Completion Instructions

Return of Capital Adequacy Ratio
Part IIIa - Risk-weighted Amount for Credit Risk
Basic Approach
Form MA(BS)3(IIIa)

Introduction

1. Form MA(BS)3(IIIa) of Part III should be completed by each authorized institution (AI) incorporated in Hong Kong using the ***basic approach (BSC approach)*** to calculate ***credit risk*** under Part 5 of the Banking (Capital) Rules (BCR).

2. This Form covers the following exposures of a reporting AI:

   (a) all on-balance sheet exposures and off-balance sheet exposures booked in its ***banking book***;

   (b) all ***default risk exposures*** to counterparties under ***securities financing transactions*** (***SFTs***) and ***derivative contracts*** booked in its ***trading book***;

   (c) all credit exposures to counterparties in respect of transactions (other than ***repo-style transactions***) in securities, foreign exchange or ***commodities*** booked in its trading book that remain outstanding after the settlement dates in respect of the transactions;

   (d) all credit exposures to counterparties in respect of ***unsegregated collateral*** posted by the AI and held by the counterparties for transactions or contracts booked in AI's trading book; and

   (e) if applicable, the AI's market risk positions that are exempted from section 17 under section 22 of the BCR, except for its total net open position in foreign exchange exposures as derived in accordance with section 296 of the BCR.

3. This Form does not cover the following exposures:

   (a) portions of exposures (which may be all of the exposures) that are required to be deducted from any of the AI's ***CET1 capital, Additional Tier 1 capital*** and ***Tier 2 capital*** under Division 4 of Part 3 of the BCR (which should be reported in Form MA(BS)3(II));

   (b) ***securitization exposures*** (which should be reported in Form MA(BS)3(IIId));

   (c) the ***underlying exposures*** of ***eligible traditional securitization transactions*** if the AI opts to apply the treatment under section 230(1) of the BCR to the underlying exposures;

   (d) ***default fund contributions*** made to ***qualifying CCPs*** and ***non-qualifying CCPs*** (which should be reported in Form MA(BS)3(IIIe));

(e) default risk exposures to qualifying CCPs (which should be reported in Form MA(BS)3(IIIe)); and

(f) exposures that are risk-weighted as if they were default risk exposures to qualifying CCPs under Division 4 of Part 6A (which should be reported in Form MA(BS)3(IIIe)).

4. This Form and these completion instructions should be read in conjunction with the BCR and the relevant supervisory policy/guidance related to the capital adequacy framework.

Section A: Definitions and Clarification

5. In these instructions—

(a) "gross sum of the stated notional amounts" refers to the sum of the stated notional amounts of all relevant contracts, without the stated notional amounts of contracts with positive replacement costs being reduced by the stated notional amounts of contracts with negative or zero replacement costs, regardless of whether the contracts are subject to ***recognized netting***.

(b) "recognized CRM" refers to ***recognized collateral***, recognized netting, ***recognized guarantees*** and ***recognized credit derivative contracts***. To avoid doubt, guarantees issued by other offices of the reporting AI are not regarded as ***recognized credit risk mitigation***. Debt securities which are ***re-securitization exposures*** (whether rated or not) cannot be recognized as collateral (see section 125(2) of the BCR).

(c) "stated notional amount" means the nominal ***notional amount*** of a derivative contract. It should not be confused with any effective notional amount or adjusted notional calculated for the derivative contract under Part 6A of the BCR.

(d) "Tier 1 country" has the meaning given by the Banking Ordinance, that is, Hong Kong and any country or place other than Hong Kong which—

(i) is a member of the Organization for Economic Co-operation and Development (OECD); or

(ii) has concluded special lending arrangements with the International Monetary Fund associated with the International Monetary Fund's General Arrangements to Borrow,

but excludes any such country or place which—

(iii) has rescheduled its external sovereign debt, whether to central government or non-central government creditors, within the previous five years; or

(iv) is specified by the Monetary Authority (MA) by notice published in the Gazette as being a country or place that is not to be regarded as a Tier 1 country for the purposes of this definition.

Currently, OECD members comprise[1]:

Australia	France	Lithuania	Sweden
Austria	Germany	Luxembourg	Switzerland
Belgium	Greece	Mexico	Türkiye
Canada	Hungary	Netherlands	United Kingdom
Chile	Iceland	New Zealand	United States
Colombia	Ireland	Norway	
Costa Rica	Israel	Poland	
Czechia	Italy	Portugal	
Denmark	Japan	Slovak Republic	
Estonia	Korea	Slovenia	
Finland	Latvia	Spain	

6. AIs and ***banks*** include their head offices and branches outside Hong Kong. For example, a placement with a ***Tier 2 country*** incorporated AI or its branch outside Hong Kong should be classified as an exposure to an AI regardless of the jurisdiction of its incorporation or location of its branch. A placement with a Tier 1 country incorporated bank's branch, regardless of its location, should be classified as an exposure to a bank incorporated in Tier 1 country.

7. Double counting of exposures arising from the same contract or transaction should be avoided. For example, only the undrawn portion of a loan commitment should be reported as an off-balance sheet exposure while the actual amount which has been lent out should be reported as an on-balance sheet exposure. ***Trade-related contingencies***, such as trust receipts and shipping guarantees, which have already been reported as letters of credit issued or loans against import bills etc. should not be counted again as off-balance sheet exposures.

8. In certain cases, exposures to counterparties arising from derivative contracts entered into by the reporting AI with those counterparties may already be reflected, in part, on the reporting AI's balance sheet. For example, the AI may have recorded the ***fair value*** of a derivative contract on its balance sheet. To avoid double counting, such amount should be excluded from on-balance sheet exposures and treated as off-balance sheet exposures for the purposes of this Form.

9. Accruals on an exposure should be classified and risk-weighted in the same way as the exposure. Accruals which cannot be so classified should, with the ***prior consent*** of the MA, be included in Class XII (Other Exposures).

[1] The list is provided for reference only and may not be up-to-date. AIs must visit the website of the OECD (https://www.oecd.org) regularly to verify whether a sovereign to which the AIs have exposures is an OECD member.

