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Banking (Capital) (Amendment) Rules 2011

Banking (Capital) (Amendment) Rules 2011

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(Made by the Monetary Authority under section 98A of the Banking Ordinance (Cap. 155) after consultation with the Financial Secretary, the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, The Hong Kong Association of Banks and The DTC Association)

1. Commencement

These Rules come into operation on 1 January 2012.

2. Banking (Capital) Rules amended

The Banking (Capital) Rules (Cap. 155 sub. leg. L) are amended as set out in sections 3 to 137.

3. Section 2 amended (Interpretation)

(1) Section 2(1), definition of *comprehensive approach*—

Repeal

“section 51”

Substitute

“section 51(1)”.

(2) Section 2(1), definition of *credit conversion factor*—

Repeal

“section 51” (wherever appearing)

Substitute

“section 51(1)”.

(3) Section 2(1)—

Repeal the definition of *delivery-versus-payment basis*

Substitute

“*delivery-versus-payment basis* ([雙擊後鍵入])—

- (a) in relation to a transaction that is not a foreign exchange transaction, means that the delivery of a thing under the transaction and the payment for the thing occur simultaneously;
 - (b) in relation to a foreign exchange transaction, means that the transfer of all the currencies under the transaction occur simultaneously;”.
- (4) Section 2(1)—

Repeal the definition of *ECAI issue specific rating*

Substitute

“*ECAI issue specific rating* ([雙擊後鍵入]), in relation to an exposure—

- (a) except in sections 51, 52, 59, 60, 61, 62, 69, 74 and 79, Part 7, section 287 and Schedule 7, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the exposure by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI;
- (b) in section 51, has the meaning given by section 51(2);
- (c) in section 52, has the meaning given by section 52(4);
- (d) in sections 59, 60, 61, 74 and 79 and Part 7, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the exposure by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in this section, and is for the time being neither withdrawn nor suspended by that ECAI;
- (e) in section 62, has the meaning given by section 62(4);

- (f) in section 69, has the meaning given by section 69(11);
 - (g) in section 287, has the meaning given by section 287(11);
 - (h) in Schedule 7, has the meaning given by section 2(g) of that Schedule;”.
- (5) Section 2(1)—

Repeal the definition of *ECAI issuer rating*

Substitute

“*ECAI issuer rating* ([雙擊後鍵入]), in relation to any person (however described)—

- (a) except in sections 51, 55, 57, 59, 60, 61, 69 and 287, means a long-term credit assessment rating that is assigned to the person by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI;
 - (b) in section 51, has the meaning given by section 51(2);
 - (c) in sections 55, 57, 59, 60 and 61, means a long-term credit assessment rating that is assigned to the person by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in this section, and is for the time being neither withdrawn nor suspended by that ECAI;
 - (d) in section 69, has the meaning given by section 69(11);
 - (e) in section 287, has the meaning given by section 287(11);”.
- (6) Section 2(1), definition of *external credit assessment institution*, paragraph (c)—

Repeal

“or”.

- (7) Section 2(1), definition of *external credit assessment institution*, after paragraph (d)—

Add

- “(e) Japan Credit Rating Agency, Ltd.;
- (f) Credit Analysis and Research Limited;
- (g) CRISIL Limited; or
- (h) ICRA Limited;”.

- (8) Section 2(1), definition of *first-to-default credit derivative contract*, paragraph (a)—

Repeal

“held by it”.

- (9) Section 2(1)—

Repeal the definition of long-term ECAI issue specific rating

Substitute

“*long-term ECAI issue specific rating* ([雙擊後鍵入]), in relation to an exposure—

- (a) except in sections 55, 59, 60, 61, 69 and 79(e), (i) and (j), Part 7 and Schedule 7, means an ECAI issue specific rating assigned to the exposure by an ECAI that is a long-term credit assessment rating;
- (b) in sections 55, 59, 60, 61 and 79(e), (i) and (j) and Part 7, means an ECAI issue specific rating assigned to the exposure by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in this section that is a long-term credit assessment rating;
- (c) in section 69, has the meaning given by section 69(11);

- (d) in Schedule 7, has the meaning given by section 2(h) of that Schedule;”.
- (10) Section 2(1), definition of *main index*—
Repeal
“section 51”
Substitute
“section 51(1)”.
- (11) Section 2(1), definition of *minimum holding period*—
Repeal
“section 51”
Substitute
“section 51(1)”.
- (12) Section 2(1), definition of *past due exposure*—
Repeal
“section 51”
Substitute
“section 51(1)”.
- (13) Section 2(1), definition of *positive current exposure*—
Repeal
“section 51”
Substitute
“section 51(1)”.
- (14) Section 2(1), definition of *potential exposure*—
Repeal
“section 51”
Substitute
“section 51(1)”.
- (15) Section 2(1), definition of *recognized credit risk mitigation*—

Repeal

“section 51” (wherever appearing)

Substitute

“section 51(1)”.

- (16) Section 2(1), definition of *second-to-default credit derivative contract*, paragraph (a)—

Repeal

“held by it”.

- (17) Section 2(1)—

Repeal the definition of *short-term ECAI issue specific rating*

Substitute

“*short-term ECAI issue specific rating* ([雙擊後鍵入]), in relation to an exposure—

- (a) except in sections 59, 60, 61 and 79(k), (l) and (m) and Part 7, means an ECAI issue specific rating assigned to the exposure by an ECAI that is a short-term credit assessment rating;
 - (b) in sections 59, 60, 61 and 79(k), (l) and (m) and Part 7, means an ECAI issue specific rating assigned to the exposure by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in this section that is a short-term credit assessment rating;”.
- (18) Section 2(1), definition of *sovereign foreign public sector entity*—

Repeal

“section 51”

Substitute

“section 51(1)”.

- (19) Section 2(1), definition of *standard supervisory haircut*—

Repeal

“section 51”

Substitute

“section 51(1)”.

- (20) Section 2(1)—

Repeal the definition of *underlying exposures*

Substitute

“*underlying exposures* ([雙擊後鍵入])—

- (a) in relation to a securitization transaction, has the meaning given by section 227(1);
- (b) subject to paragraph (a), in relation to a derivative contract (including a credit derivative contract) for the calculation of an authorized institution’s market risk, has the meaning given to *underlying exposure* by section 281;”.

- (21) Section 2(1)—

Add in alphabetical order

“*Basel Committee on Banking Supervision* ([雙擊後鍵入]) means the committee, established in 1974 with its secretariat hosted by the Bank for International Settlements in Basel, Switzerland, that seeks to promote sound standards of banking supervision worldwide;

comprehensive risk charge ([雙擊後鍵入]) has the meaning given by section 281;

correlation trading portfolio ([雙擊後鍵入]) has the meaning given by section 281;

Credit Analysis and Research Limited ([雙擊後鍵入]) means the company incorporated in India under that name;

CRISIL Limited ([雙擊後鍵入]) means the company incorporated in India under that name;

- ICRA Limited** ([雙擊後鍵入]) means the company incorporated in India under that name;
- incremental risk charge** ([雙擊後鍵入]) has the meaning given by section 281;
- incremental risks** ([雙擊後鍵入]) has the meaning given by section 281;
- Japan Credit Rating Agency, Ltd.** ([雙擊後鍵入]) means the company incorporated in Japan under that name;
- loss given default** ([雙擊後鍵入]) has the meaning given by section 139(1);
- mark-to-model** ([雙擊後鍵入]) means an approach to valuing an exposure, or a portfolio of exposures, where the value is benchmarked, extrapolated or calculated from an internal model based on a set of market data;
- n^{th} -to-default credit derivative contract** ([雙擊後鍵入]) has the meaning given by section 281;
- probability of default** ([雙擊後鍵入]) has the meaning given by section 139(1);
- Rating and Investment Information, Inc.** ([雙擊後鍵入]) means the company incorporated in Japan under that name;
- re-securitization exposure** ([雙擊後鍵入]) has the meaning given by section 227(1);
- re-securitization transaction** ([雙擊後鍵入]) has the meaning given by section 227(1);
- stressed VaR** ([雙擊後鍵入]) has the meaning given by section 281;
- tranche** ([雙擊後鍵入]) has the meaning given by section 227(1);
- valuation adjustment** ([雙擊後鍵入]), in relation to an exposure of an authorized institution that is measured at

fair value, means an adjustment made in accordance with section 4A;”.

- (22) Section 2(5), English text—

Repeal

“section” (wherever appearing)

Substitute

“provision”.

- (23) Section 2—

Repeal subsection (7).

4. Section 4A added

After section 4—

Add

“4A. Valuation of exposures measured at fair value

- (1) Where the exposures of an authorized institution are measured at fair value, for the purposes of calculating the risk-weighted amount of the exposures under Part 4, 5, 6, 7 or 8, the institution must establish and maintain valuation systems, controls and procedures that are effective to ensure that the valuation of its exposures is prudent and reliable.
- (2) For the purposes of subsection (1), an authorized institution must make adjustments, where appropriate, to the valuation of its exposures that are measured at fair value to account for—
 - (a) the limitations of the valuation model or methodology and the data used by the institution in the valuation process;
 - (b) the liquidity of the institution’s exposures; and

-
- (c) other relevant factors that might reasonably be expected to affect the prudence and reliability of the valuation of the institution's exposures.
- (3) To avoid doubt, adjustments made by an authorized institution in accordance with this section may exceed adjustments made by the institution in accordance with the financial reporting standards adopted by the institution.”.
- 5. Section 5 amended (Authorized institution shall only use STC approach, BSC approach or IRB approach to calculate its credit risk for non-securitization exposures)**
- Section 5(2), English text—
- Repeal**
“section”
- Substitute**
“provision”.
- 6. Section 10 amended (Measures which may be taken by Monetary Authority if authorized institution using BSC approach or IRB approach no longer satisfies specified requirements)**
- (1) Section 10(1)—
- Repeal paragraph (b)**
- Substitute**
“(b) the Monetary Authority is satisfied that—
- (i) if the institution were to make a fresh application under section 6(1) for approval to use the BSC approach to calculate its credit risk for non-securitization exposures, the approval would be refused by virtue of section 6(3); or

- (ii) the institution has contravened a condition attached under section 33A(1) or (2) to its approval granted under section 6(2)(a),”.

(2) Section 10(4)—

Repeal paragraph (b)

Substitute

“(b) the Monetary Authority is satisfied that—

- (i) if the institution were to make a fresh application under section 8(1) for approval to use the IRB approach to calculate its credit risk for non-securitization exposures, the approval would be refused by virtue of section 8(3) (but, insofar as Schedule 2 is concerned, only section 1 of that Schedule is to be taken into account); or
- (ii) the institution has contravened a condition attached under section 33A(1) or (2) to its approval granted under section 8(2)(a),”.

7. Section 12 amended (Exemption for exposures)

Section 12(1)—

Repeal

“uses”

Substitute

“has made an application under section 8(1) to use, or which uses,”.

8. Section 15 amended (Authorized institution shall only use STC(S) approach or IRB(S) approach to calculate its credit risk for securitization exposures)

(1) Section 15(1)—

Repeal paragraph (b)

Substitute

- “(b) the underlying exposures in the securitization transaction are of a class that would fall within—
- (i) section 54, 108 or 142; or
 - (ii) the definition of *securitization exposure* in section 227(1),

(referred to in this section as *relevant class*) if the institution were to classify those underlying exposures as if they were not securitized through that transaction.”.
- (2) Section 15(1)(c)—
- Repeal**
“or BSC approach”
- Substitute**
“, BSC approach or STC(S) approach”.
- (3) Section 15(1)(d), after “IRB approach”—
- Add**
“or IRB(S) approach”.
- (4) Section 15(2)(c)—
- Repeal**
“and IRB approach”
- Substitute**
“, IRB approach, STC(S) approach and IRB(S) approach”.
- (5) Section 15(2)(d)(i)—
- Repeal**
“or BSC approach”
- Substitute**
“, BSC approach or STC(S) approach”.
- (6) Section 15(2)(e), after “the IRB approach”—
- Add**

“or IRB(S) approach”.

(7) Section 15(4)(a)(i)—

Repeal

“or BSC approach”

Substitute

“, BSC approach or STC(S) approach”.

(8) Section 15(4)(a)(ii), after “the IRB approach”—

Add

“or IRB(S) approach”.

9. Section 17 amended (Authorized institution shall only use STM approach, IMM approach or approach used by parent bank to calculate its market risk)

Section 17(2), English text—

Repeal

“section”

Substitute

“provision”.

10. Section 18 amended (Authorized institution may apply for approval to use IMM approach to calculate its market risk)

(1) After section 18(1)—

Add

“(1A) The Monetary Authority must not determine under subsection (2) an application from an authorized institution—

(a) for any relevant charge specified in column 2 of Table 1A opposite a risk category specified in column 1 of Table 1A unless—

-
- (i) the application is made in respect of both the VaR and stressed VaR and covers the same positions for that risk category; or
 - (ii) the application is made in respect of the stressed VaR only, the institution has a deemed approval for the VaR specified in column 2 of Table 1A opposite that risk category, and that stressed VaR and that deemed approval cover the same positions;
- (b) for any relevant charge specified in column 3 of Table 1A opposite the risk category, interest rate exposures or equity exposures, as the case may be, specified in column 1 of Table 1A unless—
- (i) either—
 - (A) the application is made in respect of both the VaR and stressed VaR and covers the same positions for that risk category; or
 - (B) the application is made in respect of the stressed VaR only, the institution has a deemed approval for the VaR specified in column 3 of Table 1A opposite that risk category, and that deemed approval includes the positions covered by that stressed VaR; and
 - (ii) either—
 - (A) the institution has also made another application that falls within paragraph (a) for that risk category and that includes the positions covered by the application that falls within subparagraph (i); or
 - (B) the institution already has the approval in respect of that other application;

-
- (c) for the incremental risk charge specified in column 4 of Table 1A opposite the risk category, interest rate exposures, specified in column 1 of Table 1A unless—
- (i) either—
 - (A) the institution has also made another application that falls within paragraph (a) for that risk category and that includes the positions covered by the application that falls within this paragraph; or
 - (B) the institution already has the approval in respect of that other application; and
 - (ii) either—
 - (A) the institution has also made another application that falls within paragraph (b)(i) for that risk category and that includes the positions covered by the application that falls within this paragraph; or
 - (B) the institution already has the approval in respect of that other application;
- (d) for the comprehensive risk charge specified in column 4 of Table 1A opposite the risk category, interest rate exposures, specified in column 1 of Table 1A unless—
- (i) either—
 - (A) the institution has also made another application that falls within paragraph (a) for that risk category and that includes the positions covered by the application that falls within this paragraph; or
 - (B) the institution already has the approval in respect of that other application; and

-
- (ii) either—
 - (A) the institution has also made another application that falls within paragraph (b)(i) for that risk category and that includes the positions covered by the application that falls within this paragraph; or
 - (B) the institution already has the approval in respect of that other application;
 - (e) for the incremental risk charge specified in column 4 of Table 1A opposite the risk category, equity exposures, specified in column 1 of Table 1A unless—
 - (i) either—
 - (A) the institution has also made another application that falls within paragraph (a) for that risk category and that includes the positions covered by the application that falls within this paragraph ; or
 - (B) the institution already has the approval in respect of that other application;
 - (ii) either—
 - (A) the institution has also made another application that falls within paragraph (b)(i) for that risk category and that includes the positions covered by the application that falls within this paragraph; or
 - (B) the institution already has the approval in respect of that other application; and
 - (iii) either—
 - (A) the institution has also made another application (or other applications) that

falls (or fall) within paragraphs (a), (b)(i) and (c) in respect of the risk category, interest rate exposures, specified in column 1 of Table 1A; or

- (B) the institution already has the approval in respect of that other application (or those other applications).”.

- (2) Section 18—

Repeal subsections (2), (3), (4), (5), (6) and (7)

Substitute

- “(2) Subject to subsections (1A), (3), (5) and (8), the Monetary Authority must determine an application from an authorized institution by—
- (a) granting approval to the institution to use the IMM approach to calculate all the relevant charges that fall within a group of relevant charges to which the application relates; or
 - (b) refusing to grant the approval.
- (3) Without prejudice to the generality of subsection (2)(b), the Monetary Authority must refuse to grant approval to an authorized institution to use the IMM approach to calculate its market risk if any one or more of the requirements specified in Schedule 3 applicable to or in relation to the institution are not satisfied with respect to the institution.
- (4) Where an authorized institution uses the IMM approach to calculate its market risk, the institution must not, without the prior consent of the Monetary Authority, make any significant change to any internal model that is the subject of the approval granted to the institution under subsection (2)(a).
- (5) The Monetary Authority may grant an approval under subsection (2)(a) to an authorized institution to use the

IMM approach to calculate its market risk in respect of general market risk or specific risk, or both, for such risk categories, or such local or overseas business of the institution, as specified in the approval, beginning on such date, or the occurrence of such event, as specified in the approval.

- (6) Subject to sections 18A(3), 19(2)(a) and 317A, where an authorized institution is granted an approval under subsection (2)(a) and uses the IMM approach to calculate its market risk in respect of general market risk or specific risk, or both, for its positions in all or any risk categories or business, it must not, in respect of those positions, use the STM approach to calculate its market risk except with the prior consent of the Monetary Authority.
- (7) To avoid doubt, subject to section 18A(3), an authorized institution that has an approval under subsection (2)(a) must use the STM approach to calculate its market risk for any risk category or business that is not the subject of the approval.”.
- (3) After section 18(7)—

Add

“(8) To avoid doubt, where an application falls within a combination of 2 or more paragraphs of subsection (1A), the Monetary Authority may, for the purposes of determining under subsection (2) the application, separately apply each of the paragraphs concerned.

(9) In this section—

application ([雙擊後鍵入]) means an application under subsection (1);

approval ([雙擊後鍵入]) means an approval under subsection (2)(a);

deemed approval ([雙擊後鍵入]) has the meaning given by section 18A(1);

group of relevant charges ([雙擊後鍵入]) in relation to an authorized institution's use of the IMM approach to calculate market risk—

- (a) in respect of general market risk, means the institution's relevant charges that fall within subsection (1A)(a);
- (b) in respect of specific risk for interest rate exposures—
 - (i) for specific risk interest rate exposures that fall within paragraph (a) of the definition of **incremental risk charge** in section 281, means the institution's relevant charges that fall within subsection(1A)(b) and (c);
 - (ii) for specific risk interest rate exposures that fall within a correlation trading portfolio and where the institution seeks to calculate the comprehensive risk charge for that portfolio, means the institution's relevant charges that fall within subsection(1A)(b) and (d); and
- (c) in respect of specific risk for equity exposures—
 - (i) subject to subparagraph (ii), means the institution's relevant charges that fall within subsection (1A)(b);
 - (ii) for equity exposures that fall within paragraph (b) of the definition of **incremental risk charge** in section 281 and where the institution seeks to calculate the incremental risk charge for those exposures, means the institution's relevant charges that fall within subsection (1A)(b) and (e);

relevant charge ([雙擊後鍵入]) means a market risk capital charge under the IMM approach specified in column 2, 3 or 4 of Table 1A.

TABLE 1A

MARKET RISK CAPITAL CHARGE UNDER IMM APPROACH

Risk category	General market risk		Specific risk	
	Column 1	Column 2	Column 3	Column 4
1. Interest rate exposures	VaR	VaR	VaR	Incremental risk charge
		Stressed VaR	Stressed VaR	Comprehensive risk charge
2. Equity exposures	VaR	VaR	VaR	Incremental risk charge
		Stressed VaR	Stressed VaR	
3. Foreign exchange (including gold) exposures	VaR		-	-
		Stressed VaR		
4. Commodity exposures	VaR		-	-”.
		Stressed VaR		

“

11. Section 18A added

After section 18—

Add

“18A. Transitional provisions applicable to approvals granted under section 18 as in force immediately before commencement of Banking (Capital) (Amendment) Rules 2011

- (1) Subject to subsections (2) and (4), where an authorized institution has in force, immediately before 1 January 2012, an approval under section 18(2)(a) to use the IMM approach to calculate the VaR for general market risk or specific risk, or both, for any risk category or business of the institution specified in the approval (referred to in this section as *former approval*), then, on and after 1 January 2012—
 - (a) the former approval is deemed to be an approval granted under section 18(2)(a) to the institution (referred to in this section as *deemed approval*) to use the IMM approach to calculate the relevant charge for any risk category or business that is the subject of the former approval; and
 - (b) the other provisions of these Rules (including the definition of *approval* in section 18(9)), with all necessary modifications, apply to and in relation to the institution and its deemed approval accordingly.
- (2) The application of subsection (1) to an authorized institution does not affect the operation of a notice under section 19(2)(a) that is—
 - (a) given to the institution before 1 January 2012; and
 - (b) in force immediately before 1 January 2012.

