V.1 8 February 2019

Supervisory Communication Website > Reporting Requirements > FAQ > MA(BS)12A

Item	Question	Answer
1	Can an AI whose local/overseas subsidiaries are insignificant in terms of the size of total assets and liabilities exclude these from the consolidated IRRBB return?	It is possible to exempt certain insignificant subsidiaries from the scope of the consolidated IRRBB return. An AI can contact its supervisor to apply for such an exemption, provided that the aggregate notional positions (the interest-rate sensitive positions on the assets or liabilities side of the balance sheet, whichever is larger, plus off-balance sheet interest rate-sensitive positions) of all the relevant subsidiary entities do not account for more than 5% of its total consolidated notional interest rate-sensitive positions on the assets or liabilities side of its balance sheet, whichever is larger. The HKMA will consider approval on a case-by-case basis, having regard to the specific circumstances of the applicant AI. An AI that has been granted such exemptions would potentially be considered as an outlier if its IRRBB exposure exceeds 14% (rather than 15%) of its Tier 1 capital.
2	Which products are in scope for the IRRBB framework? Are credit card receivables, nostro and vostro accounts in scope?	All products not excluded in paragraph 10 of the IRRBB Return Completion Instructions are in scope. Products in scope therefore include credit card receivables, nostro and vostro accounts.
3	Does the HKMA waive the need to address optionality for products that are not material to the overall IRRBB profile of	The Basel standards do not feature any materiality thresholds. Therefore AIs must assess all interest rate-sensitive assets and liabilities to monitor and report their interest rate risk.

	the AI?	
4	How should AIs treat the optionality in managed rate products like prime rate loans?	The following is the reporting procedure for floating rate mortgages subject to prime rate caps: 1. report the mortgage as a managed rate asset if the prime rate cap is binding, and as a floating rate asset otherwise. The optionality can be ignored for the purpose of calculating the EVE impact. 2. when reporting the basis risk section (item 19 on the IRRBB return), AIs should take into account the effect of the prime rate cap – see the Completion Instructions of the IRRBB return for details.
5	What is the time span of data that needs to be used for behavioural analysis of non-maturity deposits (NMDs)?	For behavioural modelling of NMDs, AIs should always use 10 years of data if such data exist in their systems. An AI should notify its supervisors if the relevant data available to an AI extend to a period of less than 10 years but equal to or greater than 7 years. Such an AI should continuously extend its relevant database to cover at least 10 years and use all existing data to model NMDs in the interim period. An AI should contact its supervisors for approval if the data available to an AI extend to a period of less than 7 years and the AI intends to use such data for identifying core deposits. In considering granting the approval or not, the HKMA will assess whether the relevant assumptions and results adopted by the AI are prudent, including for example, whether the AI can demonstrate that its assumptions and results are similar to those of peer AIs which have sufficient data history and similar firm-specific characteristics of expected customer behaviour, and that the assumptions and results are sufficiently realistic under stress scenarios. The AI should continuously extend its relevant database to cover at least 10 years.

6	How does the interest rate floor, used for the ΔEVE and ΔNII calculations, affect interest rate shocks?	Application of the −2% floor slightly differs between assets and liabilities: on the asset side the risk-free rate is floored at −2%. AIs taking spreads into account add this spread to the floored risk-free rate. On the liability side the sum of the risk free rate plus the negative spread (if taken into account) is floored at −2%. This approach is reflected in paragraph 5.3.2 of the SPM. For example, if the risk-free yield in the time bucket 'Next day or less' before the parallel downward shock is −0.1%, then applying the formula from paragraph 5.3.2 of the SPM results in a post-shock interest rate of −2%. That is, the floored shock in the time bucket 'Next day or less' is −1.9%.
7	Does the HKMA provide yield curves used in the IRRBB framework? How can AIs construct the yield curve used in the IRRBB framework?	The HKMA does not provide AIs with risk-free yield curves because these differ by currency and tend to change over time. It is the responsibility of AIs to construct appropriate yield curves based on the market conditions of individual currencies.
8	Can on- and offshore Renminbi be treated as a single currency in the IRR reporting template?	There still can be significant divergence between CNH and CNY interest rates, as could be observed in the last couple of years, and therefore CNH and CNY should be reported separately for the time being.
9	Do net positions used for ΔEVE calculations have to be the same as net positions used for ΔNII calculations? Are zero coupon bonds and credit card	In general, net positions for EVE and NII calculations should be coherent. For the cases of zero coupon bonds and credit card receivables, these products are in scope for the ΔNII calculations. Including them reflects scenario-induced changes in accrued interest rate income or fee-generated income. However, notable exceptions include products with embedded optionality. An optional treatment for such products is outlined in paragraph 42 of the IRRBB Return Instructions.

	receivables in scope for the ΔNII calculations?	
10	How are non-performing loans treated under the new IRRBB framework?	Non-performing loans (net of specific provisions) must be included as interest rate-sensitive assets.
11	Should loans and trade finance products be reported gross or net of provisions on MA(BS)12A?	Notional reporting of loans and trade finance products in rows A to S on Form 1 of MA(BS)12A should be made net of specific provisions, while book value reporting of total interest rate-sensitive assets in row T on Form 1 should be made gross of provisions. It should be noted that all (both specific and general) provisions should be reported as other non-interest sensitive liabilities (book value) in row V on Form 2.
12	Should the mark-to-market value of derivatives recorded on balance sheet be excluded in Form 1 and Form 2 of MA(BS)12A?	The mark-to-market value of derivatives recorded on balance sheet should be excluded for notional reporting (rows A to S) on Form 1 and Form 2 of MA(BS)12A, but they should be included for book value reporting (row T) on Form 1 and Form 2 of MA(BS)12A.
13	Should the accrued interest receivables and payables recorded on balance sheet be excluded in Form 1 and Form 2 of MA(BS)12A?	Accrued interest receivables and payables should be excluded for notional reporting (rows A to S) on Form 1 and Form 2 of MA(BS)12A, but they should be included for book value reporting (row T) on Form 1 and Form 2 of MA(BS)12A.
14	Should a product with fixed	Yes, that is correct.

	rate cap/floor be reported as fixed rate if the fixed rate cap/floor is triggered? For the basis risk calculation, should the same calculation logic as floating rate assets subject to managed rate cap be followed?	
15	Are AIs permitted to construct the risk-free yield curve (without spread components) for discounting purposes even if the AIs slot coupon cash flows including spread components?	Yes, that is allowed (see footnote 23 in MA(BS)12A).
16	Do AIs need to go through the entire automatic interest rate options valuations procedure for all currencies (including currencies that will not be major) before arriving at the conclusion that which currencies are major and	AIs are expected to be fully aware of their interest rate exposures through options for all currencies. If the AIs can show that a currency is not major by any alternative method without going through the entire automatic interest rate options valuations, it will also be acceptable provided that the alternative method is reasonable.

	whether the sum of all non-major currencies exceed the 10% threshold?	
17	If an AI has less than 7 years of historical data and intends to use the data for identifying core deposits, how can they compare their assumptions and results with the “peer banks” which are usually not disclosed?	The AI may make reference to the assumptions and results of their parent banks or other banks in the same group. In case this is not possible then perhaps they can propose their assumptions for HKMA's consideration, and the HKMA will advise whether the assumptions are acceptable based on its observations from the peer banks.
18	How to obtain implied volatility or market price of rarely traded option?	AIs are expected to identify proxies for the purpose of option valuation or estimate the value of illiquid/non-existent options themselves.