10. For ***specified SFTs*** booked in the reporting AI's banking book—

(a) if the assets underlying the SFTs are ***non-securitization exposures***, the AI's credit exposures to the assets underlying the SFTs should be reported in Division A of this Form (see also section 117C(2) of the BCR);

(b) if the assets underlying the SFTs are securitization exposures, the AI's credit exposures to the assets underlying the SFTs should be risk-weighted in accordance with Part 7 of the BCR and reported in Form MA(BS)3(IIId) (see also section 117C(3) of the BCR).

11. For specified SFTs booked in the reporting AI's trading book, the AI's exposures to the assets underlying the SFTs are market risk exposures. Hence, the AI only needs to calculate the ***risk-weighted amounts*** (RWAs) of its market risk exposures to the assets in accordance with Part 8 of the BCR (see section 117C(4) of the BCR) and reports the exposures in the corresponding Return Form for market risk. The AI is not required to calculate any RWA for the credit risk of the assets. However, if the AI is granted an exemption under section 22 of the BCR, the AI should comply with section 117C(2) instead of section 117C(4) of the BCR in calculating the RWAs of its exposures to the assets, and report the exposures in this Form instead.

12. An ***originating institution*** of a ***non-eligible securitization transaction*** must report the RWA of the underlying exposures of the transaction in this Form as if the exposures were not securitized. If the credit risk mitigation (CRM) afforded to the underlying exposures of an ***eligible synthetic securitization transaction*** is not in the form of ***tranched credit protection***, the underlying exposures must be reported in this Form in the same manner as a non-eligible securitization transaction except that the CRM for transferring the credit risk of the underlying exposures to the other parties to the transaction can be taken into account in the RWA calculation and therefore should also be included in the reporting. However, if the CRM is in the form of tranched credit protection, both the underlying exposures and the CRM effect must be reported in Form MA(BS)3(IIId) (please see paragraph 15(b) of the completion instructions for Form MA(BS)3(IIId)). For cases which are not specified in these instructions or in any other supervisory guidance relevant to ***securitization transactions***, reporting AIs should consult the HKMA on the reporting arrangements.

Section B: Reporting arrangements for Division A of Part IIIa

B.1 Exposure Classification

13. Division A of this Form is organized according to the following standard exposure classes into which on-balance sheet and off-balance sheet exposures should be classified under the BSC approach:

Class I	***Sovereign*** Exposures
Class II	***Public Sector Entity*** (PSE) Exposures
Class III	Multilateral Development Bank (MDB) Exposures
Class IV	***Unspecified Multilateral Body*** Exposures
Class V	Bank Exposures
Class VI	***Eligible Covered Bond*** Exposures

Class VII	IPO Financing
Class VIII	Cash and Gold
Class IX	Exposures to Items in the Process of Clearing or Settlement
Class XA	***Regulatory Residential Real Estate Exposures***
Class XB	Other ***Real Estate Exposures***
Class XIA	***Equity Exposures***
Class XIB	***Significant Capital Investments in Commercial Entities***
Class XIC	Insignificant and Significant LAC Investments
Class XID	***Subordinated Debts***
Class XII	Other Exposures
Class XIII	***Collective Investment Scheme*** Exposures (***CIS exposures***)

14. The exposure classes are mutually exclusive and therefore each exposure should be reported under only one of them. However, it should be noted that a single transaction may give rise to more than one exposure. For example, a derivative contract booked in the banking book has an exposure to the counterparty to the derivative contract and may also have a credit exposure to the asset underlying the derivative contract.

15. Classification of ***credit-linked notes*** (CLNs) held

(a) A single-name CLN held by the reporting AI should be reported in Division A under—

(i) the exposure class applicable to the issuer of the CLN if the CLN is allocated the risk-weight determined by risk-weighting the CLN as an exposure to the issuer; or

(ii) the exposure class applicable to the ***reference obligation*** of the CLN if the CLN is allocated the risk-weight attributable to the reference obligation.

(b) A multiple-name CLN (e.g. a first-to-default CLN) should be reported in Class XII item *12c*.

16. Classification of off-balance sheet exposures

Off-balance sheet exposures must be classified into exposure classes in the same manner as on-balance sheet exposures (i.e. based on the source of credit risk). In particular—

(a) in the case of an ***asset sale with recourse***, a sale and repurchase agreement (other than a repo-style transaction) or a ***forward asset purchase***, since the credit risk is arising from the asset that could be repurchased or is to be purchased in the future, the exposure should be classified into the exposure class within which the asset sold/to be purchased (e.g. equities) would fall if the asset were held by the reporting AI;

(b) in the case of ***partly paid-up shares and securities***, since the credit risk associated with the shares or securities is in effect passed to the reporting AI, the exposure should be classified into the exposure class within which the relevant shares or securities would fall if they were on-balance sheet exposures of the reporting AI;

(c) in the case of a ***direct credit substitute*** arising from the selling of ***credit protection*** in the form of ***total return swap*** or ***credit default swap*** booked in the reporting AI's banking book, the exposure should be classified into the exposure class within which the relevant reference obligation of the swap would fall if the reference obligation were an on-balance sheet exposure of the reporting AI. If the swap provides credit protection to a basket of reference obligations, the exposure should be classified into Class XII; and

(d) in the case of default risk exposures, the exposures should be classified into the exposure classes within which the counterparties to the derivative contracts or SFTs concerned fall.

B.2 Specific Instructions for Selected Exposure Classes

17. Class I Sovereign Exposures

(a) Deposits placed with, and loans made to, the Government (including those for the account of the Exchange Fund and the clearing balances with the Exchange Fund) should be reported in item *1a*.

(b) Market makers who have short positions in Exchange Fund Bills/Notes may report their net holdings of such instruments provided that the short positions are covered by the Sale and Repurchase Agreements with the HKMA. The following steps should be taken in determining the amount to be reported:

(i) the long and short positions of instruments with a residual maturity of less than 1 year may be offset with each other;

(ii) the long and short positions of instruments with a residual maturity of not less than 1 year may be offset with each other;

(iii) if the net positions of both (i) and (ii) above are long, the positions should be reported in items *1b* and *1c* respectively;

(iv) if the net positions in (i) is long and the net position in (ii) is short, or the other way round, the two positions can be netted with each other on a dollar for dollar basis. The resultant net long position, if any, should be reported in item *1b* or *1c* as appropriate.