- (3) Where an authorized institution has a deemed approval for a relevant charge specified in column 2 or 3 of Table 1A that is a VaR, the institution must, on and after 1 January 2012, use the STM approach to calculate its market risk for any risk category or business that is the subject of the former approval unless the following applications, where applicable, have been made under section 18(1) to the Monetary Authority and the Monetary Authority has granted the approval in respect of the applications under section 18(2)(a)—
- (a) for a deemed approval relating to the VaR for general market risk of any risk category or business, an application that falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk for the positions covered in the deemed approval;
 - (b) for a deemed approval relating to the VaR for specific risk for the interest rate exposures referred to in paragraph (b)(i) of the definition of ***group of relevant charges*** in section 18(9)—
 - (i) an application that falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk;
 - (ii) an application that falls within section 18(1A)(b)(i)(B) in respect of the stressed VaR for specific risk; and
 - (iii) an application that falls within section 18(1A)(c) in respect of the incremental risk charge,
for the applicable positions covered in the deemed approval;
 - (c) for a deemed approval relating to the VaR for specific risk for the interest rate exposures referred

to in paragraph (b)(ii) of the definition of *group of relevant charges* in section 18(9)—

- (i) an application that falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk;
- (ii) an application that falls within section 18(1A)(b)(i)(B) in respect of the stressed VaR for specific risk; and
- (iii) an application that falls within section 18(1A)(d) in respect of the comprehensive risk charge,

for the applicable positions covered in the deemed approval;

- (d) for a deemed approval relating to the VaR for specific risk for the interest rate exposures referred to in section 317A(1)(a) and (b) and which the institution seeks to include in its calculation of the VaR and stressed VaR for specific risk for interest rate exposures in accordance with section 317A(2)—

- (i) an application that falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk; and
- (ii) an application that falls within section 18(1A)(b)(i)(B) in respect of the stressed VaR for specific risk,

for the applicable positions covered in the deemed approval;

- (e) for a deemed approval relating to the VaR for specific risk for the equity exposures referred to in paragraph (c)(i) of the definition of *group of relevant charges* in section 18(9)—

- (i) an application that falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk; and
 - (ii) an application that falls within section 18(1A)(b)(i)(B) in respect of the stressed VaR for specific risk,
for the applicable positions covered in the deemed approval;
- (f) for a deemed approval relating to the VaR for specific risk for the equity exposures referred to in paragraph (c)(ii) of the definition of ***group of relevant charges*** in section 18(9)—
 - (i) an application that falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk;
 - (ii) an application that falls within section 18(1A)(b)(i)(B) in respect of the stressed VaR for specific risk; and
 - (iii) an application that falls within section 18(1A)(e) in respect of the incremental risk charge,
for the applicable positions covered in the deemed approval.
- (4) An authorized institution's deemed approval is deemed to be revoked—
 - (a) subject to paragraph (b), on 1 July 2012 unless, before that date, the institution has obtained the Monetary Authority's approval under section 18(2)(a) to use the IMM approach to calculate the applicable relevant charge or charges referred to in subsection (3) in respect of that deemed approval;
 - (b) if the institution has, before 1 July 2012, made an application under section 18(1) for approval to use

the IMM approach to calculate the applicable relevant charge or charges referred to in subsection (3) in respect of that deemed approval but the application has not been—

- (i) determined under section 18(2); or
- (ii) finally determined under section 18(2) as read with sections 101B to 101I of the Ordinance,

on the final determination of the application where the Monetary Authority has refused to grant the approval and there is no further step that the institution can take to appeal against that refusal.

(5) In this section—

relevant charge ([雙擊後鍵入]) has the meaning given by section 18(9).”.

12. Section 19 amended (Measures which may be taken by Monetary Authority if authorized institution using IMM approach no longer satisfies specified requirements)

Section 19(1)—

Repeal paragraph (b)

Substitute

“(b) the Monetary Authority is satisfied that—

- (i) if the institution were to make a fresh application under section 18(1) for approval to use the IMM approach to calculate its market risk, the approval would be refused by virtue of section 18(3); or
- (ii) the institution has contravened a condition attached under section 33A(1) or (2) to its approval granted under section 18(2)(a),”.

13. Section 21 amended (Measures which may be taken by Monetary Authority if authorized institution using approach used by parent bank no longer satisfies specified requirements)

(1) Section 21(1)—

Repeal paragraph (b)

Substitute

“(b) the Monetary Authority is satisfied that—

(i) if the institution were to make a fresh application under section 20(1) for approval to use that approach to calculate its market risk, the approval would be refused—

(A) by virtue of section 20(3); or

(B) because the entity that was the parent bank of the institution has ceased to be the parent bank of the institution; or

(ii) the institution has contravened a condition attached under section 33A(1) or (2) to its approval granted under section 20(2)(a),”.

(2) Section 21(1), after “as specified in the notice”—

Add

“or, if the institution falls within paragraph (b)(ii) but does not also fall within paragraph (b)(i), take one or more of the measures set out in subsection (3)”.

(3) After section 21(2)—

Add

“(3) The measures referred to in subsection (1) are that—

(a) the Monetary Authority may, by notice in writing given to the institution, require the institution to—

(i) submit to the Monetary Authority a plan, within such period (being a period that is reasonable in all the circumstances of the case)

- as specified in the notice, that satisfies the Monetary Authority that, if it were implemented by the institution, the institution would cease to fall within subsection (1)(b)(ii) within a period that is reasonable in all the circumstances of the case; and
- (ii) implement the plan;
 - (b) the Monetary Authority may, by notice in writing given to the institution, advise the institution that the Monetary Authority is considering exercising the Monetary Authority's power under section 101 of the Ordinance to vary the capital adequacy ratio of the institution by increasing it;
 - (c) the Monetary Authority may, by notice in writing given to the institution, require the institution to calculate its market risk capital charge by the use of such higher multiplication factor as specified in the notice in accordance with section 319(3); and
 - (d) the Monetary Authority may, by notice in writing given to the institution, require the institution to reduce its market risk exposures in such manner, or to adopt such measures, specified in the notice that, in the opinion of the Monetary Authority, will cause the institution to cease to fall within subsection (1)(b)(ii) within a period that is reasonable in all the circumstances of the case, or will otherwise mitigate the effect of the institution falling within that subsection.
- (4) An authorized institution must comply with the requirements of a notice given to it under subsection (3)(a), (c) or (d).
 - (5) To avoid doubt, subsection (3)(b) does not operate to prejudice the generality of the circumstances in respect of which the Monetary Authority may exercise the power

under section 101 of the Ordinance in the case of an authorized institution to which that subsection applies.”.

14. Section 22 amended (Exemption from section 17)

- (1) Section 22(1)—

Repeal

“institution demonstrates to the satisfaction of the Monetary Authority”

Substitute

“Monetary Authority is satisfied”.

- (2) Section 22(2)(b)(i)—

Repeal

“section 51”

Substitute

“section 51(1)”.

- (3) Section 22—

Repeal subsection (3)

Substitute

“(3) The date in relation to which an authorized institution’s market risk positions are assessed for the purposes of subsection (1) is—

- (a) subject to paragraphs (b) and (c), the calendar quarter end date of each of the 4 consecutive calendar quarters of the same calendar year;
- (b) subject to paragraph (c), the calendar quarter end date of such consecutive calendar quarters, being not more than 4 consecutive calendar quarters, as the Monetary Authority specifies in writing given to the institution; or
- (c) such date as the Monetary Authority specifies in writing given to the institution.”.

15. Section 23 amended (Revocation of exemption under section 22)

Section 23(1)—

Repeal paragraph (b)**Substitute**

“(b) either—

- (i) the Monetary Authority is satisfied that, if the institution were not already so exempted, the exemption would be refused by virtue of the institution failing to satisfy the Monetary Authority as specified in section 22(1); or
- (ii) the institution has given the Monetary Authority a notice referred to in section 22(4)(b).”.

16. Sections 23A and 23B added

Part 2, Division 5, after section 23—

Add**“23A. Exemption from section 18 in respect of portfolio of market risk positions that fall within risk category**

- (1) An authorized institution that has made an application under section 18(1) to use, or that uses, the IMM approach to calculate its market risk (referred to in this section as *relevant calculation*) may apply to the Monetary Authority to have a portfolio of its market risk positions that fall within a risk category (referred to in this section as *relevant portfolio*), as specified in the application, exempted from inclusion in the relevant calculation.
- (2) The Monetary Authority is to determine an application under subsection (1) from an authorized institution by—
 - (a) exempting from inclusion in the relevant calculation the relevant portfolio if the institution demonstrates to the satisfaction of the Monetary Authority that—

- (i) it is not practicable for the institution to include the relevant portfolio in the relevant calculation;
 - (ii) all the market risk positions that fall within the relevant portfolio have identical or substantially similar transaction characteristics; and
 - (iii) the exemption will not materially prejudice the calculation of the institution's regulatory capital for market risk; or
- (b) refusing to grant the exemption.
- (3) An authorized institution to which an exemption under subsection (2)(a) is granted must use the STM approach to calculate its market risk for the relevant portfolio to which the exemption relates.
- (4) Where—
 - (a) an authorized institution is granted an exemption (referred to in this subsection as *existing exemption*) under subsection (2)(a); and
 - (b) the institution is at any time thereafter satisfied that if it were to make a fresh application under subsection (1) for an exemption (referred to in this subsection as *new exemption*) in respect of the relevant portfolio to which the existing exemption relates, the new exemption would be, or may be, refused by virtue of subsection (2),

the institution must, as soon as is practicable after it is so satisfied, give notice in writing to the Monetary Authority of the case.

23B. Revocation of exemption under section 23A

- (1) Where—

- (a) an authorized institution uses the STM approach to calculate its market risk for a relevant portfolio to which an exemption under section 23A(2)(a) relates; and
 - (b) the Monetary Authority is satisfied that, if the institution were to make a fresh application under section 23A(1) for an exemption in respect of that portfolio, the exemption would be refused by virtue of section 23A(2),
- the Monetary Authority may take either of the measures set out in subsection (2).
- (2) The measures referred to in subsection (1) are that—
 - (a) the Monetary Authority may, by notice in writing given to the institution, require the institution to—
 - (i) submit to the Monetary Authority a plan, within such period (being a period that is reasonable in all the circumstances of the case) as specified in the notice, that satisfies the Monetary Authority that, if it were implemented by the institution, the institution would be able to use the IMM approach to calculate its market risk for the relevant portfolio within a period that is reasonable in all the circumstances of the case; and
 - (ii) implement the plan; and
 - (b) the Monetary Authority may, by notice in writing given to the institution, revoke the exemption on such date, or the occurrence of such event, as specified in the notice.
 - (3) An authorized institution must comply with the requirements of a notice given to it under subsection (2)(a).

- (4) To avoid doubt, an authorized institution's compliance with a requirement referred to in subsection (2)(a) does not prejudice the generality of the Monetary Authority's power under subsection (2)(b).
- (5) In this section—
relevant portfolio ([雙擊後鍵入]) has the meaning given by section 23A(1).”.

17. Section 24 amended (Authorized institution shall only use BIA approach, STO approach or ASA approach to calculate its operational risk)

Section 24(2), English text—

Repeal

“section”

Substitute

“provision”.

18. Section 26 amended (Measures which may be taken by Monetary Authority if authorized institution using STO approach or ASA approach no longer satisfies specified requirements)

Section 26(1)—

Repeal paragraph (b)

Substitute

“(b) the Monetary Authority is satisfied that—

- (i) if the institution were to make a fresh application under section 25(1) for approval to use the STO approach or ASA approach to calculate its operational risk, the approval would be refused by virtue of section 25(3); or

- (ii) the institution has contravened a condition attached under section 33A(1) or (2) to its approval granted under section 25(2)(a),”.

19. Section 33 amended (Exceptions to section 27)

- (1) Section 33(1)—

Repeal

“the exposures of that subsidiary”

Substitute

“such of the exposures of that subsidiary (which may be all those exposures or a class thereof) specified in the application”.

- (2) Section 33(2)(a), after “in the application”—

Add

“, or such of those exposures as the Monetary Authority specifies in the approval,”.

- (3) Section 33(2)(b), after “approval”—

Add

“(whether in whole or in part)”.

20. Part 2, Division 7A added

- Part 2, after section 33—

Add

“Division 7A—Attachment of conditions to approvals granted under section 6(2)(a), 8(2)(a), 18(2)(a), 20(2)(a) or 25(2)(a)

33A. Attachment of conditions to approvals granted under section 6(2)(a), 8(2)(a), 18(2)(a), 20(2)(a) or 25(2)(a)

- (1) Where the Monetary Authority grants an approval under section 6(2)(a), 8(2)(a), 18(2)(a), 20(2)(a) or 25(2)(a) to an authorized institution, the approval may be granted subject to such conditions, if any, as the Monetary Authority thinks proper to attach to the approval in any particular case.
- (2) Without limiting the generality of subsection (1), the Monetary Authority may at any time, by notice in writing served on an authorized institution in respect of which the Monetary Authority has granted an approval under section 6(2)(a), 8(2)(a), 18(2)(a), 20(2)(a) or 25(2)(a) (whether before, on or after 1 January 2012), attach to the institution’s approval such conditions (including attach by way of amending conditions already attached to the approval), or cancel any conditions attached to the approval, as the Monetary Authority thinks proper, with effect from—
 - (a) subject to paragraph (b), the date of service of the notice;
 - (b) such later date (if any) as is specified in the notice.”.

21. Section 34 substituted

Section 34—

Repeal the section

Substitute

“34. Reviewable decisions

- (1) Subject to subsection (2), a decision made by the Monetary Authority under section 6(2), 8(2), 18(2), 25(2) or 33A(1) or (2) is a decision to which section 101B(1) of the Ordinance applies.
- (2) Subsection (1) does not apply to any decision made by the Monetary Authority under section 33A(1) or (2) to the extent that the decision relates to an approval granted under section 20(2)(a) to an authorized institution.”.

22. Section 35 amended (Interpretation of Part 3)

Section 35, after definition of *other regulatory capital instrument*—

Add

“*related company* ([雙擊後鍵入]), in relation to an authorized institution, means a holding company of the institution, or a company in which the institution or a holding company of the institution is entitled to exercise, or control the exercise of, more than 20% of the voting power at any general meeting of the company;”.

23. Section 37 (Essential characteristics of core capital and supplementary capital)

- (1) Section 37(2)(c), before “where the”—

Add

“subject to subsection (2A),”.

- (2) After section 37(2)—

Add

“(2A) Subsection (2)(c) does not apply to an authorized institution’s capital items that fall within section 42(1)(g) or (h).”.

- (3) Section 37—

Repeal subsection (3)

Substitute

“(3) To avoid doubt, an authorized institution must not include in the institution’s core capital or supplementary capital any capital instrument issued by it that is secured or covered by a guarantee or other type of contingent liability of the institution (or secured or covered by a guarantee or other type of contingent liability issued by a related company of the institution) that legally or in any other way enhances the seniority (in terms of the order of repayment of claims) of the holders of the instrument.”.

24. Section 42 amended (Supplementary capital of authorized institution)

(1) Section 42(1)(f)(ii)—

Repeal

“trading; and”

Substitute

“trading;”.

(2) After section 42(1)(f)(ii)—

Add

“(iia) the institution is entitled to defer the payment of dividends on the shares where its profitability will not support such payment; and”.

25. Section 44 amended (Provisions supplementary to section 42(1)(b))

(1) Section 44(2)—

Repeal paragraphs (a) and (b)**Substitute**

“(a) must deduct from its core capital cumulative unrealized losses of the institution that arise from the institution’s

holdings of available-for-sale equities and debt securities;
and

- (b) must not, for the purposes of paragraph (a), set-off any impairment losses in respect of the institution's holdings of available-for-sale equities and debt securities against any unrealized gains in respect of those securities.”.

- (2) Section 44—

Repeal subsection (3).

26. Section 48 amended (Deductions from core capital and supplementary capital)

- (1) Section 48(1)(d)—

Repeal

“and”.

- (2) Section 48(1)(e)—

Repeal

“(5).”

Substitute

“(5); and”.

- (3) After section 48(1)(e)—

Add

“(f) the amount of any valuation adjustment made in respect of an exposure of the institution that gives rise to a reduction in the value of the exposure except—

- (i) if that exposure is a loan, any hedged item or hedging instrument that falls within section 38(d)(i), (ii) or (iii) or (e)(i); or
- (ii) such part of that amount that has been taken into account in the calculation of—

- (A) the amount of reserves (or that part thereof) that falls within section 38(d) or 42(1)(b) or (c); or
- (B) the amount of the institution's unaudited profit or loss referred to in section 38(e) in respect of its current financial year, or the amount of the institution's profit or loss pending audit completion referred to in section 38(e) in respect of its immediately preceding financial year.”.

27. Section 51 amended (Interpretation of Part 4)

- (1) Section 51—

Renumber the section as section 51(1).

- (2) Section 51(1), English text, definition of *attributed risk-weight*, paragraph (b)—

Repeal

“peron”

Substitute

“person”.

- (3) Section 51(1), definition of *principal amount*—

Repeal paragraph (a)

Substitute

“(a) in relation to an on-balance sheet exposure of an authorized institution—

- (i) if the exposure is measured at fair value, means the value of the exposure determined in accordance with section 4A;
- (ii) if the exposure is not measured at fair value, means the book value (including accrued interest) of the exposure;”.

(4) After section 51(1)—

Add

“(2) In subsection (1), for the purposes of the definition of *attributed risk-weight*—

ECAI issue specific rating ([雙擊後鍵入])—

- (a) in relation to any debt obligation of a person that is not a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the debt obligation by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in section 2(1), and is for the time being neither withdrawn nor suspended by that ECAI; or
- (b) in relation to any debt obligation of a person that is a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the debt obligation by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI;

ECAI issuer rating ([雙擊後鍵入])—

- (a) in relation to a person that is not a corporate incorporated in India, means a long-term credit assessment rating that is assigned to the person by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in section 2(1), and is for the time being neither withdrawn nor suspended by that ECAI; or
- (b) in relation to a person that is a corporate incorporated in India, means a long-term credit assessment rating that is assigned to the person by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI.”.

28. Section 52 amended (Calculation of risk-weighted amount of exposures)

After section 52(3)—

Add

“(4) In subsections (2)(c) and (3)(c)—

ECAI issue specific rating ([雙擊後鍵入])—

- (a) in relation to an exposure to a person that is not a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the exposure by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of ***external credit assessment institution*** in section 2(1), and is for the time being neither withdrawn nor suspended by that ECAI;
- (b) in relation to an exposure to a collective investment scheme, has the meaning given by section 62(4); or
- (c) in relation to an exposure to a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the exposure by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI.”.

29. Section 55 amended (Sovereign exposures)

(1) Section 55—

Repeal subsection (1)**Substitute**

“(1) Where a sovereign has an ECAI issuer rating, or a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the sovereign, an authorized institution must map the ECAI issuer rating or long-term 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) Section 55(3)—

Repeal

“an ECAI issue specific rating”

Substitute

“a long-term ECAI issue specific rating”.

30. Section 59 amended (Bank exposures)

Section 59(6), before “Table E”—

Add

“Part 1 of”.

31. Section 60 amended (Securities firm exposures)

Section 60(6), before “Table E”—

Add

“Part 1 of”.

32. Section 61 amended (Corporate exposures)

- (1) Section 61(1), before “Table C”—

Add

“Part 1 of”.

- (2) Section 61(3)—

Repeal

everything after “in accordance with”

Substitute

“Part 1 of Table C in Schedule 6”.

- (3) Section 61(6), before “Table E”—

Add

“Part 1 of”.

- (4) Section 61(7)—

Repeal

everything after “in accordance with”

Substitute

“Part 1 of Table E in Schedule 6”.

33. Section 61A added

After section 61—

Add**“61A. Application of section 61**

- (1) Section 61—
- (a) applies to a corporate incorporated outside India; and
 - (b) subject to the modifications described in subsection (2), applies to a corporate incorporated in India.
- (2) The modifications mentioned in subsection (1)(b) are that—
- (a) the references in section 61 to “ECAI issue specific rating” are construed as having the meaning given by paragraph (a) of the definition of *ECAI issue specific rating* in section 2(1);
 - (b) the references in section 61 to “ECAI issuer rating” are construed as having the meaning given by paragraph (a) of the definition of *ECAI issuer rating* in section 2(1);
 - (c) the references in section 61 to “long-term ECAI issue specific rating” are construed as having the meaning given by paragraph (a) of the definition of

- long-term ECAI issue specific rating* in section 2(1);
- (d) the references in section 61 to “short-term ECAI issue specific rating” are construed as having the meaning given by paragraph (a) of the definition of *short-term ECAI issue specific rating* in section 2(1);
 - (e) the references in section 61 to “Part 1 of Table C in Schedule 6” are construed as “Part 1 or 2 of Table C in Schedule 6”;
 - (f) the references in section 61 to “Part 1 of Table E in Schedule 6” are construed as “Part 1 or 2 of Table E in Schedule 6”; and
 - (g) the reference in section 61 to “the numerals 1, 2, 3 and 4 in accordance with Part 1 of Table E in Schedule 6” is construed as “the numerals 1, 2, 3 and 4 in accordance with Part 1 of Table E in Schedule 6 or the numerals 1, 2, 3, 4 and 5 in accordance with Part 2 of that Table”.

34. Section 62 amended (Collective investment scheme exposures)

After section 62(3)—

Add

“(4) In this section—

ECAI issue specific rating ([雙擊後鍵入]), means a short-term credit assessment rating or long-term credit assessment rating—

- (a) that is assigned by an ECAI within the meaning of paragraph (a), (b), (c) or (d) of the definition of *external credit assessment institution* in section 2(1) to a collective investment scheme that only holds cash or fixed income assets;

- (b) that is assigned to the scheme by that ECAI based on the credit quality of the cash held or the fixed income assets held, as the case may be; and
- (c) that is for the time being neither withdrawn nor suspended by that ECAI.”.

35. Section 63 amended (Cash items)

Section 63—

Repeal

“section 51” (wherever appearing)

Substitute

“section 51(1)”.

36. Section 65 amended (Residential mortgage loans)

Section 65(1)—

Repeal paragraph (e)

Substitute

“(e) after the loan is drawn by the borrower or purchased by the institution, as the case may be, the loan-to-value ratio of the loan does not exceed 100% at the time of the allocation of the risk-weight to the loan; and”.

