

Draft

Annex 1

DRAFT BANKING (CAPITAL) (AMENDMENT)
RULES 2011

(Draft for consultation subject to further amendment)

Draft

BANKING (CAPITAL) (AMENDMENT) RULES 2011

Contents

Section

1. Commencement
2. Banking (Capital) Rules amended
3. Section 2 amended (Interpretation)
4. Section 4A added (Valuation of exposures measured at fair value)
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)
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, etc.)
7. Section 12 amended (Exemption for exposures)
8. Section 15 amended (Authorized institution shall only use STC(S) approach or IRB(S) approach to calculate its credit risk for securitization exposures)
9. Section 17 amended (Authorized institution shall only use STM approach, IMM approach or approach used by parent bank to calculate its market risk)
10. Repeal and substitution of section 18 (Authorized institution may apply for approval to use IMM approach to calculate its market risk)

Draft

11. Section 18A added (Transitional provisions applicable to approvals granted under section 18 as in force before commencement of Banking (Capital) (Amendment) Rules 2011)
12. Section 19 amended (Measures which may be taken by Monetary Authority if authorized institution using IMM approach no longer satisfies specified requirements, etc.)
13. Section 21 (Measures which may be taken by Monetary Authority if authorized institution using approach used by parent bank no longer satisfies specified requirements, etc.)
14. Section 22 amended (Exemption from section 17)
15. Section 23 amended (Revocation of exemption under section 22)
16. Sections 23A (Exemption from section 18 in respect of portfolio of market risk positions which fall within risk category) and 23B (Revocation of exemption under section 23A) added
17. Section 24 amended (Authorized institution shall only use BIA approach, STO approach or ASA approach to calculate its operational risk)
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, etc.)
19. Section 33 amended (Exceptions to section 27)
20. Division 7A added to Part 2 (Attachment of conditions to approvals granted under section 6(2)(a), 8(2)(a), 18(2)(a), 20(2)(a) or 25(2)(a))

Draft

21. Section 34 repealed and substituted (Reviewable decisions)
22. Section 35 amended (Interpretation of Part 3)
23. Section 37 amended (Essential characteristics of core capital and supplementary capital)
24. Section 42 amended (Supplementary capital of authorized institution)
25. Section 44 amended (Provisions supplementary to section 42(1)(b))
26. Section 48 amended (Deductions from core capital and supplementary capital)
27. Section 51 amended (Interpretation of Part 4)
28. Section 52 amended (Calculation of risk-weighted amount of exposures)
29. Section 55 amended (Sovereign exposures)
30. Section 59 amended (Bank exposures)
31. Section 60 amended (Securities firm exposures)
32. Section 61 amended (Corporate exposures)
33. Section 61A added
 - 61A. Application of section 61
34. Section 62 amended (Collective investment scheme exposures)
35. Section 63 amended (Cash items)
36. Section 65 amended (Residential mortgage loans)
37. Section 66 amended (Other exposures which are not past due exposures)

Draft

38. Section 68 repealed and substituted (Credit-linked notes)
39. Section 69 amended (Application of ECAI ratings)
40. Section 72 (Provisions supplementary to section 71)
41. Repeal and substitution of section 73 (Calculation of credit equivalent amount of other off-balance sheet exposures not specified in Table 10 or 11)
42. Section 77 amended (Recognized collateral)
43. Section 79 amended (Collateral which may be recognized for purposes of section 77(i)(i))
44. Section 80 amended (Collateral which may be recognized for purposes of section 77(i)(ii))
45. Section 82 amended (Determination of risk-weight to be allocated to recognized collateral under simple approach)
46. Section 84 amended (Calculation of risk-weighted amount of off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts)
47. Section 85 (Calculation of risk-weighted amount of OTC derivative transactions and credit derivative contracts)
48. Section 96 amended (Netting of repo-style transactions)
49. Section 97 amended (Use of value-at-risk model instead of Formula 9)
50. Section 98 amended (Recognized guarantees)
51. Section 99 amended (Recognized credit derivative contracts)

Draft

52. Section 105 amended (Interpretation of Part 5)
53. Section 109 amended (Sovereign exposures)
54. Section 116 amended (Other exposures)
55. Section 117 amended (Credit-linked notes)
56. Section 119 amended (Provisions supplementary to section 118)
57. Repeal and substitution of section 120 (Calculation of credit equivalent amount of other off-balance sheet exposures not specified in Table 14 or 15)
58. Section 128 amended (Calculation of risk-weighted amount of off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts)
59. Section 129 amended (Calculation of risk-weighted amount of OTC derivative transactions and credit derivative contracts)
60. Section 130 (On-balance sheet netting)
61. Section 134 amended (Capital treatment of recognized guarantees and recognized credit derivative contracts)
62. Section 139 amended (Interpretation of Part 6)
63. Section 140A added (Calculation of exposure at default)
64. Section 146 amended (Other exposures)
65. Section 149 amended (Default of obligor)
66. Section 154 amended (Rating coverage)
67. Section 155 amended (Integrity of rating process)

Draft

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)
69. Section 175 amended (Integrity of rating process)
70. Section 178 amended (Loss given default)
71. Section 193 amended (PD/LGD approach -integrity of rating process)
72. Section 202 amended (Repo-style transactions)
73. Section 202A added (Credit-linked notes)
74. 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)
75. Section 213 amended (Recognized guarantees and recognized credit derivative contracts under double default framework)
76. Section 214 amended (Capital treatment of recognized guarantees and recognized credit derivative contracts)
77. Section 220 amended (Calculation of expected losses and eligible provisions for corporate, sovereign, bank and retail exposures)
78. Section 225 amended (Application of Division 13)
79. Section 226 amended (Calculation of capital floor)
80. Section 227 amended (Interpretation of Part 7)

Draft

81. Section 229 amended (Treatment to be accorded to securitization transaction by originating institution)
82. Section 230A added (Criteria authorized institutions must meet to use STC(S) approach or IRB(S) approach)
83. Section 232 amended (Provisions applicable to ECAI issue specific ratings in addition to those applicable under Part 4)
84. Section 236 amended (Deductions from core capital and supplementary capital)
85. Section 237 amended (Determination of risk-weights)
86. Section 239 amended (Securitization positions which are in second loss tranche or better in ABCP programmes)
87. Section 240 amended (Treatment of liquidity facilities and servicer cash advance facilities)
88. Repeal and substitution of section 241 (Treatment of overlapping facilities and exposures)
89. Section 242 amended (Maximum regulatory capital for originating institution)
90. Section 243 amended (Treatment of underlying exposures of originating institution in synthetic securitization transaction)
91. Section 245 amended (Calculation of risk-weighted amount of investors' interest for securitization exposures of originating institution subject to early amortization provision)
92. Section 251 amended (Deductions from core capital and supplementary capital)