(c) An off-balance sheet exposure to a sovereign may be reported in item *1b, 1c, 1d, 1e, 1g, 1h, 1i* or *1j* only if it is a credit exposure arising from fixed rate or floating rate debt securities issued or guaranteed by the sovereign, e.g. a forward asset purchase to buy a fixed rate government bond.

18. **Class V Bank Exposures**

For the purposes of this exposure class, clean[2] export trade bills negotiated under other banks' letters of credit may be reported as exposures to the issuing banks of the letters of credit.

19. **Class VII IPO Financing**

Only exposures arising from IPO financing that are eligible for 0% risk-weight are reported in this exposure class. After payments for allotted securities are made to the relevant receiving bank, any outstanding loan amounts should be reported in the exposure classes to which the obligors belong (e.g. Class XII if the obligor is an individual).

20. **Class VIII Cash and Gold**

(a) Items *8c to 8e* - Gold bullion

(i) Gold bullion held in safe custody for other entities or customers, which does not expose the reporting AI to any credit risk, is not required to be included in this Form.

(ii) Gold bullion held on an unallocated basis by a third party for the reporting AI backed by gold liabilities should be reported in item *8d*. Column A5 of item *8d* is for reporting the weighted average of the ***attributed risk-weights*** of the third parties.

(iii) Gold bullion held <u>not</u> backed by gold liabilities (i.e. all other holdings of gold bullion not included in items *8c* and *8d*) should be reported in item *8e*.

(b) Item *8f* – Exposures collateralized by cash collateral

(i) This item captures exposures collateralized by the following assets (collectively referred to as "cash collateral")—

(A) cash on deposit with the reporting AI; or

(B) certificates of deposit, or comparable instruments, issued by the reporting AI.

(ii) However, when the cash collateral is held at a third-party bank in a non-custodial arrangement and unconditionally and irrevocably pledged or assigned to the reporting AI, the ***credit protection covered portion*** concerned must be reported as an exposure to that third-party bank under Class V and therefore must not be reported in item *8f*.

[2] This includes cases where discrepancies have been accepted by the issuing bank concerned.

21. Class IX Exposures to Items in the Process of Clearing or Settlement

(a) Item *9c* refers to the amount of cheques, drafts and other items drawn on other banks that are payable to the account of the reporting AI immediately upon presentation and in the process of collection, and includes—

(i) cheques and drafts against which the AI has paid to its customers (i.e. by purchasing or discounting the cheques or drafts presented by the customers) and in respect of which it now seeks payment from the drawee banks;

but excludes—

(ii) import and export trade bills held by the AI that are in the process of collection (they should be risk-weighted and reported as exposures to the counterparties concerned);

(iii) unsettled clearing items that are being processed through any interbank clearing system in Hong Kong (which should be reported in item *9a*); and

(iv) receivables arising from transactions in securities (other than repo-style transactions), and transactions in foreign exchange and commodities, that are not yet due for settlement (which should be reported in item *9b*).

(b) Item *9d* captures any transaction in securities (other than repo-style transaction), or any transaction in foreign exchange or commodities, that is entered into on a ***delivery-versus-payment (DvP) basis***[3] where payment / delivery has not yet taken place after the settlement date.

(c) Item *9e* captures any transaction in securities (other than repo-style transaction), or any transaction in foreign exchange or commodities, that is entered into on a non-DvP basis where payment / delivery from the counterparty concerned has not yet taken place after the settlement date. The amount of the payment made or the current market value of the thing delivered by the reporting AI, plus any ***positive current exposure*** associated with the transaction, should be reported as an exposure in item 9*e(i)* or *(ii)*, as the case requires. The amount reported in item *9e(i)* should be risk-weighted as a loan to the counterparty to the transaction.

22. Class XA Regulatory Residential Real Estate Exposures

(a) Regulatory residential real estate exposures that are risk-weighted in accordance with section 115B of the BCR should be reported in items *10a(i)* to *10b(iii)*.

(b) Real estate exposures (other than ***ADC exposures***) secured by residential properties outside Hong Kong that are risk-weighted in accordance with section 115C of the BCR, where the exposures are regulatory residential real estate exposures under the capital adequacy standards of the jurisdictions concerned, should be reported in item *10c*.

[3] DvP transactions include payment-versus-payment (PvP) transactions.

(c) See paragraph 29(d) for the reporting arrangement of regulatory residential real estate exposures guaranteed by Hong Kong Housing Authority or insured by HKMC Insurance Limited.

23. Class XB Other Real Estate Exposures

(a) ADC exposures should be reported in item *10d*.

(b) Real estate exposures (other than ADC exposures) that are risk-weighted in accordance with section 115D of the BCR should be reported in item *10e*.

(c) Real estate exposures (other than ADC exposures) secured by residential properties outside Hong Kong that are risk-weighted in accordance with section 115C of the BCR, where the exposures are not regulatory residential real estate exposures under the capital adequacy standards of the jurisdictions concerned, should be reported in item *10f*.

24. Class XIC Insignificant and Significant LAC Investments

(a) Items *11g(i) and 11g(iii)* – ***Significant LAC investments***

Items *11g(i)* and *11g(iii)* are intended for reporting instruments that can be excluded from the calculation of the applicable amount mentioned in section 47(1)(d) and section 48(1)(d) of the BCR (e.g. capital instruments mentioned in section 47(2)(a) and section 48(2)(a) of the BCR, and underwriting positions mentioned in section 1(4)(c) of Schedule 4G to the BCR), where the risk-weight applicable to the instruments is not 250%.

(b) Item *11h* – Holdings of non-capital LAC liabilities

This item is for reporting holdings that fall within section 115G(3) of the BCR.

(c) Apart from the holdings that are risk-weighted in accordance with section 115G of the BCR, CIS exposures (or any part of the exposures) to which section 117F(3) of the BCR applies must also be reported under this exposure class.