37. Section 66 amended (Other exposures which are not past due exposures)

(1) Section 66(1)(a)—

Repeal

“section 62; and”

Substitute

“section 62;”.

(2) Section 66(1)(b)—

Repeal

“is applicable).”

Substitute

“is applicable); and”.

- (3) After section 66(1)(b)—

Add

“(c) instruments that—

- (i) fall within the definition of *other regulatory capital instrument* in section 35; and
- (ii) are not subject to deduction from an authorized institution’s core capital and supplementary capital under section 48(2).”.

- (4) Section 66(5)—

Repeal

“on-balance sheet”.

38. Section 68 substituted

Section 68—

Repeal the section

Substitute

“68. Credit-linked notes

Where an authorized institution has an exposure in respect of a credit-linked note held by the institution—

- (a) if the note has an ECAI issue specific rating, the institution must, subject to paragraphs (b) and (c)—
 - (i) classify the exposure, in accordance with the issuer or reference entity of the note, into that class of exposures specified in section 54 that will result in the highest risk-weight; and
 - (ii) determine the risk-weight of the note by mapping the ECAI issue specific rating to a

scale of credit quality grades applicable to the rating in accordance with section 55, 56, 57, 58, 59, 60 or 61 or, if the note does not fall within any ECAI ratings based portfolio (within the meaning of section 70(8)) of the institution, by applying section 66, as the case requires, or treat the note as not having an ECAI issue specific rating if, for the class of exposures within which the note falls, there is no scale of credit quality grades applicable to the rating;

- (b) if the note falls within paragraph (a) and is a past due exposure, the institution must determine the risk-weight of the note in accordance with section 67;
- (c) if the note falls within paragraph (a) and it—
 - (i) is a first-to-default, second-to-default or nth-to-default note; or
 - (ii) provides credit protection proportionately to a basket of reference obligations,

the institution must assign a risk-weight to the exposure, or deduct the exposure from its core capital and supplementary capital, in accordance with section 237 as if that exposure were a securitization exposure;

- (d) if the note does not have an ECAI issue specific rating, the institution must, subject to paragraph (e), allocate a risk-weight to the exposure that is the greater of—
 - (i) the risk-weight attributable to the reference obligation of the note as determined in accordance with sections 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66 and 67 as if the

- institution had a direct exposure to the reference obligation; and
- (ii) the attributed risk-weight of the issuer of the note;
- (e) if the note falls within paragraph (d) and it—
- (i) is a first-to-default, second-to-default or nth-to-default note; or
 - (ii) provides credit protection proportionately to a basket of reference obligations,
- the institution must determine the risk-weight attributable to the pool of reference obligations of the note in accordance with section 74(3)(b), (4)(b), (5) or (6), as the case requires, as if the institution had a direct exposure to the credit default swap embedded in the note.”.

39. Section 69 amended (Application of ECAI ratings)

- (1) Section 69(9)(a)—

Repeal

“shall”.

- (2) Section 69(9)(a)—

Repeal subparagraphs (i) and (ii)

Substitute

- “(i) must use ECAI ratings applicable to foreign currency, if available, to the extent that the exposure is denominated in foreign currency;
- (ii) must use ECAI ratings applicable to local currency, if available, to the extent that the exposure is denominated in local currency;”.

- (3) After section 69(9)(a)(ii)—

Add

- “(iii) may use ECAI issuer ratings applicable to foreign currency, if available, to the extent that—
- (A) the exposure is denominated in local currency; and
 - (B) there is not available an ECAI rating applicable to local currency;”.

(4) After section 69(9)—

Add

“(10) An authorized institution, in complying with the requirements under subsection (3), (4), (5), (6) or (7) or section 59(8), (9) or (10), 60(8) or (9) or 61(8) or (9), must not use an ECAI issue specific rating allocated to a debt obligation that has ceased to be outstanding.

(11) In this section—

ECAI issue specific rating ([雙擊後鍵入])—

- (a) in relation to an exposure to a sovereign, a bank, a securities firm or a corporate incorporated outside India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the exposure by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of ***external credit assessment institution*** in section 2(1), and is for the time being neither withdrawn nor suspended by that ECAI;
- (b) in relation to an exposure to a collective investment scheme, has the meaning given by section 62(4); or
- (c) in relation to an exposure to a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the exposure by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI;

ECAI issuer rating ([雙擊後鍵入])—

- (a) in relation to a sovereign, a bank, a securities firm or a corporate incorporated outside India, means a long-term credit assessment rating that is assigned to the sovereign, bank, securities firm or corporate by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in section 2(1), and is for the time being neither withdrawn nor suspended by that ECAI; or
- (b) in relation to a corporate incorporated in India, means a long-term credit assessment rating that is assigned to the corporate by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI;

long-term ECAI issue specific rating ([雙擊後鍵入])—

- (a) in relation to an exposure to a sovereign, a bank, a securities firm or a corporate incorporated outside India, means an ECAI issue specific rating assigned to the exposure by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in section 2(1) that is a long-term credit assessment rating; or
- (b) in relation to an exposure to a corporate incorporated in India, means an ECAI issue specific rating assigned to the exposure by an ECAI that is a long-term credit assessment rating.”.

40. Section 72 amended (Provisions supplementary to section 71)

- (1) Section 72(e)—

Repeal

“commitment.”

Substitute

“commitment;”.

(2) After section 72(e)—

Add

“(f) in the case of an off-balance sheet exposure that is a credit derivative contract where—

- (i) the contract is a credit default swap, the institution is the protection seller and a regulatory capital calculated in accordance with section 74 has been provided in respect of the credit risk of the reference obligation underlying the swap; or
- (ii) the institution is the protection buyer and the credit risk mitigation effect of the contract has been recognized and taken into account, in accordance with Divisions 9 and 10, for the purposes of the calculation of the risk-weighted amount of the exposure to which credit protection is provided by the contract,

the institution must treat the credit equivalent amount of the exposure as zero.”.

41. Section 73 substituted

Section 73—

Repeal the section

Substitute

“73. Calculation of credit equivalent amount of other off-balance sheet exposures not specified in Table 10 or 11

An authorized institution must, in calculating the risk-weighted amount of an off-balance sheet exposure that is not specified in Table 10 or 11—

- (a) subject to paragraph (c), if the exposure is not specified in Table 10 and is neither an OTC derivative transaction nor a credit derivative contract, calculate the credit equivalent amount of

the exposure by applying a CCF of 100% in accordance with section 71(1) with all necessary modifications;

- (b) subject to paragraph (c), if the exposure is an OTC derivative transaction or credit derivative contract that is not specified in Table 11, treat the exposure as if it falls within item 5 of Table 11 and apply the relevant CCF specified in that item in accordance with section 71(2) with all necessary modifications;
- (c) apply the CCF applicable to the exposure pursuant to Part 2 of Schedule 1 in accordance with section 71(1) or (2), as the case requires, with all necessary modifications.”.

42. Section 77 amended (Recognized collateral)

Section 77(i)—

Repeal

“(k), (l),”

Substitute

“(ja), (k), (l), (la),”.

43. Section 79 amended (Collateral which may be recognized for purposes of section 77(i)(i))

(1) Section 79—

Repeal paragraph (j)

Substitute

“(j) debt securities issued by a corporate incorporated outside India that have a long-term ECAI issue specific rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the debt securities being assigned a credit quality grade of 1, 2 or 3;”.

- (2) After section 79(j)—

Add

“(ja) debt securities issued by a corporate incorporated in India that have a long-term ECAI issue specific rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the debt securities being assigned a credit quality grade of 1, 2 or 3 or, if mapped to the scale of credit quality grades in Part 2 of that Table, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;”.

- (3) Section 79(k), before “Table E”—

Add

“Part 1 of”.

- (4) Section 79—

Repeal paragraph (l)

Substitute

“(l) debt securities issued by a bank, a securities firm or a corporate incorporated outside India that have a short-term ECAI issue specific rating that, if mapped to the scale of credit quality grades in Part 1 of Table E in Schedule 6, would result in the debt securities being assigned a credit quality grade of 1, 2 or 3;”.

- (5) After section 79(l)—

Add

“(la) debt securities issued by a corporate incorporated in India that have a short-term ECAI issue specific rating that, if mapped to the scale of credit quality grades in Part 1 of Table E in Schedule 6, would result in the debt securities being assigned a credit quality grade of 1, 2 or 3 or, if mapped to the scale of credit quality grades in Part 2 of that Table, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;”.

- (6) Section 79(m)(iii), before “Table E”—
Add
“Part 1 of”.
- (7) Section 79(m)(iv), before “Table E”—
Add
“Part 1 of”.
- 44. Section 80 amended (Collateral which may be recognized for purposes of section 77(i)(ii))**
Section 80(a)—
Repeal
“(k), (l),”
Substitute
“(ja), (k), (l), (la),”.
- 45. Section 82 amended (Determination of risk-weight to be allocated to recognized collateral under simple approach)**
(1) Section 82(1)—
Repeal paragraph (a)
Substitute
“(a) subject to paragraph (b)—
(i) must, subject to subparagraph (ii), determine the risk-weight to be allocated to the collateral in accordance with sections 55, 56, 57, 58, 59, 60, 61, 62, 63, 66 and 68 as if the collateral were an on-balance sheet exposure;
(ii) if the collateral is a securitization issue, must determine the risk-weight to be allocated to the collateral in accordance with section 237 as if the collateral were an on-balance sheet exposure; and”.
- (2) Section 82(4)(c)—

Repeal

“section 51”

Substitute

“section 51(1)”.

46. Section 84 amended (Calculation of risk-weighted amount of off-balance sheet exposures other than OTC derivative transactions)

- (1) Section 84, heading, after “**transactions**”—

Add“**or credit derivative contracts**”.

- (2) Section 84—

Repeal

“not an OTC derivative transaction”

Substitute

“neither an OTC derivative transaction nor a credit derivative contract”.

47. Section 85 amended (Calculation of risk-weighted amount of OTC derivative transactions)

- (1) Section 85, heading, after “**transactions**”—

Add“**and credit derivative contracts**”.

- (2) Section 85—

Renumber the section as section 85(1).

- (3) After section 85(1)—

Add

“(2) Subsection (1), with all necessary modifications, applies to the calculation of the risk-weighted amount of each of an authorized institution’s off-balance sheet exposures

that is a credit derivative contract as it applies to the calculation of the risk-weighted amount of each of the institution's off-balance sheet exposures that is an OTC derivative transaction.”.

48. Section 96 amended (Netting of repo-style transactions)

- (1) Section 96(2)(b)(ii), after “trading book”—

Add

“where the arrangements for the provision of collateral in respect of the transactions satisfy all the requirements of section 77 (other than the requirements of section 77(g) and (i)(i))”.

- (2) Section 96(5)(b), Chinese text—

Repeal

“賬”

Substitute

“帳”.

49. Section 97 amended (Use of value-at-risk model instead of Formula 9)

- (1) Section 97(4)—

Repeal paragraph (c)

Substitute

“(c) the quality of the model has proved acceptable pursuant to a back-testing of the model—

- (i) using data covering at least a one-year period; and
- (ii) that covers representative counterparty portfolios that have been chosen based on the sensitivity of the portfolios to the material risk factors and correlations to which the institution is exposed.”.

- (2) Section 97(6), Formula 10—

Repeal

“x multiplier”.

- (3) Section 97(6), Formula 10, after “as collateral;”—

Add

“and”.

- (4) Section 97(6), Formula 10—

Repeal

“business day; and”

Substitute

“business day.”.

- (5) Section 97(6), Formula 10—

Repeal

“multiplier = the relevant multiplier derived in accordance with subsection (7) and Table 13.”.

- (6) Section 97(6)—

Repeal Table 13.

- (7) Section 97—

Repeal subsections (7) and (8).**50. Section 98 amended (Recognized guarantees)**

- (1) Section 98(a)(v)—

Repeal

“or”.

- (2) Section 98(a)—

Repeal paragraph (vi)**Substitute**

“(vi) a corporate incorporated outside India that has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in

the corporate being assigned a credit quality grade of 1 or 2; or”.

- (3) After section 98(a)(vi)—

Add

“(vii) a corporate incorporated in India that has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1 or 2 or, if mapped to the scale of credit quality grades in Part 2 of that Table, would result in the corporate being assigned a credit quality grade of 1, 2 or 3.”.

51. Section 99 amended (Recognized credit derivative contracts)

- (1) Section 99(1)(b)(v)—

Repeal

“or”.

- (2) Section 99(1)(b)—

Repeal paragraph (vi)

Substitute

“(vi) a corporate incorporated outside India that has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1 or 2; or”.

- (3) After section 99(1)(b)(vi)—

Add

“(vii) a corporate incorporated in India that has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1 or 2 or, if mapped to the scale of credit quality grades in Part

2 of that Table, would result in the corporate being assigned a credit quality grade of 1, 2 or 3.”.

52. Section 105 amended (Interpretation of Part 5)

Section 105, definition of *principal amount*—

Repeal paragraph (a)

Substitute

“(a) in relation to an on-balance sheet exposure of an authorized institution—

(i) if the exposure is measured at fair value, means the value of the exposure determined in accordance with section 4A;

(ii) if the exposure is not measured at fair value, means the book value (including accrued interest) of the exposure;”.

53. Section 109 amended (Sovereign exposures)

(1) Section 109—

Repeal subsections (5), (6), (10) and (11).

(2) Section 109(12)—

Repeal

“, (9), (10) or (11)”

Substitute

“or (9)”.

54. Section 116 amended (Other exposures)

(1) Section 116(1)(a)—

Repeal

“and”.

(2) Section 116(1)(b)—

Repeal

“is applicable).”.

Substitute

“is applicable); and”.

- (3) After section 116(1)(b)—

Add

“(c) instruments that—

- (i) fall within the definition of *other regulatory capital instrument* in section 35; and
- (ii) are not subject to deduction from an authorized institution’s core capital and supplementary capital under section 48(2).”.

- (4) Section 116(5)—

Repeal

“on-balance sheet”.

55. Section 117 amended (Credit-linked notes)

Section 117—

Repeal paragraph (a)**Substitute**

“(a) the risk-weight attributable to—

- (i) subject to subparagraph (ii), the reference obligation of the note as determined in accordance with sections 109, 110, 111, 112, 113, 114, 115 and 116 as if the institution had a direct exposure to the reference obligation;
- (ii) if the note—
 - (A) is a first-to-default, second-to-default or nth-to-default note; or

- (B) provides credit protection proportionately to a basket of reference obligations,
- the pool of reference obligations of the note as determined in accordance with section 121(3), (4), (5) or (6), as the case requires, as if the institution had a direct exposure to the credit default swap embedded in the note; and”.

56. Section 119 amended (Provisions supplementary to section 118)

- (1) Section 119(e)—

Repeal

“commitment.”

Substitute

“commitment;”.

- (2) After section 119(e)—

Add

“(f) in the case of an off-balance sheet exposure that is a credit derivative contract where—

- (i) the contract is a credit default swap, the institution is the protection seller and a regulatory capital calculated in accordance with section 121 has been provided in respect of the credit risk of the reference obligation underlying the swap; or
- (ii) the institution is the protection buyer and the credit risk mitigation effect of the contract has been recognized and taken into account, in accordance with Divisions 7 and 8, for the purposes of the calculation of the risk-weighted amount of the exposure to which credit protection is provided by the contract,

the institution must treat the credit equivalent amount of that exposure as zero.”.

57. Section 120 substituted

Section 120—

Repeal the section**Substitute****“120. Calculation of credit equivalent amount of other off-balance sheet exposures not specified in Table 14 or 15**

An authorized institution must, in calculating the risk-weighted amount of an off-balance sheet exposure that is not specified in Table 14 or 15—

- (a) subject to paragraph (c), if the exposure is not specified in Table 14 and is neither an OTC derivative transaction nor a credit derivative contract, calculate the credit equivalent amount of the exposure by applying a CCF of 100% in accordance with section 118(1) with all necessary modifications;
- (b) subject to paragraph (c), if the exposure is an OTC derivative transaction or credit derivative contract that is not specified in Table 15, treat the exposure as if it falls within item 5 of Table 15 and apply the relevant CCF specified in that item in accordance with section 118(2) with all necessary modifications;
- (c) apply the CCF applicable to the exposure pursuant to Part 2 of Schedule 1 in accordance with section 118(1) or (2), as the case requires, with all necessary modifications.”.

58. Section 128 amended (Calculation of risk-weighted amount of off-balance sheet exposures other than OTC derivative transactions)

- (1) Section 128, heading, after “**transactions**”—

Add

“**or credit derivative contracts**”.

- (2) Section 128—

Repeal

“not an OTC derivative transaction”

Substitute

“neither an OTC derivative transaction nor a credit derivative contract”.

59. Section 129 amended (Calculation of risk-weighted amount of OTC derivative transactions)

- (1) Section 129, heading, after “**transactions**”—

Add

“**and credit derivative contracts**”.

- (2) Section 129—

Renumber the section as section 129(1).

- (3) After section 129(1)—

Add

“(2) Subsection (1), with all necessary modifications, applies to the calculation of the risk-weighted amount of each of an authorized institution’s off-balance sheet exposures that is a credit derivative contract as it applies to the calculation of the risk-weighted amount of each of the institution’s off-balance sheet exposures that is an OTC derivative transaction.”.

60. Section 130 amended (On-balance sheet netting)

Section 130(2), English text, Formula 14, heading—

Repeal

“EXPOSE”

Substitute

“EXPOSURE”.

61. Section 134 amended (Capital treatment of recognized guarantees and recognized credit derivative contracts)

Section 134—

Repeal subsection (3)**Substitute**

“(3) Where a guarantor referred to in subsection (1) is a sovereign, then, for the purposes of that subsection, the risk-weight attributable to the guarantor is that attributable under—

- (a) if the institution’s exposure covered by the guarantee concerned is to a debt security, section 109(3), (4), (8) or (9), as the case requires;
- (b) if the institution’s exposure covered by the guarantee concerned is not to a debt security, section 109(2) or (7), as the case requires.”.

62. Section 139 amended (Interpretation of Part 6)

(1) Section 139(1)—

Repeal the definition of *financial firm***Substitute**

“*financial firm* ([雙擊後鍵入]), in relation to the recognition of a guarantee or credit derivative contract in respect of an exposure of an authorized institution under the double default framework, means—

- (a) a bank;
- (b) a securities firm;
- (c) an insurance firm;

- (d) a corporate incorporated outside India that has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1, 2 or 3; or
- (e) a corporate incorporated in India that has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1, 2 or 3 or, if mapped to the scale of credit quality grades in Part 2 of that Table, would result in the corporate being assigned a credit quality grade of 1, 2, 3 or 4,

that—

- (f) has provided, in the normal course of business, credit protection for the exposure where the credit protection concerned is not the subject of any counter-guarantee given by a sovereign;
- (g) has had an exposure to it assigned by the institution, at the time the credit protection was first provided, to an obligor grade with an estimate of PD that—
 - (i) if mapped to the scale of credit quality grades for banks and securities firms in Table B in Schedule 6, would result in the entity being assigned a credit quality grade of 1 or 2;
 - (ii) if mapped to the scale of credit quality grades for corporates in Part 1 of Table C in Schedule 6, would result in the entity being assigned a credit quality grade of 1 or 2; or
 - (iii) if mapped to the scale of credit quality grades for corporates incorporated in India in Part 2 of Table C in Schedule 6, would result in the entity being assigned a credit quality grade of 1, 2 or 3;

- (h) currently has an exposure to it assigned by the institution to an obligor grade with an estimate of PD that—
 - (i) if mapped to the scale of credit quality grades for banks and securities firms in Table B in Schedule 6, would result in the entity being assigned a credit quality grade of 1, 2 or 3;
 - (ii) if mapped to the scale of credit quality grades for corporates in Part 1 of Table C in Schedule 6, would result in the entity being assigned a credit quality grade of 1, 2 or 3; or
 - (iii) if mapped to the scale of credit quality grades for corporates incorporated in India in Part 2 of Table C in Schedule 6, would result in the entity being assigned a credit quality grade of 1, 2, 3 or 4; and
 - (i) has not had, at any time since the credit protection was first provided, an exposure to it assigned by the institution to an obligor grade with an estimate of PD that—
 - (i) if mapped to the scale of credit quality grades for banks and securities firms in Table B in Schedule 6 or corporates in Part 1 of Table C in Schedule 6, as the case may be, would result in the entity being assigned a credit quality grade of 4 or 5;
 - (ii) if mapped to the scale of credit quality grades for corporates incorporated in India in Part 2 of Table C in Schedule 6, would result in the entity being assigned a credit quality grade of 5;”.
- (2) Section 139(1), definition of *principal amount*—
- Repeal paragraph (a)**

Substitute

- “(a) in relation to an on-balance sheet exposure of an authorized institution—
- (i) if the exposure is measured at fair value, means the value of the exposure determined in accordance with section 4A;
 - (ii) if the exposure is not measured at fair value, means the book value (including accrued interest) of the exposure;”.

- (3) Section 139(1)—

Repeal the definition of *recognized financial collateral***Substitute**

“*recognized financial collateral* ([雙擊後鍵入]) means any collateral (except collateral in the form of real property)—

- (a) that falls within the description of section 80(a), (b), (c) or (d); and
- (b) that satisfies the requirements under section 77(a), (b), (c), (d), (e) and (f);”.

