Completion Instructions

Return of Capital Adequacy Ratio
Part I – Summary Certificate on Capital Adequacy Ratio
Form MA(BS)3(I)

Introduction

1. Form MA(BS)3(I) is divided into two divisions:

   (a) Division A – to be completed by all reporting institutions;
   (b) Division B – to be completed by reporting institutions using the ***internal ratings-based approach (IRB approach)***.

2. Division A is for a reporting institution to provide summary information on its quarter-end capital adequacy ratio and the relevant aggregate figures (mainly extracted from other parts of the Return) for computing the ratio. Division B collects information for the determination of the ***capital floor***, where applicable, to a reporting institution using the IRB approach.

Specific Instructions

Division A: Calculation of Capital Adequacy Ratio

3. The figures reported for items 1, 2.1 to 2.4(ii), 2.6, and 2.7 should be extracted from other parts of the Return. See **Annex I-A** for a mapping table on items in this Form and the corresponding items in other Forms.

4. Only reporting institutions using the IRB approach are required to complete item 2.8 and item 4. It should be noted that item 2.8 will only be accessible to the relevant institutions which have answered "Yes" to the filtering question in Division B on whether it is subject to the capital floor requirement. In these cases, i~~I~~tem 2.8 should be equal to item 4 of Division B.

5. Only reporting institutions using the ***basic approach (BSC approach)*** or the ***standardized (credit risk) approach (STC approach)*** need to complete item 2.10(i). This item refers to the amount of the institution's regulatory reserve for general banking risks and ***collective provisions*** which exceeds 1.25% of the institution's total risk-weighted amount (RWA) reported under item 2.9.

6. Item 2.10(ii) refers to the amount of reserves arising from the revaluation of the institution's holdings of land and buildings (except land and buildings mortgaged to the reporting institution to secure a debt) which exceeds the amount that was included in the institution's supplementary capital –

   (a) as at 31 December 1998 if the institution was an authorized institution on that date, or

(b) as at the date on which the institution became an authorized institution if the institution became an authorized institution after 31 December 1998.

Division B: Calculation of Capital Floor

7. A reporting institution using the IRB approach (whether foundation or advanced) for capital adequacy purposes is subject to a capital floor for the first three years of the adoption of the IRB approach. The use of the capital floor is to prevent a sudden fall in capital charges solely as a result of the changes in how the risk-weighted amount for credit risk (credit RWA) is measured.

8. A reporting institution migrating from the ***foundation IRB approach*** (FIRB) to the ***advanced IRB approach*** (AIRB) will generally not be subject to the capital floor if it has already been subject to a capital floor for a period of three years since its adoption of the FIRB. However, a reporting institution that is migrating to the AIRB during the first three years of using the FIRB will need to continue to adopt the capital floor for the remaining period. For example, a reporting institution moving to the AIRB after using the FIRB for two years should continue to be subject to the capital floor in the third year.

9. The Monetary Authority (MA) may require a reporting institution using the IRB approach to keep the capital floor in place beyond the three-year period or reinstate the capital floor requirement for a reporting institution, if this is deemed appropriate by the MA based on the institution's circumstances (e.g. IRB compliance problems have emerged pending rectification or possible material prudential concerns on the financial soundness of the institution).

10. A reporting institution using the IRB approach should indicate whether it is subject to the capital floor requirement as at the reporting date by answering the filtering question at the top of Division B by inputting either "Yes" or "No". Those institutions which have answered "Yes" should proceed to complete the data table in Division B below the question, while the others should go directly to Part II of the return.

(A) Calculation of capital charge for the application of capital floor

~~10.~~11. A reporting institution which is subject to the capital floor should calculate the difference between:

(i) the floor amount of capital (capital floor) as calculated in accordance with paragraphs 12 to 14 (details to be reported under item 1(i) to (x) of Division B); and

(ii) the actual amount of capital as calculated in accordance with paragraph 15 (details to be reported under items 2(i) to (ix) of Division B).

If the floor amount of capital is larger than the actual amount of capital, the institution is required to report the product of such difference and 12.5 in item 4 of Division B and add such amount (i.e. item 2.8 of Division A) to the credit RWA. Otherwise, the figures reported under item 4 of Division B and item 2.8 of Division A should be zero.

~~11.~~12. For a reporting institution starting to use the IRB approach within the transitional period from 1 January 2007 to 31 December 2009, the capital floor is derived by applying an adjustment factor (see paragraph 14) to the sum of the following amounts:

(a) 8% of the total RWA[1] (to be reported under item 1(v)) as calculated:

   (i) for credit risk under the BSC approach or the STC approach[2] (to be reported under item 1(i)(a) or (b), as the case requires);
   (ii) for credit risk in respect of securitization exposures under the ***standardized (securitization) approach (STC(S) approach)***, where applicable (to be reported under item 1(i)(c)); and
   (iii) for market risk under the approach in use (i.e. the ***standardized (market risk) approach*** and/or the ***internal models approach***) (to be reported under item 1(ii)).

