

## 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, 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) ("BELR").
3. These Completion Instructions contain two sections. Section A sets out instructions on the general reporting requirements; Section B explains the reporting requirements for specific 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:-

	<u>Basis of reporting</u>	<u>Submission deadline</u>
AIs incorporated in Hong Kong ("locally incorporated AIs")	One return on the combined position of the Hong Kong offices and all overseas branches (if any)	Not later than <u>one month</u> after the end of each quarter
AIs incorporated outside Hong Kong ("overseas incorporated AIs")	One return on the consolidated position (Note)	Not later than <u>one month</u> after the end of each quarter
AIs incorporated outside Hong Kong ("overseas incorporated AIs")	One return on the position of the Hong Kong offices only	Not later than <u>one month</u> 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 of an AI to be included for reporting in this return should be the same as those specified in a notice given by the MA to the AI under rule 6(1) of the BELR to apply a BELR provision on a solo-consolidated basis and/or consolidated basis. The MA may, by notice in writing, require the AI 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 50 for details.

### **Interpretations**

6. For the purposes of these Completion Instructions and the return form, unless specified otherwise, AIs shall refer to the Banking Ordinance (“BO”) or BELR for the interpretation of the terms used. For ease of reference, most of the main terms defined under the BO and BELR are printed in bold italics on their first appearance in these instructions. AIs should refer to section 2(1) of the BO and rules 2, 39, 84 and 85 of the BELR for details.
7. In these Completion Instructions or the return form:
- (a) “**BCBS**” means the Basel Committee on Banking Supervision;
  - (b) “**BCR**” means the Banking (Capital) Rules (Cap.155L);
  - (c) “**Connected party**” refers to a counterparty connected to an AI as specified below:
    - (i) a party falling within the meaning of **connected party** under rule 85 of the BELR;
    - (ii) the AI’s senior management and key staff (collectively comprising **chief executive** and **managers**) and the **relatives** of such persons;
    - (iii) (I) the AI’s **subsidiaries**, fellow subsidiaries<sup>1</sup> and other entities (including special purpose entities) over which the AI is able to exert control<sup>2</sup>; (II) the **controllers**, **minority shareholder controllers**, **directors**, senior management and key staff<sup>3</sup> (and the relatives of such persons) of the AI’s subsidiaries, fellow subsidiaries and other entities referred to in point (I) in this subparagraph; and
    - (iv) any other entities whose duties or interests are in conflict with the interests of the AI, as determined by the AI in accordance with its policy<sup>4</sup>;
  - (d) “**CRM**” means **recognized CRM**;

<sup>1</sup> 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 2 for the meaning of control.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> For the purposes of identifying connected parties of AIs for internal risk management purposes, AIs are expected to take into account substance over form. For example, an AI should 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 a connected party of the AI.

- (e) “**Exempted exposure before CRM**” has the meaning given by paragraph 12;
- (f) “**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;
- (g) “**Group affiliate**” means an **affiliate** of the **AI** meeting the following condition: the **AI** 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;
- (h) “**Group of linked counterparties**” (“**LC group**”) means a group of linked counterparties of the **AI** as determined by rule 41 of the BELR. In relation to an **overseas incorporated AI**, **LC group** only applies to its counterparties booked in the Hong Kong branch;
- (i) “**Intragroup exposure**” means exposure to a group affiliate;
- (j) “**Indirect exposure**” means an exposure to a counterparty of an **AI** that arises from the counterparty providing **credit protection** to the **AI**’s other exposures;
- (k) “**Large exposure**”, in relation to an **AI**, 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 **AI**’s Tier 1 capital;
- (l) “**Pre-amended BCR**” means the BCR as in force immediately before the Banking (Capital) (Amendment) Rules 2020 came into operation on 30 June 2021;
- (m) “**SA(CCR) approach**”, in relation to an overseas incorporated AI, means the standardized approach to counterparty credit risk under the Basel Framework<sup>5</sup> as implemented under the capital rules of its place of incorporation; and
- (n) “**Tier 1 capital**” of a locally incorporated AI is as defined under section 37 of the BCR. **Overseas incorporated AIs** 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.