63. Section 140A added

After section 140—

Add**“140A. Calculation of exposure at default**

- (1) Subject to subsection (2), an authorized institution must estimate the EAD of exposures under this Part in accordance with section 163, 164, 165, 166, 179, 180, 181, 182, 183, 195, 196, 197, 201 or 202, as appropriate.
- (2) For the purposes of subsection (1), for estimating the EAD of on-balance sheet exposures that are measured at fair value—

- (a) in respect of sections 163 and 164, a reference to current drawn amount is a reference to the value determined in accordance with section 4A;
- (b) in respect of section 183, an authorized institution must determine the EAD of an equity exposure of the institution as the value of the equity exposure determined in accordance with section 4A.”.

64. Section 146 amended (Other exposures)

- (1) Section 146(1)—

Repeal

“For”

Substitute

“Subject to subsection (2), for”.

- (2) Section 146—

Repeal subsection (2)

Substitute

- “(2) For the purposes of section 142(1) as read with Table 16, an authorized institution must classify under the IRB subclass of other items—
- (a) any of the institution’s other exposures that do not fall within the IRB subclass of cash items; and
 - (b) any of the institution’s exposures that—
 - (i) fall within the definition of *other regulatory capital instrument* in section 35; and
 - (ii) are not subject to deduction from the institution’s core capital and supplementary capital under section 48(2).”.

65. Section 149 amended (Default of obligor)

- (1) Section 149(1)—

Repeal

“For”

Substitute

“Subject to subsection (4), for”.

- (2) Section 149(2)—

Repeal paragraph (a)**Substitute**

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

- (i) must treat the exposure as being in default; and
- (ii) may treat all other outstanding credit obligations of the obligor to the institution (or to any member of the consolidated group of the institution) as being in default;”.

- (3) After section 149(5)—

Add

“(5A) Subject to subsection (5B), an authorized institution must treat its exposures to all individual obligors in a connected group as being in default if—

- (a) a default of an obligor (referred to in this subsection as **defaulting obligor**) in the connected group has—
 - (i) without prejudice to subsection (2), occurred in respect only of—
 - (A) one exposure that is a retail exposure; or
 - (B) two or more exposures that include at least one retail exposure; or
 - (ii) occurred in respect only of one or more than one exposure that is not a retail exposure; and
- (b) the defaulting obligor has been rated substantially on the basis of the economic or financial

interdependence between the members in the connected group pursuant to section 154(c) and (d).

- (5B) An authorized institution must disregard subsection (5A) in respect of—
- (a) any obligor in the connected group that has been rated on a basis that reflects the specific circumstances of the obligor and without regard to any economic or financial support available to that obligor by any other member in the connected group; and
 - (b) any other obligor in the connected group if the institution demonstrates, to the satisfaction of the Monetary Authority, that—
 - (i) that other obligor has not been rated as referred to in subsection (5A)(b); and
 - (ii) disregarding subsection (5A) in respect of that other obligor—
 - (A) is neither imprudent nor unreasonable; and
 - (B) will not materially prejudice the calculation of the institution’s regulatory capital for credit risk.”

- (4) Section 149—

Repeal subsection (9)

Substitute

- “(9) In this section—

prescribed default criteria ([雙擊後鍵入]) means the criteria specified in subsection (1);

rated ([雙擊後鍵入]), in relation to an obligor of an authorized institution, means that the institution’s corporate, sovereign or bank exposures to the obligor have been assigned to obligor grades by using the IRB approach.”.

66. Section 154 amended (Rating coverage)

- (1) Section 154(a)—

Repeal

“approvals; and”

Substitute

“approvals;”.

- (2) Section 154(b)—

Repeal

“exposure.”

Substitute

“exposure;”.

- (3) After section 154(b)—

Add

- “(c) subject to paragraph (d), rate on an individual basis each legal entity to which the institution is exposed; and
- (d) for the purposes of paragraph (c), demonstrate, to the satisfaction of the Monetary Authority, that its policy and practices regarding the assignment of exposures to obligor grades in respect of individual obligors in a connected group—
- (i) are prudent and reasonable;
 - (ii) set out, at the least—
 - (A) the circumstances under which the institution may or may not assign the same obligor grade in respect of exposures to separate obligors in a connected group; and
 - (B) the definition of a connected group for the purposes of rating assignment; and
 - (iii) are applied in a consistent manner.”.

67. Section 155 amended (Integrity of rating process)

(1) Section 155(e)—

Repeal subparagraphs (i) and (ii)**Substitute**

“(i) identifying, documenting, reviewing and updating the circumstances in which it is appropriate for officers of the institution to override the inputs to, or the outputs of, the institution’s rating system;

(ii) ensuring that such circumstances are prudent;”.

(2) After section 155(e)(ii)—

Add

“(iii) ensuring that all permissible overrides are approved by officers of the institution having delegated credit authority and are applied in a consistent manner; and

(iv) monitoring the nature and performance of such overrides following approval.”.

68. Section 166 amended (Exposure at default under foundation IRB approach or advanced IRB approach—other off-balance sheet exposures not specified in Table 11 or 20)

Section 166—

Repeal

everything after “of the exposure”

Substitute

“—

(a) subject to paragraph (c), if the exposure is not specified in Table 20 and is neither an OTC derivative transaction nor a credit derivative contract, by applying a CCF of 100%, and in accordance with section 163 or 164, as the case requires, with all necessary modifications;

- (b) subject to paragraph (c), if the exposure is an OTC derivative transaction or credit derivative contract that is not specified in Table 11, by treating the exposure as if it fell within item 5 of Table 11 and applying the relevant CCF specified in that item, and in accordance with section 165 with all necessary modifications;
- (c) by applying the CCF applicable to the exposure pursuant to Part 2 of Schedule 1, and in accordance with section 163, 164 or 165, as the case requires, with all necessary modifications.”.

69. Section 175 amended (Integrity of rating process)

- (1) Section 175(c)—

Repeal subparagraphs (i) and (ii)

Substitute

- “(i) identifying, documenting, reviewing and updating the circumstances in which it is appropriate for officers of the institution to override the inputs to, or the outputs of, the institution’s rating system;
- (ii) ensuring that such circumstances are prudent;”.

- (2) After section 175(c)(ii)—

Add

- “(iii) ensuring that all permissible overrides are approved by officers of the institution having delegated credit authority and are applied in a consistent manner; and
- (iv) monitoring the nature and performance of such overrides following approval.”.

70. Section 178 amended (Loss given default)

- Section 178(1)—

Repeal paragraph (c)

Substitute

“(c) subject to paragraph (d), the estimate of the LGD of a retail exposure that falls within the IRB subclass of residential mortgages to individuals or residential mortgages to property-holding shell companies is not less than 10%.”

71. Section 182 amended (Exposure at default—other off-balance sheet exposures not specified in Table 11 or 20)

Section 182—

Repeal

everything after “of the exposure”

Substitute

“—

- (a) subject to paragraph (c), if the exposure is not specified in Table 20 and is neither an OTC derivative transaction nor a credit derivative contract, by applying a CCF of 100%, and in accordance with section 180 with all necessary modifications;
- (b) subject to paragraph (c), if the exposure is an OTC derivative transaction or credit derivative contract that is not specified in Table 11, by treating the exposure as if it fell within item 5 of Table 11 and applying the relevant CCF specified in that item, and in accordance with section 181 with all necessary modifications;
- (c) by applying the CCF applicable to the exposure pursuant to Part 2 of Schedule 1, and in accordance with section 180 or 181, as the case requires, with all necessary modifications.”

72. Section 193 amended (PD/LGD approach—integrity of rating process)

- (1) Section 193(e)—

Repeal subparagraphs (i) and (ii)**Substitute**

“(i) identifying, documenting, reviewing and updating the circumstances in which it is appropriate for officers of the institution to override the inputs to, or the outputs of, the institution’s rating system;

(ii) ensuring that such circumstances are prudent;”.

- (2) After section 193(e)(ii)—

Add

“(iii) ensuring that all permissible overrides are approved by officers of the institution having delegated credit authority and are applied in a consistent manner; and

(iv) monitoring the nature and performance of such overrides following approval.”.

73. Section 202 amended (Repo-style transactions)

- (1) Section 202(a)—

Repeal

“falls; and”

Substitute

“falls;”.

- (2) After section 202(a)—

Add

“(aa) the institution must determine, by reference to Part 8, the risk-weight to be allocated to its exposure under a repo-style transaction booked in the institution’s trading book, that falls within paragraph (a) or (b) of the definition of *repo-style transaction* in section 2(1), or paragraph (d) of

that definition where the collateral provided by the institution is in the form of securities; and”.

74. Section 202A added

Part 6, Division 9, after section 202—

Add

“202A. Credit-linked notes

- (1) Subject to subsection (2), an authorized institution that has an exposure in respect of a credit-linked note held by the institution must allocate a risk-weight, as determined by the applicable risk-weight function, to the exposure that is the greater of—
 - (a) the risk-weight attributable to the reference obligation or basket of reference obligations of the note, as the case may be, as if the institution had a direct exposure to the reference obligation or the basket of reference obligations; and
 - (b) the risk-weight attributable to the note.
- (2) An authorized institution is not required to provide regulatory capital for its exposure in respect of a credit-linked note held by the institution in excess of the institution’s maximum liability under the note.”.

75. Section 211 amended (Recognized guarantees and recognized credit derivative contracts under substitution framework for corporate, sovereign and bank exposures under foundation IRB approach and for equity exposures under PD/LGD approach)

Section 211—

Repeal subsection (2)

Substitute

- “(2) For the purposes of subsection (1), sections 98(a)(vi) and (vii) and 99(1)(b)(vi) and (vii) are deemed to read as—

- “(vi) a corporate incorporated outside India that—
- (A) has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1 or 2; or
 - (B) has an exposure assessed under the institution's rating system with an estimate of PD that is equivalent to the PD of an exposure with a credit quality grade of 1 or 2 in Part 1 of Table C in Schedule 6; or
- (vii) a corporate incorporated in India that—
- (A) has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1 or 2 or, if mapped to the scale of credit quality grades in Part 2 of that Table, would result in the corporate being assigned a credit quality grade of 1, 2 or 3; or
 - (B) has an exposure assessed under the institution's rating system with an estimate of PD that is equivalent to the PD of an exposure with a credit quality grade of 1 or 2 in Part 1 of Table C in Schedule 6 or a credit quality grade of 1, 2 or 3 in Part 2 of that Table.”.

76. Section 213 amended (Recognized guarantees and recognized credit derivative contracts under double default framework)

Section 213(c)—

Repeal subparagraph (i)

Substitute

“(i) the first-to-default credit derivative contract up to and including the (n-1)th-to-default credit derivative contract (each of which is a recognized credit derivative contract) in respect of the reference obligations within the basket have also been entered into; or”.

77. Section 214 amended (Capital treatment of recognized guarantees and recognized credit derivative contracts)

After section 214(2)—

Add

“(3) To avoid doubt—

(a) if a recognized guarantee is provided to an authorized institution or a recognized credit derivative contract is entered into by the institution; and

(b) the institution does not use the IRB approach to calculate its credit risk for exposures to the guarantor or counterparty, as the case may be,

the institution must not take into account the credit risk mitigating effect of the guarantee or contract, as the case may be, in calculating, under the IRB approach, the risk-weighted amount of the exposure that is covered by the guarantee or contract, as the case may be.”.

78. Section 220 amended (Calculation of expected losses and eligible provisions for corporate, sovereign, bank and retail exposures)

(1) Section 220(3), after “EL”—

Add

“amount”.

(2) Section 220(4), Table 22, heading, after “EL”—

Add

“AMOUNT”.

- (3) Section 220(5), after “EL”—

Add

“amount”.

79. Section 225 amended (Application of Division 13)

- (1) Section 225(1)—

Repeal

“subsection (2)”

Substitute

“subsections (2), (3), (4) and (5)”.

- (2) Section 225—

Repeal subsection (2)

Substitute

“(2) Where an authorized institution fails to fully comply with the provisions of this Part that are applicable to it, the Monetary Authority may, for the purposes of mitigating the effect of that failure, exercise, in relation to the institution, any of the Monetary Authority’s powers under subsection (5).”.

- (3) After section 225(2)—

Add

“(3) Where the Monetary Authority is satisfied that an internal rating system or model used by an authorized institution for the purposes of this Part causes, or could reasonably be construed as potentially causing, whether by itself or in conjunction with any other event, the institution to cease to have adequate financial resources (whether actual or contingent) for the nature and scale of its operations, the Monetary Authority may, for the purposes of assisting in ensuring that the institution does not cease to have those financial resources, exercise, in relation to

that institution, any of the Monetary Authority's powers under subsection (5).

- (4) Where the Monetary Authority is satisfied that there exists a material prudential concern in respect of an authorized institution that causes, or could reasonably be construed as potentially causing, whether by itself or in conjunction with any other event, the financial soundness of the institution to be put at risk in prevailing, or likely prevailing, market conditions, the Monetary Authority may, for the purposes of assisting in ensuring that the financial soundness of the institution is not put at risk, exercise, in relation to that institution, any of the Monetary Authority's powers under subsection (5).
- (5) The Monetary Authority may, by notice in writing given to an authorized institution that falls within subsection (2), (3) or (4)—
 - (a) extend the period for which the institution is subject to this Division for such period, or until the occurrence of such event, as specified in the notice;
 - (b) again apply this Division to the institution for such period, or until the occurrence of such event, as specified in the notice;
 - (c) specify, in that notice, an adjustment factor (but neither, in any case, lower than the adjustment factor applicable to the institution by virtue of Table 23 as read with section 226(6) nor exceeding 100%) that is to be used by the institution for the purpose of calculating the capital floor in accordance with section 226.”.

80. Section 226 amended (Calculation of capital floor)

Section 226(6)—

Repeal

“section 225(2)”

Substitute

“section 225(5)(c)”.

81. Section 227 amended (Interpretation of Part 7)

- (1) Section 227(1), definition of *credit equivalent amount*, paragraph (a)—

Repeal

“section 51”

Substitute

“section 51(1)”.

- (2) Section 227(1), definition of *look-through treatment*—

Repeal

“or BSC approach”

Substitute

“, BSC approach or STC(S) approach”.

- (3) Section 227(1), definition of *principal amount*—

Repeal paragraph (a)**Substitute**

“(a) in relation to an on-balance sheet exposure of an authorized institution—

- (i) in the case of the STC(S) approach—

(A) if the exposure is measured at fair value, means the value of the exposure determined in accordance with section 4A;

(B) if the exposure is not measured at fair value, means the book value of the exposure;

- (ii) in the case of the IRB(S) approach, means the book value of the exposure;”.

- (4) Section 227(1), definition of *securitization exposure*—

Repeal

“credit exposure to a securitization transaction booked in its banking book”

Substitute

“exposure to a securitization transaction”.

- (5) Section 227(1)—

Repeal the definition of *underlying exposures***Substitute**

“*underlying exposures* ([雙擊後鍵入])—

- (a) in relation to a securitization transaction that is not a re-securitization transaction, means one or more than one on-balance sheet or off-balance sheet non-securitization exposure in respect of which credit risk is transferred to one or more than one person by the originator in the transaction;
- (b) in relation to a re-securitization transaction—
 - (i) either—
 - (A) means one or more than one on-balance sheet or off-balance sheet securitization exposure being re-securitized through the transaction; or
 - (B) means one or more than one on-balance sheet or off-balance sheet securitization exposure being re-securitized through the transaction and one or more than one on-balance sheet or off-balance sheet non-securitization exposure being securitized through the transaction;
 - (ii) does not include the underlying exposures in respect of the original securitization transaction that gave rise to the securitization

exposure referred to in subparagraph (i)(A) or (B);”.

- (6) Section 227(1)—

Add in alphabetical order

“*re-securitization exposure* ([雙擊後鍵入]) means a securitization exposure that is an exposure to a re-securitization transaction;

re-securitization transaction ([雙擊後鍵入]) means a securitization transaction in respect of which not less than one of the underlying exposures of the transaction is a securitization exposure;”.

- (7) After section 227(2)—

Add

“(3) Unless otherwise expressly stated, a reference in this Part to a securitization exposure of an authorized institution (howsoever expressed) means a securitization exposure booked in the institution’s banking book.”.

82. Section 229 amended (Treatment to be accorded to securitization transaction by originating institution)

- (1) Section 229(1)(a)—

Repeal

“or 6”

Substitute

“, 6 or 7”.

- (2) Section 229(3)—

Repeal

“or 6”

Substitute

“, 6 or 7”.

(3) Section 229(5)(a)—

Repeal

“or 6”

Substitute

“, 6 or 7”.

83. Section 230A added

After section 230—

Add

“230A. Criteria authorized institutions must meet to use STC(S) approach or IRB(S) approach

An authorized institution must have—

- (a) a comprehensive understanding, on a continuous basis, of the risk characteristics of—
 - (i) the institution’s securitization exposures (whether on-balance sheet or off-balance sheet); and
 - (ii) the pools of underlying exposures of the securitization transactions that gave rise to those securitization exposures;
- (b) an ability to access, on a continuous basis and in a timely manner—
 - (i) in relation to a securitization transaction that is not a re-securitization transaction, performance information on the underlying exposures (including issuer name and credit quality); and
 - (ii) in relation to a securitization transaction that is a re-securitization transaction—

- (A) performance information on the underlying exposures (including issuer name and credit quality); and
- (B) information on the risk characteristics and performance of the underlying exposures of the original securitization transaction being re-securitized through the re-securitization transaction;
- (c) a thorough understanding of each structural feature of a securitization transaction that has the potential to materially affect the performance of the institution's securitization exposures to the transaction."

84. Section 232 amended (Provisions applicable to ECAI issue specific ratings in addition to those applicable under Part 4)

- (1) Section 232(f)(ii)—

Repeal

“exposure.”

Substitute

“exposure;”.

- (2) After section 232(f)—

Add

“(g) if an ECAI issue specific rating assigned to a securitization exposure of the institution is wholly or partly based on unfunded support (including a liquidity facility or credit enhancement) provided by the institution, the institution must treat that securitization exposure as unrated.”.

85. Section 236 amended (Deductions from core capital and supplementary capital)

- (1) Section 236(1)(d)(iv)—

Repeal

“facility; and”

Substitute

“facility;”.

- (2) After section 236(1)(d)—

Add

“(da) any securitization exposure of the institution in any case where the institution is not in compliance, whether in whole or in part, with section 230A in respect of that exposure; and”.

86. Section 237 amended (Determination of risk-weights)

- (1) Section 237(1)(b), after “subsections (2) and (3)”—

Add

“(in the case of securitization exposures that are not re-securitization exposures) and subsections (4) and (5) (in the case of re-securitization exposures)”.

- (2) Section 237(2), after “issue specific ratings”—

Add

“, and which do not fall within the definition of *re-securitization exposure* in section 227(1),”.

- (3) Section 237(2), Table 24, heading, after “APPROACH”—

Add

“(EXCLUDING RE-SECURITIZATION EXPOSURES)”.

- (4) Section 237(3), after “issue specific ratings”

Add

“, and which do not fall within the definition of *re-securitization exposure* in section 227(1),”.

- (5) Section 237(3), Table 25, heading, after “APPROACH”—

Add

“(EXCLUDING RE-SECURITIZATION EXPOSURES)”.

(6) After section 237(3)—

Add

“(4) For the purposes of subsection (1)(b), an authorized institution must allocate risk-weights to, or deduct from the institution’s core capital and supplementary capital, securitization exposures that have long-term ECAI issue specific ratings, and that fall within the definition of *re-securitization exposure* in section 227(1), in accordance with Table 25A such that—

- (a) for those securitization exposures that map to a credit quality grade of 4, the institution must—
 - (i) allocate a risk-weight of 650% to the exposures if the institution is an investing institution; or
 - (ii) deduct the exposures from the institution’s core capital and supplementary capital if the institution is the originating institution;
- (b) for those securitization exposures that do not fall within paragraph (a), the institution must apply the treatment specified in Table 25A to the exposures regardless of whether the institution is an originating institution or investing institution.

TABLE 25A

RISK-WEIGHTS OR DEDUCTIONS APPLICABLE
TO LONG-TERM CREDIT QUALITY GRADES
UNDER STC(S) APPROACH (RE-
SECURITIZATION EXPOSURES)

Long-term credit quality grade	Risk-weight	Deduction
1	40%	not applicable
2	100%	not applicable
3	225%	not applicable
4	650% (for investing institutions)	deduction from core capital and supplementary capital (for originating institutions)
5	not applicable	deduction from core capital and supplementary capital

- (5) For the purposes of subsection (1)(b), an authorized institution must allocate risk-weights to, or deduct from the institution's core capital and supplementary capital, securitization exposures that have short-term ECAI issue specific ratings, and that fall within the definition of *re-securitization exposure* in section 227(1), in accordance with Table 25B.

TABLE 25B

RISK-WEIGHTS OR DEDUCTIONS APPLICABLE
TO SHORT-TERM CREDIT QUALITY GRADES
UNDER STC(S) APPROACH (RE-
SECURITIZATION EXPOSURES)

Short-term credit quality grade	Risk-weight	Deduction
1	40%	not applicable
2	100%	not applicable
3	225%	not applicable
4	not applicable	deduction from core capital and supplementary capital”.

87. Section 239 amended (Securitization positions which are in second loss tranche or better in ABCP programmes)

Section 239(f)—

Repeal

“or 5”

Substitute

“, 5 or 7, as the case requires,”.

88. Section 240 amended (Treatment of liquidity facilities and servicer cash advance facilities)

(1) Section 240(1)—

Repeal

“, (3)”.

(2) Section 240(2)—

Repeal

“Subject to subsection (3), an”

Substitute

“An”.

- (3) Section 240(2)(a)(i)—

Repeal

“Table 24 or 25”

Substitute

“Table 24, 25, 25A or 25B”.