   The total RWA is determined by:

   Credit RWA + market risk capital charges x 12.5

(b) plus all deductions from the core capital and supplementary capital (to be reported under item 1(vi));

(c) less the amount of regulatory reserve for general banking risks and collective provisions which is included in the supplementary capital (to be reported under item 1(vii)).

~~12.~~13. For a reporting institution starting to use the IRB approach after the transitional period, the calculation of the capital floor is derived by applying an adjustment factor (see paragraph 14) to the sum of the following amounts:

(a) 8% of the total RWA (to be reported under item 1(v)) as calculated:

   (i) for credit risk under the STC approach (to be reported under item 1(i)(b));
   (ii) for credit risk in respect of securitization exposures under the STC(S) approach, where applicable (to be reported under item 1(i)(c));
   (iii) for market risk under the approach in use (to be reported under item 1(ii)); and

[1] To facilitate a closer comparison with the capital calculation under the current Accord, a reporting institution adopting the IRB approach within the transitional period is not required to include the RWAs calculated for operational risk for the calculation of the capital floor.

[2] Subject to the prior consent of the MA, a reporting institution using the STC approach for the calculation of credit RWA before migrating to the IRB approach within the transitional period may use the STC approach as the basis for calculating the capital floor.

(iv) for operational risk under the approach in use (i.e. the ***basic indicator approach***, the ***standardized (operational risk) approach*** or the ***alternative standardized approach)*** (to be reported under item 1(iii)).

The total RWA is determined by:

Credit RWA + market risk capital charges x 12.5 + operational risk capital charges x 12.5

(b) plus all deductions from the core capital and supplementary capital (to be reported under item 1(vi));

(c) less the amount of regulatory reserve for general banking risks and collective provisions which is included in the supplementary capital (to be reported under item 1(vii)).

~~13.~~14. The adjustment factors for a reporting institution starting to use the IRB approach within or after the transitional period are set out in the table below, or a value in between 70% to 100% as specified by the MA~~:~~.

Date of IRB approach implementation	1st year of implementation	2nd year of implementation	3rd year of implementation
Within transitional period	95%	90%	80%
After transitional period[3]	90%	80%	70%

The institution is required to fill in the applicable adjustment factor in item 1(ix).

(B) Calculation of capital charge under the various approaches in use

~~14.~~15. In the years in which the capital floor applies, a reporting institution should also calculate the actual amount of capital as follows:

(a) 8% of total RWA (to be reported under item 2(v)) as determined under the various approaches in use for

(i) credit risk, including credit risk in respect of securitization exposures where applicable (to be reported under items 2(i)(a), (b), (c), (d) or (e), as the case requires);
(ii) market risk (to be reported under item 2(ii)); and
(iii) operational risk (to be reported under item 2(iii)).

The total RWA is determined by:

[3] Lower adjustment factors are used to take account of the inclusion of operational risk capital charges for the calculation of capital floor after the transitional period (see also footnote 1~~1~~).

Credit RWA + market risk capital charges x 12.5 + operational risk capital charges x 12.5

(b) plus all deductions from the core capital and supplementary capital (to be reported under item 2(vi)), including the shortfall amount (i.e. total ***EL amount*** > total ***eligible provisions***) derived from EL-EP calculation (See Section C of the Completion Instructions for MA(BS)3(IIIc));

(c) less the amount of regulatory reserve for general banking risks and collective provisions included in the supplementary capital (to be reported under item 2(vii)) if the institution uses the BSC approach, the STC approach and/or the STC(S) approach for any portion of its credit exposures;

(d) less the surplus amount of provisions (i.e. total eligible provisions > total EL amount) included in the supplementary capital derived from EL-EP calculation (to be reported under item 2(viii)).

Hong Kong Monetary Authority
March 2012~~07~~

Annex I-A

Items in MA(BS)3(I)		Cross reference with other return forms
Division A	Division B	
1	N/A	MA(BS)3(II) – Item (G) of Part II(a)
2.1	2(i)(a)	MA(BS)3(IIIa) – Item (A+B) of Division B
2.2	2(i)(b)	MA(BS)3(IIIb) – Item (A+B) of Division B
2.3	2(i)(c)	MA(BS)3(IIIc) – Item 8 of Division A
2.4(i)	2(i)(d)	MA(BS)3(IIId) – Column 1 of item 1(f) of Division I
2.4(ii)	2(i)(e)	MA(BS)3(IIId) – Column 1 of item 2(g) of Division I
2.6	2(ii)	MA(BS)3(IV) – Item 3 of Division G
2.7	2(iii)	MA(BS)3(V) – Item 5
N/A	2(vi)	MA(BS)3(II) – Sum of items g(i) to g(~~iv~~v) of Part II(a) and item (TDI) of Part II(b)
N/A	2(vii)	MA(BS)3(II) – Item (l) of Part II(a)
N/A	2(viii)	MA(BS)3(II) – Item (m) of Part II(a)