Return of Capital Adequacy Ratio
Part IIIb – Risk-weighted Amount for Credit Risk
Standardized (Credit Risk) Approach
Form MA(BS)3(IIIb)

Introduction

1.   Form MA(BS)3(IIIb) of Part III should be completed by each authorized institution (AI) incorporated in Hong Kong using the *standardized (credit risk) approach (STC approach)* to calculate *credit risk* under Part 4 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, *cryptoassets*, 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 exposures 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. Division A1 of this Form is for reporting exposures other than ***cryptoasset exposures***. Cryptoasset exposures should be reported in Division A2 of this Form.

5. In Division A1 column A6 and Division A2 column A5, cells that require inputs by reporting AIs allow input of values up to 6 decimal places. Similarly, certain other items (mainly the columns for reporting ***risk-weighted amounts*** (RWA)) throughout this Form allow input of values up to 3 decimal places. The intention is to provide flexibility for making adjustments to reduce rounding errors, rather than to require reporting of exact figures. Hence, reporting AIs may continue their current practices of rounding figures to 2 decimal places for risk-weights and to the nearest integer for other figures, and may increase the decimal place of certain reported figures if necessary.

6. 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

7. 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 sections 79(2) and 80(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.

8. 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.

9.   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.

10.   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 Monetary Authority (MA), be included in Class XV (Other Exposures which are not *Defaulted Exposures*).

11.   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 A1 or A2 of this Form (see also section 68C(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 68C(3) of the BCR).

12.   For specified SFTs booked in the reporting AI's trading book, the AI only needs to calculate the RWAs of its exposures to the assets in accordance with Part 8 (or Part 12 if cryptoassets are involved) of the BCR (see section 68C(4) of the BCR) and report the exposures as follows—

(a) for assets other than cryptoassets, the AI's market risk exposures to the assets should be reported in Form MA(BS)3A;

(b) for assets that are *group 1 cryptoassets or group 2a cryptoassets*, the AI's market risk exposures to the cryptoassets should be reported in Form MA(BS)3A. If there is any RWA for the risk of default of the redeemer or the risk arising when intermediaries perform the redemption function, the RWA should be reported in Division A.2 or B.1, as the case requires, of Form MA(BS)3(IIIf); and

(c) for assets that are *group 2b cryptoassets*, the AI's exposures to the cryptoassets should be reported in Division B.2 of Form MA(BS)3(IIIf).

The AI is not required to calculate any RWA for the credit risk of the assets (except the risk of default of redeemer/intermediaries performing redemption function mentioned in paragraph (b) above and the conservative treatment mentioned in paragraph (c) above). However, if the AI is granted an exemption under section 22 of the BCR, the AI should comply with section 68C(2) instead of section 68C(4) of the BCR in calculating the RWAs of its exposures to the assets, and report the exposures in this Form instead.

13.   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 <u>not</u> 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.

14.   There are items where the column "Nature of item" is blank and requires input by reporting AIs if the AIs have reported exposures in those items.   Reporting AIs are required to provide a descriptive entry regarding the nature of the exposures reported and should not enter unnecessary or placeholder text, such as a full stop, solely to satisfy the relevant validation rules.

Section B: Reporting arrangements for Division A1 of Part IIIb

B.1   Exposure Classification

15.   <u>Division A1</u> of this Form is organized according to the following <u>standard exposure classes</u> into which on-balance sheet and off-balance sheet exposures should be classified under the STC approach:

Class I	*Sovereign* Exposures
Class II	*Public Sector Entity* 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	*Qualifying Non-bank Financial Institution* (QNBFI) Exposures
Class VIII	*Corporate* Exposures
Class IX	Retail Exposures
Class X	IPO Financing
Class XIA	Regulatory Residential Real Estate Exposures
Class XIB	Regulatory Commercial Real Estate (CRE) Exposures
Class XIC	*Real Estate Exposures* other than *Regulatory Real Estate Exposures*
Class XID	*Land Acquisition, Development and Construction Exposures*
Class XIIA	*Equity Exposures*
Class XIIB	*Significant Capital Investments in Commercial Entities*
Class XIIC	Insignificant and Significant LAC Investments
Class XIID	*Subordinated Debts*
Class XIII	Cash and Gold

Class XIV	Exposures to Items in the Process of Clearing or Settlement
Class XV	Other Exposures which are not Defaulted Exposures
Class XVI	*Defaulted Exposures*
Class XVII	*Collective Investment Scheme* Exposures (*CIS exposures*)

16.   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.

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

(a) A single-name CLN that has an *ECAI issue specific rating* should be reported in Division A1 under—

    (i)   the exposure class applicable to the issuer of the CLN if the CLN is allocated the risk-weight determined in accordance with section 68(1)(b) of the BCR; 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 determined in accordance with section 68(1)(c) of the BCR.

If no scale of credit quality grades is applicable to the ECAI issue specific rating of the CLN (e.g. the rating is issued by a *Type B ECAI* but the use of the ECAI ratings issued by such Type B ECAI to risk-weight the CLN is prohibited by a restriction published by the MA under section 4B(3) of the BCR), the AI should classify the CLN into an exposure class in accordance with paragraph (b).

(b) A single-name CLN without an ECAI issue specific rating should be reported in Division A1 under—

    (i)   the exposure class applicable to the issuer of the CLN if the CLN is allocated the risk-weight determined in accordance with section 68(2)(a) of the BCR; 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 determined in accordance with section 68(2)(b) of the BCR.

(c) A multiple-name CLN (e.g. a first-to-default CLN) should be reported in Class XV item *15b* regardless of whether the CLN has an ECAI issue specific rating or not.

18.   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 <u>banking book</u>, 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 XV; 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 related to the Use of ECAI Ratings

19.   The latest list of ***external credit assessment institutions*** (ECAIs) and the mapping tables of these ECAIs' ratings with ***credit quality grades*** are published on the HKMA's website.

20.   The use of ***ECAI ratings*** assigned by Type B ECAIs are subject to one or more than one restriction published by the MA under section 4B(3) of the BCR. AIs should refer to the HKMA's website for the restriction(s) imposed on each Type B ECAI.

21.   If an exposure does not have any ECAI issue specific rating, but the ***obligor*** of the exposure has at least one ***ECAI issuer rating*** and/or any of its other debt obligations has at least one ***long-term ECAI issue specific rating***, the reporting AI should apply section 54E of the BCR to determine which of these ECAI ratings must be used for the purpose of determining the risk-weight applicable to the exposure.