Draft

93. Repeal and substitution of section 253 (Treatment of overlapping facilities and exposures)
94. Section 254 amended (Maximum regulatory capital for originating institution)
95. Section 255 amended (Treatment of underlying exposures of originating institutions in synthetic securitization transactions)
96. Section 257 amended (Calculation of risk-weighted amount of investors' interest for securitization exposures of originating institution subject to early amortization provision)
97. Section 258 amended (Treatment of interest rate contracts and exchange rate contracts)
98. Section 260A added (Reduction in risk-weighted amounts)
99. Section 262 amended (Determination of risk-weights)
100. Section 263 amended (Use of inferred ratings)
101. Section 264 amended (Calculation of risk-weighted amount of liquidity facilities)
102. Section 265 amended (Recognized credit risk mitigation)
103. Section 268A added (Reduction in risk-weighted amount)
104. Section 270 amended (Use of supervisory formula)
105. Section 271 amended (Capital charge factor for underlying exposures under IRB approach)
106. Section 274 amended (Effective number of underlying exposures)

Draft

107. Section 275 amended (Exposure-weighted average LGD)
108. Section 277 amended (Calculation of risk-weighted amount of liquidity facilities)
109. Section 278 amended (Treatment of recognized credit risk mitigation—full credit protection)
110. Section 279 amended (Treatment of recognized credit risk mitigation—partial credit protection)
111. Section 281 amended (Interpretation of Part 8)
112. Section 283 amended (Positions to be used to calculate market risk)
113. Section 284 amended (Calculation of market risk capital charge for each risk category)
114. Section 286 amended (Calculation of market risk capital charge)
115. Section 287 amended (Calculation of market risk capital charge for specific risk for interest rate exposures which fall within section 286(a)(i) or (iv))
116. Sections 287A (Calculation of market risk capital charge for specific risk for interest rate exposures which fall within section 286(a)(ii)) and 287B (Calculation of market risk capital charge for specific risk for interest rate exposures which fall within section 286(a)(iii)) added
117. Section 289 amended (Construction of maturity ladder)
118. Section 297 amended (Preliminary steps to calculating market risk capital charge)
119. Section 307 amended (Specific risk)
120. Section 308 amended (Use of credit derivative contracts to offset specific risk)

Draft

121. Section 316 amended (Positions to be used to calculate market risk)
122. Section 317 repealed and substituted (Calculation of risk-weighted amount for market risk)
123. Sections 317A (Provisions supplementary to section 317 - calculation of market risk capital charge for interest rate exposures), 317B (Provisions supplementary to section 317 - calculation of market risk capital charge for equity exposures) and 317C (Provisions supplementary to section 317 - calculation of market risk capital charge for foreign exchange (including gold) exposures)
124. Section 318 repealed and substituted (Capital treatment for trading book positions subject to incremental risk charge or comprehensive risk charge)
125. Section 319 amended (Multiplication and scaling factors)
126. Schedule 2 amended (Minimum requirements to be satisfied for approval under section 8 of these Rules to use IRB approach)
127. Schedule 3 amended (Minimum requirements to be satisfied for approval under section 18 of these Rules to use IMM approach)
128. Schedule 4 amended (Minimum requirements to be satisfied for approval under section 25 of these Rules to use STO approach or ASA approach)
129. Schedule 5 amended (Other deductions from core capital and supplementary capital)
130. Schedule 6 amended (Credit quality grades)

Draft

131. Schedule 7 amended (Standard supervisory haircuts for comprehensive approach to treatment of recognized collateral)
132. Schedule 8 amended (Credit quality grades)
133. Schedule 9 amended (Requirements to be satisfied for using section 229(1)(a) of these Rules)
134. Schedule 10 amended (Requirements to be satisfied for using section 229(1)(b) of these Rules)
135. Schedule 11 amended (Mapping of ECAI issue specific ratings into credit quality grades under STC(S) approach)
136. Schedule 14 amended (Mapping of ECAI issue specific ratings into credit quality grades under ratings-based method)

Draft

Banking (Capital) (Amendment) Rules 2011

(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)

Draft

1. Commencement

These Rules come into operation on 1 January 2012.

Draft

2. Banking (Capital) Rules amended

The Banking (Capital) Rules (Cap. 155 sub. leg. L) are amended as set out in sections 3 to 136.

Draft

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* () -

- (a) in relation to a transaction which 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* () 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

Draft

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*** () 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

Draft

- (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** (), 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”

Draft

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* (), 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;”.

Draft

- (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* () -
(a) in relation to a securitization transaction, has the meaning assigned to it 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 assigned to *underlying exposure* in section 281;”.
- (21) Section 2(1) -
Add in alphabetical order
“*comprehensive risk charge* () has the meaning assigned to it by section 281;
correlation trading portfolio () has the meaning assigned to it by section 281;
Credit Analysis and Research Limited () means the company incorporated in India under that name;
CRISIL Limited () means the company incorporated in India under that name;
ICRA Limited () means the company incorporated in India under that name;
incremental risk charge () has the meaning assigned to it by section 281;
incremental risks () has the meaning assigned to it by the definition of *incremental risk charge* in section 281;

Draft

Japan Credit Rating Agency, Ltd. () means the company incorporated in Japan under that name;

loss given default () has the meaning assigned to it by section 139(1);

mark-to-model () 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;

nth-to-default credit derivative contract () has the meaning assigned to it by section 281;

probability of default () has the meaning assigned to it by section 139(1);

Rating and Investment Information, Inc. () means the company incorporated in Japan under that name;

re-securitization exposure () has the meaning assigned to it by section 227(1);

re-securitization transaction () has the meaning assigned to it by section 227(1);

stressed VaR () has the meaning assigned to it by section 281;

tranche () has the meaning assigned to it by section 227(1);

valuation adjustment (), 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).

Draft

4. Section 4A added (Valuation of exposures measured at fair value)

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 shall establish and maintain valuation systems, controls and procedures which are effective to ensure that the valuation of its exposures is prudent and reliable.
- (2) For the purposes of subsection (1), an authorized institution shall make adjustments, where appropriate, 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 which might reasonably be expected to affect the prudence and reliability of the valuation of the institution’s exposures.
- (3) For the avoidance of doubt, it is hereby declared that 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.”.

Draft

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”.

Draft

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, etc.)

(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 shall 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),”.

Draft

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,”.

Draft

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 which 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) -

Draft

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”.

Draft

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”.