25. Class XII Other Exposures

Included in this exposure class are exposures—

(a) that are subject to credit risk capital requirements; and

(b) that have not been included in Classes I to XI and Class XIII in this Form.

Item no.	Nature of item
12a.	Exposures to ***corporates*** or individuals not elsewhere reported
	This refers to exposures to corporates or individuals that have not been included in other exposure classes and items *12c* to *12f* below.

12b. Premises, plant and equipment, other fixed assets for own use, and other interest in land

Included are—

(a) investments in premises, plant and equipment and all other fixed assets of the reporting AI which are held for own use; a right-of-use asset recognized by the reporting AI as a lessee in accordance with the prevailing accounting standards issued by Hong Kong Institute of Certified Public Accountants where the asset leased is a tangible asset; and

(b) other interests in land which are neither occupied by the reporting AI nor used in the operation of the AI's business.

12c. Multiple-name credit-linked notes / sold credit protection to basket of exposures

This item refers to—

(a) multiple-name CLNs (e.g. first-to-default CLNs) for which the applicable risk-weights are determined according to section 117(2) of the BCR; and

(b) sold credit protection to a basket of reference obligations, where the protection is in the form of total return swap or credit default swap booked in the reporting AI's banking book and the risk-weight applicable to the protection is determined according to section 117B(1), (2), (3) or (4) of the BCR.

12d. First loss portion of credit protection

This item refers to the portion of an exposure that is below the materiality threshold mentioned in section 135(9) of the BCR.

12e. Other exposures not elsewhere reported whose risk-weight is 100%

This item refers to investments or exposures that are risk-weighted at 100% and have not been reported in Classes I to XI, items *12a* to *12c* and Class XIII.

12f. Other exposures not elsewhere reported

(a) This item refers to investments or exposures that have a risk-weight other than 100% and have not been reported in Classes I to XI, items *12c* and *12d*) and Class XIII.

(b) If necessary, the MA may specify a risk-weight that is greater than 100% for an exposure falling within section 116 of the BCR. Such an exposure should be reported in this item.

(c) This item also includes credit protection covered portions of exposures that are—

- secured by recognized collateral for which the applicable risk-weights are determined under Part 7 of the BCR; or
- covered by recognized credit derivative contracts eligible for a risk-weight of 2% or 4% under section 134(6) of the BCR (the credit protection covered portions should be reported as a separate item from the credit protection covered portions mentioned in the first bullet and other exposures reported in this item). To avoid doubt, if the recognized credit derivative contracts concerned fall within section 226BI(b), 226I(b) or 226MC(b) of the BCR, the default risk exposures in respect of the contracts are regarded as zero for the purposes of Form MA(BS)3(IIIe).

26. Class XIII Collective Investment Scheme Exposures (CIS exposures)

Use of a single approach

(a) If a ***CIS exposure*** is risk-weighted only by using one approach, the exposure should be reported in—

(i) any of items *13a(i)* to *13a(vi)* if either the ***look-through approach*** (LTA) or the ***third-party approach*** is used;

(ii) any of items *13b(i)* to *13b(vi)* if the ***mandate-based approach*** (MBA) is used; or

(iii) item *13c(i)* if the ***fall-back approach*** (FBA) is used.

(b) "Risk-weight" referred to in items *13a(i)* to *13c(i)* means the effective risk-weight applicable to a CIS exposure determined under Division 2 of Part 6B of the BCR.

Use of a combination of approaches

(c) If a CIS exposure to a collective investment scheme (CIS) is risk-weighted by using more than one approach, e.g. LTA for on-balance sheet assets held by the CIS and FBA for off-balance sheet exposures incurred by the CIS, the exposure should be reported in any of items *13d(i)* to *13d(vi)*.

(d) "Risk-weight" referred to in items *13d(i)* to *13d(vi)* is the effective risk-weight (RW) of a CIS exposure calculated as follows:

$$RW = \frac{\sum_a RWA_a}{TA} \cdot L$$

where—

(i) RWA_a is the RWA of that portion of the underlying exposures of a CIS which is determined by using approach a;

(ii) TA is the total assets of the CIS; and

(iii) L is the leverage of the CIS calculated in accordance with section 226ZJ(2)(b) of the BCR.

(See Part IIIa and IIIb – Annex B for numerical examples)

B.3 Reporting of On-balance Sheet Exposures – Column A1 in Division A

27. If an on-balance sheet exposure is not covered by any recognized CRM, the whole ***principal amount*** (after deduction of ***specific provisions***[4]) of the exposure should be reported in column A1 of the row for the exposure class and risk-weight applicable to the exposure.

28. If an on-balance sheet exposure is covered fully or partially by recognized CRM, the exposure should be reported in column A1 in accordance with paragraphs 29 to 30 below.

29. CRM treatment by substitution of risk-weights (applicable to collateral, guarantees and ***credit derivative contracts***)

(a) The whole principal amount (after deduction of specific provisions) of the exposure should be divided into the credit protection covered portion(s) and the ***credit protection uncovered portion***.

(b) Each credit protection covered portion should be reported in column A1 of the row for the exposure class and risk-weight applicable to the credit protection concerned. That is, the credit protection covered portion should be allocated the risk-weight of the collateral, or, in the case of guarantee or credit derivative contract, the attributed risk-weight of the ***credit protection provider*** (or the risk-weight of 2% or 4% if the credit derivative contract falls within section 134(6) of the BCR).

(c) The credit protection uncovered portion of the exposure, if any, should be reported in column A1 of the row for the exposure class and risk-weight applicable to the exposure.

(d) In the case of—

(i) mortgage loans granted for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme, Tenants Purchase Scheme and other similar schemes which are covered by guarantees issued by Hong Kong Housing Authority;

(ii) reverse mortgage loans granted under the Reverse Mortgage Programme of HKMC Insurance Limited; and

(iii) mortgage loans granted under Mortgage Insurance Programme of HKMC Insurance Limited,

[4] For the purposes of the BSC approach, "specific provisions", as defined in section 105 of the BCR, includes partial write-offs.

the credit protection uncovered portion, if any, of the mortgage loans should be reported in column A1 under Class XA. The credit protection covered portion of the mortgage loans in relation to a guarantee provided by Hong Kong Housing Authority or an insurance provided by HKMC Insurance Limited should be reported in Class II and column A1 of item *2a* if the guarantee or insurance concerned meets all the criteria set out in section 132 of the BCR.