B.3   Specific Instructions for Selected Exposure Classes

22.   **Class I Sovereign Exposures**

Item *1a* **- *domestic currency exposures*** to the Government

(a) Only exposures to the Government, such as 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), that are denominated and funded in Hong Kong dollars can be reported in item *1a(i)*. Foreign currency exposures to the Government should be reported in item *1b*.

(b) The *credit protection covered portion* of a repo-style transaction secured by debt securities denominated in Hong Kong dollars issued by the Government should be reported in item *1a(iii)* if the reporting AI uses the *simple approach* to take into account the CRM effect of the debt securities and any one or more of the conditions set out in section 82(4) of the BCR are not met.

(c) Market makers who have short positions in Exchange Fund Bills/Notes may report their <u>net</u> 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 in item *1a(i)*:

(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;

(iv) if the net position 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.

23. **Class II Public Sector Entity Exposures**

(a) Exposures to public sector entities, including *sovereign foreign public sector entities*, should be reported under this exposure class.

(b) The *credit protection covered portion* of a repo-style transaction secured by debt securities issued by a sovereign foreign public sector entity should be reported in item *2b* if the reporting AI uses the simple approach to take into account the CRM effect of the debt securities and section 82(3)(b) of the BCR is applicable to the repo-style transaction.

24. **Class III Multilateral Development Bank (MDB) Exposures**

Items *3b* to *3e* refer to MDB exposures that are not eligible for 0% risk-weight (i.e. those MDBs whose ECAI ratings have been downgraded to A+ / A1 or below).

25. **Class V Bank Exposures**

For the purposes of this exposure class, clean[1] export trade bills negotiated under other banks' letters of credit may be reported as exposures to the issuing banks of the letters of credit.

26. **Class VII Qualifying Non-bank Financial Institution (QNBFI) Exposures**

Unrated exposures to financial institutions that fall within paragraph (a) or (b) of the definition of "qualifying non-bank financial institution" in section 2(1) of the BCR should

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

be reported in item *7b(iv)* (if the exposures are risk-weighted at 50%) or item *7b(v)* (if the exposures are risk-weighted at 75%).

27. **Class VIII Corporate Exposures**

    (a) To avoid doubt, corporate exposures include exposures to regional, provincial or municipal governments, and financial entities that are not eligible for being classified as "bank" or "qualifying non-bank financial institution" under the BCR.

    (b) In this Form—

    (i)   "rated general corporate exposures" (items *8a(i)* to *8a(vi)*) means ***general corporate exposures*** that are not unrated exposures;

    (ii)   "unrated general corporate exposures" (items *8b(i) to 8b(iii)*) means general corporate exposures that are unrated exposures;

    (iii) "rated specialized lending exposures" (items *8c(i)* to *8c(v)*) means specialized lending exposures that are risk-weighted based on the ECAI issue specific ratings assigned to the exposures; and

    (iv)   "unrated specialized lending exposures" (items *8d(i) to 8d(iii)*) means specialized lending exposures that are not rated specialized lending exposures.

28. **Class IX Retail Exposures**

    (a) Items *9a* and *9b* are for reporting ***regulatory retail exposures*** that are not ***unhedged credit exposures***.

    (b) If a borrower has been granted two or more ***revolving*** facilities and at least one non-revolving facility and all of those facilities are regulatory retail exposures, the facilities should be reported as follows:

    (i)   any of those revolving facilities in respect of which the borrower is a ***transactor*** should be reported in *item 9a(i)*;

    (ii)   any of those revolving facilities in respect of which the borrower is not a transactor should be reported in *item 9b*;

    (iii) the non-revolving facility/facilities should be reported in—

    (A) *item 9a(ii)* if the AI knows that the borrower is a transactor in respect of at least one revolving facility;

    (B) *item 9b* if the AI knows that the borrower is not a transactor in respect of all of the borrower's revolving facilities; or

    (C) *item 9b* if the AI does not know whether the borrower is a transactor in respect of any revolving facility.

(c) Item *9c* is for reporting exposures to individuals (other than those falling within Classes X, XIA, XIB, XIC and XID) that are neither regulatory retail exposures nor unhedged credit exposures.

(d) Regulatory retail exposures and exposures to individuals (other than those that are regulatory retail exposures and those falling within Classes X, XIA, XIB, XIC and XID) that are unhedged credit exposures must be reported in item *9d* instead of items *9a(i)* to *9c*.

(e) Column A6 of item *9d* is for reporting the weighted average of the risk-weights of the unhedged credit exposures (see <u>Part IIIb – Annex B</u> for a numerical example).

29. **Class X 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 IX if the obligor is an individual).

30. **Class XIA Regulatory Residential Real Estate Exposures**

(a) Items *11a* and *11b* are for reporting regulatory residential real estate exposures that are risk-weighted in accordance with section 65B(2) or (3) of the BCR and that are not unhedged credit exposures.

(b) Item *11c* is for reporting regulatory residential real estate exposures that are unhedged credit exposures. Column A6 of item *11c* is for reporting the weighted average of the risk-weights of the unhedged credit exposures, which is calculated in the same manner as the risk-weight reported in column A6 of item *9d*.

(c) Real estate exposures (other than ***ADC exposures***) secured by residential properties outside Hong Kong that are risk-weighted in accordance with section 65E of the BCR, where the exposures are regulatory real estate exposures under the capital adequacy standards of the jurisdictions concerned, should be reported in item *11d*.

(d) See paragraph 42(d) for the reporting arrangement of regulatory residential real estate exposures guaranteed by Hong Kong Housing Authority or insured by HKMC Insurance Limited.

31. **Class XIC Real Estate Exposures other than Regulatory Real Estate Exposures**

(a) Items *11g* and *11h* are for reporting real estate exposures that are neither regulatory real estate exposures nor ADC exposures. "Other obligors" referred to in item *11g(iii)* are obligors other than individual and ***small business***. Column A6 of item *11g(iii)* is for reporting the weighted average of the risk-weights of the exposures reported in that item.

(b) Real estate exposures (other than ADC exposures) secured by residential properties outside Hong Kong that are risk-weighted in accordance with section 65E of the BCR, where the exposures are not regulatory real estate exposures under the capital adequacy standards of the jurisdictions concerned, should be reported in item *11i*.