<sup>5</sup> See chapter CRE52 of the Basel Framework ([https://www.bis.org/basel\\_framework/standard/CRE.htm](https://www.bis.org/basel_framework/standard/CRE.htm)).

## Determination of exposure value

8. Exposure after CRM to a counterparty of an AI is:-
  - (a) for the purposes of Part I of this return – the **ASC exposure** to a connected party, as adjusted for any exemption provided for under rule 92 of the BELR and the modifications under Division 4, Part 8 of the BELR;
  - (b) for the purposes of Parts II, III and IV of this return – the ASC exposure to the counterparty; and
  - (c) for the purposes of Part V of this return – the ASC exposure to a group affiliate of the AI, 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 of an AI 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 (i.e. no exposure is “transferred out” to a **credit protection provider**). However, exposure before CRM includes credit risk “transferred in” (i.e. indirect exposures to credit protection providers). 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 an 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 covered portion of the exposure once only in determining the AI’s **ALCG exposure** to the group. For the purpose of reporting this return, the AI should also ignore the recognized CRM provided by an entity of an LC group in respect of an exposure of the AI to another entity of the same LC group, and report the relevant exposure in columns 3 to 7 according to the nature of the 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 an exposure should be the same.
11. An exposure reported should include interest accrued on the exposure where required by the BCR<sup>6</sup>.
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 except for rule 48(1)(b), (d) and (k) (i.e. it is not necessary to include exposures to 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.

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<sup>6</sup> See the definitions of “principal amount” under sections 51(1), 105 and 139(1) of the BCR.

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.
16. In respect of the reporting of an indirect exposure to the issuer of a recognized collateral under rule 54(2)(a)(ii), the AI should ascertain the amount by which the *CCR exposure* is reduced (see section 2.4.4 of SPM module CR-G-8 Large Exposures and Risk Concentrations). This means where a locally incorporated AI uses, or is required under the BELR to use, the *SA-CCR approach* to calculate the *default risk exposures* of its *derivative contracts*, the AI is to:-
  - (a) calculate the amount of the default risk exposures to the counterparty under the SA-CCR approach (A) with the consideration of the relevant collateral received by the AI; and (B) without the consideration of the relevant collateral received by the AI (i.e. assuming that the amount of the relevant collateral received by the AI is zero);
  - (b) the difference in the values of the default risk exposure derived under (A) and (B) above is to be included as an exposure to the issuer of the collateral in accordance with rule 54(2)(a)(ii).
17. The measurement approach in paragraph 16 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 22 below.
18. As an alternative to the measurement approach in paragraph 16, 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 current market value of the 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 (*alternative measurement approach*), provided that:-
  - (a) the AI has informed the HKMA in writing two weeks before the adoption of the alternative measurement approach;
  - (b) the AI applies the alternative measurement approach 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
  - (c) 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.
19. For the purposes of reporting the exposures before CRM and exposures after CRM in this return by an overseas incorporated AI, 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 the AI as if the AI were a *Category A institution* or *Category B institution*<sup>7</sup>.

20. As an alternative to the CRM treatment set out in paragraph 19, an overseas incorporated AI may:-
- (a) apply similar credit risk adjustment and risk transfer mechanism under the formal rules of its place of incorporation to implement the standard, “LEX – Large Exposures”, under the Basel Framework<sup>8</sup> (“LEX standard”), as amended or supplemented by the BCBS from time to time; or
  - (b) (if the regulator of its place of incorporation has not implemented large exposure limits based on the LEX standard) apply the credit risk adjustment and risk transfer mechanism, if any, applicable to it under its home rules on large exposures.
21. An overseas incorporated AI is required to apply its choice of application of credit risk adjustment and risk transfer mechanism (i.e. paragraph 19 or 20) for the purpose of reporting this return consistently.
22. An overseas incorporated AI 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:-

For default risk exposure in respect of derivative contracts

- (a) where the AI uses the SA(CCR) approach in its place of incorporation – the AI may use either (i) the SA(CCR) approach<sup>9</sup>; or (ii) the SA-CCR approach<sup>10</sup>;
- (b) where the AI uses the CCR standardized method under the 2006 Basel II framework<sup>11</sup>, or a comparable method, in its place of incorporation – the AI may use either (i) that method as implemented under the capital rules of its place of incorporation; or (ii) the SA-CCR approach;
- (c) 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 any of the following methods:-
  - (i) that method as implemented under the capital rules of its place of incorporation;

<sup>7</sup> If an overseas incorporated AI chooses to apply the CRM provisions in the BELR as if it were a Category A institution or Category B institution (the AI has the discretion to choose to be either type of institution), it should apply the *simple approach* and *comprehensive approach* to the treatment of recognized collateral in accordance with section 78 of the BCR.