Draft

10. Repeal and substitution of section 18 (Authorized institution may apply for approval to use IMM approach to calculate its market risk)

Section 18 -

Repeal the section

Substitute

“18. Authorized institution may apply for approval to use IMM approach to calculate its market risk

- (1) An authorized institution may apply to the Monetary Authority for approval to use the IMM approach to calculate its market risk.
- (1A) The Monetary Authority shall 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) the institution has also made an application which falls within paragraph (a) for that risk category and which includes the positions covered by the

Draft

- application which falls within subparagraph (i) unless the institution already has the approval concerned;
- (c) in the case of interest rate exposures which fall within paragraph (a) of the definition of ***incremental risk charge*** in section 281 where the relevant charge is 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, the institution has also made -
- (i) an application which falls within paragraph (a) for that risk category and which includes the positions covered by the application which falls within this paragraph unless the institution already has the approval concerned; and
 - (ii) an application which falls within paragraph (b)(i) for that risk category and which includes the positions covered by the application which falls within this paragraph unless the institution already has the approval concerned;
- (d) in the case of interest rate exposures which fall within a correlation trading portfolio where the relevant charge is 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, the institution has also made -
- (i) an application which falls within paragraph (a) for that risk category and which includes the positions covered by the application which falls within this paragraph unless the institution already has the approval concerned; and
 - (ii) an application which falls within paragraph (b)(i) for that risk category and which includes the positions covered by the application which falls within this paragraph unless the institution already has the approval concerned;
- (e) in the case of equity exposures which fall within paragraph (b) of the definition of ***incremental risk charge*** in section 281 where the relevant charge is the incremental risk charge specified in column 4 of Table 1A opposite the risk category, equity exposures, specified in column 1 of Table 1A, the institution has also made -
- (i) an application which falls within paragraph (a) for that risk category and which includes the positions

Draft

covered by the application which falls within this paragraph unless the institution already has the approval concerned;

- (ii) an application which falls within paragraph (b)(i) for that risk category and which includes the positions covered by the application which falls within this paragraph unless the institution already has the approval concerned; and
 - (iii) an application (or applications) which 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 unless the institution already has the approval concerned.
- (2) Subject to subsections (1A), (3), (5) and (8), the Monetary Authority shall 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 which 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 shall 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 shall not, without the prior consent of the Monetary Authority, make any significant change to any internal model which 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

Draft

all or any risk categories or business, it shall 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) For the avoidance of doubt and subject to section 18A(3), it is hereby declared that an authorized institution which has an approval under subsection (2)(a) shall use the STM approach to calculate its market risk for any risk category or business which is not the subject of the approval.
- (8) For the avoidance of doubt, it is hereby declared that 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** () means an application under subsection (1);
- approval** () means an approval under subsection (2)(a);
- deemed approval** () has the meaning assigned to it by section 18A(1);
- group of relevant charges** () 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 which fall within paragraph (a) of subsection (1A);
- (b) in respect of specific risk for interest rate exposures,
- (i) for specific risk interest rate exposures which fall within paragraph (a) of the definition of **incremental risk charge** in section 281, means the institution's relevant charges which fall within paragraphs (b) and (c) of subsection (1A);
- (ii) for specific risk interest rate exposures which 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 which fall within paragraphs (b) and (d) of subsection (1A); and

Draft

- (c) in respect of specific risk for equity exposures -
- (i) subject to subparagraph (ii), means the institution's relevant charges which fall within paragraph (b) of subsection (1A);
 - (ii) for equity exposures which 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 which fall within paragraphs (b) and (e) of subsection (1A);

relevant charge () 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 Stressed VaR	VaR Stressed VaR	Incremental risk charge Comprehensive risk charge
2. Equity exposures	VaR Stressed VaR	VaR Stressed VaR	Incremental risk charge
3. Foreign exchange (including gold) exposures	VaR Stressed VaR	-	-
4. Commodity exposures	VaR Stressed VaR	-	-

”

Draft

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

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 the relevant commencement, 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 (in this section referred to as the ‘former approval’), then, on and after the relevant commencement, the former approval shall be deemed to be an approval granted under section 18(2)(a) to the institution (in this section referred to as the ‘deemed approval’) to use the IMM approach to calculate the relevant charge for any risk category or business which is the subject of the former approval, and the other provisions of these Rules (including the definition of *approval* in section 18(9)) shall, 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 shall not affect the operation of a notice under section 19(2)(a) -
 - (a) given to the institution before the relevant commencement;
and
 - (b) in force before the relevant commencement.
- (3) Where an authorized institution has a deemed approval for a relevant charge specified in column 2 or 3 of Table 1A which is a VaR, the institution shall, on and after the relevant commencement, use the STM approach to calculate its market risk for any risk category or business which is the subject of the former approval unless and until the following applications, where applicable, have been made under section 18(1) to the Monetary Authority and the Monetary Authority has granted the approval concerned 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 which 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;

Draft

- (b) for a deemed approval relating to the VaR for specific risk for interest rate exposures referred to in paragraph (b)(i) of the definition of *group of relevant charges* in section 18(9)
 -
 - (i) an application which falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk;
 - (ii) an application which falls within section 18(1A)(b)(i)(B) in respect of the stressed VaR for specific risk; and
 - (iii) an application which 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 interest rate exposures referred to in paragraph (b)(ii) of the definition of *group of relevant charges* in section 18(9)
 -
 - (i) an application which falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk;
 - (ii) an application which falls within section 18(1A)(b)(i)(B) in respect of the stressed VaR for specific risk; and
 - (iii) an application which 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 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 which falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk; and
 - (ii) an application which 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;

Draft

- (e) for a deemed approval relating to the VaR for specific risk for equity exposures referred to in paragraph (c)(i) of the definition of *group of relevant charges* in section 18(9) -
 - (i) an application which falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk; and
 - (ii) an application which 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 equity exposures referred to in paragraph (c)(ii) of the definition of *group of relevant charges* in section 18(9) -
 - (i) an application which falls within section 18(1A)(a)(ii) in respect of the stressed VaR for general market risk;
 - (ii) an application which falls within section 18(1A)(b)(i)(B) in respect of the stressed VaR for specific risk; and
 - (iii) an application which 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 shall be 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,upon the final determination of the application where the Monetary Authority has refused to grant the approval and

Draft

there is no further step that the institution can take to appeal against that refusal.

- (5) In this section -
- relevant charge* () has the meaning assigned to it by section 18(9);
- relevant commencement* () means 1 January 2012.”.

Draft

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

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).”.

Draft

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, etc.)

(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 which 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) Section 21, after subsection (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 which is reasonable in all the circumstances of the case) as specified in the notice, which 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 which 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

Draft

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 which, in the opinion of the Monetary Authority, will cause the institution to cease to fall within subsection (1)(b)(ii) within a period which 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 shall comply with the requirements of a notice given to it under subsection (3)(a), (c) or (d).
 - (5) For the avoidance of doubt, it is hereby declared that 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.”.

Draft

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) shall be -

- (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.”.

Draft

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).”

Draft

16. Sections 23A (Exemption from section 18 in respect of portfolio of market risk positions which fall within risk category) and 23B (Revocation of exemption under section 23A) added

After section 23 but in Division 5 of Part 2 -

Add

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

- (1) An authorized institution which has made an application under section 18(1) to use, or which 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 which 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 shall 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 which 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 shall 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

Draft

existing exemption relates, the new exemption would be, or may be, refused by virtue of subsection (2),

the institution shall, 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 which is reasonable in all the circumstances of the case) as specified in the notice, which 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 which 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 shall comply with the requirements of a notice given to it under subsection (2)(a).
- (4) For the avoidance of doubt, it is hereby declared that 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* () has the meaning assigned to it by section 23A(1).”.

