—
    - (A) the original maturity of the exposure referred to in paragraph (a); or
    - (B) the original maturity of the exposure referred to in paragraph (b),
 whichever is the greater;
- (d) if the corporate has an ECAI issuer rating, or an exposure of another person (including another authorized institution) to the corporate has a long-term ECAI issue specific rating, which maps to a risk-weight of 150% in accordance with subsections (1) and (3), allocate a risk-weight of 150% to an exposure which would otherwise fall within paragraph (c).

## 62. Collective investment scheme exposures

(1) Where a collective investment scheme has an ECAI issue specific rating, an authorized institution which has a collective investment scheme exposure arising from the holding of units or shares in the scheme shall map that rating to a scale of credit quality grades represented by the numerals 1, 2, 3, 4 and 5 in accordance with Table D in Schedule 6.

(2) Subject to subsection (3) and section 69(1) and (2), an authorized institution shall allocate a risk-weight to a collective investment scheme exposure held by it in accordance with Table 9.

TABLE 9

RISK-WEIGHTS FOR COLLECTIVE INVESTMENT  
SCHEME EXPOSURES

Credit quality grade (collective investment schemes)	Risk-weight
1	20%
2	50%
3	100%
4	100%
5	150%

(3) Where an authorized institution has a collective investment scheme exposure arising from the holding of units or shares in a collective investment scheme, and the scheme does not have an ECAI issue specific rating, the institution shall allocate a risk-weight of 100% to the exposure.

### 63. Cash items

An authorized institution shall allocate a risk-weight of 0% to all cash items in relation to the institution except that—

- (a) in the case of cash items which fall within paragraph (d) of the definition of “cash items” in section 51, the institution shall allocate a risk-weight which is the same as the attributed risk-weight of the person who holds the gold bullion concerned;
- (b) in the case of cash items which fall within paragraph (e) of the definition of “cash items” in section 51, the institution shall allocate a risk-weight of 100%;
- (c) in the case of cash items which fall within paragraph (f) of the definition of “cash items” in section 51, the institution shall allocate a risk-weight of 20%;
- (d) in the case of cash items which fall within paragraph (i) of the definition of “cash items” in section 51, and the transactions to which the items relate remain outstanding for 5 or more business days after the settlement date, the institution shall allocate a risk-weight of—
  - (i) 100% for such items in relation to the transactions which remain so outstanding from 5 to 15 business days (both days inclusive);
  - (ii) 625% for such items in relation to the transactions which remain so outstanding from 16 to 30 business days (both days inclusive);
  - (iii) 937.5% for such items in relation to the transactions which remain so outstanding from 31 to 45 business days (both days inclusive); and
  - (iv) 1,250% for such items in relation to the transactions which remain so outstanding for 46 or more business days; and
- (e) in the case of cash items which fall within paragraph (j) of the definition of “cash items” in section 51, the institution shall allocate a risk-weight which is the same as the attributed risk-weight of the obligor in respect of the transaction to which the items relate.

#### 64. Regulatory retail exposures

(1) Where—

(a) the maximum aggregate exposure of an authorized institution to a single obligor, or to a group of obligors considered by the institution as a group of obligors for risk management purposes (including, but not limited to, those grouped under section 81(1)(a), (b), (c) or (d) of the Ordinance), does not exceed \$10 million; and

(b) that single obligor, or a particular obligor in the group of obligors, is an individual or small business,

subject to subsections (3) and (4) and section 65(4)(a), the institution shall allocate a risk-weight of 75% to any exposure of the institution to that single obligor or that particular obligor arising from a transaction, whether drawn down or not, which takes the form of an advance or extension of credit that is—

(c) an overdraft or other line of credit;

(d) an instalment loan, auto loan or lease or other personal term loan or advance by way of leasing facilities;

(e) a credit card or other revolving credit; or

(f) a credit facility or commitment to lend funds or advance a credit facility to a small business.

(2) For the purposes of subsection (1)(a)—

(a) the maximum aggregate exposure shall be calculated on the assumptions that—

(i) in the case of an on-balance sheet exposure, the amount of the exposure is the principal amount of the exposure;

(ii) in the case of an off-balance sheet exposure which is an OTC derivative transaction or credit derivative contract, the amount of the exposure is the credit equivalent amount of the exposure; and

(iii) in the case of an off-balance sheet exposure which does not fall within subparagraph (ii), the amount of the exposure is the principal amount multiplied by the applicable CCF; and

(b) the following exposures shall be excluded from the calculation of the maximum aggregate exposure—

(i) an exposure which is a residential mortgage loan falling within section 65(1) or (if applicable) section 65(9);

(ii) an exposure which is a holding of securities, whether listed or unlisted.

(3) An authorized institution shall not allocate a risk-weight of 75% to any exposure of the institution under subsection (1) if the exposure—

- (a) is a residential mortgage loan falling within section 65(1) or (9);
- (b) is a holding of securities, whether listed or unlisted; or
- (c) is a past due exposure.

(4) Where a regulatory retail exposure of an authorized institution is an exposure to a small business in respect of which consent under the small business consent provisions is required, the institution shall comply with those provisions as in force from time to time.