<sup>8</sup> [https://www.bis.org/basel\\_framework/standard/LEX.htm](https://www.bis.org/basel_framework/standard/LEX.htm).

<sup>9</sup> 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, and apply this alternative approach consistently.

<sup>10</sup> An overseas incorporated 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 22(a) and/or (d)(ii) 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 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.

<sup>11</sup> <https://www.bis.org/publ/bcbs128.pdf>



- (ii) the current exposure method as set out in the Pre-amended BCR<sup>12</sup>; or
- (iii) subject to compliance with all the conditions specified below, the SA-CCR approach:-
  - (A) The AI is to give an advance notice of at least two weeks 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:-
    - (I) 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;
    - (II) 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;
    - (III) 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.
- (d) where the AI is approved to use a CCR calculation method that is an internal modelling method in its place of incorporation:-
  - (i) where the SA(CCR) approach has not been implemented in its place of incorporation – the AI should use the method as described under paragraph 22(b); or (in the event that paragraph 22(b) is not applicable in respect of the AI) the method as described under paragraph 22(c);
  - (ii) where the SA(CCR) approach has been implemented in its place of incorporation – the AI should use the method described under paragraph 22(a);

For default risk exposure in respect of SFTs

- (e) The AI should calculate the default risk exposure of its SFTs by using either (i) the methods set out in Division 2B of Part 6A of the BCR (other than an *internal model* based approach set out in section 226ML of the BCR); or (ii) a comparable method which the AI uses under the capital rules of its place of incorporation.

23. To avoid doubt, after an overseas incorporated AI has determined the default risk exposure in respect of a derivative contract or SFT under paragraph 22, it should take into account any recognized CRM in accordance with paragraph 19 or 20. In case paragraph 19 is applied, the AI should, in the case of a CCR exposure in respect of SFTs valued in

<sup>12</sup> 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.

accordance with rule 60 of the BELR, take into account the recognized collateral by using the comprehensive approach as appropriate by virtue of rule 48B(3) of the BELR.

24. 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 **overseas incorporated** AI, 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.
25. 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 memorandum item on deductions under column 12 in respect of such exposure.

### **Exposures to joint accounts**

26. If an AI has extended financial facilities to joint accounts the holders of which are individuals who are jointly and severally responsible for the financial 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:

<u>Borrower</u>	<u>Amount of loans reported</u>
Individual A	loan 1 + loan 2
Individual B	loan 1
Individual C	loan 2

### **Basis for exposure ranking**

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

## **Section B: Specific Instructions**

### **Columns in tables**

28. Column (2) Maximum exposure – 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.



29. 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, 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.
30. Column (4) Trading book exposures – Report trading book exposures (in respect of Parts I, II, III, IV and V), except those in relation to column (6). Among other trading book exposures, (1) 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; and (2) exposures arising from unsettled transaction in securities, foreign exchange or commodities in the trading book, as valued in accordance with rule 67A, 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.
31. Column (5) Off-balance sheet exposures – Report off-balance sheet exposures that (1) fall within rule 65 of the BELR; or (2) are **unsegregated collateral**, before CRM (in respect of Parts I, II, IV and V) or after CRM (in respect of Part III).
32. 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 rules 59 and 60 of the BELR respectively (i.e. after taking into account the effect of **recognized netting** in the calculation of default risk exposure under Division 2B of Part 6A of the BCR where 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 of default risk exposure, the amount after adjusting for the recognized CRM should be reported as “exposure after CRM”. See illustrative examples on the reporting of **margin lending transaction** in Annex 1.
33. 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).
34. 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 an AI that arise from a counterparty providing credit protection to the AI's other exposures.
35. 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. If more than one exemption provision is applicable to the exposures to the same counterparty, the AI should report all the relevant provisions.