Draft

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”.

Draft

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, etc.)

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).”.

Draft

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)”.

Draft

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

Part 2, after Division 7 -

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 he may think 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 the commencement of this subsection), 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 he may think 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.”.

Draft

21. Section 34 repealed and substituted (Reviewable decisions)

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.”.

Draft

22. Section 35 amended (Interpretation of Part 3)

Section 35, after the definition of *other regulatory capital instrument* -

Add

“related company (), 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;”.

Draft

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) Section 37 -

Repeal subsection (3)

Substitute

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

- (3) For the avoidance of doubt, it is hereby declared that an authorized institution shall not include in the institution’s core capital or supplementary capital any capital instrument issued by it which 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.”.

Draft

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

- (1) Section 42(1)(f)(ii) -

Repeal

“trading; and”

Substitute

“trading;”.

- (2) Section 42(1)(f), after subparagraph (ii) -

Add

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

Draft

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

(1) Section 44(2) -

Repeal paragraphs (a) and (b)

Substitute

- “(a) shall deduct from its core capital cumulative unrealized losses of the institution which arise from the institution’s holdings of available-for-sale equities and debt securities; and
- (b) shall 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).

Draft

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

(1) Section 48(1)(d) -

Repeal

“and”.

(2) Section 48(1)(e) -

Repeal the full stop

Substitute

“; and”.

(3) Section 48(1), after paragraph (e) -

Add

“(f) the amount of any valuation adjustment made in respect of an exposure of the institution which 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 which falls within section 38(d)(i), (ii) or (iii) or (e)(i); or

(ii) such part of that amount which has been taken into account in the calculation of -

(A) the amount of reserves (or that part thereof) which falls within section 38(d) or 42(1)(b) or (c); or

(B) the amount of the institution’s -

(I) unaudited profit or loss referred to in section 38(e) in respect of its current financial year; or

(II) profit or loss pending audit completion referred to in section 38(e) in respect of its immediately preceding financial year.”.

Draft

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 () -

(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;

Draft

ECAI issuer rating () -

- (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.”.

Draft

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 () -

- (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.”.

Draft

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”.

Draft

30. Section 59 amended (Bank exposures)

Section 59(6), before “Table E” -

Add

“Part 1 of”.

Draft

31. Section 60 amended (Securities firm exposures)

Section 60(6), before “Table E” -

Add

“Part 1 of”.

Draft

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”.

Draft

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 and the numerals 1, 2, 3, 4 and 5 in accordance with Part 2 of that Table”.

Draft

34. Section 62 amended (Collective investment scheme exposures)

After section 62(3) -

Add

“(4) In this section -

ECAI issue specific rating (), 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.”.

Draft

35. Section 63 amended (Cash items)

Section 63 -

Repeal

“section 51” (wherever appearing)

Substitute

“section 51(1)”.

Draft

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”.

Draft

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) Section 66(1), after paragraph (b) -

Add

“(c) instruments which -

- (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”.

Draft

38. Section 68 repealed and substituted (Credit-linked notes)

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 shall, 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 which 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 shall 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 shall 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 shall, subject to paragraph (e), allocate a risk-weight to the exposure which is the greater of -
 - (i) the risk-weight attributable to the reference obligation of the note as determined in accordance with sections 55, 56,

Draft

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 shall 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.”.

Draft

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) shall use ECAI issue specific ratings applicable to foreign currency, if available, to the extent that the exposure is denominated in foreign currency;

(ii) shall use ECAI issue specific ratings applicable to local currency, if available, to the extent that the exposure is denominated in local currency;

(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;”.

(3) 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 () -

(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

Draft

- (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 () -

- (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 () -

- (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.”.

Draft

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

(1) Section 72(e) -

Repeal the full stop and substitute a semicolon.

(2) Section 72, after paragraph (e) -

Add

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

- (i) the contract is a credit default swap, the institution is the protection seller and a capital charge 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 shall treat the credit equivalent amount of the exposure as zero.”.

Draft

41. Repeal and substitution of section 73 (Calculation of credit equivalent amount of other off-balance sheet exposures not specified in Table 10 or 11)

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 shall, in calculating the risk-weighted amount of an off-balance sheet exposure which 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 which 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.”.

Draft

42. Section 77 amended (Recognized collateral)

Section 77(i) -

Repeal

“(k), (l),”

Substitute

“(ja), (k), (l), (la),”.

Draft

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;”.

Draft

- (6) Section 79(m)(iii), before “Table E” -
Add
“Part 1 of”.
- (7) Section 79(m)(iv), before “Table E” -
Add
“Part 1 of”.

Draft

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),”.

Draft

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) shall, 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, shall 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)”.

Draft

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

Section 84 -

Repeal

“not an OTC derivative transaction”

Substitute

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

Draft

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

(1) Section 85 -

Renumber the section as section 85(1).

(2) After section 85(1) -

Add

“(2) Subsection (1) shall, with all necessary modifications, apply to the calculation of the risk-weighted amount of each of an authorized institution’s off-balance sheet exposures which 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 which is an OTC derivative transaction.”.

Draft

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”.

Draft

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) which covers representative counterparty portfolios which 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).

Draft

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,”.

Draft

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,”.

Draft

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;”.

Draft

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)”.

Draft

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) Section 116(1), after paragraph (b) -

Add

“(c) instruments which -

(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”.

Draft

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”.

Draft

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

(1) Section 119(e) -

Repeal the full stop and substitute a semicolon.

(2) Section 119, after paragraph (e) -

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

- (i) the contract is a credit default swap, the institution is the protection seller and a capital charge 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 shall treat the credit equivalent amount of that exposure as zero.”.

Draft

57. Repeal and substitution of section 120 (Calculation of credit equivalent amount of other off-balance sheet exposures not specified in Table 14 or 15)

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 shall, in calculating the risk-weighted amount of an off-balance sheet exposure which 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 which 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.”.

Draft

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

Section 128 -

Repeal

“not an OTC derivative transaction”

Substitute

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

Draft

59. Section 129 amended (Calculation of risk-weighted amount of OTC derivative transactions [and credit derivative contracts])

(1) Section 129 -

Renumber the section as section 129(1).

(2) After section 129(1) -

Add

“(2) Subsection (1) shall, with all necessary modifications, apply to the calculation of the risk-weighted amount of each of an authorized institution’s off-balance sheet exposures which 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 which is an OTC derivative transaction.”.

Draft

60. Section 130 (On-balance sheet netting)

Section 130(2), English text, heading of Formula 14 -

Repeal

“EXPOSE”

Substitute

“EXPOSURE”.

Draft

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 shall be 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.”.

Draft

62. Section 139 amended (Interpretation of Part 6)

(1) Section 139(1) -

Repeal the definition of *financial firm*

Substitute

“*financial firm* (), 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

Draft

- (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;”.