## 65. Residential mortgage loans

(1) Subject to subsections (3) and (6), an authorized institution shall allocate a risk-weight of 35% to a residential mortgage loan in relation to the institution where—

- (a) the borrower under the loan is—
  - (i) one or more than one individual; or
  - (ii) a property-holding shell company;
- (b) the loan is secured by a first legal charge on one or more than one residential property;
- (c) each residential property which falls within paragraph (b) is—
  - (i) if paragraph (a)(i) is applicable, used, or intended for use, as the residence of the borrower or as the residence of a tenant, or a licensee, of the borrower;
  - (ii) if paragraph (a)(ii) is applicable, used, or intended for use, as the residence of the directors or shareholders of the borrower or as the residence of a tenant, or a licensee, of the borrower;
- (d) subject to subsections (2) and (5), the loan-to-value ratio of the loan does not exceed 70% at the time a commitment to extend the loan was made by the institution, or in relation to a residential mortgage loan purchased by the institution, at the time the loan was purchased;
- (e) the loan-to-value ratio of the loan does not exceed 100% at any time after the loan is drawn by the borrower or purchased by the institution, as the case may be; and
- (f) if paragraph (a)(ii) is applicable—
  - (i) all of the borrowed-monies obligations of the company arising under the loan are the subject of a personal guarantee—
    - (A) which is entered into by one or more than one director or shareholder (referred to in this paragraph as “guarantor”) of the company; and
    - (B) which fully and effectively covers those obligations;

- (ii) the institution, having due regard to the guarantor's financial obligations (including, in particular, all the guarantor's borrowed-monies obligations and obligations of suretyship), is satisfied that the guarantor is able to discharge all the guarantor's obligations under the guarantee; and
- (iii) the loan has been assessed by reference to substantially similar credit underwriting standards (including loan purpose and loan-to-value and debt service ratios) as would normally be applied by the institution to an individual.

(2) Where a residential mortgage loan is made by an authorized institution to a member of its staff (whether solely or jointly with another person), the loan-to-value ratio of the loan shall not exceed 90% at the time a commitment to extend the loan was made by the institution.

(3) Where, in respect of a residential mortgage loan made or purchased by an authorized institution, any residential property which falls within subsection (1)(b) is situated outside Hong Kong, the institution may allocate a risk-weight to the loan generally provided for under the supervisory treatment, or capital adequacy requirements, applicable to banks carrying on banking business in the jurisdiction in which the residential property is situated.

(4) An authorized institution shall allocate a risk-weight of—

- (a) subject to subsections (5) and (9), 75% to a residential mortgage loan made or purchased by the institution where—
  - (i) the loan does not fall within subsection (1) but does satisfy section 64(1)(a);
  - (ii) the borrower under the loan is—
    - (A) one or more than one individual;
    - (B) a property-holding shell company; or
    - (C) a small business; and
  - (iii) subject to subsection (6), the loan-to-value ratio of the loan does not exceed 90% at the time a commitment to extend the loan was made by the institution, or in relation to a residential mortgage loan purchased by the institution, at the time the loan was purchased;
- (b) 100% to a residential mortgage loan made or purchased by it which does not fall within subsection (1) or paragraph (a).

(5) Subsections (1)(d), (2) and (4)(a)(iii) do not apply, in the case of a residential mortgage loan secured on a property situated in Hong Kong, to—

- (a) a commitment referred to in that subsection which was made before 1 January 2007; or
- (b) a purchase referred to in that subsection, of a residential mortgage loan, which was made before 1 January 2007.



(6) Subject to subsection (7), an authorized institution shall, for the purposes of the application of subsection (1)(d) and (e), (2) or (4)(a)(iii) to a residential mortgage loan, exclude from the calculation of the loan-to-value ratio—

- (a) any portion of the loan amount which has been provided by a person who is not a member of the group of companies of which the institution is a member; and
- (b) any portion of the loan amount which is—
  - (i) the subject of a guarantee referred to in section 98 whose guarantor has an attributed risk-weight of not more than 20%;
  - (ii) the subject of mortgage guarantee insurance given by an insurance firm which has an attributed risk-weight of not more than 20%; or
  - (iii) the subject of cash on deposit falling within section 79(a) which is eligible for a risk-weight of not more than 20% under the use of the STC approach.

(7) The Monetary Authority may, by notice in writing given to an authorized institution, direct the institution, in calculating—

- (a) the loan-to-value ratio of a residential mortgage loan specified in the notice; or
- (b) the loan-to-value ratio of a residential mortgage loan belonging to a class of residential mortgage loans specified in the notice, to include a portion of the loan amount which would otherwise be excluded pursuant to subsection (6).

(8) An authorized institution given a notice under subsection (7) shall comply with the notice.

(9) Any residential mortgage loan of an authorized institution which, but for the fact it does not satisfy section 64(1)(a), would have been eligible for a risk-weight of 75% under subsection (4)(a) shall be allocated a risk-weight of 100%, and may be excluded for the calculation of the maximum aggregate exposure of the institution for the purposes of the application of section 64(1)(a).

(10) In this section—

“loan-to-value ratio” (貸款與價值比率), in relation to a residential mortgage loan, means the ratio of the sum of the following amounts to the market value of the security—

- (a) the principal amount of that loan; and
- (b) the principal amount of all other residential mortgage loans in respect of which the residential property falling within subsection (1)(b) is also used as security.