36. 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.

37. Column (13) Memorandum item: Economic sector – Report the economic sector into which an LC group (or a counterparty if it does not belong to any LC group) of an AI falls, namely banks, non-bank financial institutions (NBFIs) or others, in the following manner:-

(a) with a view to reducing compliance efforts, AIs are to leverage on the classification of exposure types as set out in the credit risk capital framework under the BCR for the identification of relevant economic sectors, as illustrated below;

Economic sector	<i><b>STC approach</b></i> <sup>13</sup>	<i><b>IRB approach</b></i>
	Definition of “ECAI ratings based portfolio” under BCR section 51(1):	Table 16 under BCR section 142:
Banks	paragraph (a)(v) “bank exposures”	IRB subclass “Banks (excluding covered bonds)”
NBFIs	paragraph (a)(vii) “qualifying non-bank financial institution exposures”	IRB subclass “qualifying non-bank financial institutions”
Others	Exposures that do not fall within the other two economic sectors	

(b) for an LC group of an AI that engages in multiple business lines, the AI may categorise the LC group into any of the relevant economic sectors with reference to (i) the major line of business of the LC group; or (ii) another pertinent criterion in accordance with the internal risk management framework of the AI<sup>14</sup>; and

(c) an overseas incorporated AI may categorise the economic sector of its counterparties or LC groups in accordance with subparagraph (a) above, or comparable capital standards in its place of incorporation.

38. Column (14) Memorandum item: AI’s relationship with the connected party – Report in Part I of the return how an entity is connected to the AI by indicating which of the following paragraphs<sup>15</sup> of the definition of “connected party” under paragraph 7(c) is applicable to the entity:

- (a) Paragraph (i): Rule 85(1)(a)
- (b) Paragraph (i): Rule 85(1)(b)
- (c) Paragraph (i): Rule 85(1)(c)
- (d) Paragraph (i): Rule 85(1)(d)
- (e) Paragraph (i): Rule 85(1)(e)
- (f) Paragraph (i): Rule 85(1)(f)
- (g) Paragraph (i): Rule 85(1)(g)
- (h) Paragraph (i): Rule 85(1)(h)

<sup>13</sup> AIs that use the *basic approach* for credit risk please refer to parallel provisions under Part 5 of the BCR.

<sup>14</sup> For example, if the AI considers the bank and NBFI entities within an LC group as auxiliary to the main business of the group (say, manufacturing), the AI may categorise the LC group into the economic sector of “Others”, and consistently apply this categorization unless and until there are fundamental changes to the main business line of the LC group.

<sup>15</sup> If an entity falls within multiple specified paragraphs, all relevant paragraphs should be reported under this column.

- (i) Paragraph (ii)
- (j) Paragraph (iii)
- (k) Paragraph (iv)

## **Part IA: General information of the AI in relation to the reporting of MA(BS)28**

39. Part IA serves to record special reporting treatments that are adopted by an AI for reporting of MA(BS)28. AIs should tick the box applicable to it as set out under items 1 to 3. A mapping of the individual items to the relevant regulation or instructions are set out below for ease of reference.

Part IA items	Reference	
	Locally incorporated AIs	Overseas incorporated AIs
Item 1	See paragraph 7(n)	See paragraph 7(n)
Item 2(a)	See rules 49 and 50 of the BELR	See paragraph 19
Item 2(b)	See rule 51 of the BELR	
Item 3(a)	See rule 59(a) (where applicable) and (b) of the BELR	See paragraph 22(a), (b), (c)(iii) and (d)
Item 3(b)		
Item 3(c)		See footnote 9
Item 3(d)	See paragraph 18	See paragraph 18
Item 3(e)		See paragraphs 20 and 21

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

- 40. Report in the table any exposures before CRM to a connected party equal to or exceeding 5% of the AI's Tier 1 capital during the reporting period.
- 41. Report in the table of "Memorandum Items" under this Part the aggregate exposures before and after CRM to all connected parties and to connected natural persons of the AI as at the reporting date.