32. **Class XID Land Acquisition, Development and Construction Exposures**

(a) Items *11j* and *11k* are for reporting ADC exposures that are risk-weighted in accordance with section 65F(1) and (2) of the BCR.

(b) Item *11l* is for reporting ADC exposures in respect of residential properties outside Hong Kong that are risk-weighted in accordance with section 65F(3) of the BCR.

33. **Class XIIA Equity Exposures**

This exposure class is for reporting equity exposures that do not fall within Class XIIB (Significant Capital Investments in Commercial Entities) and Class XIIC (Insignificant and Significant LAC Investments).

34. **Class XIIC Insignificant and Significant LAC Investments**

(a) Items *12g(i) and 12g(iii) – Significant LAC investments*

Items *12g(i)* and *12g(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 *12h* – Holdings of non-capital LAC liabilities

This item is for reporting holdings that fall within section 65I(3) of the BCR.

(c) Item *12i* – Holdings of non-capital LAC liabilities to which s.48(4) applies

This item is for reporting holdings that fall within section 48(4) of the BCR.

(d) Apart from the holdings that are risk-weighted in accordance with section 65I of the BCR, CIS exposures (or any part of the exposures) to which section 70A(3) of the BCR applies must also be reported under this exposure class.

35. **Class XIII Cash and Gold**

(a) Items *13c* to *13e* - 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 *13d*. Column A6 of item *13d* is for reporting the weighted average of the risk-weights of the exposures reported in that item.

(iii) Gold bullion held <u>not</u> backed by gold liabilities (i.e. all other holdings of gold bullion not included in items *13c and 13d*) should be reported in item *13e*.

(b) Items *13f to 13h* - Exposures collateralized by cash collateral

    (i) These items capture exposures collateralized by the following assets (collectively referred to as "cash collateral") where the CRM effect of the cash collateral is taken into account by using the simple approach—

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

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

    (ii) The reporting AI should report the credit protection covered portion of the exposures in—

        (A) item *13f*—

- if the exposures are default risk exposures arising from repo-style transactions that do not fall within section 82(3) of the BCR; or

- if the exposures are not default risk exposures and there is ***currency mismatch*** between the cash collateral and the exposures (i.e. section 82(5) of the BCR does not apply);

        (B) item *13g* if the exposures are default risk exposures arising from repo-style transactions that fall within section 82(3)(b) of the BCR; or

        (C) item *13h*—

- if the exposures are default risk exposures arising from repo-style transactions that fall within section 82(3)(a) of the BCR; or

- if the exposures are not default risk exposures and there is no currency mismatch between the cash collateral and the exposures (i.e. section 82(5) of the BCR applies).

    (iii) 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 items *13f* to *13h*.

36. **Class XIV Exposures to Items in the Process of Clearing or Settlement**

(a) Item *14c* 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 *14a*); 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 *14b*).

(b) Item *14d* captures any transaction in securities <mark>or cryptoassets</mark> (other than repo-style transaction), or any transaction in foreign exchange or commodities, that is entered into on a ***delivery-versus-payment (DvP) basis²*** where payment / delivery has not yet taken place after the settlement date.

(c) Item *14e* captures any transaction in securities <mark>or cryptoassets</mark> (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 *14e(i)* or *(ii)*, as the case requires. The amount reported in item *14e(i)* should be risk-weighted as an exposure to the counterparty to the transaction.

37.   **Class XV Other Exposures which are not Defaulted 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 XIV, XVI and XVII in this Form.

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² DvP transactions include payment-versus-payment (PvP) transactions.

Item no.	Nature of item

15a. **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;

(b) 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

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

15b. **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 68(3) of the BCR (also see paragraph 17(c) above); 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 68B(1), (2), (3) or (4) of the BCR.

15c. **First loss portion of credit protection**

This item refers to the portion of an exposure that is below the materiality threshold mentioned in section 101(9) of the BCR.

15d. **Exposures subject to risk-weights specified by the MA**

This item is for exposures whose risk-weights are specified by the MA under section 54C(5) of the BCR.

15e. Other exposures not elsewhere reported

   (a) This item refers to other investments or exposures which are subject to credit risk capital requirements and have not been reported in Classes I to XIV, items *15a* to *15d* and Classes XVI and XVII.

   (b) This item also includes the credit protection covered portions of the following exposures:

   - exposures secured by recognized collateral, where the risk-weights applicable to the collateral are determined under Part 7 of the BCR and the CRM effect of the collateral is taken into account by using the simple approach; and

   - exposures covered by recognized credit derivative contracts eligible for a risk-weight of 2% or 4% under section 100(7) 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) or 226I(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).

38. **Class XVI Defaulted Exposures**

Included in this exposure class are defaulted exposures and their credit protection covered portions (if any). In other words, the credit protection covered portions of defaulted exposures should <u>not</u> be reported in the exposure class applicable to the credit protection (see also paragraphs 40, 42 and 43).

39. **Class XVII 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 *17a(i)* to *17a(vi)* if either the *look-through approach* (LTA) or the *third-party approach* is used;

   (ii) any of items *17b(i)* to *17b(vi)* if the *mandate-based approach* (MBA) is used; or

   (iii) item *17c(i)* if the *fall-back approach* (FBA) is used.

   (b) "Risk-weight" referred to in items *17a(i)* to *17c(i)* means the effective risk-weight applicable to a CIS exposure determined under Division 2 of Part 6B of the BCR.

<u>Use of a combination of approaches</u>

(a) 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 *17d(i)* to *17d(vi)*.

(b) "Risk-weight" referred to in items *17d(i) to 17d(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)

Treatments under LTA and MBA of CISs where some or all of the underlying exposures are *group 1b cryptoasset exposures* or *group 2 cryptoasset exposures*

(a) If an underlying exposure of a CIS is a group 1b cryptoasset exposure, the RWA of the underlying exposure will be the total RWA of the cryptoasset calculated in accordance with section 367, 368 or 369 of the BCR, depending on whether the CIS is a *member holder* or not, as if the cryptoasset were held directly by the reporting AI.

(b) If any one or more of the underlying exposures of a CIS are group 2 cryptoasset exposures, portion B of the reporting AI's CIS exposure to that CIS as determined in accordance with section 226ZI(3A)(a) of the BCR should be reported in item *17* as if portion B were a standalone CIS exposure.