30. CRM treatment by reduction of principal amount of exposures (applicable to on-balance sheet netting)

The net credit exposure calculated under section 130 of the BCR should be reported in the exposure class to which the exposure belongs and in column A1 of the row for the risk-weight applicable to the exposure.

B.4 Reporting of Off-balance Sheet Exposures other than Default Risk Exposures – Columns A2 and A3 in Division A

31. Off-balance sheet exposures (except default risk exposures and credit exposures arising from unsegregated collateral posted)

(a) If an off-balance sheet exposure is not covered by any recognized CRM, the whole principal amount (net of specific provisions if applicable) of the exposure and its ***credit equivalent amount*** (CEA) should be reported respectively in column A2 and column A3 of the row for the exposure class and risk-weight applicable to the exposure.

(b) If an off-balance sheet exposure is covered fully or partially by recognized CRM—

(i) the whole principal amount (net of specific provisions if applicable) of the exposure should be reported in column A2 of the row for the exposure class and risk-weight applicable to the exposure;

(ii) the amount reported in column A2 should be divided into the credit protection covered and uncovered portions and each of these portions should be multiplied by the ***credit conversion factor*** (CCF) applicable to the exposure;

(iii) the CEA of each credit protection covered portion should be reported in column A3 of the row for the exposure class and risk-weight applicable to the credit protection concerned; and

(iv) the CEA of the credit protection uncovered portion should be reported in column A3 of the row for the exposure class and risk-weight applicable to the exposure.

32. Off-balance sheet exposures arising from unsegregated collateral posted by reporting AI

In the case of off-balance sheet exposures to which section 118(2) of the BCR applies, the reporting AI should report the whole principal amount (net of specific provisions if applicable) of the collateral in columns A2 and A3 of the row for the exposure class and risk-weight applicable to the person holding the collateral.

B.5 Reporting of Off-balance Sheet Exposures that are Default Risk Exposures – Columns A2 and A4 in Division A

33. For any derivative contracts or SFTs entered into by the reporting AI with a counterparty, the AI should report the amounts listed below in column A2 of the row for the exposure class and risk-weight applicable to the default risk exposures to the counterparty:

    (a) in the case of derivative contracts—the gross sum of the stated notional amounts of the derivative contracts entered into with the counterparty;

    (b) in the case of SFTs—

        (i) the principal amounts of any securities sold or lent to the counterparty by the AI under the SFTs;

        (ii) the principal amounts of any money paid or lent to the counterparty by the AI under the SFTs; and

        (iii) the principal amounts of any securities or money provided to the counterparty as collateral by the AI under the SFTs.

34. For any default risk exposure that is calculated by using the ***SA-CCR approach*** or the ***IMM(CCR) approach***—

    (a) if the exposure is not covered by any recognized CRM[5], the ***outstanding default risk exposure*** of the ***netting set*** (or the default risk exposure if the netting set contains SFTs only), net of specific provisions if applicable, should be reported in column A4 of the row for the exposure class and risk-weight applicable to the exposure;

    (b) if—

        (i) the exposure is covered fully or partially by recognized collateral and falls within section 126(1A)(c) of the BCR;

        (ii) the exposure is covered fully or partially by a recognized guarantee or recognized credit derivative contract; or

        (iii) the exposure falls within both subparagraphs (i) and (ii),

        the reporting arrangement for column A4 is as follows:

[5] In the case of SFTs, "recognized CRM" refers to recognized guarantees and recognized credit derivative contracts as securities or money received by the AI under the SFTs have already been taken into account in the calculations under the IMM(CCR) approach, they should not be taken into account again under Part 5. In the case of derivative contracts, "recognized CRM" refers to recognized collateral whose credit risk mitigation effect can be taken into account under section 126(1A)(c) of the BCR, recognized guarantees and recognized credit derivative contracts.

(iv) the outstanding default risk exposure or default risk exposure, as the case may be, net of specific provisions if applicable, should be divided into the credit protection covered and uncovered portions;

(v) each credit protection covered portion should be reported in column A4 of the row for the exposure class and risk-weight applicable to the credit protection concerned; and

(vi) the credit protection uncovered portion should be reported in column A4 of the row for the exposure class and risk-weight applicable to the exposure.

35. For any default risk exposure that is calculated by using the ***current exposure method***—

(a) if the exposure is not covered by any recognized CRM, the outstanding default risk exposure of the derivative contract concerned, net of specific provisions if applicable, should be reported in column A4 of the row for the exposure class and risk-weight applicable to the exposure;

(b) if the exposure is covered fully or partially by one or more than one type of recognized CRM, the outstanding default risk exposure of the derivative contract concerned should be reported in column A4 in the same manner as set out in paragraph 34(b)(iv) to (vi).

36. Any default risk exposure that is calculated for an SFT in accordance with section 226MJ of the BCR and covered fully or partially by one or more than one type of recognized CRM should be reported in column A4 in the same manner as set out in paragraph 34(b)(iv) to (vi).

37. If the reporting AI issues a CLN to cover a default risk exposure, the amount of the proceeds received from the issuance of the CLN should not be included in the calculation of the amount of the default risk exposure under Division 1A, 2, 2A or 2B of Part 6A of the BCR. The AI may only take into account the CRM effect of the proceeds in the calculation of the RWA of the default risk exposure in accordance with section 135(8) of the BCR.

B.6 Reporting of Risk-weighted Amount – Column A6 in Division A

38. For all items in Division A, the RWA reported in column A6 is calculated by multiplying the sum of the amounts reported in columns A1, A3 and A4 by the risk-weight in column A5.

Section C: Reporting arrangements for Division B of Part IIIa

C.1 General Instructions

39. Unless otherwise stated in these completion instructions, the reporting AI is not required to report in Parts II, III, IV and V of Division B any derivative contract or SFT that is outside the scope of Divisions 1A, 2, 2A and 2B of Part 6A of the BCR (please refer to the "Q&As on exposures to counterparty credit risk and central counterparties" for more information). Default risk exposures reported in columns B12, B21, B27 and B36

should not be reduced by any ***CVA loss*** or specific provisions made. Outstanding default risk exposures in respect of derivative contracts and any specific provisions made for default risk exposures should be reported in Column A4 in Division A of this Form.