Draft

63. Section 140A added (Calculation of exposure at default)

After section 140 -

Add

“140A. Calculation of exposure at default

- (1) Subject to subsection (2), an authorized institution shall 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” shall mean the value determined in accordance with section 4A;
 - (b) in respect of section 183, an authorized institution shall determine the EAD of an equity exposure of the institution as the value of the equity exposure determined in accordance with section 4A.”.

Draft

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 shall classify under the IRB subclass of other items -

- (a) any of the institution’s other exposures which do not fall within the IRB subclass of cash items; and
- (b) any of the institution’s exposures which -
 - (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).”.

Draft

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) shall 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) Section 149, after subsection (5) -

Add

“(5A) Subject to subsections (5B) and (5C), an authorized institution shall treat its exposures to all individual obligors in a connected group as being in default if -

- (a) a default of an obligor (in this section referred to as the “defaulting obligor”) in the connected group has occurred; and
- (b) the defaulting obligor has been rated substantially on the basis of the economic or financial interdependence between the obligors in the connected group pursuant to section 154(c) and (d).

(5B) Subject to subsection (5C), where the default referred to in subsection (5A)(a) relates only to retail exposures, subsection (2)(b) applies to the authorized institution with respect to the defaulting obligor.

(5C) An authorized institution shall 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 the obligor by any other member in the connected group; and

Draft

- (b) any other obligor in the connected group where the institution demonstrates, to the satisfaction of the Monetary Authority, that -
 - (i) the obligor has not been rated as referred to in subsection (5A)(b); and
 - (ii) disregarding subsection (5A) in respect of the 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(9) -

Repeal the definition of *prescribed default criteria*

Substitute

prescribed default criteria () means the criteria specified in subsection (1);

rated () means the assignment of an authorized institution's corporate, sovereign or bank exposures to obligor grades using the IRB approach."

Draft

66. Section 154 amended (Rating coverage)

(1) Section 154(a) -

Repeal

“approvals; and”

Substitute

“approvals;”.

(2) Section 154(b) -

Repeal

“of the exposure.”

Substitute

“of the exposure;”.

(3) Section 154, after paragraph (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 of obligors for the purposes of rating assignment; and

(iii) are applied in a consistent manner.”.

Draft

67. Section 155 amended (Integrity of rating process)

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;
- (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.”.

Draft

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 and including “by applying”

Substitute

“by -

- (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, applying a CCF of 100% 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 which is not specified in Table 11, treating the exposure as if it falls within item 5 of Table 11 and applying the relevant CCF specified in that item in accordance with section 165 with all necessary modifications;
- (c) applying the CCF applicable to the exposure pursuant to Part 2 of Schedule 1 in accordance with section 163, 164 or 165, as the case requires, with all necessary modifications.”.

Draft

69. Section 175 amended (Integrity of rating process)

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;
- (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.”.

Draft

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 which falls within the IRB subclass of residential mortgages to individuals or residential mortgages to property-holding shell companies is not less than 10%.”.

Draft

71. Section 193 amended (PD/LGD approach - integrity of rating process)

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;
- (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.”.

Draft

72. Section 202 amended (Repo-style transactions)

- (1) Section 202(a) -

Repeal

“falls; and”

Substitute

“falls;”.

- (2) Section 202, after paragraph (a) -

Add

“(aa) the institution shall 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, which 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”.

Draft

73. Section 202A added (Credit-linked notes)

After section 202 -

Add

“202A. Credit-linked notes

- (1) Subject to subsection (2), an authorized institution which has an exposure in respect of a credit-linked note held by the institution shall allocate a risk-weight, as determined by the applicable risk-weight function, to the exposure which 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.”.

Draft

74. 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.”.

Draft

75. 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”.

Draft

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

After section 214(2) -

Add

“(3) For the avoidance of doubt, it is hereby declared that -

- (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 shall 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 which is covered by the guarantee or contract, as the case may be.”.

Draft

77. 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, after “EL” -

Add

“AMOUNT”.

(3) Section 220(5), after “EL” -

Add

“amount”.

Draft

78. 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 his powers under subsection (5).
- (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 his powers under subsection (5).
- (4) Where the Monetary Authority is satisfied that there exists a material prudential concern in respect of an authorized institution which 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 his powers under subsection (5).
- (5) The Monetary Authority may, by notice in writing given to an authorized institution which falls within subsection (2), (3) or (4) -
- (a) extend the period for which the institution shall be subject to this Division for such period, or until the occurrence of such event, as specified in the notice;

Draft

- (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, less than the adjustment factor applicable to the institution by virtue of Table 23 as read with section 226(6) nor exceeding 100%) which shall be used by the institution for the purpose of calculating the capital floor in accordance with section 226.”.

Draft

79. Section 226 amended (Calculation of capital floor)

Section 226(6) -

Repeal

“section 225(2)”

Substitute

“section 225(5)(c)”.

Draft

80. 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* () -

Draft

- (a) in relation to a securitization transaction which is not a re-securitization transaction, means one or more than one on-balance sheet or off-balance sheet 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 (including such a securitization exposure not held by the institution); or
 - (B) means one or more than one on-balance sheet or off-balance sheet securitization exposure being re-securitized through the transaction (including such a securitization exposure not held by the institution) and one or more than one non-securitization exposure (excluding any securitization exposure irrespective of whomsoever holds it) 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* () means a securitization exposure which is an exposure to a re-securitization transaction;
- re-securitization transaction* () means a securitization transaction in respect of which not less than one of the underlying exposures of the transaction is a securitization exposure (including such a securitization exposure not held by the institution);”.
- (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.”.

Draft

81. 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”.

Draft

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

After section 230 -

Add

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

An authorized institution shall 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 which 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 which 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 which 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.”.

Draft

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

(1) Section 232, paragraph (f)(ii) -

Repeal the full stop and substitute a semicolon.

(2) Section 232, after paragraph (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 shall treat that securitization exposure as unrated.”.

Draft

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

(1) Section 236(1)(d)(iv) -

Repeal

“facility; and”

Substitute

“facility;”.

(2) Section 236(1), after paragraph (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”.

Draft

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

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

Add

“(in the case of securitization exposures which 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), in Table 24, 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), in Table 25, after “APPROACH” -

Add

“(EXCLUDING RE-SECURITIZATION EXPOSURES)”.

- (6) After section 237(3) -

Add

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

- (a) for those securitization exposures which map to a credit quality grade of 4, the institution shall -
 - (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 which do not fall within paragraph (a), the institution shall apply the treatment

Draft

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 shall allocate risk-weights to, or deduct from the institution's core capital and supplementary capital, securitization exposures which have short-term ECAI issue specific ratings, and which 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".

Draft

86. 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.”.

Draft

87. 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)”.