For the avoidance of doubt, AIs' exposures to collective investment schemes set out below should be reported in MA(BS)3A and/or MA(BS)3(IIIf) instead of in this Form:

(a) an exposure falling within paragraph (c) of the definition of "CIS exposure" in section 2(1) of the BCR; and

(b) portion A of a CIS exposure referred to in section 226ZI(3A)(a) of the BCR.

B.4 Reporting of On-balance Sheet Exposures – Column A1 in Division A1 and Column A2 in Division A1 or A2

40. If an on-balance sheet exposure is <u>not covered by any recognized CRM</u>, the whole *principal amount* (after deduction of *specific provisions*[3]) of the exposure should be reported in both <u>columns A1 and A2 in Division A1</u> of the row for the exposure class and risk-weight applicable to the exposure. If the exposure is a defaulted exposure, the whole principal amount (after deduction of specific provisions) should be reported in <u>columns A1 and A2 in Division A1</u> of item *16a* or *16b*, as the case requires, under Class XVI.

41. If an on-balance sheet exposure is <u>covered fully or partially by recognized CRM</u>—

   (a) the whole principal amount (after deduction of specific provisions) of the exposure should be reported in <u>column A1</u> of the row for the exposure class and risk-weight applicable to the exposure; and

   (b) <u>column A2</u> in Division A1 or A2, as the case requires, should be filled in as set out in paragraphs 42 and 43 below.

42. <u>CRM treatment by substitution of risk-weights</u> (applicable to collateral under the simple approach[4], guarantees and credit derivative contracts)

   (a) The amount reported in <u>column A1</u> should be divided into the credit protection covered portion(s) and the *credit protection uncovered portion*.

   (b) Each credit protection covered portion of the exposure should be reported as follows—

      (i) if <u>the exposure is not a defaulted exposure</u>, it should be reported in <u>column A2 in Division A1 of</u> the row for the exposure class and risk-weight applicable to the credit protection concerned where the credit protection is a recognized collateral (other than *group 1a cryptoasset*) or recognized guarantee/credit derivative contract, or in <u>column A2 of item 1b in Division A2</u> where the credit protection concerned is a group 1a cryptoasset. Also—

         (A) in the case of collateral, the credit protection covered portion should be allocated the risk-weight of the collateral (the risk-weight is subject to a floor of 20% unless otherwise stated in the BCR); or

         (B) in the case of a guarantee or credit derivative contract, the credit protection covered portion should be allocated 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 100(7) of the BCR); or

      (ii) if <u>the exposure is a defaulted exposure</u>, it should be reported in item *16c(i), (ii), (iii) or (iv)* of Class XVI (Defaulted Exposures), depending on the range

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[3] For the purposes of the STC approach, "specific provisions", as defined in section 51(1) of the BCR, includes partial write-offs.
[4] For defaulted exposures secured by collateral, the reporting AI should only use the simple approach to CRM treatment.

within which the risk-weight applicable to the credit protection falls and regardless of whether the credit protection is a group 1a cryptoasset or not.

(c) The credit protection uncovered portion of the exposure, if any, should be reported in column A2 of Division 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,

the credit protection uncovered portion, if any, of the mortgage loans should be reported in column A2 under Class XIA. The credit protection covered portion of the mortgage loans in relation to the guarantee provided by Hong Kong Housing Authority or the insurance provided by HKMC Insurance Limited should be reported in Class II and column A2 of the item for the risk-weight applicable to domestic public sector entities if the guarantee or insurance concerned meets all the criteria set out in section 98 of the BCR.

43. CRM treatment by reduction of principal amount of exposures (applicable to collateral under the *comprehensive approach* and on-balance sheet netting)

The net credit exposure calculated under section 87 or 94 of the BCR, as the case requires should be reported in the exposure class to which the exposure belongs and in column A2 in Division A1 of the row for the risk-weight applicable to the exposure. To avoid doubt, if the net credit exposure calculated under section 94 is a defaulted exposure, the AI should report the exposure in column A2 of item *16a or 16b* in Class XVI, as the case requires.

B.5 Reporting of Off-balance Sheet Exposures other than Default Risk Exposures – Column A3 in Division A1 and Column A4 in Division A1 or A2

44. 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 A3 and column A4 in Division A1 of the row for the exposure class and risk-weight applicable to the exposure. If the exposure is a defaulted exposure, the whole principal amount (after deduction of specific provisions) should be reported in

columns A3 and A4 in Division A1 of item *16a* or *16b*, as the case requires, under Class XVI.

(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 A3 in Division A1 of the row for the exposure class and risk-weight applicable to the exposure; and

    (ii)   the CEA after CRM should be reported in column A4 in Division A1 or A2, as the case requires, as set out in paragraph (c) or (d) below.

(c) CRM treatment by substitution of risk-weights

    (i)   The amount reported in column A3 in Division A1 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.

    (ii)   The CEA of each credit protection covered portion should be reported in column A4 in Division A1 or A2 in the same manner as set out in paragraph 42(b)(i) and (ii).

    (iii)   The CEA of the credit protection uncovered portion should be reported in column A4 in Division A1 of the row for the exposure class and risk-weight applicable to the exposure.

(d) Collateral under comprehensive approach

The net credit exposure calculated under section 88 of the BCR should be reported in the exposure class to which the off-balance sheet exposure belongs and in column A4 in Division A1 of the row for the risk-weight applicable to the off-balance sheet exposure.

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

In the case of off-balance sheet exposures to which section 71(2) of the BCR applies—

(a) the whole principal amount (without deduction of any specific provisions) of the collateral should be reported in column A3 in Division A1; and

(b) the CEA of the exposure (net of specific provision, if applicable) (see section 71(2) and (3) of the BCR) should be reported in column A4 in Division A1.

Both the principal amount and the CEA should be reported in the row for the exposure class and risk-weight applicable to the person holding the collateral.

B.6   Reporting of Off-balance Sheet Exposures that are Default Risk Exposures – Columns A3 and A5 in Division A1

46.   For any derivative contracts or SFTs entered into by the reporting AI with a counterparty, the AI should report the amounts listed below in <u>column A3</u> 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 assets 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 assets or money provided to the counterparty as collateral by the AI under the SFTs.

