Completion Instructions

Return of Large Exposures
Form MA(BS)28

Introduction

1. This Return collects information on authorized institutions' ("AIs") large exposures to a single counterparty/group of linked counterparties, non-bank connected parties and group affiliates.

2. This set of Completion Instructions is for the reporting of form MA(BS)28 that caters for the Banking (Exposure Limits) Rules (Cap. 155S) implemented on 1 July 2019.

3. These Completion Instructions contain two sections. Section A gives instructions on the general reporting requirements. Section B explains the reporting requirements for individual items in the Return form.

Section A: General Instructions

4. AIs should report their positions as at the end of each quarter. The basis of reporting and submission deadline applicable to AIs incorporated in and outside Hong Kong are as follows: -

	Basis of reporting	Submission deadline
AIs incorporated in Hong Kong	One Return on the combined position of the Hong Kong offices and all overseas branches (if any)	Not later than one month after the end of each quarter
	One Return on the consolidated position (Note)	Not later than one month after the end of each quarter
AIs incorporated outside Hong Kong	One Return on the position of the Hong Kong offices only	Not later than one month after the end of each quarter

If the submission deadline falls on a public holiday, it will be deferred to the next working day.

Note: Unless otherwise specified by the Monetary Authority ("MA"), the subsidiaries to be included for reporting in this Return should be the same as those included for calculating the reporting institution's consolidated position under Rule 6 of the Banking (Exposure Limits) Rules (Cap. 155S). The MA may, by notice in writing, require the institution to include also the exposures of its holding companies or any of the subsidiaries of such holding companies in this Return.

5. Inter-branch transactions are not required to be reported under this Return except for the reporting of Part V Intragroup exposures by overseas incorporated AIs. See paragraph 43 for details.

Interpretations

6. For the purposes of these Completion instructions and the return form, unless specified otherwise,

(i) the following terms have the meaning given by Rule 2(2) of the BELR:
- banking book;
- derivative contract;
- trading book.

(ii) the following terms have the meaning given by Rule 39(1) or (2) of the BELR:
- affiliate;
- ALCG exposure;
- ASC exposure;
- bank (with the modification to include a central bank);
- Category A institution;
- Category B institution;
- CCR exposure;
- credit protection;
- credit protection provider;
- CRM covered exposure;
- default risk exposure;
- entity;
- exempted sovereign entity;
- exposure;
- LC group;
- recognized collateral;
- recognized CRM;
- recognized guarantee;
- securities financing transaction;
- STC approach.

(iii) the following terms have the meaning given by Rule 84(1) of the BELR:
- connected natural person;
- non-listed company.

(iv) the following terms have the meaning given by section 2(1) of the BO:
- chief executive;
- manager;
- holding company and subsidiary.

(v) the following terms have the meaning given by section 2(1) of the BCR:
- SA-CCR approach;
- unsegregated collateral.

7. In these completion instructions or the return form:

"***BCBS***" means Basel Committee on Banking Supervision.

"***BCR***" means the Banking (Capital) Rules (Cap.155L).

"***BELR***" means the Banking (Exposure Limits) Rules (Cap.155S).

"***Commitments and contingent liabilities***" refers to the off-balance sheet items in the banking book as specified in Column 2 of Table A, Schedule 1 to the BELR, including:

- Direct credit substitutes;
- Transaction-related contingencies;
- Trade-related contingencies;
- Asset sale with recourse;
- Forward asset purchases;
- Partly paid-up shares and securities;
- Forward forward deposits placed;
- Note issuance and revolving underwriting facilities; and
- Any other commitments such as undrawn credit facilities.

However, such items do not include credit facilities which have not been formally advised to the customers concerned or which have been formally advised to the customers concerned but not yet taken effect.

*"**Connected party**"* refers to a counterparty connected to a reporting institution as specified below:

(i) the parties falling within the meaning of connected party under Rule 85 of the BELR[1];

(ii) the reporting institution's senior management and key staff (collectively comprising ***chief executive*** and ***manager***) and the relatives of such persons;

(iii) the reporting institution's subsidiaries, fellow subsidiaries[2] and other entities (including special purpose entities) over which the reporting institution is able to exert control[3]; and

[1] While connected party under Rule 85 of the BELR covers a controller of an AI but not entities controlled by the controller, as mentioned in footnote 3 of the SPM module CR-G-9, for the purpose of identifying connected parties under Rule 85 of the BELR, the MA expects AIs to take into account the substance over form and treat any company controlled by the AI's controller that is primarily used for obtaining funding from the AI on behalf of the AI's controller, as if it were the controller itself.

[2] For the purposes of this subparagraph, "fellow subsidiary" means any entity in which a controller of the AI is able to exert control. See footnote 3 for the meaning of control.

[3] An entity (controlled entity) is treated as being controlled by another entity (parent entity) if:-

(a) the parent entity owns more than 50% of the voting rights in the controlled entity;
(b) the parent entity has control of a majority of the voting rights in the controlled entity under an agreement with other shareholders (or similar holders of voting rights);
(c) the parent entity has the right to appoint or remove a majority of the members of the controlled entity's board of directors (or a similar governing body);
(d) a majority of the members of the controlled entity's board of directors (or a similar governing body) have been appointed solely as a result of the parent entity exercising his or her voting rights; or
(e) the parent entity has the power, under a contract or otherwise, to exercise a controlling influence over the management or policies of the controlled entity.