Draft

88. Repeal and substitution of section 241 (Treatment of overlapping facilities and exposures)

Repeal the section

Substitute

“241. Treatment of overlapping facilities and exposures

- (1) Where an authorized institution provides 2 or more facilities which 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 shall -
 - (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 shall 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 which 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 shall -

Draft

- (c) calculate the regulatory capital for the overlapping portion B by attributing the overlapping portion B to the exposure (that is, the facility or the on-balance sheet securitization exposure) which 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 shall 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) For the avoidance of doubt, it is hereby declared that -
 - (a) the regulatory capital calculated as required by subsection (3)(c) for the overlapping portion B which 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,shall 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** (), in relation to -
 - (a) a securitization exposure booked in the trading book of an authorized institution; and
 - (b) the overlapping portion B which 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.”.

Draft

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

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

Add

“through the transaction”.

Draft

90. 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”.

Draft

91. 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%.”.

Draft

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

(1) Section 251(1)(e) -

Repeal

“institution; and”

Substitute

“institution;”.

(2) Section 251(1), after paragraph (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”.

Draft

93. Repeal and substitution of section 253 (Treatment of overlapping facilities and exposures)

Repeal the section

Substitute

“253. Treatment of overlapping facilities and exposures

- (1) Where an authorized institution provides 2 or more facilities which 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 shall -
 - (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 which is not the overlapping portion A.
- (2) Where overlapping facilities are provided by different authorized institutions, each institution shall 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 which 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 shall -

Draft

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

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

Add

“through the transaction”.

Draft

95. 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)”.

Draft

96. 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%.”.

Draft

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

Section 258 -

Repeal

“Part 4”

Substitute

“Part 6”.

Draft

98. 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 shall, 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.”.

Draft

99. 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 after “subsection (5)” to and including “by using Formula 24.”

Substitute

“and subject to subsection (7), an authorized institution shall 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, N -

Repeal

Everything after and including “(in the case of” to and including “been securitized)”.

- (7) Section 262 -

Repeal subsection (7)

Draft

Substitute

“(7) Where the portfolio share of the largest exposure (referred to in this subsection as “C₁”) (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/C₁.”.

(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 shall 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).

Draft

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	Risk-weight of non-senior re- securitization exposures	Deduction
	A	B	
1	20%	30%	not applicable
2	25%	40%	not applicable
3	35%	50%	not applicable
4	40%	65%	not applicable
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 shall 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 -
- (a) have a short-term ECAI issue specific rating and fall within the definition of *re-securitization exposure* in section 227(1); or
 - (b) have a short-term inferred rating and fall within the definition of *re-securitization exposure* in section 227(1).

Draft

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	Risk-weight of non-senior re-securitization exposures	Deduction
	A	B	
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 shall, in the case of a securitization exposure which 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 (irrespective of whomsoever holds it); 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 shall, in the case of a securitization exposure which 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),

Draft

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.”.

Draft

100. Section 263 amended (Use of inferred ratings)

Section 263, after paragraph (c) -

Add

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

Draft

101. 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”.

Draft

102. Section 265 amended (Recognized credit risk mitigation)

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;
- (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.”.

Draft

103. Section 268A added (Reduction in risk-weighted amount)

After section 267 -

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 shall, 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.”.

Draft

104. 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), paragraph (b)(i), after “T” -

Add

“in the case of a securitization exposure which 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), paragraph (a), after “7%” -

Add

“in the case of a securitization exposure which is not a re-securitization exposure and 20% in the case of a re-securitization exposure”.

- (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”.

Draft

105. 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”.

Draft

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

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

Add

“, and pursuant to section 276,”.

- (2) Section 274 -

Repeal paragraph (b).

- (3) Section 274 -

Repeal paragraph (c)

Substitute

“(c) if the transaction is a re-securitization transaction, take into account, in respect of the underlying exposures which are securitization exposures (including such securitization exposures not held by the institution) 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.”.

Draft

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

- (1) Section 275, paragraph (b) -

Repeal

“relevant”

Substitute

“securitization”.

- (2) Section 275, paragraph (b) -

Repeal

Everything after “in the pool”

Substitute

“(including such securitization exposures not held by the institution) for the re-securitization transaction;”.

Draft

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

(1) Section 277(1) -

Repeal paragraphs (b) and (c)

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)(d) -

Repeal

“or (c), as the case may be”.

(3) 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;”.

(4) Section 277(3)(c) -

Repeal

“(i) or (ii), as the case may be”.

(5) Section 277(6), after “unrated” -

Add

“eligible”.

(6) Section 277, after subsection (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 shall 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).”.

Draft

- (7) In subsection (7), after subsection (6) -
Add
“or (6A)”.

Draft

109. 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 the full stop and substitute a semicolon.

- (4) Section 278, after paragraph (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.”.

Draft

110. 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,”.

Draft

111. Section 281 amended (Interpretation of Part 8)

(1) Section 281 -

Repeal the definition of *investment grade*

Substitute

“investment grade () 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) **Repeal the definition of *mark-to-model*.**

(3) Section 281 -

Add in alphabetical order -

“comprehensive risk charge (), 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 (), in relation to an authorized institution, means -

- (a) a portfolio of securitization exposures or nth-to-default credit derivative contracts, or both -
 - (i) which are not -

Draft

- (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 nth-to-default credit derivative contracts, are not -
 - (A) a regulatory retail exposure within the meaning of section 51(1);
 - (B) an exposure which 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; and
 - (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) which do not reference a claim on a special purpose entity as defined in this section; and
 - (iv) where all reference obligations, in the case of the nth-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 nth-to-default credit derivative contracts referred to in paragraph (a) where -
- (i) the positions are not securitization exposures or nth-to-default credit derivative contracts; and

Draft

- (ii) a liquid two-way market exists for the positions and the underlying exposures of the positions;

credit migration risk (), 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 (), 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 (), 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 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(c) and (d) (referred to in this Ordinance as '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;

n^{th} -to-default credit derivative contract () means a credit derivative contract under which -

- (a) the protection buyer obtains credit protection for a basket of exposures; and
- (b) the n^{th} 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 (), in relation to an authorized institution's correlation trading portfolio, means a company, trust or other entity -

- (a) organized for a specific purpose;

Draft

- (b) the activities of which 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 (), 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 (), 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 (), 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) () means the period from and including 1 January 2012 to and including 31 December 2013;

two-way market () 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;”.

Draft

112. 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).

Draft

113. Section 284 amended (Calculation of market risk capital charge for each risk category)

Section 284(1) -

Repeal

“this Part”

Substitute

“Divisions 2 to 10”.

Draft

114. 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 which do not fall within subparagraph (iii) or (iv);
- (ii) in accordance with section 287A if those positions arise from securitization exposures which 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 which do not fall within subparagraph (ii) or (iii);”.

(2) Section 286(b), before “calculate” -

Add

“subject to paragraph (c),”.

(3) Section 286(b)(iii) -

Repeal

“contracts.”

Substitute

“contracts; and”.

(4) Section 286, after paragraph (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.”.

