<u>**Completion Instructions**</u>

Return of Capital Adequacy Ratio
Part VI – Risk-weighted amount for Sovereign Concentration Risk
<u>**Form MA(BS)3(VI)**</u>

Introduction

1. Form MA(BS)3(VI) should be completed by an authorized institution (AI) incorporated in Hong Kong to determine its ***risk-weighted amount for sovereign concentration risk*** for the calculation of capital adequacy ratios.

2. This Form and its completion instructions should be read in conjunction with the Banking (Capital) Rules (BCR), the Banking (Exposure Limits) Rules (BELR) and the relevant supervisory policy/guidance as applicable.

Section A: General Instructions

3. This part collects data on an AI's ***concentrated sovereign exposure*** to a jurisdiction. An AI has concentrated sovereign exposure to a jurisdiction if the aggregate amount of its ***specified sovereign exposure*** to all ***specified sovereign entit***ies in that jurisdiction exceeds 100% of its ***Tier 1 capital***. In essence, an AI's specified sovereign exposure to a specified sovereign entity corresponds to the AI's ***ASC exposure*** to the sovereign as calculated in accordance with Part 7 of the BELR, with necessary modifications, as set out in section 342A of the BCR.

4. When determining whether the threshold for sovereign concentration risk mentioned in paragraph 3 above is exceeded for a jurisdiction, an AI should use the amount of its Tier 1 capital as reported in Part I, Division A, item 1.1 of the Return of Capital Adequacy Ratio (i.e. Form MA(BS)3(I)) of the previous quarter if there has been no significant reduction in the amount of its Tier 1 capital during the reporting period. If there has been a reduction of 10% or more in the amount of the AI's Tier 1 capital, the AI should use its most recent Tier 1 capital figure instead, and inform its usual contact at the HKMA of the change in the basis of Tier 1 capital used on or before the applicable submission date of the return.

Section B: Specific Instructions

5. Report in Column (2) of Item 1 under Part VI the code of a jurisdiction, with reference to the codes set out in the Return of International Banking Statistics (MA(BS)21)[1], for any jurisdiction to which the AI has a concentrated sovereign exposure.

6. Report in Column (3) of Item 1 under Part VI the risk-weighted amount of the AI's

[1] https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/regulatory-supervisory-framework/ma-bs-21/

concentrated sovereign exposure to a jurisdiction reported in Column (2) as calculated in accordance with section 344 of the BCR. See also Section C for an illustrative example of the calculation of risk-weighted amount for sovereign concentration risk.

Section C: Illustrative example of the calculation of risk-weighted amount for sovereign concentration risk

Suppose an AI has the following specified sovereign exposures to Jurisdictions A (HK$4m) and B (HK$2m) (both are specified sovereign entities) as tabulated below, and the AI's Tier 1 capital reported in the last quarter was HK$0.6m.

The AI has concentrated sovereign exposure to Jurisdictions A and B because the amount of its specified sovereign exposure to each of them exceeds the amount of the AI's Tier 1 capital. The risk-weighted amount for sovereign concentration risk of the AI would be calculated in accordance with section 344 of the BCR as follows:

Portion of concentrated sovereign exposure (% refers to % of the AI's Tier 1 capital)	Jurisdiction A		Jurisdiction B	
	Exposure amount (HK$'000)	Risk-weighted amount (HK$'000)	Exposure amount (HK$'000)	Risk-weighted amount (HK$'000)
Portion > 0% but ≤ 100% (Not applicable)	600	-	600	-
Portion > 100% but ≤ 150% (Risk-weight 5%)	300	15	300	15
Portion > 150% but ≤ 200% (Risk-weight 6%)	300	18	300	18
Portion > 200% but ≤ 250% (Risk-weight 9%)	300	27	300	27
Portion > 250% but ≤ 300% (Risk-weight 15%)	300	45	300	45
Portion > 300% (Risk-weight 30%)	2,200	660	200	60
Total risk-weighted amount for sovereign concentration risk*	**4,000**	**765 (Report under column 3, item 1)**	**2,000**	**165 (Report under column 3, item 1)**

* The total risk-weighted amount for sovereign concentration risk to all jurisdictions of 930 (i.e. 765 + 165) in this example will be system-generated in item 2 of Part VI.

Hong Kong Monetary Authority
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