40. Breakdown of CEAs and default risk exposures by exposure class in Division B should be consistent with the exposure classes into which the off-balance sheet exposures concerned are classified for the purposes of Division A.

C.2 Part I of Division B - Off-balance Sheet Exposures other than Default Risk Exposures

41. The reporting AI should classify each of its off-balance sheet exposures other than default risk exposures into the appropriate standard items listed in paragraph 42 and report the exposures in Part I of Division B of this Form.

42. CCFs for items *1* to *11* are set out in Schedule 6 to the BCR.

Item no.	Nature of item
1.	Direct credit substitutes
2.	***Transaction-related contingencies***
3.	Trade-related contingencies
4.	Asset sales with recourse
5.	Sale and repurchase agreements (excluding repo-style transactions)
6.	Forward asset purchases This item also captures off-balance sheet exposures arising from the reporting AI's commitments to subscribe to CISs' future capital calls. To avoid doubt, forward start repo-style transactions should be reported in item *10b or c* instead of this item.
7.	Partly paid-up shares and securities
8.	***Forward forward deposits placed*** This refers to a commitment of the reporting AI to place a forward forward deposit. If the reporting AI has contracted to receive a forward forward deposit, failure to deliver by the counterparty will result in an unanticipated change in the AI's interest rate exposure and may involve a replacement cost. Such exposure should therefore be regarded as default risk

exposures arising from ***interest rate contracts*** and reported in Part II, III or V of Division B, as the case requires.

9. ***Note issuance and revolving underwriting facilities***

10a. to c. Other ***commitments***

Included is the undrawn portion of any arrangement that falls within the definition of "commitment" defined in section 2 of Schedule 6 to the BCR and does not fall within any of items *1* to *9*.

A commitment is regarded as being created no later than the acceptance in writing by the customer of the facility offered.

In the case of an off-balance sheet exposure (exposure A) arising from a commitment the drawdown of which will give rise to another off-balance sheet exposure (exposure B) falling within any of items *1* to *9* and *11*, the CCF applicable to exposure A should be the lower of—

(a) the CCF applicable to exposure A according to Schedule 6 to the BCR; and

(b) the CCF applicable to exposure B according to that Schedule.

10a. ***Exempt commitments***

10b. Other commitments (CCF at 10%)

This item captures commitments (other than exempt commitments) that—

(a) may be cancelled at any time unconditionally by the reporting AI concerned without prior notice; or

(b) provide for automatic cancellation due to deterioration in the creditworthiness of the persons to whom the reporting AI has made the commitments.

10c. Other commitments (CCF at 40%)

This item captures commitments that do not fall within items *10a* and *10b*.

11a. to d. Off-balance sheet exposures not specified above

11a. This item captures off-balance sheet exposures that do not fall within items *1* to *10c* and that are subject to a CCF of 100%. Such exposures include, but not limited to—

(a) off-balance sheet exposures to the credit risk of the underlying assets of cash-settled derivative contracts (e.g. equity forward contracts) booked in the reporting AI's banking book; and

(b) credit exposures to persons holding unsegregated collateral posted by the reporting AI (other than collateral posted that is included in the default risk exposures reported in Part II, III, IV or V of Division B of this Form and Form MA(BS)3(IIIe)) (see section 118(2) of the BCR).

11b. to d. These items capture off-balance sheet exposures that do not fall within items *1* to *10c* and that are subject to a CCF specified in Part 2 of Schedule 1 to the BCR. For other off-balance sheet exposures not mentioned above, the reporting AI should consult the HKMA on the reporting arrangements.

43. The reporting AI should report each of its off-balance sheet exposures as follows:

(a) report in column B2 the principal amount (net of specific provisions if applicable) of the exposure;

(b) report in column B3 the CEA of the exposure (i.e. the product of the amount reported in column B2 and the applicable CCF specified in column B1); and

(c) report the CEA of the exposure in one of columns B4 to B10[6] if the exposure falls within any one of the following exposure classes—

(i) Class I Sovereign Exposures;

(ii) Class II Public Sector Entity (PSE) Exposures;

(iii) Class III Multilateral Development Bank (MDB) Exposures[7];

(iv) Class IV Unspecified Multilateral Body Exposures[7];

(v) Class V Bank Exposures;

(vi) Class XA Regulatory Residential Real Estate Exposures[8];

(vii) Class XB Other Real Estate Exposures[8];

(viii) Class XII Other Exposures; and

(ix) Class XIII Collective Investment Scheme Exposures (CIS exposures).

[6] Only breakdown by major exposure classes is required. As a result, for each row, the total amount reported in column B3 would be greater than or equal to the sum of the total amounts reported in columns B4 to B10.
[7] To be reported in column B6.
[8] To be reported in column B8.

C.3 Part II of Division B - Default Risk Exposures in respect of Derivative Contracts[9] (Current Exposure Method)

44. If the reporting AI uses the current exposure method to calculate default risk exposures, it should report the exposures so calculated in the appropriate items in Part II of Division B.

Item no.	Nature of item
12.	Interest rate contracts
13.	***Exchange rate contracts***
14.	***Credit-related derivative contracts***
15.	***Equity-related derivative contracts***
16.	***Commodity-related derivative contracts***
17.	Other derivative contracts not specified above
18.	Of which: Offsetting or CCP-related transactions with clearing members or clearing clients This item is for reporting the amounts captured under items *12 to 17* that are related to ***offsetting transactions*** or ***CCP-related transactions*** entered into by the reporting AI with ***clearing members*** or ***clearing clients*** (see Part IIIe – Annex A and paragraph 5 of the completion instructions for Form MA(BS)3(IIIe) for more information on exposures related to centrally cleared transactions that should be reported in this Form).