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

   (a)   if the exposure is <u>not covered by any recognized CRM</u>[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 <u>column A5</u> of the row for the exposure class and risk-weight applicable to the exposure;

   (b)   if—

      (i)   the exposure is <u>covered fully or partially by recognized collateral</u> and falls within section 78(1A)(b) of the BCR;

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

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

      the reporting arrangements for <u>column A5</u> are set out in paragraphs (c) and (d) below.

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[5] In the case of SFTs, "recognized CRM" refers to recognized guarantees and recognized credit derivative contracts as assets 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 4 of the BCR. In the case of derivative contracts, "recognized CRM" refers to recognized collateral whose credit risk mitigation effect can be taken into account under section 78(1A)(b) of the BCR, recognized guarantees and recognized credit derivative contracts.

(c) CRM treatment by substitution of risk-weights

   (i) 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;

   (ii) each credit protection covered portion should be reported in column A5 of the row for the exposure class and risk-weight applicable to the credit protection concerned; and

   (iii) the credit protection uncovered portion should be reported in column A5 of the row for the exposure class and risk-weight applicable to the exposure.

(d) Collateral under comprehensive approach

   The net credit exposure calculated under section 89 of the BCR should be reported in the exposure class to which the counterparty concerned belongs and in column A5 of the row for the risk-weight applicable to the exposure.

48. For any default risk exposure in respect of SFTs calculated under Division 2B of Part 6A of the BCR—

(a) if the exposure is not covered by any recognized CRM[6]—

   (i) in the case where the exposure is calculated under section 226MJ of the BCR, the exposure and the recognized collateral received by the reporting AI under the SFT concerned should be reported in column A5 in the same manner as set out in paragraph 47(c) or (d);

   (ii) in the case where the exposure is calculated under section 226MK of the BCR, the exposure, net of specific provisions if applicable, should be reported in column A5 of the row for the exposure class and risk-weight applicable to the exposure;

(b) if the exposure is covered fully or partially by recognized CRM[7]—

   (i) in the case where the exposure is calculated under section 226MJ of the BCR and the recognized collateral received under the SFT concerned is taken into account by using the simple approach, the credit protection uncovered portion, and the credit protection covered portions in respect of the recognized collateral and recognized CRM, should be reported in column A5 in the same manner as set out in paragraph 47(c);

   (ii) in the case where the exposure is calculated under section 226MJ of the BCR and the recognized collateral received under the SFT concerned is taken into account by using the comprehensive approach—

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[6] In the case of SFTs, "recognized CRM" refers to recognized guarantees and recognized credit derivative contracts.
[7] See footnote 6.

(A) the net credit exposure calculated under section 88 of the BCR should be reported in <u>column A5</u> in the same manner as set out in paragraph <mark>47(d)</mark>; and

(B) the credit protection covered portion in respect of the recognized CRM should be reported in <u>column A5</u> in the same manner as set out in paragraph <mark>47(c)</mark>;

(iii) in the case where the exposure is calculated under section 226MK of the BCR, the credit protection uncovered portion, and the credit protection covered portion in respect of the recognized CRM, should be reported in <u>column A5</u> in the same manner as set out in paragraph <mark>47(c)</mark>.

49. 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 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 101(8) of the BCR.

50. <u>Part IIIb – Annex A</u> contains a number of examples to illustrate the capital treatment and reporting arrangement of exposures covered by recognized CRM.

B.7 <u>Reporting of Risk-weighted Amount – Column A7 in Division <mark>A1</mark></u>

51. For all items in Division <mark>A1</mark>, the RWA reported in <u>column A7</u> is calculated by multiplying the sum of the amounts reported in <u>columns A2, A4 and A5</u> by the risk-weight in <u>column A6</u>.

<mark>**Section C: Reporting arrangements for Division A2 of Part IIIb**</mark>

<mark>52.</mark> <u>Division A2</u> of this Form captures ***group 1 cryptoasset exposures* assigned to the banking book**, covering both on-balance sheet and off-balance sheet exposures.

<mark>**C.1 Specific Instructions for Group 1a Cryptoasset Exposures**</mark>

<mark>53.</mark> Item *1a* **-** By type of tokenised ***traditional asset***

<mark>(a)</mark> ***Group 1a cryptoasset exposures*** should be reported in items *1a(i)* to *(x)(D)* based on the type of traditional asset being tokenised. For example, if a group 1a cryptoasset is a tokenised version of corporate debt securities, a group 1a cryptoasset exposure to that cryptoasset should be reported in item *1a(iv)*.

<mark>(b)</mark> If the traditional asset being tokenised does not fall within any of the exposure classes listed in items *1a(i)* to *(ix)*, the reporting AI should report the group 1a cryptoasset exposure concerned under item *1a(x)* – "Other exposures not reported in items 1a(i) to (ix)" and indicate the exposure class to which the traditional asset belongs in the column "Nature of item".

<mark>54.</mark> Item *1b* **-** Group 1a cryptoasset that is recognized collateral under simple approach

See paragraphs 62(a)(ii) and 65(b)(ii) below.

C.2 Specific Instructions for Group 1b Cryptoasset Exposures

55. If the reporting AI has a group 1b cryptoasset exposure assigned to its banking book, the risks arising from such an exposure should be reported under item *2* in the manner set out below.

56. Item *2a* - RWA for exposure to *reference assets*

(a) Items *2a(i)* to *(xi)* capture the credit risk of the reference asset(s) of the group 1b cryptoasset to which the reporting AI's group 1b cryptoasset exposure relates. For example, if the reference asset of the group 1b cryptoasset is a corporate bond, the AI's exposure to the reference asset should be reported in item *2a(iv)*.

(b) If the reference asset does not fall within any of the exposure classes listed in items *2a(i)* to *(ix)*, the reporting AI should report its exposure to the reference asset under item *2a(x)* – "Other exposures not reported in items 2a(i) to (ix)" and indicate the exposure class to which the reference asset belongs in the column "Nature of item".

(c) If the group 1b cryptoasset references a pool of reference assets that fall within the same exposure class, the reporting AI's exposure to the pool should be reported in accordance with paragraph (a) or (b). If the reference assets in the pool fall within different exposure classes, such as sovereign exposures and cash, the reporting AI's exposure to the pool should be reported in item *2a(xi)*.