- (4) Section 240(2)(b)(i)—

Repeal

“or 5”

Substitute

“, 5 or 7”.

- (5) Section 240(2)(b)—

Repeal subparagraph (ii)

Substitute

“(ii) apply to the undrawn portion of the facility a CCF of 50% for the purposes of calculating the credit equivalent amount of that undrawn portion; and”.

- (6) Section 240—

Repeal subsection (3).

- (7) Section 240(6)—

Repeal

“, (3)”.

89. Section 241 substituted

Repeal the section

Substitute

“241. Treatment of overlapping facilities and exposures

- (1) Where an authorized institution provides 2 or more facilities that may be drawn in respect of the same securitization transaction such that—
 - (a) duplicate coverage is provided in respect of the same underlying exposure (referred to in this section as *overlapping portion A*); and
 - (b) a drawing on one such facility precludes the drawing, whether in whole or in part, on another such facility,
the institution must—
 - (c) calculate the risk-weighted amount of the overlapping portion A on the basis of—
 - (i) if the facilities are subject to the same CCF, attributing the overlapping portion A to any one of the facilities;
 - (ii) if the facilities are subject to different CCFs, attributing the overlapping portion A to the facility with the highest CCF; and
 - (d) calculate the risk-weighted amount of that portion of each of the facilities that is not the overlapping portion A.
- (2) Where overlapping facilities are provided by different authorized institutions, each institution must calculate the risk-weighted amount for the maximum amount of the facility provided by it.
- (3) Subject to subsection (4), where—
 - (a) an authorized institution provides one or more than one facility that may be drawn in respect of the same securitization transaction and, at the same time, holds an on-balance sheet securitization exposure in the transaction (including any such

- exposure booked in the trading book of the institution); and
- (b) the on-balance sheet securitization exposure will benefit from any drawdown of the facility such that the institution has duplicate exposure to the same underlying exposures (referred to in this section as ***overlapping portion B***),
- the institution must—
- (c) calculate the regulatory capital for the overlapping portion B by attributing the overlapping portion B to the securitization exposure (that is, the facility or the on-balance sheet securitization exposure) that will result in a higher regulatory capital for the overlapping portion B; and
- (d) calculate the regulatory capital for that portion of each of the exposures that is not the overlapping portion B.
- (4) An authorized institution must not apply subsection (3) to the overlapping portion B between securitization exposures booked in the institution's banking book and securitization exposures booked in the institution's trading book in respect of the same securitization transaction unless it is able to calculate and compare the regulatory capital for the exposures concerned such that it can determine to which of those exposures the overlapping portion B should be attributed for the purposes of subsection (3)(c).
- (5) To avoid doubt—
- (a) the regulatory capital calculated as required by subsection (3)(c) for the overlapping portion B that has been attributed to a securitization exposure booked in the trading book of an authorized institution; and

(b) the regulatory capital calculated as required by subsection (3)(d) for a securitization exposure booked in the trading book of an authorized institution,

must be included in the total market risk capital charge for specific risk calculated under Part 8.

(6) In subsections (3), (4) and (5)—

regulatory capital ([雙擊後鍵入]), in relation to—

(a) a securitization exposure booked in the trading book of an authorized institution; and

(b) the overlapping portion B that has been attributed to such a securitization exposure,

means the market risk capital charge for specific risk determined in accordance with the provisions applicable to securitization exposures set out in Part 8.”.

90. Section 242 amended (Maximum regulatory capital for originating institution)

Section 242(1), after “been securitized”—

Add

“through the transaction”.

91. Section 243 amended (Treatment of underlying exposures of originating institution in synthetic securitization transactions)

(1) Section 243(2)(b)(i), after “Part 4”—

Add

“, Division 2 and this Division”.

(2) Section 243(2)(b)(ii), after “Part 5”—

Add

“, Division 2 and this Division”.

92. Section 245 amended (Calculation of risk-weighted amount of investors' interest for securitization exposures of originating institution subject to early amortization provision)

- (1) Section 245(2)(c), after “were not securitized”—

Add

“through the transaction”.

- (2) Section 245(3)(f)—

Repeal

“accumulated”

Substitute

“average”.

- (3) Section 245(3)—

Repeal paragraph (g)

Substitute

“(g) in any case where the transaction does not require excess spread to be trapped, treat the trapping point as 4.5%.”.

- (4) Section 245(4)(f)—

Repeal

“accumulated”

Substitute

“average”.

- (5) Section 245(4)—

Repeal paragraph (g)

Substitute

“(g) in any case where the transaction does not require excess spread to be trapped, treat the trapping point as 4.5%.”.

93. Section 251 amended (Deductions from core capital and supplementary capital)

- (1) Section 251(1)(e)—

Repeal

“institution; and”

Substitute

“institution;”.

- (2) After section 251(1)(e)—

Add

“(ea) any securitization exposure of the institution in any case where the institution is not in compliance, whether in whole or in part, with section 230A in respect of that exposure; and”.

94. Section 253 substituted**Repeal the section****Substitute****“253. Treatment of overlapping facilities and exposures**

- (1) Where an authorized institution provides 2 or more facilities that may be drawn in respect of the same securitization transaction such that—

(a) duplicate coverage is provided in respect of the same underlying exposure (referred to in this section as *overlapping portion A*); and

(b) a drawing on one such facility precludes the drawing, whether in whole or in part, on another such facility,

the institution must—

(c) calculate the risk-weighted amount of the overlapping portion A on the basis of—

-
- (i) if the facilities are subject to the same CCF, attributing the overlapping portion A to any one of the facilities;
 - (ii) if the facilities are subject to different CCFs, attributing the overlapping portion A to the facility with the highest CCF; and
 - (d) calculate the risk-weighted amount of that portion of each of the facilities that is not the overlapping portion A.
 - (2) Where overlapping facilities are provided by different authorized institutions, each institution must calculate the risk-weighted amount for the maximum amount of the facility provided by it.
 - (3) Subject to subsection (4), where—
 - (a) an authorized institution provides one or more than one facility that may be drawn in respect of the same securitization transaction and, at the same time, holds an on-balance sheet securitization exposure in the transaction (including any such exposure booked in the trading book of the institution); and
 - (b) the on-balance sheet securitization exposure will benefit from any drawdown of the facility such that the institution has duplicate exposure to the same underlying exposures (referred to in this section as ***overlapping portion B***),
the institution must—
 - (c) calculate the regulatory capital for the overlapping portion B by attributing the overlapping portion B to the securitization exposure (that is, the facility or the on-balance sheet securitization exposure) that will result in a higher regulatory capital for the overlapping portion B; and

- (d) calculate the regulatory capital for that portion of each of the exposures that is not the overlapping portion B.
- (4) An authorized institution must not apply subsection (3) to the overlapping portion B between securitization exposures booked in the institution's banking book and securitization exposures booked in the institution's trading book in respect of the same securitization transaction unless it is able to calculate and compare the regulatory capital for the exposures concerned such that it can determine to which of those exposures the overlapping portion B should be attributed for the purposes of subsection (3)(c).
- (5) To avoid doubt—
- (a) the regulatory capital calculated as required by subsection (3)(c) for the overlapping portion B that has been attributed to a securitization exposure booked in the trading book of an authorized institution; and
 - (b) the regulatory capital calculated as required by subsection (3)(d) for a securitization exposure booked in the trading book of an authorized institution;
- must be included in the total market risk capital charge for specific risk calculated under Part 8.
- (6) In subsections (3), (4) and (5)—
- regulatory capital** ([雙擊後鍵入]), in relation to—
- (a) a securitization exposure booked in the trading book of an authorized institution; and
 - (b) the overlapping portion B that has been attributed to such a securitization exposure,

means the market risk capital charge for specific risk determined in accordance with the provisions applicable to securitization exposures set out in Part 8.”.

95. Section 254 amended (Maximum regulatory capital for originating institution)

Section 254(1), after “been securitized”—

Add

“through the transaction”.

96. Section 255 amended (Treatment of underlying exposures of originating institutions in synthetic securitization transactions)

Section 255(2)(b), after “Part 4”—

Add

“and section 247(1)”.

97. Section 257 amended (Calculation of risk-weighted amount of investors’ interest for securitization exposures of originating institution subject to early amortization provision)

(1) Section 257(3)(f)—

Repeal

“accumulated”

Substitute

“average”.

(2) Section 257(3)—

Repeal paragraph (g)

Substitute

“(g) in any case where the transaction does not require excess spread to be trapped, treat the trapping point as 4.5%.”.

(3) Section 257(4)(f)—

Repeal

“accumulated”

Substitute

“average”.

(4) Section 257(4)—

Repeal paragraph (g)

Substitute

“(g) in any case where the transaction does not require excess spread to be trapped, treat the trapping point as 4.5%.”.

98. Section 258 amended (Treatment of interest rate contracts and exchange rate contracts)

Section 258—

Repeal

“Part 4”

Substitute

“Part 6”.

99. Section 260A added (Reduction in risk-weighted amounts)

After section 260—

Add

“260A. Reduction in risk-weighted amounts

Where an authorized institution has made a valuation adjustment, or specific provision, in respect of a securitization exposure, the institution must, in calculating the risk-weighted amount of the exposure, reduce it by an amount equal to the risk-weight of the exposure (determined in accordance with section 262) multiplied by the aggregate amount of any valuation adjustment and specific provision made in respect of the exposure.”.

100. Section 262 amended (Determination of risk-weights)

- (1) Section 262(1)(b)—

Repeal

“and (9)”

Substitute

“, (9), (10), (11), (12) and (13)”.

- (2) Section 262(4)—

Repeal

“have”.

- (3) Section 262(4)—

Repeal paragraphs (a) and (b)**Substitute**

“(a) have a long-term ECAI issue specific rating and do not fall within the definition of *re-securitization exposure* in section 227(1); or

(b) have a long-term inferred rating and do not fall within the definition of *re-securitization exposure* in section 227(1).”.

- (4) Section 262(4), Table 26, after “METHOD”—

Add

“(EXCLUDING RE-SECURITIZATION EXPOSURES)”.

- (5) Section 262(6)—

Repeal

everything from “subsection (5)” to “by using Formula 24.”

Substitute

“subsection (5) and subject to subsection (7), an authorized institution must calculate the effective number of underlying exposures by using Formula 24 and treating multiple exposures to one obligor as one exposure.”.

- (6) Section 262(6), Formula 24—

Repeal

“N = effective number of underlying exposures (in the case of a re-securitization transaction as specified in subsection (7), the effective number of securitization exposures which have been securitized); and”

Substitute

“N = effective number of underlying exposures; and”.

- (7) Section 262—

Repeal subsection (7)

Substitute

“(7) Where the portfolio share of the largest exposure (referred to in this subsection as C_1) (being the amount of the largest exposure in the pool of underlying exposures in a securitization transaction as a percentage of the total amount of the pool) of an authorized institution is available, the institution may, for the purposes of Formula 24, calculate N in that formula as $1/C_1$.”.

- (8) Section 262(8)—

Repeal

“have”.

- (9) Section 262(8)—

Repeal paragraphs (a) and (b)

Substitute

“(a) have a short-term ECAI issue specific rating and do not fall within the definition of *re-securitization exposure* in section 227(1); or

(b) have a short-term inferred rating and do not fall within the definition of *re-securitization exposure* in section 227(1).”.

- (10) Section 262(8), Table 27, after “METHOD”—

Add

“(EXCLUDING RE-SECURITIZATION EXPOSURES)”.

(11) After section 262(9)—

Add

“(10) For the purposes of subsection (1)(b), an authorized institution must allocate risk-weights to, or deduct from the institution’s core capital and supplementary capital, securitization exposures in accordance with Table 27A if the exposures—

- (a) have a long-term ECAI issue specific rating and fall within the definition of *re-securitization exposure* in section 227(1); or
- (b) have a long-term inferred rating and fall within the definition of *re-securitization exposure* in section 227(1).

TABLE 27A

**RISK-WEIGHTS OR DEDUCTIONS APPLICABLE
TO LONG-TERM CREDIT QUALITY GRADES
UNDER RATINGS-BASED METHOD (RE-
SECURITIZATION EXPOSURES)**

Long-term credit quality grade	Risk-weight of senior re-securitization exposures A	Risk-weight of non-senior re-securitization exposures B	Deduction
1	20%	30%	not applicable
2	25%	40%	not applicable
3	35%	50%	not applicable
4	40%	65%	not applicable

Long-term credit quality grade	Risk-weight of senior re-securitization exposures A	Risk-weight of non-senior re-securitization exposures B	Deduction
5	60%	100%	not applicable
6	100%	150%	not applicable
7	150%	225%	not applicable
8	200%	350%	not applicable
9	300%	500%	not applicable
10	500%	650%	not applicable
11	750%	850%	not applicable
12	not applicable	not applicable	deduction from core capital and supplementary capital

- (11) For the purposes of subsection (1)(b), an authorized institution must allocate risk-weights to, or deduct from the institution's core capital and supplementary capital, securitization exposures in accordance with Table 27B if the exposures—
- have a short-term ECAI issue specific rating and fall within the definition of *re-securitization exposure* in section 227(1); or
 - have a short-term inferred rating and fall within the definition of *re-securitization exposure* in section 227(1).

TABLE 27B

**RISK-WEIGHTS OR DEDUCTIONS APPLICABLE
TO SHORT-TERM CREDIT QUALITY GRADES
UNDER RATINGS-BASED METHOD (RE-
SECURITIZATION EXPOSURES)**

Short-term credit quality grade	Risk-weight of senior re-securitization exposures A	Risk-weight of non-senior re-securitization exposures B	Deduction
1	20%	30%	not applicable
2	40%	65%	not applicable
3	150%	225%	not applicable
4	not applicable	not applicable	deduction from core capital and supplementary capital

- (12) An authorized institution must, in the case of a securitization exposure that falls within subsection (10) or (11) and is not a liquidity facility—
- (a) allocate the applicable risk-weight specified in column A of Table 27A or 27B, as the case may be, if—
 - (i) the exposure is a senior position as referred to in subsection (2); and
 - (ii) none of the underlying exposures of the exposure is a re-securitization exposure; or
 - (b) allocate the applicable risk-weight specified in column B of Table 27A or 27B, as the case may be, if any of the conditions set out in paragraph (a) is not fulfilled.

- (13) An authorized institution must, in the case of a securitization exposure that is a liquidity facility—
- (a) allocate the applicable risk-weight specified in column A of Table 26, 27, 27A or 27B, as the case may be, only if—
 - (i) the facility covers all of the outstanding debts (including debts that are senior) supported by the pool of underlying exposures in the securitization transaction concerned; and
 - (ii) repayment of the facility has seniority over the outstanding debts referred to in subparagraph (i),
such that no moneys from that pool of underlying exposures may be applied towards the repayment of other creditors until all drawings under the liquidity facility are repaid in full; or
 - (b) allocate the applicable risk-weight specified in column B of Table 26, 27, 27A or 27B, as the case may be, if any of the conditions set out in paragraph (a) is not fulfilled.”.

101. Section 263 amended (Use of inferred ratings)

After section 263(c)—

Add

- “(ca) the reference securitization exposure has not ceased to exist;”.

102. Section 264 amended (Calculation of risk-weighted amount of liquidity facilities)

Section 264(1)(a)—

Repeal

“Table 26 or 27”

Substitute

“Table 26, 27, 27A or 27B”.

103. Section 265 amended (Recognized credit risk mitigation)

(1) Section 265—

Repeal paragraph (b)**Substitute**

“(b) in the case of credit protection in the form of a recognized guarantee (within the meaning of section 51(1)) or recognized credit derivative contract (within the meaning of section 51(1))—

- (i) adopt the substitution framework in accordance with sections 214(1), 215 and 216;
- (ii) multiply the EAD of the exposure by the risk-weight of the credit protection provider derived in section 216(3) in respect of the portion covered by the credit protection; and
- (iii) multiply the EAD of the exposure by the risk-weight of the securitization exposure concerned in accordance with section 262 in respect of the portion not covered by the credit protection;”.

(2) After section 265(b)—

Add

“(c) in the case of credit protection in the form of recognized netting—

- (i) take into account the credit risk mitigating effect of the recognized netting in calculating the EAD of the exposure in accordance with section 209(1), (2) and (4), where applicable, in off-setting the credit risk of the securitization exposure held by the institution; and

- (ii) multiply the EAD of the exposure by the risk-weight determined in accordance with section 262.”.

104. Section 268A added

After section 268—

Add

“268A. Reduction in risk-weighted amount

Where an authorized institution has made a valuation adjustment, or specific provision, in respect of a securitization exposure, the institution must, in calculating the risk-weighted amount of the exposure, reduce it by an amount equal to the risk-weight of the exposure (determined in accordance with section 270(4) or 277(3)(a), as the case requires) multiplied by the aggregate amount of any valuation adjustment and specific provision made in respect of the exposure.”.

105. Section 270 amended (Use of supervisory formula)

- (1) Section 270(1)(a)—

Repeal

“if those underlying exposures had not been securitized”

Substitute

“as if those exposures were directly held by the institution”.

- (2) Section 270(2)(b)(i), after “T”—

Add

“in the case of a securitization exposure that is not a re-securitization exposure and the product of 0.016 multiplied by T in the case of a re-securitization exposure”.

- (3) Section 270(4)—

Repeal

“securitization exposure”

Substitute

“securitization position held by it in a given tranche of a securitization transaction”.

- (4) Section 270(4)—

Repeal paragraph (a)**Substitute**

“(a) 7% in the case of a securitization exposure that is not a re-securitization exposure and 20% in the case of a re-securitization exposure; or”.

- (5) Section 270(4)(b)—

Repeal

“exposure calculated by the use of Formula 25 by 12.5”

Substitute

“position calculated by the use of Formula 25 by 12.5 and then dividing it by T”.

106. Section 271 amended (Capital charge factor for underlying exposures under IRB approach)

- (1) Section 271(a)—

Repeal

“capital charge”

Substitute

“sum of the capital charge and the EL amount”.

- (2) Section 271(c)(ii), after “price discount”—

Add

“in respect of the underlying exposures”.

107. Section 274 amended (Effective number of underlying exposures)

- (1) Section 274(a), after “section 262”—

Add

“, and pursuant to section 276,”.

- (2) Section 274(a), after “transaction;”—

Add

“and”.

- (3) Section 274—

Repeal paragraph (b).

- (4) Section 274—

Repeal paragraph (c)**Substitute**

“(c) if the transaction is a re-securitization transaction, take into account, in respect of the underlying exposures that are securitization exposures in that transaction, the number of those securitization exposures instead of the number of underlying exposures in the original pools in the securitization transactions creating those first-mentioned underlying exposures.”.

108. Section 275 amended (Exposure-weighted average LGD)

Section 275(b)—

Repeal

“relevant”

Substitute

“securitization”.

109. Section 277 amended (Calculation of risk-weighted amount of liquidity facilities)

- (1) Section 277(1)—

Repeal paragraph (b)**Substitute**

“(b) apply a CCF of 100% to the undrawn portion of the facility for the purposes of calculating the credit equivalent amount of that undrawn portion; and”.

(2) Section 277(1)—

Repeal paragraph (c).

(3) Section 277(1)(d)—

Repeal

“or (c), as the case may be”.

(4) Section 277(3)—

Repeal paragraph (b)

Substitute

“(b) apply to the undrawn portion of the facility a CCF of 100% for the purposes of calculating the credit equivalent amount of the undrawn portion of the facility;”.

(5) Section 277(3)(c)—

Repeal

“(i) or (ii), as the case may be”.

(6) Section 277(6), after “unrated”—

Add

“eligible”.

(7) After section 277(6)—

Add

“(6A) Where—

(a) an unrated liquidity facility provided by an authorized institution is not an eligible liquidity facility; and

(b) the institution uses the supervisory formula method to calculate its credit risk for securitization exposures,

the institution must determine the risk-weight to be allocated to the drawn portion of the facility, or whether that drawn portion is to be deducted from the institution's core capital and supplementary capital, in accordance with subsections (1)(a) and (2).”.

- (8) Section 277(7), after “subsection (6)” —

Add

“or (6A)”.

110. Section 278 amended (Treatment of recognized credit risk mitigation—full credit protection)

- (1) Section 278(a), after “section 270(4)” —

Add

“or 277(3)(a), as the case requires”.

- (2) Section 278(b) —

Repeal

“section 51” (wherever appearing)

Substitute

“section 51(1)”.

- (3) Section 278(b)(ii) —

Repeal

“216(3).”

Substitute

“216(3);”.

- (4) After section 278(b)

Add

“(c) in the case of credit protection in the form of recognized netting —

- (i) take into account the credit risk mitigating effect of recognized netting in calculating the EAD of the

exposure in accordance with section 209(1), (2) and (4), where applicable, in off-setting the credit risk of the securitization exposure held by the institution; and

- (ii) multiply the EAD of the exposure by the risk-weight determined in accordance with section 270(4) or 277(3)(a), as the case requires.”.

111. Section 279 amended (Treatment of recognized credit risk mitigation—partial credit protection)

- (1) Section 279(1)(a)—

Repeal

“section 51) or a recognized credit derivative contract (within the meaning of section 51)”

Substitute

“section 51(1)), a recognized credit derivative contract (within the meaning of section 51(1)) or recognized netting”.

- (2) Section 279(1)—

Repeal paragraph (b)

Substitute

“(b) calculate the risk-weighted amount of the portion covered by a recognized guarantee or recognized credit derivative contract by applying section 278(b) to that portion;”.

- (3) Section 279(1)(c), after “section 270(4)”—

Add

“or 277(3)(a), as the case requires,”.