(iv) the controllers, minority shareholder controllers, directors, senior management and key staff [4] (and the relatives of such persons) of the reporting institution's subsidiaries, fellow subsidiaries and other entities referred to in sub-paragraph (iii) above.

*"**CRM**"* means recognized CRM.

*"**Exempted exposure before CRM**"* has the meaning given by paragraph 12.

*"**Exposure arising from investments with additional risk factor**"*, in relation to an entity that falls under Rule 52(1)(a), (b), (c), (d) or (e) of the BELR, means an exposure that an AI is required under Rule 52(2) to include as its exposure to that entity.

*"**Group affiliate**"* means an affiliate of the reporting institution meeting the following condition: the institution and the affiliate are accounted for on a full basis in the consolidated financial statements of the holding company of the group of companies to which they belong, for the purposes of and in compliance with –

(i) the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;
(ii) the International Financial Reporting Standards issued by the International Accounting Standards Board; or
(iii) the standards of accounting practices applicable to the holding company in the place in which it is incorporated.

"***Group of linked counterparties***" ("LC Group") means a group of linked counterparties of the reporting institution as determined by Rule 41 of the BELR. In relation to an AI incorporated outside Hong Kong, LC Group only applies to its counterparties booked in the Hong Kong branch.

*"**Intragroup exposure**"* means exposure to a group affiliate.

*"**Indirect exposure**"* means an exposure to a counterparty of a reporting institution that arises from the counterparty providing credit protection to the reporting institution's other exposures.

*"**Large exposure**"*, in relation to a reporting institution, means an aggregate exposure to an LC group (or a counterparty if it does not belong to any LC group) that equals to or exceeds 10% of the institution's Tier 1 capital.

*"**Non-bank**"*, when used to describe an entity, means an entity other than an AI or an institution that is regarded as a bank by the appropriate supervisory authorities in its place of incorporation. This includes an international organization, central and local government, and any state-owned enterprise (except state-owned banks) and agencies.

*"**Pre-amended BCR**"* means the BCR as in force immediately before the Banking (Capital) (Amendment) Rules 2020 come into operation on 30 June 2021.

[4] For an AI's subsidiary, fellow subsidiary or other entity which is not an AI itself, "senior management and key staff" means the chief executive officer (or equivalent) and those persons having a principal responsibility for a line of business within the subsidiary, fellow subsidiary or entity concerned.

*"**SA(CCR) approach**"*, in relation to an overseas incorporated AI, means the standardized approach for counterparty credit risk under the Basel III framework[5] as implemented under the capital rules of its place of incorporation.

*"**Tier 1 capital**"* of a locally incorporated AI is as defined under section 37 of the BCR. AIs incorporated in overseas jurisdictions which have adopted the Basel capital framework should adopt the amount of Tier 1 capital of their head offices. Other overseas incorporated AIs may adopt the capital and reserves (excluding provisions and revaluation reserves however described) of their head offices in place of Tier 1 capital. For the purposes of reporting this return, locally incorporated AIs should use the Tier 1 capital figures as at the end of the previous quarter and overseas incorporated AIs should use the latest figures obtained from their head offices.

Determination of exposure value

8. Exposure after CRM to a counterparty is the ASC exposure as determined by Rule 46 of the BELR. However, for the purposes of reporting Part I of this return, the determination of the ASC exposure to a connected party of the reporting institution is subject to exemptions provided for in Rule 92 of the BELR and any modifications under Division 4, Part 8 of the BELR (which includes new rule 93A). For the purposes of reporting Part V of this return, the determination of the ASC exposure to a group affiliate of the reporting institution is subject to the modifications of Rules 93 and 93A of the BELR as if those rules were applicable in respect of the group affiliate.

9. Exposure before CRM to a counterparty is the ASC exposure as determined under paragraph 8 above, subject to the modification that the provisions related to credit risk mitigation under subdivision 2, Division 3, Part 7 of the BELR do not apply. Exposure before CRM includes credit risk "transferred in" (i.e. indirect exposures to credit protection provider) but not that "transferred out". For example, Bank A granted a loan of HK$200 to customer X which was fully covered by a recognized collateral. Bank A also granted a loan of HK$100 to customer Y which was guaranteed by customer X (assuming it was a recognized guarantee). Exposure before CRM to customer X was HK$300, which is the sum of the loan to customer X (HK$200) and the indirect exposure to customer X arising from the guarantee (HK$100).

10. Exposure to an LC group is the aggregate exposure to all the counterparties in an LC group. However, if the AI's exposure to an entity is covered by a recognized CRM provided by another entity within the same LC group, by virtue of Rule 47(4) of the BELR, the AI should include the same portion of the exposure once only in determining the AI's ALCG exposure to the group. For the purpose of reporting the AI's exposure to this LC group in this return, the AI should ignore the recognized CRM provided by entities of the same group and report the relevant exposure in column 3 to 7 according to the nature of the protected exposure instead of in column 8 as an indirect exposure. Besides, the amount of the exposure before CRM and after CRM in respect of such protected exposure should be the same.

11. An exposure reported should include interest accrued on the exposure except for the case that it has not been recognised in the profit & loss account of the reporting institution but credited as interest in suspense, whether or not it has been capitalised.

[5] See BCBS, March 2014, The standardized approach for measuring counterparty credit risk exposures, as incorporated into the consolidated Basel Framework (https://www.bis.org/basel_framework/).