57. Item *2b* - RWA for exposure to redeemer

(a) Items *2b(i)* to *(v)(D)* capture the credit risk of the redeemer in respect of the group 1b cryptoasset to which a group 1b cryptoasset exposure relates, which are applicable to the reporting AI if it is required to calculate a RWA for such a credit risk under section 367(2)(a)(ii) or (6), 368(2)(a)(ii) or (4) or 369(3)(a)(iii) or (5) of the BCR.

(b) If the redeemer does not fall within any of the exposure classes listed in items *2b(i)* to *(iv)*, the reporting AI should report its exposure to the redeemer under item *2b(v)* – "Other exposures not reported in items 2b(i) to (iv)" and indicate the exposure class to which the redeemer belongs in the column "Nature of item".

58. Item *2c* or *2d* will be relevant to the reporting AI's group 1b cryptoasset exposure only if the group 1b cryptoasset to which the exposure relates is structured in such a way that only member holders of the cryptoasset are allowed to transact directly with the redeemer to redeem the cryptoasset.

(a) Item *2c* - Reporting AI as member holder - RWA for obligation to purchase cryptoassets from *non-member holders*

(i) This item will be applicable to the reporting AI if it is required to calculate a RWA under section 368(2)(b) or (4)(a)(ii) of the BCR. The reporting AI should report its exposure to the units of the group 1b cryptoasset that it could be obliged to purchase from non-member holders in any one of items *2c(i)* to *(xi)* based on the type of reference asset of the group 1b cryptoasset.

(ii)   If the reference asset of the group 1b cryptoasset does not fall within any of the exposure classes listed in items *2c(i)* to *(ix)*, the exposure to the units of the group 1b cryptoasset that the reporting AI could be obliged to purchase should be reported under item *2c(x)*, and the exposure class to which the reference asset of the group 1b cryptoasset belongs should be indicated in the column "Nature of item".

(iii)   If the group 1b cryptoasset references a pool of reference assets, the exposure to the units of the group 1b cryptoasset that the reporting AI could be obliged to purchase should be reported under item *2c(xi)* in a similar manner as set out in paragraph 56(c).

(b) Item *2d* - Reporting AI as non-member holder - RWA for exposures to member holders

(i)   This item will be applicable to the reporting AI if it is required to calculate a RWA under section 369(2)(a)(ii), (3)(a)(ii) or (5) of the BCR. The reporting AI should report its exposure(s) to the member holders in any one or more of items *2d(i)* to *(v)(D)* based on the exposure class to which the member holder concerned belongs.

(ii)   If the member holders do not fall within any of the exposure classes listed in items *2d(i)* to *(iv)*, the reporting AI should report its exposure to these member holders under item *2d(v)* and indicate the exposure classes to which the member holders belong in the column "Nature of item".

59.   Item *2e* - Other risk identified that does not fall within item 2a, 2b, 2c or 2d

(a) If under section 366(1) of the BCR the reporting AI has identified risk arising from its group 1b cryptoasset exposure that does not fall within items *2a* to *2d*, the exposure to such risk should be reported in this item. The reporting AI should also indicate the nature of the risk in the column "Nature of item".

C.3   Specific Instructions for item *3* - Top 5 Group 1 cryptoasset by RWA

60.   The RWAs of all the AI's group 1 cryptoasset exposures that relate to the same group 1 cryptoasset should be aggregated. The top 5 group 1 cryptoassets in terms of RWA should be reported under item *3*, with the largest one reported in item *3a*, the second largest one in item *3b* and so on. The reporting AI should provide a description of each of the group 1 cryptoassets reported under item *3* in the column "Nature of item".

C.4   Reporting of On-balance Sheet Cryptoasset Exposures – Columns A1 and A2 in Division A2

61.   If a reporting AI's group 1 cryptoasset exposure is not covered by any recognized CRM, the exposure should be reported in columns A1 and A2 in Division A2 in a similar manner as set out in paragraph 40.

62.   If recognized CRM is available to mitigate the credit risk of a group 1a cryptoasset exposure or any of the risks identified for a group 1b cryptoasset exposure, column A1 in Division A2 of the row applicable to the risk concerned should be filled out in a similar

manner as set out in paragraph 41(a). The reporting arrangements for the principal amount of the cryptoasset exposure after recognized CRM are as follows—

(a)   in the case of the simple approach—

    (i)   if the recognized collateral is a traditional asset, the credit protection covered portion of the cryptoasset exposure should be reported in <u>column A2 in Division A1</u>; or

    (ii)   if the recognized collateral is a group 1a cryptoasset, the credit protection covered portion of the cryptoasset exposure should be reported in <u>column A2 of item *1b(i)* or *(ii)* in Division A2</u>;

(b)   in the case of the comprehensive approach, the net credit exposure calculated under section 87 of the BCR should be reported in <u>column A2 in Division A2</u>; and

(c)   the credit protection covered portion of any recognized guarantee/credit derivative contract should be reported in <u>column A2 in Division A1</u>.

C.5   Reporting of Off-balance Sheet Cryptoasset Exposures – Columns A3 and A4 in Division A2

63.   If a reporting AI's group 1 cryptoasset exposure is not covered by any recognized CRM, the exposure should be reported in <u>columns A3 and A4 in Division A2</u> in a similar manner as set out in paragraph 44(a).

64.   If recognized CRM is available to mitigate the credit risk of a group 1a cryptoasset exposure or any of the risks identified for a group 1b cryptoasset exposure, <u>column A3 in Division A2</u> of the row applicable to the risk concerned should be filled out in a similar manner as set out in paragraph 44(b)(i). The reporting arrangements for the CEA of cryptoasset exposure after recognized CRM are set out in paragraphs 65 and 66 below.

65.   <u>CRM treatment by substitution of risk-weights</u>

(a)   The amount reported in <u>column A3</u> should be divided into the credit protection covered and uncovered portions and each of these portions should be multiplied by the CCF applicable to the exposure concerned.

(b)   In the case of recognized collateral—

    (i)   if the collateral is a traditional asset, the CEA of the credit protection covered portion should be reported in <u>column A4 in Division A1</u>; or

    (ii)   if the collateral is a group 1a cryptoasset, the CEA of the credit protection covered portion should be reported in <u>column A4 of item 1b in Division A2</u>; and

(c)   the CEA of the credit protection covered portion of any recognized guarantee/credit derivative contract should be reported in <u>column A4 in Division A1</u>.

66. Collateral under comprehensive approach

   (a) The net credit exposure calculated under section 88 of the BCR should be reported in column A4 in Division A2.