Draft

115. Section 287 amended (Calculation of market risk capital charge for specific risk for interest rate exposures which fall within section 286(a)(i) or (iv))

- (1) Section 287(1), after “(8), (9)” -
Add
“, (9A)”.
- (2) Section 287(1), after “debt-related derivative contracts” -
Add
“arising from its interest rate exposures which fall within section 286(a)(i) or (iv)”.
- (3) Section 287(1)(c), before “calculate” -
Add
“subject to subsection (1A),”.
- (4) Section 287, after subsection (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) shall, 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.”.
- (5) Section 287(2)(a) -
Repeal
“with the same issuer, coupon, currency and maturity”.
- (6) Section 287(4) -
Repeal paragraph (b)
Substitute
“(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;

Draft

- (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;
 - (b) debt securities, not falling within paragraph (a) or (aa), which are rated investment grade and debt-related derivative contracts where the underlying debt securities, not falling within paragraph (a) or (aa), which are rated investment grade; and”.
- (7) In section 287(5)(b) -
Repeal the full stop and substitute a semicolon.
- (8) In section 287(5), after paragraph (b) -
Add
“(c) include any debt securities, or underlying debt securities, in the non-qualifying class in Table 28 which 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.”.
- (9) Section 287, after subsection (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

Draft

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 n^{th} -to-default credit derivative contract or n^{th} -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, shall 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, shall 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.”.

- (10) Section 287(11) -

Add in alphabetical order

“ECAI issue specific rating () -

- (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

Draft

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 () -

- (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;”.

Draft

116. Sections 287A (Calculation of market risk capital charge for specific risk for interest rate exposures which fall within section 286(a)(ii)) and 287B (Calculation of market risk capital charge for specific risk for interest rate exposures which fall within section 286(a)(iii)) added

After section 287 -

Add

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

- (1) Subject to subsections (2) to (11), an authorized institution shall 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 which fall within section 286(a)(ii).
- (2) For the purposes of subsection (1), an authorized institution shall 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 shall 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 shall 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;

Draft

- (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 shall not offset between positions except as provided for in section 287(2)(a).
- (5) For the purposes of subsection (3), an authorized institution shall, 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 shall, in respect of its positions in rated securitization exposures which do not fall within the definition of *re-securitization exposure* in section 227(1) and which 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.

Draft

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

Draft

- (7) For the purposes of subsection (3), an authorized institution shall, in respect of its positions in rated securitization exposures which fall within the definition of *re-securitization exposure* in section 227(1) and which 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

Draft

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 supplementary capital

- (8) For the purposes of subsection (3), an authorized institution shall, in respect of its positions in rated securitization exposures which do not fall within the definition of *re-securitization exposure* in section 227(1) and which 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.

Draft

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 applicable
3	0.80%	1.44%	2.80%	not 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

Draft

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 shall, in respect of its positions in rated securitization exposures which fall within the definition of *re-securitization exposure* in section 227(1) and which 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.

Draft

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
11	60.00%	68.00%	not applicable
12	not applicable	not applicable	deduction from core capital and supplementary capital

Draft

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 re-securitization positions	Non-senior re-securitization positions	
	A	B	
1	1.60%	2.40%	not applicable
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 shall, 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 market risk capital charge for specific risk of the underlying exposures of the positions and the incremental risk charge for such underlying exposures, the supervisory formula method but applying the estimates for the probability of default and loss given default for the purposes of

Draft

calculating K_{IRB} under the supervisory formula method which 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) shall 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 which fall within section 286(a)(iii)

- (1) Subject to subsection (2), an authorized institution shall calculate the market risk capital charge for specific risk of its positions which fall within section 286(a)(iii) -
- (a) in accordance with section 287A in respect of positions (whether long or short) in securitization exposures which 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 nth-to-default credit derivative contracts which 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) which 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).”.

Draft

117. 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”.

Draft

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

After section 297(2) -

Add

“(3) In this section, *current market price* () means current market price as determined in accordance with section 4A as if measured at fair value.”.

Draft

119. Section 307 amended (Specific risk)

(1) Section 307 -

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

Substitute

- “(5) Subject to subsection (6), an authorized institution shall, for the purposes of calculating the market risk capital charge for specific risk for nth-to-default credit derivative contracts which 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 risk-weight 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) shall offset the long and short positions in identical first-to-default credit derivative contracts before applying that subsection; and

Draft

- (b) shall 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.”.

Draft

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

Section 308(1), after “Subject to” -

Add

“section 307(6) and”.

Draft

121. 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).

Draft

122. Section 317 repealed and substituted (Calculation of risk-weighted amount for market risk)

Section 317 -

Repeal the section

Substitute

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

- (1) Subject to section 317A(1), an authorized institution shall 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 in respect of specific risk interest rate exposures which fall within a correlation trading portfolio; and
 - (g) where applicable, the supplemental capital charge referred to in section 318(3) in respect of specific risk interest rate exposures which fall within a correlation trading portfolio, multiplied by 12.5.
- (2) The institution shall, 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

Draft

- (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 shall, 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 shall, 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, where applicable, the incremental risk charge under subsection (1)(e), the institution shall, 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, where applicable, the comprehensive risk charge of the correlation trading portfolio under subsection (1)(f), the institution shall, 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 shall, for the purposes of subsection (6), apply a scaling factor, S_c , determined under section 319(6), to the higher of -

Draft

- (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 shall comply with subsections (3) to (7), as the case requires, except that it shall apply the subsection or subsections concerned separately to the relevant market risk capital charge generated from each model.”.

Draft

123. **Sections 317A (Provisions supplementary to section 317 - calculation of market risk capital charge for interest rate exposures), 317B (Provisions supplementary to section 317 - calculation of market risk capital charge for equity exposures) and 317C (Provisions supplementary to section 317 - calculation of market risk capital charge for foreign exchange (including gold) exposures)**

After section 317 -

Add

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

- (1) An authorized institution shall 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 which fall within section 286(a)(iv);
 - (b) securitization exposures which fall within section 286(a)(ii); and
 - (c) exposures within a correlation trading portfolio which 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 which 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) Subject to section 18A(3), for the avoidance of doubt, 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,

Draft

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 which 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 which 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 shall 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.”.

Draft

124. Section 318 repealed and substituted (Capital treatment for trading book positions subject to incremental risk charge or comprehensive risk charge)

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 correlation trading portfolio, using an internally-developed approach.
- (2) For the calculation of the incremental risk charge or comprehensive risk charge, an authorized institution -
 - (a) shall comply with the requirements specified in Schedule 3 applicable to or in relation to the institution;
 - (b) shall incorporate those positions in the institution’s calculation of VaR and stressed VaR; and
 - (c) shall 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) For the avoidance of doubt, an authorized institution shall 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 which 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 which fall within a correlation trading

Draft

portfolio but for which the institution does not have the approval of the Monetary Authority to calculate a comprehensive risk charge.”.

Draft

125. Section 319 amended (Multiplication and scaling factors)

- (1) 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)”.

- (2) Section 319, after subsection (2) -

Add

“(2A) An authorized institution shall 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).”.

- (3) After subsection (3) -

Add

“(4) The multiplication factor, m_s , to be used by an authorized institution for the purposes of section 317(4) shall 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) shall 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) shall be 1 or such other value as the Monetary Authority may specify in a notice in writing given to the institution.”.