12. Exempted exposure before CRM includes (1) the amount of exposures before CRM that is disregarded from the determination of an ASC exposure or ALCG exposure in accordance with Rule 48(1) of the BELR[6] except for Rule 48(1)(b), (d) and (k) (i.e. it is not necessary to include exposures not concerning the risk of default of a counterparty such as holding a commodity or foreign currency, exposures to a security as mentioned in Rule 48(1)(d) and intraday bank exposures, in the reporting of exempted exposures before CRM.); and (2) the amount of exposure deducted in the valuation of an exposure in accordance with Rule 57(1)(c) or (d) of the BELR, which is treated as exempted exposure for the purposes of this Return.

13. For the purposes of reporting Part I of this return, connected party exposure should include exposures disregarded under Rule 48(1)(a) of the BELR pursuant to Rule 93A of the BELR. Besides, an exposure of an AI to a firm, partnership or non-listed company controlled by a connected natural person should be treated as an exposure to that connected natural person.

14. A net short position to a counterparty in the banking book or a net short position to a counterparty in the trading book should be disregarded.

15. Indirect exposures should be determined as exposures to a credit protection provider by Rule 54 of the BELR.

    In respect of the reporting of an indirect exposure to the issuer of a recognized collateral under Rule 54(2)(a)(ii), the reporting institution should ascertain the amount by which the CCR exposure is reduced (see paragraph 2.4.3 of the SPM module CR-G-8 Large Exposures and Risk Concentrations). This means-

    (i) where a locally incorporated AI uses the SA-CCR approach to calculate the default risk exposures of its derivative contracts for regulatory capital purposes; or
    (ii) where a locally incorporated AI is required under Rule 59(b) of the BELR to use the SA-CCR approach to calculate the default risk exposure of its derivative contracts for BELR purposes,

    the AI has to calculate the amount of the default risk exposures to the counterparty under the SA-CCR approach (A) with the consideration of the relevant recognized collateral received by the AI; and (B) without the consideration of the relevant recognized collateral received by the AI (i.e. assuming that the amount of the relevant recognized collateral received by the institution is zero). The difference in the values of the default risk exposure derived under (A) and (B) is to be included as an exposure to the issuer of the collateral in accordance with Rule 54(2)(a)(ii).

    The above measurement approach also applies in respect of an overseas incorporated AI that uses the SA-CCR approach or the SA(CCR) approach to calculate the default risk exposure of its derivative contracts in accordance with paragraph 17 below.

    Alternatively, in case an AI has assessed it as too operationally burdensome for it to perform the calculations under (A) and (B) above using the SA-CCR approach or (in case of an overseas incorporated AI) the SA(CCR) approach, the AI may opt to assign the

[6] As an interim measure, until the commencement of Part 3 of the Banking (Exposure Limits) (Amendment) Rules 2023, an exposure of an AI that falls within Rule 48(1)(la) of the BELR (i.e. where the AI acts as a designated bank in an initial public offering (IPO) and recycles the subscription monies received under the IPO in the interbank market) is to be reported as if it were an exposure exempted pursuant to Rule 48(1)(l) of the BELR (which is a parallel exemption in respect of an AI that acts as a receiving bank in an IPO).

current market value of the recognized collateral that has been taken into account in valuing the relevant default risk exposure of its derivative contracts as the indirect exposure to the issuer of the collateral, provided that (1) the AI has informed the HKMA in writing before the adoption of this alternative measurement approach; (2) this alternative measurement approach is applied consistently in respect of all of the AI's default risk exposures of its derivative contracts that are subject to the SA-CCR approach or the SA(CCR) approach, whichever is the case; and (3) where the AI subsequently decides to opt out of this alternative measurement approach, it is to inform the HKMA in writing at least two weeks before the switch.

16. For the purposes of reporting the exposures before CRM and exposures after CRM in this Return, subdivision 2, Division 3 (for reducing a CRM covered exposure) and Rule 54 (for recognizing an exposure to the credit protection provider) of Part 7 of the BELR apply to a reporting institution incorporated outside Hong Kong as if the institution were a Category A institution or Category B institution[7]. Alternatively, an institution incorporated outside Hong Kong -

    (i) may apply similar credit risk adjustment and risk transfer mechanism under the formal rules of its place of incorporation to implement the BCBS standard, "LEX – Large Exposures", as set out in the consolidated Basel Framework published by the BCBS in December 2019 ("LEX standard"), as amended or supplemented by the BCBS from time to time; or

    (ii) (if the regulator of its place of incorporation has not implemented large exposure limits based on the LEX standard) may apply the credit risk adjustment and risk transfer mechanism, if any, applicable to it under its home rules on large exposures.

    An overseas incorporated AI is required to inform its case officer on its choice of application of credit risk adjustment and risk transfer mechanism for the purpose of reporting this return and is expected to apply the chosen method consistently.

17. A reporting institution incorporated outside Hong Kong should, in relation to the calculation of a CCR exposure, calculate the default risk exposures in respect of derivative contracts and securities financing transactions ("SFTs") in the following manner:-

    <u>For default risk exposure in respect of derivative contracts</u>[8]

[7] If a reporting institution incorporated outside Hong Kong applies the CRM provisions in the BELR as if it were a Category A institution or Category B institution, it should apply the STC simple approach and STC comprehensive approach for the purposes of CRM. When to use which approach is prescribed under section 78 of the BCR.