112. Section 281 amended (Interpretation of Part 8)

- (1) Section 281—

Repeal the definition of *investment grade*

Substitute

“*investment grade* ([雙擊後鍵入]) means—

- (a) a credit quality grade of 1, 2 or 3 derived from mapping the ECAI issuer rating assigned to an issuer, being a sovereign, of any debt security to a scale of credit quality grades in Table A in Schedule 6;
- (b) a credit quality grade of 1, 2 or 3 derived from mapping the ECAI issue specific rating assigned to any debt security issued by a bank or securities firm to a scale of credit quality grades in Table B in Schedule 6 or Part 1 of Table E in that Schedule;
- (c) a credit quality grade of 1, 2 or 3 derived from mapping the ECAI issue specific rating assigned to any debt security issued by a corporate (within the meaning of section 51(1) or 139(1), as the case requires) to a scale of credit quality grades in Part 1 of Table C in Schedule 6 or Part 1 of Table E in that Schedule; or
- (d) a credit quality grade of 1, 2, 3 or 4 derived from mapping the ECAI issue specific rating assigned to any debt security issued by a corporate (within the meaning of section 51(1) or 139(1), as the case requires) incorporated in India to a scale of credit quality grades in Part 2 of Table C in Schedule 6 or Part 2 of Table E in that Schedule;”.

(2) Section 281—

Repeal the definition of *mark-to-model*.

(3) Section 281—

Add in alphabetical order

“*comprehensive risk charge* ([雙擊後鍵入]), in relation to an authorized institution, means the market risk capital charge for specific risk calculated by the institution using the IMM approach under section 317(1)(f) to capture not

only the incremental risks but also all material factors affecting market risk inherent in the institution's correlation trading portfolio;

correlation trading portfolio ([雙擊後鍵入]), in relation to an authorized institution, means—

- (a) a portfolio of securitization exposures or n^{th} -to-default credit derivative contracts, or both—
 - (i) that are not—
 - (A) re-securitization exposures; or
 - (B) derivatives of securitization exposures that do not provide a pro-rata share in the proceeds of a securitization tranche;
 - (ii) where the underlying exposures of the securitization exposures, or the reference obligations of the n^{th} -to-default credit derivative contracts, are not—
 - (A) a regulatory retail exposure within the meaning of section 51(1);
 - (B) an exposure that is subject to the IRB approach for retail exposures under section 144;
 - (C) a credit facility secured on one or more than one residential property for the purposes of financing or re-financing the purchase of the property or properties concerned; or
 - (D) a credit facility secured on one or more than one commercial property for the purposes of financing or re-financing the purchase of the property or properties concerned;
 - (iii) that do not reference a claim on a special purpose entity; and

- (iv) where all reference obligations, in the case of the n^{th} -to-default credit derivative contracts, are single-name products (including single-name credit derivative contracts and commonly traded indices based on single-name products) for which a liquid two-way market exists; and
- (b) any positions that hedge the securitization exposures or n^{th} -to-default credit derivative contracts referred to in paragraph (a) where—
 - (i) the positions are not securitization exposures or n^{th} -to-default credit derivative contracts; and
 - (ii) a liquid two-way market exists for the positions and the underlying exposures of the positions;

credit migration risk ([雙擊後鍵入]), in relation to an exposure of an authorized institution, means the potential for direct and indirect losses to the institution if there were an internal or external rating downgrade or upgrade;

default risk ([雙擊後鍵入]), in relation to an exposure of an authorized institution, means the potential for direct and indirect losses to the institution if the obligor were to default or a default event occurred;

incremental risk charge ([雙擊後鍵入]), in relation to an authorized institution, means the market risk capital charge for specific risk calculated by the institution using the IMM approach under section 317(1)(e) to capture the incremental risks in respect of its trading book positions in—

- (a) specific risk interest rate exposures, other than—
 - (i) securitization exposures;
 - (ii) n^{th} -to-default credit derivative contracts; and

- (iii) other specific risk interest rate exposures that fall within paragraph (b) of the definition of ***correlation trading portfolio*** in this section; and

- (b) listed equities and equity-related derivative contracts based on listed equities;

incremental risks ([雙擊後鍵入]), in relation to an authorized institution, means the default risk and credit migration risk that are incremental to those that have been captured by the institution's VaR-based calculations under section 317(1)(c) and (d);

nth-to-default credit derivative contract ([雙擊後鍵入]) means a credit derivative contract under which—

- (a) the protection buyer obtains credit protection for a basket of exposures; and
- (b) the nth default among the obligations specified in the contract for the purposes of determining whether a credit event has occurred triggers the credit protection and terminates the contract;

special purpose entity ([雙擊後鍵入]), in relation to an authorized institution's correlation trading portfolio, means a company, trust or other entity—

- (a) organized for a specific purpose;
- (b) the activities of that are limited to those appropriate to accomplish that purpose; and
- (c) the structure of which is intended to isolate the obligations of the company, trust or other entity, as the case may be, from the credit risk of an originator or a seller of exposures;

specific risk interest rate exposures ([雙擊後鍵入]), in relation to an authorized institution, means the interest rate exposures of the institution that are subject to market risk capital charge for specific risk;

stressed VaR ([雙擊後鍵入]), in relation to a portfolio of exposures held by an authorized institution, means a VaR calculated by the institution under the IMM approach with model inputs calibrated to historical data from, subject to section 317(2)(a), a stressed VaR relevant period;

stressed VaR relevant period ([雙擊後鍵入]), in relation to an authorized institution and the definition of ***stressed VaR*** in this section, means a continuous 12-month period of significant financial stress relevant to the portfolio of exposures concerned held by the institution;

transitional period (securitization) ([雙擊後鍵入]) means the period from and including 1 January 2012 to and including 31 December 2013;

two-way market ([雙擊後鍵入]) means a market where there are independent bona fide offers to buy or sell such that—

- (a) a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one business day; and
- (b) transactions can be settled at such price within a relatively short time in accordance with trade custom;”.

113. Section 283 amended (Positions to be used to calculate market risk)

- (1) Section 283(2)(a)—

Repeal

“section 51”

Substitute

“section 51(1)”.

- (2) Section 283—

Repeal subsections (3), (4) and (5).**114. Section 284 amended (Calculation of market risk capital charge for each risk category)**

Section 284(1)

Repeal

“this Part”

Substitute

“Divisions 2 to 10”.

115. Section 286 amended (Calculation of market risk capital charge)

(1) Section 286—

Repeal paragraph (a)**Substitute**

“(a) calculate the market risk capital charge for specific risk of each of its trading book positions (whether long or short) in debt securities and debt-related derivative contracts—

- (i) in accordance with section 287 if those positions arise from non-securitization exposures that do not fall within subparagraph (iii) or (iv);
- (ii) in accordance with section 287A if those positions arise from securitization exposures that do not fall within subparagraph (iii);
- (iii) in accordance with section 287B if those positions fall within a correlation trading portfolio;
- (iv) in accordance with section 287 and Division 10 if those positions arise from credit derivative contracts that do not fall within subparagraph (ii) or (iii);”.

(2) Section 286(b)—

Repeal

“calculate”

Substitute

“subject to paragraph (c), calculate”.

- (3) Section 286(b)(iii)—

Repeal

“contracts.”

Substitute

“contracts; and”.

- (4) After section 286(b)—

Add

“(c) calculate in accordance with section 288 and Division 10 the market risk capital charge for general market risk of the interest rate exposures arising from its trading book positions (whether long or short) in credit derivative contracts.”.

116. Section 287 amended (Calculation of market risk capital charge for specific risk)

- (1) Section 287, heading, after “**specific risk**”—

Add

“**for interest rate exposures that fall within section 286(a)(i) or (iv)**”.

- (2) Section 287(1), after “(9)—

Add

“, (9A)”.

- (3) Section 287(1), after “debt-related derivative contracts”—

Add

“arising from its interest rate exposures that fall within section 286(a)(i) or (iv)”.

- (4) Section 287(1)(c)—

Repeal

“calculate”

Substitute

“subject to subsection (1A), calculate”.

- (5) After section 287(1)—

Add

“(1A) For the purposes of subsection (1), the total market risk capital charge for specific risk of nth-to-default credit derivative contracts that fall within section 286(a)(iv) must, during the transitional period (securitization), be calculated as the higher of—

- (a) the total market risk capital charge for specific risk of the long positions; or
- (b) the total market risk capital charge for specific risk of the short positions.”.

- (6) Section 287(2)(a)—

Repeal

“with the same issuer, coupon, currency and maturity”.

- (7) After section 287(4)(a)—

Add

“(aa) debt securities issued by public sector entities, and debt-related derivative contracts where the underlying debt securities are issued by public sector entities, where—

- (i) subject to subparagraphs (ii) and (iii), the debt securities or the underlying debt securities, as the case may be, are assigned a credit quality grade of 2 or 3;
- (ii) for the purposes of subparagraph (i), the credit quality grade is determined as one grade below that assigned to the sovereign, pursuant to subsection (3)(b) and (c), of the jurisdiction in which the public

sector entity concerned is incorporated or, if there is no such lower credit quality grade, the credit quality grade assigned to that sovereign pursuant to that subsection; and

- (iii) the institution treats as unrated any of those debt securities, or any of those underlying debt securities, as the case may be, where—
 - (A) they do not have an ECAI issue specific rating; or
 - (B) the sovereign of the jurisdiction in which the public sector entity is incorporated does not have an ECAI issuer rating;”.

- (8) Section 287(4)—

Repeal paragraph (b)

Substitute

“(b) debt securities, not falling within paragraph (a) or (aa), that are rated investment grade and debt-related derivative contracts where the underlying debt securities, not falling within paragraph (a) or (aa), that are rated investment grade; and”.

- (9) Section 287(5)(b)—

Repeal

“(4).”

Substitute

“(4);”.

- (10) After section 287(5)(b)—

Add

“(c) include any debt securities issued by public sector entities, and any debt-related derivative contracts where the underlying debt securities are issued by public sector entities, in the non-qualifying class in Table 28 that

assigns a credit quality grade of 5 if the application of subsection (4)(aa)(ii) to the debt securities or the underlying debt securities, as the case may be, results in the debt securities or underlying debt securities, as the case may be, being assigned a credit quality grade of 6.”.

(11) After section 287(9)—

Add

“(9A) For the purposes of subsection (1)—

- (a) subject to paragraph (b), the market risk capital charge for specific risk of an authorized institution’s positions in a credit derivative contract (other than an nth-to-default credit derivative contract) may be capped at the maximum possible loss arising from the contract calculated for each individual position as—
 - (i) if the institution is a protection buyer, the change in the value of the contract in the event that all the reference obligations specified in the contract were to become immediately default risk-free;
 - (ii) if the institution is a protection seller, the change in the value of the contract in the event that all the reference obligations specified in the contract were to default immediately with zero recoveries; and
- (b) for each position an authorized institution has in an nth-to-default credit derivative contract or nth-to-default credit-linked note, irrespective of whether the institution is a protection buyer or a protection seller—
 - (i) the market risk capital charge for specific risk of the contract or note, where n is equal to 1, is to be the lesser of—

- (A) the sum of the market risk capital charge for specific risk of the individual reference obligations in the basket of reference obligations specified in the contract or note, as the case may be; or
- (B) the institution's maximum liability under the contract or the fair value of the note, as the case may be; and
- (ii) the market risk capital charge for specific risk for the contract or note, where n is greater than 1, is to be the lesser of—
 - (A) the sum of the market risk capital charge for specific risk of the individual reference obligations in the basket of reference obligations specified in the contract or note, as the case may be, but disregarding the (n-1) obligation or obligations with the lowest market risk capital charge for specific risk; or
 - (B) the institution's maximum liability under the contract or the fair value of the note, as the case may be.”.
- (12) Section 287(11)—

Add in alphabetical order

“*ECAI issue specific rating* ([雙擊後鍵入])—

- (a) in relation to a debt security or, in the case of a debt-related derivative contract, the underlying debt security, issued by an issuer that is not a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the debt security or underlying debt security, as the case may be, by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit*

assessment institution in section 2(1), and is for the time being neither withdrawn nor suspended by that ECAI; or

- (b) in relation to a debt security or, in the case of a debt-related derivative contract, the underlying debt security, issued by a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the debt security or underlying debt security, as the case may be, by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI;

ECAI issuer rating ([雙擊後鍵入])—

- (a) in relation to the issuer of a debt security or, in the case of a debt-related derivative contract, the underlying debt security, that is not a corporate incorporated in India, means a long-term credit assessment rating that is assigned to the issuer by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of *external credit assessment institution* in section 2(1), and is for the time being neither withdrawn nor suspended by that ECAI; or
- (b) in relation to the issuer of a debt security or, in the case of a debt-related derivative contract, the underlying debt security, that is a corporate incorporated in India, means a long-term credit assessment rating that is assigned to the issuer by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI;”.

117. Sections 287A and 287B added

After section 287—

Add

“287A. Calculation of market risk capital charge for specific risk for interest rate exposures that fall within section 286(a)(ii)

- (1) Subject to subsections (2) to (11), an authorized institution must apply Part 7, with all necessary modifications, to calculate the market risk capital charge for specific risk arising from its positions (whether long or short) in securitization exposures held in the trading book that fall within section 286(a)(ii).
- (2) For the purposes of subsection (1), an authorized institution must apply section 15 to determine whether the STC(S) approach or the IRB(S) approach applies to securitization exposures referred to in that subsection.
- (3) Subject to subsections (4) to (11), an authorized institution must calculate the market risk capital charge for specific risk interest rate exposures referred to in subsection (1)—
 - (a) subject to paragraph (b), by calculating the total market risk capital charge for specific risk as—
 - (i) subject to paragraph (ii), the sum of the market risk capital charge for specific risk of each of those positions (long and short);
 - (ii) during the transitional period (securitization), the higher of—
 - (A) the total market risk capital charge for specific risk of the long positions; or
 - (B) the total market risk capital charge for specific risk of the short positions;
 - (b) by capping the market risk capital charge for specific risk for the institution’s positions in a securitization exposure at the maximum possible loss arising from the positions, which is to be calculated for each individual position as—

- (i) for a short position, the change in the value of the position in the event that all the underlying exposures were to become immediately default risk-free;
 - (ii) for a long position, the change in the value of the position in the event that all the underlying exposures were to default immediately with zero recoveries.
- (4) For the purposes of subsection (3), an authorized institution must not offset between positions except as provided for in section 287(2)(a).
- (5) For the purposes of subsection (3), an authorized institution must, subject to subsections (6) to (9), calculate the market risk capital charge of its positions (whether long or short) in rated securitization exposures to which a credit quality grade has been assigned in accordance with Part 7, by—
 - (a) multiplying the positions by the appropriate market risk capital charge factors; or
 - (b) deducting the positions from the institution's core capital and supplementary capital, as specified in subsection (6), (7), (8) or (9), as appropriate;
- (6) For the purposes of subsection (3), an authorized institution must, in respect of its positions in rated securitization exposures that do not fall within the definition of *re-securitization exposure* in section 227(1) and that are subject to the STC(S) approach, apply Division 3 of Part 7 as if—
 - (a) a reference in that Division to Table 24 were a reference to Table 28A;
 - (b) a reference in that Division to Table 25 were a reference to Table 28B; and

- (c) a reference in that Division to risk-weight were a reference to market risk capital charge factor.

TABLE 28A

MARKET RISK CAPITAL CHARGE FACTORS FOR
SPECIFIC RISK OR DEDUCTIONS APPLICABLE TO
LONG-TERM CREDIT QUALITY GRADES UNDER
STC(S) APPROACH (EXCLUDING RE-
SECURITIZATION EXPOSURES)

Long-term credit quality grade	Market risk capital charge factor	Deduction
1	1.6%	not applicable
2	4.0%	not applicable
3	8.0%	not applicable
4	28% (for investing institutions)	deduction from core capital and supplementary capital (for originating institutions)
5	not applicable	deduction from core capital and supplementary capital

TABLE 28B

MARKET RISK CAPITAL CHARGE FACTORS FOR
SPECIFIC RISK OR DEDUCTIONS APPLICABLE TO
SHORT-TERM CREDIT QUALITY GRADES UNDER

**STC(S) APPROACH (EXCLUDING RE-
SECURITIZATION EXPOSURES)**

Short-term credit quality grade	Market risk capital charge factor	Deduction
1	1.6%	not applicable
2	4.0%	not applicable
3	8.0%	not applicable
4	not applicable	deduction from core capital and supplementary capital

- (7) For the purposes of subsection (3), an authorized institution must, in respect of its positions in rated securitization exposures that fall within the definition of ***re-securitization exposure*** in section 227(1) and are subject to the STC(S) approach, apply Division 3 of Part 7 as if—
- (a) a reference in that Division to Table 25A were a reference to Table 28C;
 - (b) a reference in that Division to Table 25B were a reference to Table 28D; and
 - (c) a reference in that Division to risk-weight were a reference to market risk capital charge factor.

TABLE 28C

**MARKET RISK CAPITAL CHARGE FACTORS FOR
SPECIFIC RISK OR DEDUCTIONS APPLICABLE TO
LONG-TERM CREDIT QUALITY GRADES UNDER
STC(S) APPROACH (RE-SECURITIZATION
EXPOSURES)**

Long-term credit quality grade	Market risk capital charge factor	Deduction
1	3.2%	not applicable
2	8.0%	not applicable
3	18.0%	not applicable
4	52% (for investing institutions)	deduction from core capital and supplementary capital (for originating institutions)
5	not applicable	deduction from core capital and supplementary capital

TABLE 28D

MARKET RISK CAPITAL CHARGE FACTORS FOR SPECIFIC RISK OR DEDUCTIONS APPLICABLE TO SHORT-TERM CREDIT QUALITY GRADES UNDER STC(S) APPROACH (RE-SECURITIZATION EXPOSURES)

Short-term credit quality grade	Market risk capital charge factor	Deduction
1	3.2%	not applicable
2	8.0%	not applicable
3	18.0%	not applicable
4	not applicable	deduction from core capital and

Short-term credit quality grade	Market risk capital charge factor	Deduction supplementary capital
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- (8) For the purposes of subsection (3), an authorized institution must, in respect of its positions in rated securitization exposures that do not fall within the definition of *re-securitization exposure* in section 227(1) and that are subject to the IRB(S) approach, apply Divisions 4 and 5 of Part 7 as if—
- (a) a reference in those Divisions to Table 26 were a reference to Table 28E;
 - (b) a reference in those Divisions to Table 27 were a reference to Table 28F; and
 - (c) a reference in those Divisions to risk-weight were a reference to market risk capital charge factor.

TABLE 28E

MARKET RISK CAPITAL CHARGE FACTORS FOR SPECIFIC RISK OR DEDUCTIONS APPLICABLE TO LONG-TERM CREDIT QUALITY GRADES UNDER RATINGS-BASED METHOD IN IRB(S) APPROACH (EXCLUDING RE-SECURITIZATION EXPOSURES)

Long-term credit quality grade	Market risk capital charge factor			Deduction
	A	B	C	
1	0.56%	0.96%	1.60%	not applicable
2	0.64%	1.20%	2.00%	not

Long-term credit quality grade	Market risk capital charge factor			Deduction
	A	B	C	
3	0.80%	1.44%	2.80%	applicable
4	0.96%	1.60%	2.80%	not applicable
5	1.60%	2.80%	2.80%	not applicable
6	2.80%	4.00%	4.00%	not applicable
7	4.80%	6.00%	6.00%	not applicable
8	8.00%	8.00%	8.00%	not applicable
9	20.00%	20.00%	20.00%	not applicable
10	34.00%	34.00%	34.00%	not applicable
11	52.00%	52.00%	52.00%	not applicable
12	Not applicable	Not applicable	not applicable	deduction from core capital and supplementary capital

TABLE 28F

**MARKET RISK CAPITAL CHARGE FACTORS FOR
SPECIFIC RISK OR DEDUCTIONS APPLICABLE TO
SHORT-TERM CREDIT QUALITY GRADES UNDER
RATINGS-BASED METHOD IN IRB(S) APPROACH
(EXCLUDING RE-SECURITIZATION EXPOSURES)**

Short-term credit quality grade	Market risk capital charge factor			Deduction
	A	B	C	
1	0.56%	0.96%	1.60%	not applicable
2	0.96%	1.60%	2.80%	not applicable
3	4.80%	6.00%	6.00%	not applicable
4	not applicable	not applicable	Not applicable	deduction from core capital and supplementary capital

- (9) For the purposes of subsection (3), an authorized institution must, in respect of its positions in rated securitization exposures that fall within the definition of ***re-securitization exposure*** in section 227(1) and are subject to the IRB(S) approach, apply Divisions 4 and 5 of Part 7 as if—
- (a) a reference in those Divisions to Table 27A were a reference to Table 28G;
 - (b) a reference in those Divisions to Table 27B were a reference to Table 28H; and
 - (c) a reference in those Divisions to risk-weight were a reference to market risk capital charge factor.