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

- 42. A locally incorporated AI should 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 any other exposures before CRM to an LC group (or a counterparty if it does not belong to any LC group) that equal to or exceed 10% of the Tier 1 capital of the AI during the reporting period.
- 43. An overseas incorporated AI should report its 20 largest exposures before CRM during the reporting period.

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

- 44. A locally incorporated AI should 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 any

other exposures after CRM to an LC group (or a counterparty if it does not belong to any LC group) that equal to or exceed 10% of the Tier 1 capital of the AI during the reporting period.

45. An overseas incorporated AI should report its 20 largest exposures after CRM during the reporting period.
46. Report in the table of “Memorandum Item” under this Part the aggregate amount of the large exposures excluding banks<sup>16</sup> of the AI as at the reporting date. In this connection, an AI only needs to include an exposure to an LC group (or a counterparty if it does not belong to any LC group) under the memorandum item if the AI’s aggregate exposure (excluding exposure to banks) to this group/counterparty after CRM equals to or exceeds 10% of the AI’s Tier 1 capital. If an exposure to a single counterparty is included in more than one LC group under this memorandum item, the exposure should only be counted once.

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

47. Report in the table any aggregate exempted exposures 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 AI 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), an AI should report it in column (8) as an indirect exposure to the exempted sovereign entity that issued the recognized collateral or recognized guarantee. In respect of the deduction amount under rule 57(1)(d), an AI should report it in columns (3) to (8) according to the nature of the exposure from which the relevant deduction is made.
48. 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 (locally incorporated AIs) or 20 largest intragroup exposures (overseas incorporated AIs) during the reporting period**

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

<sup>16</sup> 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, i.e. the bond should not be excluded from the clustering limit. Please see section 4.2.2 of CR-G-8 for further details.

50. 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 its head office and any overseas branch of the AI to which the Hong Kong branch has incurred exposures were one group affiliate of that separate legal entity<sup>17</sup>. Report the twenty largest exempted exposures before CRM to each of its group affiliates during the reporting period.

51. The table of “Memorandum Items” under this Part includes:-

(a) Internal aggregate intragroup exposure limit – A locally incorporated AI should report in this item the internal aggregate intragroup exposure limit as set in accordance with the requirement under section 2.10.1(a) of CR-G-8. If the relevant requirement is not applicable to the AI on a particular reporting basis, the AI should leave the cell blank<sup>18</sup> in the return for that reporting basis<sup>19</sup>;

(b) Internal limit on exposure to each non-bank group entity – A locally incorporated AI should report in this item the internal limit on exposure to a single non-bank group entity as set by the AI, which is a sub-limit of the internal aggregate intragroup exposure limit. In cases where different internal limits are set on exposures to different non-bank group entities, the AI should report the highest internal limit in this item. If the relevant requirement is not applicable to the AI on a particular reporting basis, the AI should leave the cell blank<sup>18</sup> in the return for that reporting basis; and

(c) Aggregate intragroup exposure –

(i) a locally incorporated AI should report the aggregate exposures to all group affiliates of the AI, as determined in accordance with section 2.10.1(a) of CR-G-8 for the purpose of complying with the internal aggregate intragroup exposure limit under that paragraph, as at the reporting date.

(ii) an overseas incorporated AI should report the aggregate exposures to all group affiliates of the AI, identified on the same basis as paragraph 50, as at the reporting date.

(iii) If the same portion of an 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).

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<sup>17</sup> For example, the Hong Kong branch of Bank X, which is incorporated outside Hong Kong, has \$900m exposures to its head office, and exposures of \$500m and \$400m respectively to the New York branch and London branch of Bank X. Assuming all these exposures are reportable under Part V, then the Hong Kong branch of Bank X should report one aggregate exposure of \$1,800m to Bank X under Part V.

<sup>18</sup> “N/A” will be automatically shown in the printed return.

<sup>19</sup> For example, if an AI has established an internal aggregate intragroup exposure limit (including the internal limit on exposure to each non-bank group entity) on a consolidated basis but not on an unconsolidated basis, the AI should input the limit in the consolidated position of MA(BS)28 and leave the cell blank in the combined position of MA(BS)28.

## **Annex 1**

### **Illustrative examples on the reporting of a margin lending transaction**

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)**

Parts 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)**

Parts 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