[8] With a view to reducing the compliance burden of AIs where permissible and practical, certain flexibility is available to an overseas incorporated AI in relation to the application of paragraph 17(i) and/or (iv)(b) regarding the use of the SA-CCR approach or the SA(CCR) approach:-

(a) *Where paragraph 17(i) and/or (iv)(b) is applicable in respect of the AI as of 30 June 2021*: the AI may, upon submission of a written notice to its case officer before 30 June 2021, continue using the method it uses immediately before 30 June 2021 to calculate its default risk exposures of derivative contracts until 30 September 2021. The written notice is expected to cover at a minimum the following: (i) the AI has obtained the approval of its head office / parent bank / regional oversight body (whichever is the usual oversight body of the AI's banking operation in Hong Kong) to make use of the grace period to defer adoption of the SA-CCR approach or the SA(CCR) approach for the purposes of reporting of MA(BS)28 to a date no later than 1 October 2021; and (ii) to specify the default risk calculation method it will continue to use to calculate the default risk exposure of derivative contracts during the grace period;

(b) *Where paragraph 17(i) and/or (iv)(b) becomes applicable in respect of the AI from a date after 30 June 2021*: the AI is generally expected to start using the SA-CCR approach or the SA(CCR) approach, whichever is the case, to calculate its default risk exposures of derivative contracts from the date of adoption of the SA(CCR) approach in its head office. However, in case where its head office starts using the SA(CCR) approach on a date other than the first day of a quarter, the AI may start complying with paragraph 17(i) and/or (iv)(b) for reporting of MA(BS)28 purpose in the quarter immediately after the date of adoption of the SA(CCR) approach by its head office. An overseas incorporated AI that

(i) where the AI uses the SA(CCR) approach in its place of incorporation - the AI may use either (1) the SA(CCR) approach[9]; or (2) the SA-CCR approach[10];

(ii) where the AI uses the CCR standardized method under the 2006 Basel II framework[11], or a comparable method, in its place of incorporation – the AI may use either (1) that method as implemented under the capital rules of its place of incorporation; or (2) the SA-CCR approach[10];

(iii) where the AI uses the CCR current exposure method under the 2006 Basel II framework, or a comparable method, in its place of incorporation – the AI may use either (1) that method as implemented under the capital rules of its place of incorporation; (2) the current exposure method as set out in the Pre-amended BCR[12]; or (3) subject to compliance with all the conditions specified below, the SA-CCR approach.

The conditions applicable to subparagraph (iii)(3) are:

(A) The AI is to give an advance notice in writing to its case officer specifying its justifications to implement the SA-CCR approach ahead of its head office's adoption of the SA(CCR) approach;

(B) The head office of the AI has to confirm in writing that it:-

- has a concrete plan to implement the SA(CCR) approach in compliance with the relevant capital requirements in its home jurisdiction within one to two years and has proper governance in place to oversee its migration to the SA(CCR) approach;
- will approve the Hong Kong branch to use the SA-CCR approach for the purpose of MA(BS)28 reporting, having taken into account the nature, scale and complexity of the business of the branch;
- is willing and able to provide sufficient support (expertise, systems and resources) to enable its Hong Kong branch to implement the SA-CCR approach ahead of the Head Office's migration to the SA(CCR) approach in its home jurisdiction;

(C) The internal auditors of the head office should provide a confirmation that the Hong Kong branch has adequate systems and controls for supporting the use of the SA-CCR approach; and

(D) The AI should keep the HKMA posted regularly (say, on a half-yearly basis) of major developments in its adoption of the SA(CCR) approach in its home jurisdiction, and to inform its case officer as soon as practicable if there is a significant change related to its decision to implement the SA(CCR) approach.

(iv) where the AI is approved to use a CCR calculation method that is an internal modelling method in its place of incorporation:-

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wishes to make use of this flexibility should give a notice in writing to its case officer at least two weeks before the date of adoption of the SA(CCR) approach by its head office.

[9] For an overseas incorporated AI which has opted to use the SA(CCR) approach for calculating default risk exposures arising from derivative contracts, if it has difficulties in using the SA(CCR) approach to compute such exposure to an intragroup counterparty for reasons in relation to the consolidation practices of the AI, it may calculate the default risk exposure to an intragroup counterparty by using the current exposure method as set out in the Pre-amended BCR or a comparable method under the capital rules of its home jurisdiction .

[10] Just to be clear, an AI will not be required to apply the SA-CCR approach for the purposes of paragraph 17 before 30 June 2021.

[11] https://www.bis.org/publ/bcbs128.pdf

[12] The current exposure method set out in the BCR is considered inappropriate for the purposes of this return in view that it has been simplified and tailored for use by only those locally incorporated AIs that adopt the basic approach for credit risk under the BCR.

(a) where the standardized approach for counterparty credit risk under the Basel III framework has not been implemented in its place of incorporation – the AI should use the method as described under paragraph 17(ii); or (in the event that paragraph 17(ii) is not applicable in respect of the AI) the method as described under paragraph 17(iii);
(b) where the SA(CCR) approach has been implemented in its place of incorporation – the AI should use the method described under paragraph 17(i);

For default risk exposure in respect of SFTs

(v) before the revisions to the standardized approach for credit risk under the final Basel III framework[13] are implemented in its place of incorporation – the AI should calculate the default risk exposure of its SFTs by using either (1) the methods in accordance with section 10A(1)(b) of the BCR; or (2) a comparable method under the capital rules of its place of incorporation; and

(vi) after the revisions to the standardized approach for credit risk under the final Basel III framework have been implemented in its place of incorporation – the AI should calculate the default risk exposure of its SFTs by using either (1) that method; or (2) the revised STC approach set out under the BCR (when implemented in Hong Kong) or (if the revised STC approach is not yet implemented in Hong Kong) the method as described under paragraph 17(v)(1).