C.6   Reporting of Risk-weighted Amount – Column A6 in Division A2

67. For items *1* and *2* in Division A2, the RWA reported in column A6 should be equal to the product of the sum of the amounts reported in columns A2 and A4 and the risk-weight reported in column A5.

Section D: Reporting arrangements for Division B of Part IIIb

D.1   General Instructions

68. Unless otherwise stated in these completion instructions, the reporting AI is not required to report in Parts IIA, IIB, III and IV of Division B any derivative contract or SFT that is outside the scope of Divisions 1A, 2 and 2B of Part 6A of the BCR (please refer to *Chapter V - Counterparty credit risk* of the Supplementary Guidance on the Revised Credit Risk Framework for more information). Default risk exposures reported in columns B18, B27 and B37 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 A5 in Division A1 of this Form.

69. 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 Divisions A1 and A2.

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

70. 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 71 and report the exposures in Part I of Division B of this Form.

71. 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 10c* 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 <u>place</u> a forward forward
        deposit.

        If the reporting AI has contracted to <u>receive</u> 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 <u>Part IIA or IV of Division B</u>, 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 IIA, IIB, III or IV of Division B of this Form and Form MA(BS)3(IIIe)) (see section 71(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.

72.   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 B14[8] if the exposure falls within any one of the following exposure classes—

(i)   Class I Sovereign Exposures;

(ii)   Class II Public Sector Entity Exposures;

(iii)   Class III Multilateral Development Bank (MDB) Exposures[9];

(iv)   Class IV Unspecified Multilateral Body Exposures[9];

(v)   Class V Bank Exposures;

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[8] 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 B14.
[9] To be reported in column B6.

(vi)   Class VII Qualifying Non-bank Financial Institution (QNBFI) Exposures;

(vii)   Class VIII Corporate Exposures;

(viii)   Class IX Retail Exposures;

(ix)   Class XIA Regulatory Residential Real Estate Exposures[10];

(x)   Class XIB Regulatory Commercial Real Estate (CRE) Exposures[10];

(xi)   Class XIC Real Estate Exposures other than Regulatory Real Estate Exposures[10];

(xii)   Class XID Land Acquisition, Development and Construction Exposures[10];

(xiii)   Class XVII Collective Investment Scheme Exposures (CIS exposures);

(xiv)   Group 1a cryptoasset exposures; and

(xv)   Group 1b cryptoasset exposures.

(d) For the purpose of paragraph (c), if the off-balance sheet exposure is a cryptoasset exposure (e.g. a forward asset purchase under which the asset to be purchased is a group 1 cryptoasset), the reporting AI only needs to report the exposure in column B13 or B14. There is no need to report the exposure classes to which the traditional assets being tokenised, the reference assets, the redeemers or the member holders belong in other columns.

D.3   Part IIA of Division B - Default Risk Exposures in respect of Derivative Contracts[11] (SA-CCR Approach)

73.   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 IIA of Division B (please see Part IIIa and IIIb – Annex A for numerical examples).

Item no.   Nature of item

12.   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—

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[10] To be reported in column B11.

[11] 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.

(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.

13. <u>Margined contracts not covered by recognized netting</u>

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.

14. <u>Contracts covered by recognized netting</u>

This item captures derivative contracts (whether they are margined contracts or not) covered by recognized netting.

15. <u>Out of the amounts reported in items 12, 13 and 14, the amounts for offsetting or CCP-related transactions with clearing members or clearing clients</u>

This item is for reporting the amounts captured under items *12* to *14* that are related to ***offsetting transactions*** or ***CCP-related transactions*** entered into by the reporting AI with ***clearing members*** or ***clearing clients*** (see <u>Part IIIe – Annex A</u> 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).

74. For all items in Part IIA 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 <u>Part IIA of Division B</u>[12];

(b) the amount reported in <u>column B15</u> is the gross sum of the stated notional amounts of the relevant derivative contracts.

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[12] This is to avoid double counting as the notional amount of the credit derivative contracts is somehow reflected in the amount reported in Division A1 (e.g. credit protection covered portion) or Part I of Division B (e.g. direct credit substitute).

75.   For item *12*—

(a)   report in <u>column B16</u> 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 <u>column B17</u> 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 <u>column B18</u> the default risk exposure of the derivative contract (i.e. the sum of the amounts reported in <u>columns B16 and B17</u> multiplied by 1.4); and

(d)   report the default risk exposure of the derivative contract in one of <u>columns B19 to B25</u>[13] if—

(i)   the counterparty to the contract is a sovereign, PSE, MDB, unspecified multilateral body, bank, QNBFI or corporate; or

(ii)   the default risk exposure falls within Class IX Retail Exposures.

76.   The reporting arrangements mentioned in paragraph 75 also apply to item *13*. 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 <u>column B18</u> (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 <u>column B15</u> of one of items *13a to 13f(iii)*, 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 <u>columns B16, B17 and B18</u> of item *13g* respectively.

77.   For item *14*, 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 <u>columns B16, B17 and B18</u> respectively. The reporting arrangements

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[13] Only breakdown by major exposure classes is required. As a result, for each row, the total amount reported in column B18 would be greater than or equal to the sum of the total amounts reported in columns B19 to B25.

mentioned in paragraphs 75(c) and 75(d) and paragraph 76(a) apply to the netting set or the group of netting sets as they apply to a single derivative contract.

D.4 Part IIB of Division B - Default Risk Exposures in respect of Group 2b Cryptoasset Derivative Contracts: Bilateral Trades (including centrally cleared trades that are treated as bilateral trades)

78. A netting set (or a sub-netting set as referred to in section 377(5) of the BCR) that contains only *group 2b cryptoasset derivative contracts* should be reported in Item *16a* as follows—

   (a) report in column B15 the gross sum of the stated notional amounts of the group 2b cryptoasset derivative contracts;

   (b) report in column B16 the replacement cost of the netting set (or sub-netting set) calculated in accordance with section 377(1) and (2) of the BCR;

   (c) report in column B17 the potential future exposure of the netting set (or sub-netting set) calculated in accordance with section 377(3) or (4) of the BCR;

   (d) report in column B18 the default risk exposure of the netting set (or sub-netting set); and

   (e) report the default risk exposure of the netting set (or sub-netting set) in one of columns B19 to B25 in the same manner as mentioned in paragraph 75(d).