TABLE 28G

**MARKET RISK CAPITAL CHARGE FACTORS FOR
SPECIFIC RISK OR DEDUCTIONS APPLICABLE TO
LONG-TERM CREDIT QUALITY GRADES UNDER
RATINGS-BASED METHOD IN IRB(S) APPROACH (RE-
SECURITIZATION EXPOSURES)**

Long-term credit quality grade	Market risk capital charge factor		Deduction
	Senior re-securitization positions	Non-senior re-securitization positions	
	A	B	
1	1.60%	2.40%	not applicable
2	2.00%	3.20%	not applicable
3	2.80%	4.00%	not applicable
4	3.20%	5.20%	not applicable
5	4.80%	8.00%	not applicable
6	8.00%	12.00%	not applicable
7	12.00%	18.00%	not applicable
8	16.00%	28.00%	not applicable
9	24.00%	40.00%	not applicable
10	40.00%	52.00%	not applicable

Long-term credit quality grade	Market risk capital charge factor		Deduction
	Senior	Non-senior	
	re-securitization positions	re-securitization positions	
	A	B	
11	60.00%	68.00%	applicable not applicable
12	not applicable	not applicable	deduction from core capital and supplementary capital

TABLE 28H

MARKET RISK CAPITAL CHARGE FACTORS FOR SPECIFIC RISK OR DEDUCTIONS APPLICABLE TO SHORT-TERM CREDIT QUALITY GRADES UNDER RATINGS-BASED METHOD IN IRB(S) APPROACH (RE-SECURITIZATION EXPOSURES)

Short-term credit quality grade	Market risk capital charge factor		Deduction
	Senior	Non-senior	
	re-securitization positions	re-securitization positions	
	A	B	
1	1.60%	2.40%	not applicable

Short-term credit quality grade	Market risk capital charge factor		Deduction
	Senior re-securitization positions	Non-senior re-securitization positions	
	A	B	
2	3.20%	5.20%	not applicable
3	12.00%	18.00%	not applicable
4	not applicable	not applicable	deduction from core capital and supplementary capital

- (10) For the purposes of subsection (3), an authorized institution must, subject to subsection (11) and with the Monetary Authority's prior consent, in respect of its positions in unrated securitization exposures subject to the IRB(S) approach, use and consistently apply—
- (a) if the institution has obtained the Monetary Authority's approval to use the IRB approach to calculate the credit risk capital charge for the IRB subclass into which the underlying exposures of the positions are classified, the supervisory formula method; or
 - (b) if the institution has obtained the Monetary Authority's approval to use the IMM approach to calculate the incremental risk charge of the underlying exposures of the positions, the supervisory formula method but applying the estimates for the probability of default and loss

given default for the purposes of calculating K_{IRB} under the supervisory formula method that are produced by the internal model that the institution uses to calculate the incremental risk charge.

- (11) The market risk capital charge for specific risk of a position calculated under subsection (10) must not be lower than the market risk capital charge for specific risk applicable to a rated and more senior tranche.

287B. Calculation of market risk capital charge for specific risk for interest rate exposures that fall within section 286(a)(iii)

- (1) Subject to subsection (2), an authorized institution must calculate the market risk capital charge for specific risk of its positions that fall within section 286(a)(iii)—
- (a) in accordance with section 287A in respect of positions (whether long or short) in securitization exposures that fall within paragraph (a) of the definition of *correlation trading portfolio* in section 281;
 - (b) in accordance with section 287 and Division 10 in respect of positions (whether long or short) in n^{th} -to-default credit derivative contracts that fall within paragraph (a) of the definition of *correlation trading portfolio* in section 281; and
 - (c) in accordance with section 287 in respect of positions (whether long or short) that fall within paragraph (b) of the definition of *correlation trading portfolio* in section 281.
- (2) The market risk capital charge for specific risk of an authorized institution's positions in a correlation trading portfolio is the higher of—
- (a) the total market risk capital charge for specific risk that applies to long positions as calculated in accordance with subsection (1); or

- (b) the total market risk capital charge for specific risk that applies to short positions as calculated in accordance with subsection (1).”.

118. Section 289 amended (Construction of maturity ladder)

Section 289(4)(b), after “of that bond”—

Add

“as determined in accordance with section 4A as if measured at fair value”.

119. Section 297 amended (Preliminary steps to calculating market risk capital charge)

After section 297(2)—

Add

“(3) In this section—

current market price ([雙擊後鍵入]) means current market price as determined in accordance with section 4A as if measured at fair value.”.

120. Section 307 amended (Specific risk)

(1) Section 307—

Repeal subsections (5), (6), (7) and (8)

Substitute

“(5) Subject to subsection (6), an authorized institution must, for the purposes of calculating the market risk capital charge for specific risk for nth-to-default credit derivative contracts that fall within section 286(a)(iv)—

- (a) subject to paragraph (b), apply section 287 and Division 10;
- (b) if the nth-to-default credit derivative contract has an ECAI issue specific rating, in respect of positions in which the institution is the protection seller, assign a

market risk capital charge factor to the position, or deduct the position from the core capital and supplementary capital of the institution, in accordance with section 287A(6) or (8), as determined by the operation of section 15 as if that contract were a securitization exposure.

- (6) Subject to subsection (7), for the purposes of subsection (5)—
- (a) subject to paragraph (b), where an authorized institution has a position in one of the reference obligations underlying a first-to-default credit derivative contract and the contract hedges that position, the institution may offset with respect to the hedged amount—
 - (i) the market risk capital charge for specific risk of its position in the reference obligation; and
 - (ii) that part of the market risk capital charge for specific risk of the credit derivative contract that relates to the reference obligation in which the institution has that position;
 - (b) where an authorized institution has multiple positions in the reference obligations underlying a first-to-default credit derivative contract, the offsetting of market risk capital charge otherwise allowed under paragraph (a) is allowed only for its positions in the underlying reference obligation having the lowest market risk capital charge for specific risk.
- (7) For the purposes of subsection (6), an authorized institution—
- (a) must offset the long and short positions in identical first-to-default credit derivative contracts before applying that subsection; and

- (b) must not offset the market risk capital charge for specific risk of its position in any n^{th} -to-default credit derivative contract, where n is greater than 1, with the market risk capital charge of its position in any underlying reference obligation.”.

121. Section 308 amended (Use of credit derivative contracts to offset specific risk)

Section 308(1), after “Subject to”—

Add

“section 307(6) and”.

122. Section 316 amended (Positions to be used to calculate market risk)

- (1) Section 316(1), after “Subject to”—

Add

“section 23A and”.

- (2) Section 316(2)(a)—

Repeal

“section 51”

Substitute

“section 51(1)”.

- (3) Section 316—

Repeal subsections (3), (4) and (5).

123. Section 317 substituted

Section 317—

Repeal the section

Substitute

“317. Calculation of risk-weighted amount for market risk

- (1) Subject to section 317A(1), an authorized institution must calculate the risk-weighted amount for market risk as the sum of—
 - (a) the market risk capital charge for general market risk calculated by the institution's internal model expressed as VaR;
 - (b) the market risk capital charge for general market risk calculated by the institution's internal model expressed as stressed VaR;
 - (c) where applicable, the market risk capital charge for specific risk calculated by the institution's internal model expressed as VaR (except that the institution need not capture the default risk and credit migration risk of positions that are subject to the incremental risk charge);
 - (d) where applicable, the market risk capital charge for specific risk calculated by the institution's internal model expressed as stressed VaR (except that the institution need not capture the default risk and credit migration risk of positions that are subject to the incremental risk charge);
 - (e) where applicable, the incremental risk charge calculated by the institution's internal model;
 - (f) where applicable, the comprehensive risk charge calculated by the institution's internal model; and
 - (g) where applicable, the supplemental capital charge referred to in section 318(3) in respect of specific risk interest rate exposures that fall within a correlation trading portfolio,
multiplied by 12.5.
- (2) The institution must, for the purposes of calculating stressed VaR under subsection (1)(b) or (d)—

- (a) obtain the prior consent of the Monetary Authority for the use of a stressed VaR relevant period in respect of any portfolio of exposures included in the calculation; and
 - (b) if such prior consent is obtained, regularly review, on at least an annual basis, the appropriateness of such period.
- (3) Where an authorized institution uses one internal model to calculate both the market risk capital charge for general market risk under subsection (1)(a) and the market risk capital charge for specific risk under subsection (1)(c), the institution must, in that calculation, use the higher of—
 - (a) the institution's VaR for all risk categories as at the last trading day; or
 - (b) the average VaR for the last 60 trading days multiplied by a multiplication factor, m_c , determined under section 319(1).
- (4) Where an authorized institution uses one internal model to calculate both the market risk capital charge for general market risk under subsection (1)(b) and the market risk capital charge for specific risk under subsection (1)(d), the institution must, in that calculation, use the higher of—
 - (a) the institution's latest available stressed VaR for all risk categories; or
 - (b) the average stressed VaR for the last 60 trading days multiplied by a multiplication factor, m_s , determined under section 319(4).
- (5) Where an authorized institution uses one internal model to calculate the incremental risk charge under subsection (1)(e), the institution must, in that calculation, apply a scaling factor, S_i , determined under section 319(5), to the higher of—

- (a) the institution's latest available incremental risk charge; or
 - (b) the average incremental risk charge for the last 12 weeks.
- (6) Where an authorized institution uses one internal model to calculate the comprehensive risk charge of the correlation trading portfolio under subsection (1)(f), the institution must, in that calculation, use the higher of—
- (a) the comprehensive risk charge calculated in accordance with subsection (7); or
 - (b) 8% of the market risk capital charge for specific risk calculated in accordance with section 287B under the STM approach.
- (7) An authorized institution must, for the purposes of subsection (6), apply a scaling factor, S_c , determined under section 319(6), to the higher of—
- (a) the institution's latest available comprehensive risk charge; or
 - (b) the average comprehensive risk charge for the last 12 weeks.
- (8) Where an authorized institution uses more than one internal model to calculate the market risk capital charge for general market risk and the market risk capital charge for specific risk, the institution must comply with subsections (3) to (7), as the case requires, except that it must apply the subsection or subsections concerned separately to the relevant market risk capital charge generated from each model.”.

124. Sections 317A, 317B and 317C added

After section 317—

Add

“317A. Provisions supplementary to section 317—calculation of market risk capital charge for interest rate exposures

- (1) An authorized institution must use the STM approach to calculate the market risk capital charge for specific risk of its trading book positions (whether long or short) in—
 - (a) nth-to-default credit derivative contracts that fall within section 286(a)(iv);
 - (b) securitization exposures that fall within section 286(a)(ii); and
 - (c) exposures within a correlation trading portfolio that fall within section 286(a)(iii) but for which portfolio the institution does not have the approval of the Monetary Authority to calculate a comprehensive risk charge.
- (2) An authorized institution to which subsection (1) applies may, in addition to complying with that subsection, also make an application under section 18(1) to the Monetary Authority that complies with section 18(1A)(b) in respect of the VaR and stressed VaR for specific risk for the institution’s interest rate exposures referred to in subsection (1)(a) and (b).
- (3) To avoid doubt, subject to section 18A(3), where—
 - (a) an authorized institution uses the IMM approach;
 - (b) the Monetary Authority is satisfied that the institution is in compliance with the requirements set out in sections 1 and 2 of Schedule 3; and
 - (c) in any case in which the institution has positions that are subject to the incremental risk charge or comprehensive risk charge, or both, the Monetary Authority is satisfied that the institution is in compliance with the requirements set out in—
 - (i) section 3 or 4 of Schedule 3; or
 - (ii) sections 3 and 4 of Schedule 3,

as appropriate,

the institution is not required to calculate the market risk capital charge for specific risk under the STM approach for interest rate exposures other than for the positions referred to in subsection (1).

317B. Provisions supplementary to section 317—calculation of market risk capital charge for equity exposures

Where an authorized institution has equity exposures that fall within paragraph (b) of the definition of *incremental risk charge* in section 281, the institution may, at its discretion, make an application under section 18(1) to the Monetary Authority that complies with section 18(1A)(e) to calculate an incremental risk charge for such exposures.

317C. Provisions supplementary to section 317—calculation of market risk capital charge for foreign exchange (including gold) exposures

An authorized institution must not exclude, for the purposes of calculating the market risk capital charge for its positions in foreign exchange (including gold) and exchange rate-related derivative contracts, any of its structural positions (within the meaning of section 295(3)) from the calculation except after consultation with the Monetary Authority.”.

125. Section 318 substituted

Section 318—

Repeal the section

Substitute

“318. Capital treatment for trading book positions subject to incremental risk charge or comprehensive risk charge

(1) Subject to subsection (2), an authorized institution may calculate an incremental risk charge, or a comprehensive

- risk charge, in respect of its trading book positions to which either one of the charges is applicable, using an internally-developed approach.
- (2) For the calculation of the incremental risk charge or comprehensive risk charge, an authorized institution—
 - (a) must comply with the requirements specified in Schedule 3 applicable to or in relation to the institution;
 - (b) must incorporate those positions in the institution's calculation of VaR and stressed VaR; and
 - (c) must not make any adjustment for double-charging of capital between the incremental risk charge and comprehensive risk charge, or among those 2 capital charges and other market risk capital charges, applicable to those positions.
 - (3) The Monetary Authority may, by notice in writing given to an authorized institution, impose a supplemental capital charge against a correlation trading portfolio of the institution, to be added to the institution's capital requirement calculated under its internally-developed approach, if the Monetary Authority is satisfied that the stress-testing results referred to in section 4(g) and (h) of Schedule 3 indicate a material shortfall in its comprehensive risk charge.
 - (4) To avoid doubt, an authorized institution must use the STM approach to calculate—
 - (a) the market risk capital charge for general market risk and the market risk capital charge for specific risk in respect of any positions that fall within paragraph (a) of the definition of ***incremental risk charge*** in section 281 but for which the institution does not have the approval of the Monetary Authority to calculate an incremental risk charge; and

- (b) the market risk capital charge for specific risk in respect of any positions that fall within a correlation trading portfolio but for which the institution does not have the approval of the Monetary Authority to calculate a comprehensive risk charge.”.

126. Section 319 amended (Multiplication factor)

- (1) Section 319, heading—

Repeal

“**factor**”

Substitute

“**and scaling factors**”.

- (2) Section 319(1)—

Repeal

“multiplication factor to be used by an authorized institution”

Substitute

“multiplication factor, m_c , to be used by an authorized institution for the purposes of section 317(3)”.

- (3) After section 319(2)—

Add

“(2A) An authorized institution must not, without the prior consent of the Monetary Authority, make any significant change to the approach it uses to determine the number of back-testing exceptions under subsection (1)(b).”.

- (4) After section 319(3)—

Add

“(4) The multiplication factor, m_s , to be used by an authorized institution for the purposes of section 317(4) is to be the sum of—

- (a) the value of 3;

- (b) a plus factor determined in accordance with subsection (1)(b); and
- (c) any additional plus factor assigned to the institution pursuant to subsection (3).
- (5) The scaling factor, S_i , to be used by an authorized institution for the purposes of section 317(5) is to be 1 or such other value as the Monetary Authority may specify in a notice in writing given to the institution.
- (6) The scaling factor, S_c , referred to in section 317(7), to be used by an authorized institution for the purposes of section 317(6) is to be 1 or such other value as the Monetary Authority may specify in a notice in writing given to the institution.”.

127. Schedule 2 amended (Minimum requirements to be satisfied for approval under section 8 of these Rules to use IRB approach)

Schedule 2, section 1(i)—

Repeal subparagraph (v)

Substitute

- “(v) reviewing any proposed development of, or any proposed significant change to, the institution’s rating system to assess whether the rating system will function effectively as intended if the proposed development is implemented or the proposed change made, as the case may be; and”.

128. Schedule 3 amended (Minimum requirements to be satisfied for approval under section 18 of these Rules to use IMM approach)

(1) Schedule 3, section 1(n)—

Repeal subparagraphs (i) to (v)

Substitute

- “(i) VaR is computed on a daily basis and stressed VaR is computed on not less than a weekly basis;

- (ii) a one-tailed 99% confidence interval is used in calculating VaR (including stressed VaR);
 - (iii) the minimum holding period used by, or assumed by, the relevant models is 10 trading days for the institution's portfolio of exposures but, where VaR (including stressed VaR) is calculated according to shorter holding periods scaled up to 10 days, the institution must demonstrate periodically the reasonableness of that approach to the satisfaction of the Monetary Authority;
 - (iv) subject to subparagraph (vi), the historical observation period for calculating VaR (including stressed VaR) is not less than 250 trading days;
 - (v) if the institution applies a weighting scheme to the historical observations for the calculation of VaR (excluding stressed VaR), a higher weighting is assigned to recent observations;”.
- (2) Schedule 3, after section 1(n)(v)—

Add

- “(va) the institution does not apply a weighting scheme to the historical observations for the calculation of stressed VaR;
 - (vb) if the institution calculates VaR (excluding stressed VaR) using a weighting scheme that is not fully consistent with the requirements of subparagraphs (iv) and (v), that scheme results in a market risk capital charge that is not lower than that which would be calculated by the use of a scheme that fully complies with the requirements of those subparagraphs;”.
- (3) Schedule 3, section 1(n)(iv), Chinese text—

Repeal

“段”

Substitute

“節”。

- (4) Schedule 3, section 1(n)(vi), after “VaR”—
Add
 “(excluding stressed VaR)”.
- (5) Schedule 3, section 1(n)—
Repeal subparagraph (vii)
Substitute
 “(vii) data used are updated at least once every month and are reassessed whenever market prices are subject to material change, and the updating process is flexible enough to allow for more frequent updates where necessary;”.
- (6) Schedule 3, section 1(n)(ix)(B), after “VaR”—
Add
 “(including stressed VaR)”.
- (7) Schedule 3, section 2(a)(v)—
Repeal
 “(referred to in this Schedule as *event risk*)”.
- (8) Schedule 3, section 2—
Repeal paragraph (b).
- (9) Schedule 3, section 2—
Repeal paragraph (e)
Substitute
 “(e) where applicable, the institution has an internally-developed approach or approaches for calculating the incremental risk charge or comprehensive risk charge, or both, of the institution’s trading book positions; and”.
- (10) Schedule 3, after section 2—
Add

“3. Additional requirements relating to internally-developed approach for calculation of incremental risk charge

Without prejudice to the generality of the applicable requirements in sections 1 and 2, an authorized institution must demonstrate to the satisfaction of the Monetary Authority that, if the institution uses the relevant models to calculate an incremental risk charge—

- (a) the relevant models capture and adequately reflect, on a continuing basis, the incremental risks inherent in the institution’s relevant positions as specified in paragraph (a), or paragraphs (a) and (b), as the case requires, of the definition of *incremental risk charge* in section 281;
- (b) the relevant models do not capture any positions in securitization exposures or nth-to-default credit derivative contracts, even when such positions are viewed as hedging the underlying exposures held in the trading book;
- (c) the incremental risk charge is measured at a 99.9% confidence interval over a capital horizon (being the time period over which default risk and credit migration risk are measured) of one year, taking into account the liquidity horizons (being the time required to sell the position, or to hedge all material risks covered by the internal model that the institution uses to calculate the incremental risk charge, in a stressed market) applicable to individual positions or sets of positions;
- (d) the liquidity horizon for a position or set of positions is subject to a floor of 3 months;
- (e) the relevant models adopt, consistently and across all of the positions subject to the incremental risk charge—

- (i) the assumption of a constant level of risk over the one year capital horizon, incorporating, for those individual positions that have experienced default or credit migration over their liquidity horizons, the effect of rebalancing those positions at the end of their liquidity horizons so as to achieve the institution's initial level of risk; or
 - (ii) a one-year constant position assumption over the capital horizon;
- (f) the relevant models incorporate correlation effects among the risk factors modelled, including the impact of a clustering of default and credit migration events but excluding the impact of diversification between default or credit migration events and other market variables;
- (g) the relevant models reflect—
 - (i) issuer and market concentration; and
 - (ii) concentrations that may arise within and across product classes under stressed conditions;
- (h) positions are netted only when long and short positions refer to the same underlying exposure, otherwise the positions are captured on a gross basis;
- (i) the relevant models only recognize the hedging or diversification effects associated with long and short positions—
 - (i) involving different instruments or different underlying exposures of the same obligor;
 - (ii) in different issuers,
by capturing and modelling separately the gross long and gross short positions in those instruments

- or underlying exposures and incorporating any basis risks and residual risks involved;
- (j) the relevant models reflect the nonlinear impact of options and other positions with material nonlinear behaviour with respect to price changes, taking account of model risk inherent in the valuation and estimation of price risks associated with such positions;
 - (k) the incremental risk charge is computed at least once a week, or more frequently as required by the Monetary Authority;
 - (l) where the institution chooses to include equity exposures in the calculation pursuant to section 317B of these Rules—
 - (i) the inclusion of such exposures in the calculation is consistent with how the institution internally measures and manages the default risk and credit mitigation risk of those exposures;
 - (ii) such exposures are included in the incremental risk charge calculation in a consistent manner; and
 - (iii) the institution applies section 149 of these Rules in determining whether a default has occurred; and
 - (m) the institution satisfies the minimum requirements comparable to those set out in section 1 of Schedule 2 for the use of the IRB approach for the calculation of credit risk, using the assumption of a constant level of risk and with any necessary adjustments to reflect the impact of liquidity, concentrations and hedging on, and the option characteristics of, the institution's market risk exposures.