18. For the purpose of calculation of a CCR exposure under paragraph 17, an overseas incorporated AI should not, irrespective of the method it applies in the calculation of default risk exposure of derivative contracts and SFTs, convert the default risk exposure into a risk-weighted amount as in the case of determining regulatory capital; and should take into account the CRM considered in the calculation of the risk-weighted amount of such default risk exposure under the capital rules of its place of incorporation or the BCR as applicable in its case.

19. A locally incorporated AI should report an exposure to an AI/bank arising from the balance of its Nostro account maintained with the AI/ bank based on available balance instead of the ledger balance. An AI incorporated outside Hong Kong, however, is allowed to report such exposure based on either the available balance or ledger balance as long as the relevant reporting approach is applied consistently.

20. Under the BELR, a Category A institution can value an exposure covered by a recognized collateral or recognized guarantee issued by an exempted sovereign entity in accordance with either (1) the credit risk mitigation provision under Subdivision 2, Division 3, Part 7 or (2) the deduction provision under Rule 57(1)(c). For the purposes of reporting this return, a Category A institution should, however, only apply the former option to value the relevant exposure and report nil in the memo item on deduction under column 12 in respect of such exposure.

Exposures to joint accounts

21. If a reporting institution has extended its financial facilities to joint accounts the holders of which are individuals who are jointly and severally responsible for the financial

[13] See "Basel III: Finalising post-crisis reforms" issued by the BCBS on 7 December 2017 (https://www.bis.org/bcbs/publ/d424.pdf) and as updated by the BCBS from time to time thereafter.

facilities, the AI should report its exposures to each of the individual holders of the joint accounts. For example, assuming that loan 1 is granted to a joint account held by individuals "A" and "B" and loan 2 is granted to another joint account held by individuals "A" and "C", the following exposures should be measured for the purpose of determining whether any of them has to be reported as a large exposure under this Return:

Borrower	Amount of loans reported
Individual A	loan 1 + loan 2
Individual B	loan 1
Individual C	loan 2

Basis for exposure ranking

22. Exposures should be reported in descending order of exposure amount based on,
    - for the purposes of Parts I, II and V, the maximum exposure before CRM in the reporting period;
    - for the purposes of Part III, the maximum exposure after CRM in the reporting period; and
    - for the purposes of Part IV, the total exempted exposure before CRM at the reporting date.

Section B: Specific Instructions

Columns in tables

23. Column (2) Maximum exposure[14] – Report maximum exposure before CRM (in respect of Parts I, II and V) or after CRM (in respect of Part III) during the reporting period.

24. Column (3) On-balance sheet exposures – Report on-balance sheet exposures before CRM (in respect of Parts I, II, IV and V) or after CRM (in respect of Part III) in the banking book. Exposures arising from the assets underlying an option contract that is booked in the banking book[15], as valued in accordance with Rule 68 of the BELR, should be reported in this column notwithstanding that strictly speaking this may not be an on-balance sheet exposure. Do not include on-balance sheet exposures in relation to default risk exposures of derivative transactions and SFTs, which should be reported under column (6) Default risk exposures arising from derivative transactions and SFTs. For avoidance of doubt, the amount reported in this column should have taken into account the offsetting under Rule 56 of the BELR if applicable.

25. Column (4) Trading book exposures – Report trading book exposures before CRM (in respect of Parts I, II, IV and V) or after CRM (in respect of Part III). Exposures arising from the assets underlying an option contract that is booked in the trading book, as valued in accordance with Rule 68 of the BELR, should be reported in this column. For avoidance of doubt, the amount reported in this column should have taken into account the offsetting under Rule 56 of the BELR if applicable.

[14] For the avoidance of doubt, AIs should only take into account the revisions introduced under this set of revised Completion Instructions for the determination of maximum exposure from 30 June 2021 onwards.

[15] See illustrative examples on the reporting of an option contract with several underlying assets or with reference to a stock index as underlying asset in **Annex 1**.

26. Column (5) Off-balance sheet exposures arising from commitments and contingent liabilities – Report off-balance sheet exposures arising from commitments and contingent liabilities as well as unsegregated collateral before CRM (in respect of Parts I, II, IV and V) or after CRM (in respect of Part III).

27. Column (6) Default risk exposures arising from derivative contracts and SFTs – Report default risk exposures before CRM (in respect of Parts I, II, IV and V) or after CRM (in respect of Part III) arising from derivative contracts and SFTs, irrespective of whether the item from which the exposures have arisen is booked in the AI's banking book or trading book. For avoidance of doubt, an AI should report the amount of default risk exposures arising from derivative contracts and SFTs as valued in accordance with Rule 59 and 60 of the BELR (i.e. after bilateral netting as applicable) as "exposure before CRM". If this amount is subject to a recognized CRM that has not been taken into account in the calculation of the amount, the amount after adjusting for such recognized CRM should be reported as "exposure after CRM". However, for the purpose of reporting the default risk exposures arising from a margin lending transaction, any recognized collateral that is taken into account in the calculation of the risk-weighted amount of default risk exposure under the BCR should be reported as a CRM under the BELR irrespective of whether the reporting institution is a Category A institution or Category B institution. See illustrative examples on the reporting of a SFT in Annex 2.