79. The default risk exposure in respect of any sub-netting set that contains derivative contracts other than group 2b cryptoasset derivative contracts (see section 377(5) of the BCR) should be reported in one of items *12, 13* and *14* in Part IIA of Division B, as applicable.

80. Item *16b,* similar to item *15a,* is for reporting the amounts captured under item *16a* that are related to offsetting transactions or CCP-related transactions entered into by the reporting AI with clearing members or clearing clients.

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

81. If the reporting AI calculates default risk exposures in respect of SFTs under Division 2B of Part 6A (and, if applicable, Division 3 of Part 12) of the BCR, it should report the exposures so calculated in the appropriate items in Part III of Division B as follows:

   (a) The principal amount of the assets sold or lent, or the money paid or lent, or the assets or money provided as collateral, by the reporting AI under an SFT should be reported in column B26 of item *17a* or *17b*, as the case requires.

   (b) Under item *17a,* if any one of section 226MJ(1)(a), (b)(i) or (b)(ii) is applicable to the reporting AI or its SFT, the AI's SFT should be reported as follows—

      (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 <u>columns B28 to B33</u>[14] if the counterparty to the SFT is a sovereign, PSE, MDB, unspecified multilateral body, bank, QNBFI or corporate.

(c) Under item *17b*, **nettable**[15] SFTs with a counterparty should be reported as follows—

(i) report in <u>column B27</u> the default risk exposure of the nettable SFTs calculated under section 226MK of the BCR; and

(ii) report the default risk exposure in one of <u>columns B28 to B33</u>[16] if the counterparty to the nettable SFTs is a sovereign, PSE, MDB, unspecified multilateral body, bank, QNBFI or corporate.

(d) Item *17c* is for reporting the amounts captured under items *17a* and *17b* that are related to offsetting transactions or CCP-related transactions entered into by the reporting AI with clearing members or clearing clients (see <u>Part IIIe – Annex A</u> 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).

(e) If the amounts reported in <u>column B26</u> of items *17a* and *17b* consist of group 1a, group 1b or group 2 cryptoassets delivered by the reporting AI under SFTs to counterparties, the amounts of those cryptoassets should be reported in items *17d(i)* to *(iii)*.

(f) If the amounts of the outward legs of the SFTs reported in <u>column B26</u> of items *17a* and *17b* consist of SFTs under which group 1a cryptoassets are received by the AI from counterparties, the amounts of the outward legs of those SFTs should be reported in item *17e*. There is no need to report in item *17e* SFTs under which cryptoassets other than group 1a cryptoassets are received.

D.6 Part IV of Division B - Default Risk Exposures (IMM(CCR) Approach)

82. 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 <u>Part IV of Division B</u>.

<u>Item no.</u> <u>Nature of item</u>

18. <u>Portfolio-level risk-weighted amount based on current market data</u>

The portfolio-level RWA calculated under section 226D(1)(a) and (2)(a) of the BCR should be reported in this item.

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[14] 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 B33.
[15] For the purposes of this Form, an SFT is regarded as not nettable if the SFT is covered by recognized netting but the reporting AI uses the simple approach to take into account the CRM effect of the recognized collateral received under the SFT.
[16] See footnote 14.

19. <u>Portfolio-level risk-weighted amount based on stress calibration</u>

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 *18* and item *19* will be used in the calculation of the total RWA for credit risk under the STC approach.

20. to *23*. Items *20* to *23* 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 *20* to *23* should be those used in calculating the RWA reported in item *18*.

20. <u>Netting sets (not subject to recognized netting)</u>

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 *20a*, *20b* or *20c* based on the category within which the transaction falls.

21. <u>Netting sets (subject to valid bilateral netting agreements)</u>

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 *21a* and *21b* 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 *21c*.

22. 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.

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

This item is for reporting the amounts captured under items 20 to 22 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).

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

(a) report in column B35 of items 20a, 20c, 21a, 21c, 22a and 23a the gross sum of the stated notional amounts of the derivative contracts and LSTs concerned;

(b) report in column B36 of items 20b, 20c, 21b, 21c, 22b, 22c and 23a the principal amounts of the assets sold, lent or delivered, or the money paid, by the AI to the counterparties under the SFTs and LSTs concerned;

(c) report in column B37 of items 20a to 21c, 22 and 23a the default risk exposures of the netting sets concerned calculated under section 226E of the BCR. In the case of item 20, the netting set only contains one transaction; and

(d) report the default risk exposure of each of the netting sets reported in column B37 in one of columns B38 to B43[17] if the counterparty to the netting set is a sovereign, PSE, MDB, unspecified multilateral body, bank, QNBFI or corporate.

84. If the amounts reported in columns B35, B37 to B43 of item 20a or 21a or column B35 of item 22a consist of amounts associated with group 1a cryptoasset derivative contracts or group 1b cryptoasset derivative contracts, the amounts associated with those contracts should be reported in item 20a(i), 20a(ii), 21a(i), 21a(ii), 22a(i) or 22a(ii), as applicable.

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

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[17] Only breakdown by major exposure classes is required. As a result, for each row, the total amount reported in column B37 would be greater than or equal to the sum of the total amounts reported in columns B38 to B43.

(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 <u>Part IV of Division B</u> of this Form[18].

D.7 Multiple Credit Risk Mitigation

86. 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 102(1) and (2) of the BCR. The calculation of the RWA of each portion will be done separately.

87. If an exposure is covered by credit protection provided by a single credit protection provider but the credit protection has different maturities, the treatment for the credit protection is set out in section 102(3) of the BCR. The RWA of each portion should be calculated separately.

88. Unless otherwise stated in the BCR (e.g. section 78(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.

D.8 Maturity Mismatches

89. If a credit protection in the form of collateral, guarantee, credit derivative contract or on-balance sheet netting has maturity mismatch referred to in section 103(1) of the BCR, a reporting AI should determine whether the credit protection can be taken into account in the RWA calculation (see section 103(2) of the BCR for details) and whether the value of the credit protection should be adjusted (see Formula 12 in section 103(1) of the BCR). Adjustment to the value of credit protection does not apply to collateral without a finite maturity (e.g. equities). The maturity of a credit protection should be determined in accordance with section 103(3) and (4) of the BCR.

Hong Kong Monetary Authority
March 2026

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[18] See footnote 12.