4. Additional requirements relating to internally-developed approach for calculation of comprehensive risk charge

Without prejudice to the generality of the applicable requirements in sections 1 and 2, an authorized institution must demonstrate to the satisfaction of the Monetary Authority that, if the institution uses an internally-developed approach to calculate the comprehensive risk charge for its correlation trading portfolio—

- (a) the institution is active in trading positions that fall within the correlation trading portfolio (having regard to market perception and the institution's own judgement of the significance of such activities to itself and to the markets in which it operates);
- (b) the institution applies, consistently and with any necessary modifications, section 3(c) to (j) and (m) of this Schedule in its calculation of comprehensive risk charge as in its calculation of incremental risk charge;
- (c) the relevant models capture and adequately reflect, on a continuing basis, not only the incremental risks but also all material risk factors affecting market risk inherent in the institution's correlation trading portfolio;
- (d) the institution has sufficient market data to ensure that its relevant models fully capture the material risks of its correlation trading portfolio;
- (e) the comprehensive risk charge calculated by the institution is able to provide a justification for the historical price variation of its positions in the correlation trading portfolio;
- (f) the institution is able to segregate those positions that it has the Monetary Authority's approval to incorporate into its calculation of comprehensive

- risk charge from those positions for which it does not hold such an approval;
- (g) the institution regularly applies a set of specific, predetermined stress scenarios to its correlation trading portfolio, having regard to the guidance specified in the Annex to the document entitled “Revisions to the Basel II market risk framework” published by the Basel Committee on Banking Supervision in July 2009, or in that document as amended or updated from time to time, to examine the implications of stresses to—
 - (i) default rates;
 - (ii) recovery rates;
 - (iii) credit spreads; and
 - (iv) correlations on the correlation trading portfolio’s profit or loss;
 - (h) in respect of compliance with paragraph (g), the institution—
 - (i) applies the stress scenarios at least weekly, and reports the results, including comparisons with the comprehensive risk charge calculated using the institution’s internally-developed approach, to the Monetary Authority within 6 weeks (unless otherwise advised by the Monetary Authority) after the end of each quarter, or within such a period and on such a shorter interval as advised by the Monetary Authority; and
 - (ii) reports to the Monetary Authority any instances where the stress tests indicate a material shortfall of the comprehensive risk charge as soon as reasonably practicable in all the circumstances of the case; and

- (i) in respect of the relevant model, comprehensive risk charge is computed at least weekly, or more frequently as required by the Monetary Authority.”.

129. Schedule 4 amended (Minimum requirements to be satisfied for approval under section 25 of these Rules to use STO approach or ASA approach)

Schedule 4, section 2(c)(ix), after “board of directors”—

Add

“(or a committee designated by the board)”.

130. Schedule 5 amended (Other deductions from core capital and supplementary capital)

- (1) Schedule 5, paragraph (d), after “(c), (d)”—

Add

“, (da)”.

- (2) Schedule 5, paragraph (e), after “(d), (e)”—

Add

“, (ea)”.

- (3) Schedule 5, paragraph (e)—

Repeal

“Rules.”

Substitute

“Rules;”.

- (4) Schedule 5, after paragraph (e)—

Add

“(f) in relation to an authorized institution that is subject to Part 8 of these Rules, the amount of the sum of the exposures in the trading book that are subject to deduction under—

- (i) section 236(1)(a), (c), (d), (da) or (e) or 251(1)(a), (c), (d), (e), (ea) or (f) of these Rules by virtue of the operation of section 287A of these Rules; and
- (ii) section 307(5) of these Rules;
- (g) in relation to an authorized institution that uses the STC approach, the amount of the institution's exposure that is subject to deduction under section 68(c) or 74(3)(a) or (4)(a) of these Rules.”.

131. Schedule 6 amended (Credit quality grades)

- (1) Schedule 6, after “[ss. 55, 59, 60, 61,—”

Add

“61A.”.

- (2) Schedule 6—

Repeal Table A

Substitute

“TABLE A

SOVEREIGN EXPOSURES

Credit quality grade (sovereigns)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
1	AAA	Aaa	AAA	AAA	AAA
	AA+	Aa1	AA+	AA+	AA+
	AA	Aa2	AA	AA	AA
	AA-	Aa3	AA-	AA-	AA-

Credit quality grade (sovereigns)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
2	A+	A1	A+	A+	A+
	A	A2	A	A	A
	A-	A3	A-	A-	A-
3	BBB+	Baa1	BBB+	BBB+	BBB+
	BBB	Baa2	BBB	BBB	BBB
	BBB-	Baa3	BBB-	BBB-	BBB-
4	BB+	Ba1	BB+	BB+	BB+
	BB	Ba2	BB	BB	BB
	BB-	Ba3	BB-	BB-	BB-
5	B+	B1	B+	B+	B+
	B	B2	B	B	B
	B-	B3	B-	B-	B-
6	CCC+	Caa1	CCC	CCC+	CCC
	CCC	Caa2	CC	CCC	CC
	CCC-	Caa3	C	CCC-	C
	CC	Ca	D	CC	D”.
	C	C		C	

Credit quality grade (sovereigns)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
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D

(3) Schedule 6—

Repeal Table B**Substitute**

“TABLE B

BANK AND SECURITIES FIRM EXPOSURES

Credit quality grade (banks and securities firms)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
1	AAA	Aaa	AAA	AAA	AAA
	AA+	Aa1	AA+	AA+	AA+
	AA	Aa2	AA	AA	AA
	AA-	Aa3	AA-	AA-	AA-
2	A+	A1	A+	A+	A+
	A	A2	A	A	A

Credit quality grade (banks and securities firms)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
	A-	A3	A-	A-	A-
3	BBB+	Baa1	BBB+	BBB+	BBB+
	BBB	Baa2	BBB	BBB	BBB
	BBB-	Baa3	BBB-	BBB-	BBB-
4	BB+	Ba1	BB+	BB+	BB+
	BB	Ba2	BB	BB	BB
	BB-	Ba3	BB-	BB-	BB-
	B+	B1	B+	B+	B+
	B	B2	B	B	B
	B-	B3	B-	B-	B-
5	CCC+	Caa1	CCC	CCC+	CCC
	CCC	Caa2	CC	CCC	CC
	CCC-	Caa3	C	CCC-	C
	CC	Ca	D	CC	D”.
	C	C		C	
	D				

(4) Schedule 6—

Repeal Table C
Substitute

“TABLE C

CORPORATE EXPOSURES

PART 1

Credit quality grade (corporates)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.	Risk-weight
1	AAA	Aaa	AAA	AAA	AAA	20%
	AA+	Aa1	AA+	AA+	AA+	
	AA	Aa2	AA	AA	AA	
	AA-	Aa3	AA-	AA-	AA-	
2	A+	A1	A+	A+	A+	50%
	A	A2	A	A	A	
	A-	A3	A-	A-	A-	
3	BBB+	Baa1	BBB+	BBB+	BBB+	100%
	BBB	Baa2	BBB	BBB	BBB	
	BBB-	Baa3	BBB-	BBB-	BBB-	
4	BB+	Ba1	BB+	BB+	BB+	100%
	BB	Ba2	BB	BB	BB	

Credit quality grade (corporates)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.	Risk-weight
	BB-	Ba3	BB-	BB-	BB-	
5	B+	B1	B+	B+	B+	150%
	B	B2	B	B	B	
	B-	B3	B-	B-	B-	
	CCC+	Caa1	CCC	CCC+	CCC	
	CCC	Caa2	CC	CCC	CC	
	CCC-	Caa3	C	CCC-	C	
	CC	Ca	D	CC	D	
	C	C		C		
	D					

PART 2

Credit quality grade (corporates)	Credit Analysis and Research Limited	CRISIL Limited	ICRA Limited	Risk-weight
1	CARE AAA	AAA	LAAA	20%
	CARE AAA (Is)		IrAAA	
2	CARE AA+	AA+	LAA+	30%
	CARE AA	AA	LAA	

Credit quality grade (corporates)	Credit Analysis and Research Limited	CRISIL Limited	ICRA Limited	Risk-weight
	CARE AA-	AA-	LAA-	
	CARE AA+ (Is)		IrAA+	
	CARE AA (Is)		IrAA	
	CARE AA- (Is)		IrAA-	
3	CARE A+	A+	LA+	50%
	CARE A	A	LA	
	CARE A-	A-	LA-	
	CARE A+ (Is)		IrA+	
	CARE A (Is)		IrA	
	CARE A- (Is)		IrA-	
4	CARE BBB+	BBB+	LBBB+	100%
	CARE BBB	BBB	LBBB	
	CARE BBB-	BBB-	LBBB-	
	CARE BBB+ (Is)		IrBBB+	
	CARE BBB (Is)		IrBBB	
	CARE BBB- (Is)		IrBBB-	
5	CARE BB+	BB+	LBB+	150%”.
	CARE BB	BB	LBB	
	CARE BB-	BB-	LBB-	
	CARE B+	B+	LB+	

Credit quality grade (corporates)	Credit Analysis and Research Limited	CRISIL Limited	ICRA Limited	Risk-weight
	CARE B	B	LB	
	CARE B-	B-	LB-	
	CARE C+	C+	LC+	
	CARE C	C	LC	
	CARE C-	C-	LC-	
	CARE D	D	LD	
	CARE BB+ (Is)		IrBB+	
	CARE BB (Is)		IrBB	
	CARE BB- (Is)		IrBB-	
	CARE B+ (Is)		IrB+	
	CARE B (Is)		IrB	
	CARE B- (Is)		IrB-	
	CARE C+ (Is)		IrC+	
	CARE C (Is)		IrC	
	CARE C- (Is)		IrC-	
	CARE D (Is)			

(5) Schedule 6, Table D, column 5 (Fitch Ratings)—

Repeal

“CCC+”.

(6) Schedule 6, Table D, column 5 (Fitch Ratings)—

Repeal

“CCC-”.

(7) Schedule 6—
Repeal Table E
Substitute

“TABLE E

SHORT-TERM EXPOSURES (BANKS, SECURITIES FIRMS
AND CORPORATES)

PART 1

Short-term credit quality grade (banks, securities firms and corporates)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.	Risk- weight
1	A-1+ A-1	P-1	F1+ F1	a-1+ a-1	J-1+ J-1	20%
2	A-2	P-2	F2	a-2	J-2	50%
3	A-3	P-3	F3	a-3	J-3	100%
4	B B-1 B-2 B-3	NP	B C D	b c	NJ D	150%

Short-term credit quality grade (banks, securities firms and corporates)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.	Risk-weight
	C					
	D					

PART 2

Short-term credit quality grade (corporates)	Credit Analysis and Research Limited	CRISIL Limited	ICRA Limited	Risk-weight
1	PR1+	P1+	A1+	20%
2	PR1	P1	A1	30%
3	PR2+ PR2	P2+ P2	A2+ A2	50%
4	PR3+ PR3	P3+ P3	A3+ A3	100%

Short-term credit quality grade (corporates)	Credit Analysis and Research Limited	CRISIL Limited	ICRA Limited	Risk-weight
5	PR4	P4+	A4+	150%”.
	PR5	P4	A4	
		P5	A5	

132. Schedule 7 amended (Standard supervisory haircuts for comprehensive approach to treatment of recognized collateral)

(1) Schedule 7, section 1, Table—

Repeal Part 1

Substitute

“PART 1

STANDARD SUPERVISORY HAIRCUTS
FOR DEBT SECURITIES

Item	Types of exposure or recognized collateral	Credit quality grade/ short-term credit quality grade	Residual maturity	Standard supervisory haircuts	
				Sovereign issuers	Other issuers
1.	Debt	grade 1 (in	(a) not more	0.5%	1%

Item	Types of exposure or recognized collateral	Credit quality grade/ short-term credit quality grade	Residual maturity	Standard supervisory haircuts	
				Sovereign issuers	Other issuers
	securities with ECAI issue specific ratings	relation to Table A, Table B, Part 1 of Table C or Part 1 of Table E in Schedule 6, or Table A or Table B in Schedule 11) and grades 1 and 2 (in relation to Part 2 of Table C or Part 2 of Table E in Schedule 6)	than 1 year (b) more than 1 year but not more than 5 years (c) more than 5 years	2%	4%
2.	Recognized collateral that falls within any of section 79(e) to (1a)	grade 1 (in relation to Table A, Table B, Part 1 of Table C or Part 1 of	(a) not more than 1 year (b) more than 1 year but	0.5%	1%
				2%	4%

Item	Types of exposure or recognized collateral	Credit quality grade/ short-term credit quality grade	Residual maturity	Standard supervisory haircuts	
				Sovereign issuers	Other issuers
	of these Rules	Table E in Schedule 6, or Table A or Table B in Schedule 11) and grades 1 and 2 (in relation to Part 2 of Table C or Part 2 of Table E in Schedule 6)	(c) not more than 5 years	4%	8%
3.	Debt securities with ECAI issue specific ratings	grades 2 and 3 (in relation to Table A, Table B, Part 1 of Table C or Part 1 of Table E in Schedule 6, or Table A or Table B in Schedule 11)	(a) not more than 1 year (b) more than 1 year but not more than 5 years (c) more	1% 3% 6%	2% 6% 12%

Item	Types of exposure or recognized collateral	Credit quality grade/ short-term credit quality grade	Residual maturity	Standard supervisory haircuts	
		and grades 3 and 4 (in relation to Part 2 of Table C or Part 2 of Table E in Schedule 6)		Sovereign issuers	Other issuers
4.	Recognized collateral that falls within any of section 79(e) to (la) of these Rules	grades 2 and 3 (in relation to Table A, Table B, Part 1 of Table C or Part 1 of Table E in Schedule 6, or Table A or Table B in Schedule 11) and grades 3 and 4 (in relation to Part 2 of Table C or	(a) not more than 1 year (b) more than 1 year but not more than 5 years (c) more than 5 years	1% 3% 6%	2% 6% 12%

Item	Types of exposure or recognized collateral	Credit quality grade/ short-term credit quality grade	Residual maturity	Standard supervisory haircuts	
		Part 2 of Table E in Schedule 6)		Sovereign issuers	Other issuers
5.	Debt securities with long-term ECAI issue specific ratings	grade 4	All	15%	not applicable
6.	Recognized collateral that falls within section 79(e), (f) or (h) of these Rules	grade 4	All	15%	not applicable
7.	Debt securities without	not applicable	(a) not more than 1	not applicable	2%

Item	Types of exposure or recognized collateral	Credit quality grade/ short-term credit quality grade	Residual maturity	Standard supervisory haircuts	Sovereign issuers	Other issuers
8.	Recognized collateral, that falls within section 79(m) of these Rules	not applicable	year (b) more than 1 year but not more than 5 years (c) more than 5 years (a) not more than 1 year (b) more than 1 year but not more than 5 years (c) more	not applicable	6%	12%
				not applicable	2%	
				not applicable	6%	
				not	12%”.	

		Credit			
		quality			Standard supervisory
		grade/			haircuts
	Types of	short-term			
	exposure or	credit			
	recognized	quality	Residual	Sovereign	Other
Item	collateral	grade	maturity	issuers	issuers
			than 5		applicable
			years		

(2) Schedule 7, section 2(d)—

Repeal

“section 51”

Substitute

“section 51(1)”.

(3) Schedule 7, section 2(e)—

Repeal

“section 51”

Substitute

“section 51(1)”.

(4) Schedule 7, section 2(f)—

Repeal

“entities.”

Substitute

“entities;”.

(5) Schedule 7, after section 2(f)—

Add

- “(g) ***ECAI issue specific rating*** ([雙擊後鍵入])—
- (i) in relation to a debt security issued by a bank, a securities firm, a corporate incorporated outside India, or any other issuer that is not a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the debt security by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of ***external credit assessment institution*** in section 2(1) of these Rules, and is for the time being neither withdrawn nor suspended by that ECAI; or
 - (ii) in relation to a debt security issued by a corporate incorporated in India, means a short-term credit assessment rating or long-term credit assessment rating that is assigned to the debt security by an ECAI, and is for the time being neither withdrawn nor suspended by that ECAI;
- (h) ***long-term ECAI issue specific rating*** ([雙擊後鍵入]), in relation to a debt security issued by a sovereign, a sovereign foreign public sector entity, or a multilateral development bank, means an ECAI issue specific rating assigned to the debt security by an ECAI within the meaning of paragraph (a), (b), (c), (d) or (e) of the definition of ***external credit assessment institution*** in section 2(1) of these Rules that is a long-term credit assessment rating.”.

133. Schedule 8 amended (Credit quality grades for specialized lending)

- (1) Schedule 8, column 4 (Fitch Ratings)—

Repeal

“CCC+”.

- (2) Schedule 8, column 4 (Fitch Ratings)—

Repeal

“CCC-”.

134. Schedule 9 amended (Requirements to be satisfied for using section 229(1)(a) of these Rules)

Schedule 9, paragraph (g)—

Repeal subparagraph (ii)**Substitute**

“(ii) obliges the institution to repurchase any of the underlying exposures, at any time, except where—

(A) the obligation arises from a claim arising from a representation or warranty given by the institution to another person in the documentation solely in respect of the status of any underlying exposure at the time of the transfer and that is capable of being verified at that time; or

(B) the obligation is accepted by and imposed on the institution for legitimate and sound commercial reasons and does not expose the institution to excessive credit risk;”.

135. Schedule 10 amended (Requirements to be satisfied for using section 229(1)(b) of these Rules)

Schedule 10, section 1(b)(i)—

Repeal

“section 51”

Substitute

“section 51(1)”.

136. Schedule 11 amended (Mapping of ECAI issue specific ratings into credit quality grades under STC(S) approach)

(1) Schedule 11—

Repeal Table A
Substitute

“TABLE A

LONG-TERM CREDIT QUALITY GRADES

Long-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
1	AAA	Aaa	AAA	AAA	AAA
	AA+	Aa1	AA+	AA+	AA+
	AA	Aa2	AA	AA	AA
	AA-	Aa3	AA-	AA-	AA-
2	A+	A1	A+	A+	A+
	A	A2	A	A	A
	A-	A3	A-	A-	A-
3	BBB+	Baa1	BBB+	BBB+	BBB+
	BBB	Baa2	BBB	BBB	BBB
	BBB-	Baa3	BBB-	BBB-	BBB-
4	BB+	Ba1	BB+	BB+	BB+
	BB	Ba2	BB	BB	BB
	BB-	Ba3	BB-	BB-	BB-

Long-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
5	B+	B1	B+	B+	B+
	B	B2	B	B	B
	B-	B3	B-	B-	B-
	CCC+	Caa1	CCC	CCC+	CCC
	CCC	Caa2	CC	CCC	CC
	CCC-	Caa3	C	CCC-	C
	CC	Ca	D	CC	D”.
	C	C		C	
	D				

- (2) Schedule 11—
Repeal Table B
Substitute

“TABLE B

SHORT-TERM CREDIT QUALITY GRADES

Short-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
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Short-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
1	A-1+	P-1	F1+	a-1+	J-1+
	A-1		F1	a-1	J-1
2	A-2	P-2	F2	a-2	J-2
3	A-3	P-3	F3	a-3	J-3
4	B	NP	B	b	NJ D”.
	B-1		C	c	
	B-2		D		
	B-3				
	C				
	D				

137. Schedule 14 amended (Mapping of ECAI issue specific ratings into credit quality grades under ratings-based method)

(1) Schedule 14—

Repeal Table A

Substitute

“TABLE A

LONG-TERM CREDIT QUALITY GRADES

Long-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
1	AAA	Aaa	AAA	AAA	AAA
	AA+	Aa1	AA+	AA+	AA+
2	AA	Aa2	AA	AA	AA
	AA-	Aa3	AA-	AA-	AA-
3	A+	A1	A+	A+	A+
4	A	A2	A	A	A
5	A-	A3	A-	A-	A-
6	BBB+	Baa1	BBB+	BBB+	BBB+
7	BBB	Baa2	BBB	BBB	BBB
8	BBB-	Baa3	BBB-	BBB-	BBB-
9	BB+	Ba1	BB+	BB+	BB+
10	BB	Ba2	BB	BB	BB

Long-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
11	BB-	Ba3	BB-	BB-	BB-
12	B+	B1	B+	B+	B+
	B	B2	B	B	B
	B-	B3	B-	B-	B-
	CCC+	Caa1	CCC	CCC+	CCC
	CCC	Caa2	CC	CCC	CC
	CCC-	Caa3	C	CCC-	C
	CC	Ca	D	CC	D”.
	C	C		C	
	D				

(2) Schedule 14—

Repeal Table B

Substitute

“TABLE B

SHORT-TERM CREDIT QUALITY GRADES

Short-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
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Short-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
1	A-1+	P-1	F1+	a-1+	J-1+
	A-1		F1	a-1	J-1
2	A-2	P-2	F2	a-2	J-2
3	A-3	P-3	F3	a-3	J-3
4	B	NP	B	b	NJ D".
	B-1		C	c	
	B-2		D		
	B-3				
	C				
	D				

Monetary Authority

Explanatory Note

These Rules are made by the Monetary Authority under section 98A of the Banking Ordinance (Cap. 155) and amend the Banking (Capital) Rules (Cap. 155 sub. leg. L) (*principal Rules*).

2. The principal Rules, which were made in 2006, prescribe the manner in which the capital adequacy ratio of an authorized institution incorporated in Hong Kong is to be calculated. The principal Rules have now been in operation for over 4 years.
3. The Rules amend the principal Rules for 4 purposes. They are—
 - (a) to revise the provisions of the principal Rules relating to external credit assessment institutions, the risk-weighting scales for such institutions and the use of credit assessment ratings issued by such institutions. (The revisions arise, in particular, from recognizing, for the purposes of the principal Rules, 4 new credit rating agencies as external credit assessment institutions);
 - (b) to incorporate into the principal Rules revisions, released by the Basel Committee on Banking Supervision (*BCBS*) in July 2009 in its paper entitled “Revisions to the Basel II market risk framework” and its paper entitled “Guidelines for computing capital for incremental risk in the trading book”;
 - (c) to incorporate into the principal Rules revisions, released by the BCBS in July 2009 in its paper entitled “Enhancements to the Basel II Framework”, to the Basel II credit risk capital framework issued by the BCBS in June 2006; and
 - (d) to incorporate into the principal Rules revisions necessitated by problems and ambiguities identified by the Monetary Authority in the operation of the principal Rules to date.
4. The Rules will come into operation on 1 January 2012 (section 1).