45. The reporting AI should report each of its derivative contracts entered into with a counterparty as follows:

   (a) report in column B11 the stated notional amount of the derivative contract;

   (b) report in column B12 the default risk exposure of the derivative contract calculated under the current exposure method; and

   (c) report the default risk exposure of the derivative contract in one of columns B13 to B17[10] if the counterparty to the contract is a sovereign, PSE, MDB, unspecified multilateral body, bank, corporate or individual.

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[9] Derivative contracts include long settlement transactions that fall within paragraph (c) or (d) of the definition of "derivative contract" in section 2(1) of the BCR. For example, a long settlement transaction that is a FX spot transaction must be reported as an exchange rate contract.

[10] Only breakdown by major exposure classes is required. As a result, for each row, the total amount reported in column B12 would be greater than or equal to the sum of the total amounts reported in columns B13 to B17.

46. The total of all stated notional amounts reported in column B11 of each of items *12* to *18* should be the gross sum of the stated notional amounts.

47. To avoid doubt, sold options falling within section 226MB(2) of the BCR should also be reported. However, the reporting AI is not required to report credit derivative contracts falling within section 226MC of the BCR in Part II of Division B[11].

C.4 Part III of Division B - Default Risk Exposures in respect of Derivative Contracts[12] (SA-CCR approach)

48. If the reporting AI uses the SA-CCR approach to calculate default risk exposures, it should report the exposures so calculated in the appropriate items in Part III of Division B (See Part IIIa and IIIb – Annex A for numerical examples).

Item no.	Nature of item
19.	Unmargined contracts not covered by recognized netting This item captures derivative contracts— (a) that fall within the definition of ***unmargined contract*** in section 226BA of the BCR; and (b) that are not covered by recognized netting. The following contracts should also be reported in this item— (a) contracts that fall within section 226BH(2) or (4) of the BCR; and (b) contracts that have been removed from the netting sets concerned under section 226BH(3)(b) or (5) of the BCR.
20.	Margined contracts not covered by recognized netting This item captures derivative contracts— (a) that fall within the definition of ***margined contract*** in section 226BA of the BCR; and (b) that are not covered by recognized netting.
21.	Contracts covered by recognized netting This item captures derivative contracts (whether they are margined contracts or not) covered by recognized netting.

[11] This is to avoid double counting as the notional amounts of the contracts concerned are somehow reflected in the amounts reported in Division A (e.g. credit protection covered portions) or Part I of Division B (e.g. direct credit substitutes).

[12] See footnote 9.

22. Out of the amounts reported in items 19, 20 and 21, the amounts for offsetting or CCP-related transactions with clearing members or clearing clients

This item is for reporting the amounts captured under items *19* *to* *21* that are related to offsetting transactions or CCP-related transactions entered into by the reporting AI with clearing members or clearing clients (see Part IIIe – Annex A and paragraph 5 of the completion instructions for Form MA(BS)3(IIIe) for more information on exposures related to centrally cleared transactions that should be reported in this Form).

49. For all items in Part III of Division B—

(a) if a netting set contains a credit derivative contract that falls within section 226BI of the BCR and the reporting AI has—

(i) treated the default risk exposure of such credit derivative contract as zero; and

(ii) removed such credit derivative contract from the netting set (i.e. the default risk exposure of the netting set is calculated as if the credit derivative contract did not exist),

the reporting AI is not required to report such credit derivative contract in Part III of Division B[13];

(b) the amount reported in column B18 is the gross sum of the stated notional amounts of the relevant derivative contracts.

50. For item *19*—

(a) report in column B19 the replacement cost of a derivative contract calculated in accordance with Division 1A of Part 6A of the BCR by using the formula applicable to the contract. In the case of a sold option whose default risk exposure is set to zero under 226BH(2) or (3) of the BCR, the replacement cost of the option may be reported as zero;

(b) report in column B20 the potential future exposure of the derivative contract calculated in accordance with Division 1A of Part 6A of the BCR by using the formulas applicable to the asset class into which the contract falls. In the case of a sold option whose default risk exposure is set to zero under section 226BH(2) or (3) of the BCR, the potential future exposure of the option may be reported as zero;

(c) report in column B21 the default risk exposure of the derivative contract (i.e. the sum of the amounts reported in columns B19 and B20 multiplied by 1.4); and

[13] See footnote 11.

(d) report the default risk exposure of the derivative contract in one of columns B22 to B26[14] if the counterparty to the contract is a sovereign, PSE, MDB, unspecified multilateral body, bank, corporate or individual.

51. The reporting arrangements mentioned in paragraph 50 also apply to item *20*. Also—

(a) if the default risk exposure calculated for a margined contract on an unmargined basis is regarded as the default risk exposure of the contract, the default risk exposure calculated on an unmargined basis should be reported in column B21 (see section 226BH(1) of the BCR);

(b) if more than one derivative contract is covered by a single ***variation margin agreement***—

(i) the stated notional amount of each of the derivative contracts should be reported in column B18 of item *20a, 20b, 20c, 20d or 20e*, as the case requires;

(ii) there is no need to report the replacement cost, potential future exposure and default risk exposure calculated for these contracts by type of contract. The amounts calculated under sections 226BE(3), 226BS and 226BE(2) of the BCR should be reported in columns B19, B20 and B21 of item *20f* respectively.

52. For item *21*, the replacement cost, potential future exposure and default risk exposure of a netting set or a group of netting sets, as the case may be, should be reported in the row "SUBTOTAL" of columns B19, B20 and B21 respectively. The reporting arrangements mentioned in paragraphs 50(c) and 50(d) and paragraph 51(a) apply to the netting set or the group of netting sets as they apply to a single derivative contract.

C.5 Part IV of Division B - Default Risk Exposures in respect of SFTs (Non-IMM(CCR) Approach)

53. If the reporting AI calculates default risk exposures in respect of SFTs under Division 2B of Part 6A of the BCR, it should report the exposures so calculated in the appropriate items in Part IV of Division B as follows:

(a) Under item *23a*, for each of the SFTs entered into by the reporting AI—

(i) report in column B27 the default risk exposure of the SFT calculated under section 226MJ of the BCR; and

(ii) report the default risk exposure in one of columns B28 to B32[15] if the counterparty to the SFT is a sovereign, PSE, MDB, unspecified multilateral body, bank, corporate or individual.