28. Column (7) Exposures arising from investment with additional risk factor – In relation to an entity that falls under Rule 52(1)(a), (b), (c), (d) or (e) of the BELR, report the exposures before CRM (in respect of Parts I, II, IV and V) or after CRM (in respect of Part III) that an AI is required to include as its exposures to that entity under Rule 52(2).

29. Column (8) Indirect exposures – Report exposures before CRM (in respect of Parts I, II, IV and V) or after CRM (in respect of Part III) of a reporting institution that arise from the counterparty providing credit protection to the reporting institution's other exposures.

30. Column (10) As % of Tier 1 capital (%) – Report the percentage of the amount reported in column (9) to the amount of Tier 1 capital of the institution.

31. Column (11) – In respect of Parts I, II and V, report the total exposures after CRM. In respect of Part III, report the total exposures before CRM. In respect of Part IV, report the provision of the BELR under which an exemption is granted[16]. If more than one exemption provision is applicable to the exposures to the same counterparty, the AI should report all the relevant provisions.

32. Column (12) Memorandum item: Deductions – Report the amount of exposures that is deducted from the relevant exposures before CRM (in respect of Parts I, II and V) or after CRM (in respect of Part III) in accordance with Rule 57 of the BELR.

Part I: Exposures to any non-bank connected party equal to or exceeding 5% of Tier 1 capital during the reporting period

33. Report in the table any exposures before CRM to a non-bank connected party equal to or exceeding 5% of the reporting institution's Tier 1 capital during the reporting period.

34. Report in "Memorandum items" under this part the aggregate exposures to all non-bank connected parties and connected natural persons of the reporting institution as at the

[16] See footnote 6.

reporting date, including the amounts before and after CRM and the amount as a percentage of the Tier 1 capital of the reporting institution.

Part II: Twenty largest exposures (and all those equal to or exceeding 10% of Tier 1 capital) before CRM during the reporting period

35. Subject to paragraph 36, report in the table the twenty largest exposures before CRM to an LC group (or a counterparty if it does not belong to any LC group) and all those exposures before CRM to an LC group (or a counterparty if it does not belong to any LC group) equal to or exceeding 10% of the Tier 1 capital of the reporting institution during the reporting period.

36. An overseas incorporated reporting institution should report its 20 largest exposures before CRM during the reporting period only.

Part III: Twenty largest exposures (and all those equal to or exceeding 10% of Tier 1 capital) after CRM during the reporting period

37. Subject to paragraph 38, report in the table the twenty largest exposures after CRM to an LC group (or a counterparty if it does not belong to any LC group) and all those exposures after CRM to an LC group (or a counterparty if it does not belong to any LC group) equal to or exceeding 10% of the Tier 1 capital of the reporting institution during the reporting period.

38. An overseas incorporated reporting institution should report its 20 largest exposures after CRM during the reporting period only.

39. Report in the "Memorandum items" under this part the aggregate amount of the large exposures excluding banks[17] of the reporting institution as at the reporting date, including the amount after CRM and the ratio of the amount to the Tier 1 capital of the reporting institution expressed as a percentage. In this connection, an AI only needs to include the exposure to an LC group (or a counterparty if it does not belong to any LC group) under the Memorandum items if the aggregate non-bank exposure to this group/ counterparty after CRM equals or exceeds 10% of the AI's Tier 1 capital. If the exposures to a single counterparty is included in more than one LC group in a Memorandum item under this part, such exposures should only be counted once in the item.

Part IV: Exempted exposures before CRM (other than intragroup exposures) equal to or exceeding 10% of Tier 1 capital

40. Report in the table any aggregate exempted exposures to an LC group (or a counterparty if it does not belong to any LC group)[18] equal to or exceeding 10% of the Tier 1 capital of the reporting institution as at the reporting date except for exposures to a group affiliate, which should instead be reported in Part V. For the purposes of reporting this Part, the amount of exposure deducted in the valuation of an exposure under Rule 57(1)(c) and (d) of the BELR ("deduction amount") is treated as an exempted exposure. In respect of the deduction amount under Rule 57(1)(c), a reporting institution should report it in column (8) as an indirect exposure to the exempted sovereign entity that issued the recognized

[17] For the purposes of this item, "banks" include a bank holding company if it is subject to the supervision of a prudential regulator. For avoidance of doubt, a category B institution should treat a corporate bond covered by a recognized bank guarantee as a corporate exposure and i.e. not excluded from the clustering limit.

[18] See footnote 6.

collateral or recognized guarantee. In respect of the deduction amount under Rule 57(1)(d), a reporting institution should report it in column (3) to (8) according to the nature of the exposure from which the relevant deduction is made.

41. If an LC group includes an exempted sovereign entity, the reporting of the amount of exempted exposure of the LC group should exclude the exempted exposure of the exempted sovereign entity. The exempted exposure of the exempted sovereign entity should be considered on a standalone basis. For example, if after excluding the exempted sovereign entity, the exempted exposure of the LC group is only 4% of the AI's Tier 1 capital, it is not necessary to report the exempted exposure to this LC group in this Part. If the exempted exposure of that exempted sovereign is 12% of the Tier 1 capital, this exempted exposure of the exempted sovereign entity should be reported on a standalone basis.