Draft

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

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”.

Draft

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

(1) 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 shall 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;
- (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 which fully complies with the requirements of those subparagraphs;”.

(2) Schedule 3, section 1(n)(iv), Chinese text -

Repeal

“段”

Substitute

“節”

(3) Section 1(n)(vi), after “VaR” -

Add

“(excluding stressed VaR)”.

Draft

- (4) 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;”.

- (5) Section 1(n)(ix)(B), after “VaR” -

Add

“(including stressed VaR)”.

- (6) Section 2(a)(v) -

Repeal

“(referred to in this Schedule as ‘event risk’)”.

- (7) Section 2 -

Repeal paragraph (b).

- (8) 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”.

- (9) 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 shall 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

Draft

- 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 migration events but excluding the impact of diversification between default or 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;

Draft

- (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 shall 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);

Draft

- (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 which 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 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

Draft

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.”.

Draft

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

Section 2(c)(ix), after “board of directors” -

Add

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

Draft

129. 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) Paragraph (e) -
Repeal the full stop and substitute a semicolon.
- (4) After paragraph (e) -
Add
“(f) in relation to an authorized institution which is subject to Part 8 of these Rules, the amount of the sum of the securitization 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 which uses the STC approach, the amount of the institution’s exposure that is subject to deduction under section 68(c) or 74(3)(a) of these Rules.”.

Draft

130. 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-
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	
	D				

Draft

(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
	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				

Draft

- (4) Schedule 6 -
Repeal Table C
Substitute

“TABLE C

CORPORATE EXPOSURES

Credit quality grade (corporates)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	PART 1		Risk-weight
				Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.	
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	
	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					

Draft

PART 2

Credit quality grade (corporates)	Credit Analysis and Research Limited	CRISIL Limited	ICRA Limited	Risk-weight
1	CARE AAA CARE AAA (Is)	AAA	LAAA IrAAA	20%
2	CARE AA+ CARE AA CARE AA- CARE AA+ (Is) CARE AA (Is) CARE AA- (Is)	AA+ AA AA-	LAA+ LAA LAA- IrAA+ IrAA IrAA-	30%
3	CARE A+ CARE A CARE A- CARE A+ (Is) CARE A (Is) CARE A- (Is)	A+ A A-	LA+ LA LA- IrA+ IrA IrA-	50%
4	CARE BBB+ CARE BBB CARE BBB- CARE BBB+ (Is) CARE BBB (Is) CARE BBB- (Is)	BBB+ BBB BBB-	LBBB+ LBBB LBBB- IrBBB+ IrBBB IrBBB-	100%
5	CARE BB+ CARE BB CARE BB- CARE B+ CARE B CARE B- CARE C+ CARE C CARE C- CARE D CARE BB+ (Is) CARE BB (Is) CARE BB- (Is) CARE B+ (Is)	BB+ BB BB- B+ B B- C+ C C- D	LBB+ LBB LBB- LB+ LB LB- LC+ LC LC- LD IrBB+ IrBB IrBB- IrB+	150%”.

Draft

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 -

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 C D	NP	B C D	b c	NJ D	150%

Draft

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%
5	PR4 PR5	P4+ P4 P5	A4+ A4 A5	150%".

Draft

131. 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 securities with ECAI issue specific ratings	grade 1 (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 1 and 2 (in relation to Part 2 of Table C or Part 2 of Table E in Schedule 6)	(a) not more than 1 year	0.5%	1%
			(b) more than 1 year but not more than 5 years	2%	4%
			(c) more than 5 years	4%	8%
2.	Recognized collateral which falls within any of section 79(e) to (la) of these Rules	grade 1 (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 1 and 2 (in relation to Part 2 of Table C or Part 2 of Table E in Schedule 6)	(a) not more than 1 year	0.5%	1%
			(b) more than 1 year but not more than 5 years	2%	4%
			(c) more than 5 years	4%	8%

Draft

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) and grades 3 and 4 (in relation to Part 2 of Table C or Part 2 of Table E in Schedule 6)	(a) not more than 1 year	1%	2%
			(b) more than 1 year but not more than 5 years	3%	6%
			(c) more than 5 years	6%	12%
4.	Recognized collateral which 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 Part 2 of Table E in Schedule 6)	(a) not more than 1 year	1%	2%
			(b) more than 1 year but not more than 5 years	3%	6%
			(c) more than 5 years	6%	12%
5.	Debt securities with long-term ECAI issue specific ratings	grade 4	All	15%	not applicable
6.	Recognized collateral which falls within section 79(e), (f) or (h) of these Rules	grade 4	All	15%	not applicable
7.	Debt securities without ECAI issue specific ratings issued by banks or securities	not applicable	(a) not more than 1 year	not applicable	2%
			(b) more than 1 year but not more than 5 years	not applicable	6%
			(c) more than 5 years	not applicable	12%

Draft

firms, which satisfy the criteria set out in section 79(m) of these Rules		years	applicable	
8. Recognized collateral, which falls within section 79(m) of these Rules	not applicable	(a) not more than 1 year	not applicable	2%
		(b) more than 1 year but not more than 5 years	not applicable	6%
		(c) more than 5 years	not applicable	12%".

(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 the full stop

Substitute a semi-colon.

(5) Schedule 7, after section 2(f) -

Add

“(g) *ECAI issue specific rating* () -

- (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-

Draft

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*** (), 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.”.

Draft

132. 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-”.

Draft

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

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;”.

Draft

134. 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)”.

Draft

135. 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 AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	AAA AA+ AA AA-	AAA AA+ AA AA-
2	A+ A A-	A1 A2 A3	A+ A A-	A+ A A-	A+ A A-
3	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-	BBB+ BBB BBB-
4	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-	BB+ BB BB-
5	B+ B B- CCC+ CCC CCC- CC C D	B1 B2 B3 Caa1 Caa2 Caa3 Ca C	B+ B B- CCC CC C D	B+ B B- CCC+ CCC CCC- CC C	B+ B B- CCC CC C D”.

Draft

- (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.
1	A-1+ A-1	P-1	F1+ F1	a-1+ a-1	J-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 B-1 B-2 B-3 C D	NP	B C D	b c	NJ D”.

Draft

136. 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 AA+	Aaa Aa1	AAA AA+	AAA AA+	AAA AA+
2	AA AA-	Aa2 Aa3	AA AA-	AA 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
11	BB-	Ba3	BB-	BB-	BB-
12	B+ B B- CCC+ CCC CCC-	B1 B2 B3 Caa1 Caa2 Caa3	B+ B B- CCC CC C	B+ B B- CCC+ CCC CCC-	B+ B B- CCC CC C

Draft

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.
1	A-1+ A-1	P-1	F1+ F1	a-1+ a-1	J-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 B-1 B-2 B-3 C D	NP	B C D	b c	NJ D”.

Monetary Authority

2011

Draft

Explanatory Note

1. 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) (“the 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 shall 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 (“the 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 (see rule 1).