(b) Item *23b* is for reporting the amounts captured under item *23a* that are related to offsetting transactions or CCP-related transactions entered into by the reporting AI with clearing members or clearing clients (see Part IIIe – Annex A and paragraph

[14] Only breakdown by major exposure classes is required. As a result, for each row, the total amount reported in column B21 would be greater than or equal to the sum of the total amounts reported in columns B22 to B26.
[15] Only breakdown by major exposure classes is required. As a result, for each row, the total amount reported in column B27 would be greater than or equal to the sum of the total amounts reported in columns B28 to B32.

5 of the completion instructions for Form MA(BS)3(IIIe) for more information on exposures related to centrally cleared transactions that should be reported in this Form).

C.6 Part V of Division B - Default Risk Exposures (IMM(CCR) Approach)

54. If the reporting AI uses the IMM(CCR) approach to calculate default risk exposures, it should report the exposures so calculated in the appropriate items in Part V of Division B.

Item no.	Nature of item
24.	Portfolio-level risk-weighted amount based on current market data The portfolio-level RWA calculated under section 226D(1)(a) and (2)(a) of the BCR should be reported in this item.
25.	Portfolio-level risk-weighted amount based on stress calibration The portfolio-level RWA calculated under section 226D(1)(b) and (2)(b) of the BCR should be reported in this item. Only the higher of item *24* and item *25* will be used in the calculation of the total RWA for credit risk under the BSC approach.
26. to 29.	Items *26* to *29* capture the breakdown of the default risk exposures included in the portfolio-level RWA that will be used in the capital adequacy ratio calculation. In other words, if the portfolio-level RWA calculated using current market data is larger, the default risk exposures reported in items *26* to *29* should be those used in calculating the RWA reported in item *24*.
26.	Netting sets (not subject to recognized netting) This item captures transactions— (a) that are not subject to recognized netting; or (b) that are required to be treated as a separate netting set under section 226J(1) of the BCR. If the reporting AI's ***IMM(CCR) approval*** covers one or more than one of the following categories of transactions: (a) derivative contracts (excluding ***long settlement transactions*** (LSTs)); (b) SFTs (excluding LSTs); and (c) LSTs, the AI should report each of its transactions in item *26a*, *26b* or *26c* based on the category within which the transaction falls.

27. Netting sets (subject to valid bilateral netting agreements)

This item captures transactions—

(a) that are subject to ***valid bilateral netting agreements***; and

(b) that are not required to be treated as a separate netting set under section 226J(1) of the BCR.

Derivative contracts and SFTs covered by the reporting AI's IMM(CCR) approval must be reported in items *27a* and *27b* respectively. The amounts reported in these two items will include derivative contracts and SFTs that are LSTs unless these LSTs are not covered by the IMM(CCR) approval.

If the reporting AI's IMM(CCR) approval only covers LSTs, the AI should report the LSTs in item *27c*.

28. Netting sets (subject to valid cross-product netting agreements)

This item captures transactions—

(a) that are subject to ***valid cross-product netting agreements***; and

(b) that are not required to be treated as a separate netting set under section 226J(1) of the BCR.

LSTs are included unless the IMM(CCR) approval of the reporting AI does not cover LSTs.

29. Out of the amounts reported in items 26, 27 and 28, the amounts for offsetting or CCP-related transactions with clearing members or clearing clients

This item is for reporting the amounts captured under items *26* to *28* that are related to offsetting transactions or CCP-related transactions entered into by the reporting AI with clearing members or clearing clients (see Part IIIe – Annex A and paragraph 5 of the completion instructions for Form MA(BS)3(IIIe) for more information on exposures related to centrally cleared transactions that should be reported in this Form).

55. The reporting AI should report the default risk exposures calculated under the IMM(CCR) approach in Part V of Division B of this Form as follows:

(a) report in column B34 of items *26a, 26c, 27a, 27c, 28a* and *29a* the gross sum of the stated notional amounts of the derivative contracts and LSTs concerned;

(b) report in column B35 of items *26b, 26c, 27b, 27c, 28b, 28c* and *29a* the principal amounts of the securities sold, lent or delivered, or the money paid, by the AI to the counterparties under the SFTs and LSTs concerned;

(c) report in column B36 of items *26a to 27c, 28* and *29a* the default risk exposures of the netting sets concerned calculated under section 226E of the BCR. In the case of item *26*, the netting set only contains one transaction; and

(d) report the default risk exposure of each of the netting sets reported in column B36 in one of columns B37 to B41[16] if the counterparty to the netting set is a sovereign, PSE, MDB, unspecified multilateral body, bank, corporate or individual.

56. If a netting set contains a credit derivative contract that falls within section 226I of the BCR and the reporting AI has—

(a) treated the default risk exposure of such credit derivative contract as zero; and

(b) removed such credit derivative contract from the netting set (i.e. the default risk exposure of the netting set is calculated as if the credit derivative contract did not exist),

the reporting AI is not required to report such credit derivative contract in Part V of Division B of this Form[17].

C.7 Multiple Credit Risk Mitigation

57. If an exposure is covered by two or more forms of recognized CRM (e.g. with both collateral and guarantee partially covering the exposure), the treatments for the recognized CRM are set out in section 136(1) and (2) of the BCR. The calculation of the RWA of each portion will be done separately.

58. Unless otherwise stated in the BCR (e.g. section 126(1C)), the reporting AI may determine, at its discretion, how recognized CRM that is shared by two or more on-balance sheet and/or off-balance sheet exposures are allocated to each of the exposures for the purpose of RWA calculation, as long as the AI's allocation is not inconsistent with the terms and conditions of the relevant legal documentation.

C.8 Maturity Mismatches

59. If the credit protection provided has a residual maturity which is shorter than the residual maturity of the exposure, the reporting AI must not take into account the CRM effect of that credit protection.

Hong Kong Monetary Authority
March 2025

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[16] Only breakdown by major exposure classes is required. As a result, for each row, the total amount reported in column B36 would be greater than or equal to the sum of the total amounts reported in columns B37 to B41.
[17] See footnote 11.