Part V Intragroup exposures equal to or exceeding 5% of Tier 1 capital (local AIs) or 20 largest intragroup exposures (overseas AIs) during the reporting period

42. A locally incorporated AI should report in the table any exempted exposures before CRM (as defined under paragraph 12 of the CIs) to a group affiliate of the reporting institution that equals or exceeds 5% of the Tier 1 capital of the institution during the reporting period.

43. An overseas incorporated AI should report on the basis as if its operation in Hong Kong were a separate legal entity incorporated in Hong Kong and each of its head office and overseas branch were a group affiliate of that separate legal entity. Report the twenty largest exempted exposures before CRM to each of its group affiliates during the reporting period.

44. When an exposure to a group affiliate of the AI is also subject to the deduction under Rule 57(1)(d) of the BELR, the amount of deduction should be reported in column (3) to (8) according to the nature of the exposure instead of in column (12). Similarly, when reporting Column (2) "maximum exposure before CRM in reporting period", the relevant deduction under Rule 57(1)(d) should be added back as if Rule 57(1)(d) does not apply to the valuation of AI's exposure to the group affiliate. Report Column (11) treating the amount of deduction as if it were adjustments applicable to recognized CRM.

45. Report in the "Memorandum items" under this part the aggregate exposures to all group affiliates of the reporting institution as at the reporting date, including the amounts before and after CRM and the ratios of the amounts to the Tier 1 capital of the reporting institution expressed as a percentage. The adjustment to the deduction amount under Rule 57(1)(d) in paragraph 44 above should similarly apply to the determination of aggregate intragroup exposures both before and after CRM. If the same portion of exposure of an AI is included in the determination of the AI's exposure to 2 or more group affiliates in Part V of the return, the exposure is to be counted once only in determining the aggregate intragroup exposure (e.g. If an AI's exposure to a group affiliate A is guaranteed by group affiliate B of the AI, the exposure should only count once as a direct exposure to group affiliate A in determining the aggregate intragroup exposure under Part V). An overseas incorporated AI should identify its group affiliates on the same basis as under paragraph 43.

Hong Kong Monetary Authority
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Annex 1

Illustrative example on the reporting of the non-CCR exposures arising from certain option contracts

In respect of option contracts with several underlying assets or with reference to a stock index as underlying assets, an AI is always allowed to look-through the index or basket of securities to the exposure to a constituent security in the index or basket of securities, and must do so if the exposure to the security, calculated by the method below, equals to or exceeds 0.25% of the AI's Tier 1 capital. If an AI is unable to identify the securities contained in an index or a basket of securities which are the underlying assets of an option contract, the AI should (1) in cases where the exposure arising from the option contract as determined in accordance with Rule 68 of the BELR does not exceed 0.25% of the AI's Tier 1 capital, assign the exposure as an exposure to the index or basket as a distinct counterparty, or (2) in other cases, assign the exposure to a hypothetical counterparty known as the "unknown client". All exposures to the unknown client (including those under Rule 71(4)(b)(i) of the BELR) must be added up as if they were related to a counterparty, to which Rule 44(1) of the BELR applies.

It should be noted that the method under Rule 71(6) of the BELR that applies to look-through for direct holdings of an investment structure does not apply directly to look-through for the underlying basket of assets or securities index of an option contract.

Method for look-through for an index or basket of securities underlying an option contract to a constituent security of the index or basket of securities

Principle - Pursuant to Rule 68(2) of the BELR, the exposure to the constituent stock equals the change in option price that would result from a default of the constituent stock.

Example: A bank seeks to look through an option contract on an index to a constituent stock A in the index. Let the current underlying (i.e. index) price be U_0, the strike price be S and the option price be V_0. The calculation is the same for a call or a put option.

Firstly, estimate the new underlying price assuming stock A's jump to default – e.g. if stock A accounts for 2% of the index[19], the new underlying price level arising after the default of A is $U_1 = 0.98 \cdot U_0$. Then calculate V_1 by revaluing the option based on the new underlying price level U_1 (assuming the volatility to remain unchanged).

To determine the exposure to stock A arising from the option contract, take the absolute value of the change in option price ($V_1 - V_0$) and adjust the calculated value as follows:

- Long call: treat it as positive;

- Short call: treat it as negative;

- Long put: treat it as negative;

- Short put: treat it as positive.

In other words, the exposure to stock A resulting from the option contract equals $-(V_1-V_0)$ for long call or put options and V_1-V_0 for short call or put options.

[19] In general, the weight of a security in a basket of securities is the ratio of the fair value of that security to the aggregate fair value of all the securities in the basket of securities while the weight of a security in a securities index is the weight of the security in the securities index as specified by the index provider that compiles the index.

The exposure to a constituent security calculated by the above method can be used for offsetting an opposite exposure to the same counterparty, if allowed by the BELR. A net short position in a book after offsetting is taken as zero.

Example: An AI (case i) bought or (case ii) sold a call option for its banking book with an underlying consisting of 3 securities A, B and C. Assuming that:

- the exposures to the issuer of securities A, B and C from the option contract as calculated by the method above are O_A, O_B and O_C respectively;
- other exposures to the issuer of securities A, B and C in the banking book are E_A, E_B, E_C respectively;

and the exposures to A, B and C are all large reportable exposures.

The reporting of the exposures to A, B, C in the banking book should be as follows:

	Before CRM (in HK$'000)	After CRM (in HK$'000)
Name of entity/LC group	On-balance sheet exposures in the banking book Col (3)	On-balance sheet exposures in the banking book Col (3)
A	Max (0, O_A+E_A)	Max (0, O_A+E_A)
B	Max (0, O_B+E_B)	Max (0, O_B+E_B)
C	Max (0, O_C+E_C)	Max (0, O_C+E_C)

Case (i): The AI bought the call option, creating a long position. The exposures looked through to the constituents A, B and C (i.e. O_A, O_B and O_C respectively) are positive. The amount of O_A+E_A , etc. is positive and can be directly reported in the data field.

Case (ii): The AI sold the call option, creating a short position. The exposures looked through to the constituents A, B and C (i.e. O_A, O_B and O_C respectively) are negative. If the amount of O_A+E_A, etc. is positive, report the value in the data field. If the amount of O_A+E_A, etc. is negative, report zero in the data field.

Annex 2

Illustrative examples on the reporting of a SFT

Case 1: AI entered into a margin lending transaction with Customer A:

- Financing to Customer A: HK$100
- Amount of shares (Issued by Entity B) pledged after haircut: HK$100

Scenario 1: the new shares are recognized collateral (assume the exposures are reportable)
Part II & III, MA(BS)28

	Before CRM		After CRM	
	Default risk exposures arising from derivative contracts and SFTs Col (6)	Indirect exposures Col (8)	Default risk exposures arising from derivative contracts and SFTs Col (6)	Indirect exposures Col (8)
Customer A	HK$100		HK$0	
Entity B		HK$100		HK$100

Scenario 2: the new shares are NOT recognized collateral (assume the exposures are reportable)
Part II & III, MA(BS)28

	Before CRM		After CRM	
	Default risk exposures arising from derivative contracts and SFTs Col (6)	Indirect exposures Col (8)	Default risk exposures arising from derivative contracts and SFTs Col (6)	Indirect exposures Col (8)
Customer A	HK$100		HK$100	
Entity B		HK$0		HK$0

Case 2: AI entered into the following repo-style transactions with a counterparty (Counterparty X):

	AI delivered	AI received
(i) Reverse repo transaction	HK$1m cash	HK$1.2m exempted sovereign bond issued by Sovereign A (assume HK$1.14m after haircut)
(ii) Repo transaction	HK$0.5m exempted sovereign bond(Note) issued by Sovereign B booked in the banking book (assume HK$0.525m after haircut)	HK$0.5m cash
Total (after haircut)	HK$1.525m	HK$1.64m

Note: the securities sold in a repo transaction (i.e. the Sovereign B bond in this case) are treated as an

on-balance sheet exposure of the institution as if the institution had never entered into the transaction and the relevant non-CCR exposure should be valued in accordance with Rule 67 of the BELR.

Through these repo-style transactions, the institution had gross default risk exposure of HK$1.525m (i.e. aggregate value of cash and securities delivered) to Counterparty X.

Scenario 1: No netting agreement with Counterparty X (assume the exposures are reportable)

As there is no netting agreement with Counterparty X, transactions (i) and (ii) have to be considered separately. For transaction (i), the default risk exposure of HK$1m was fully offset by the recognized collateral of the Sovereign A bond. In accordance with Rule 54(2)(a)(ii) of the BELR, the AI should report an indirect exposure to Sovereign A. For transaction (ii), there is a residual default risk exposure of HK$0.025m after the consideration of the recognized collateral of cash. Please note that the value of such recognized collateral has been considered in the calculation of the risk-weighted amount of default risk exposure under the BCR and so the amount of CCR exposure arising from a SFT valued in accordance with Rule 60 of the BELR would be an amount net of such recognized collateral.

	Before CRM (in HK$'000)			After CRM (in HK$'000)		
	On-balance sheet exposures in the banking book Col (3)	Default risk exposures arising from derivative contracts and SFTs Col (6)	Indirect exposures Col (8)	On-balance sheet exposures in the banking book Col (3)	Default risk exposures arising from derivative contracts and SFTs Col (6)	Indirect exposures Col (8)
Part II & III, MA(BS)28						
Counterparty X		25			25	
Part IV, MA(BS)28						
Sovereign A			1,000			
Sovereign B	500					

Scenario 2: Netting agreement applies to the transaction with Counterparty X (assume the exposures are reportable)

The aggregate gross default risk exposure amount of HK$1.525m in the netting set can be offset by the aggregate collateral received of HK$1.64m in the netting set. As a result, the full amount of exposure of HK$1.525m was offset by value of collateral available.

	Before CRM (in HK$'000)			After CRM (in HK$'000)		
	On-balance sheet exposures in the banking book Col (3)	Default risk exposures arising from derivative contracts and SFTs	Indirect exposures Col (8)	On-balance sheet exposures in the banking book Col (3)	Default risk exposures arising from derivative contracts and SFTs	Indirect exposures Col (8)

		Col (6)			Col (6)	
Part II & III, MA(BS)28						
Counterparty X		0			0	
Part IV, MA(BS)28						
Sovereign A			1,025*			
Sovereign B	500					

*AI should refer to Rule 83 of the BELR for the treatment of overlap of coverage of recognized CRM. Assume in this case, the reduction amount of the exposure to the CRM uncovered portion is allocated between the CRMs of Sovereign A bond of HK$1.025m and cash of HK$0.5m.