Completion Instructions

Return of Capital Adequacy Ratio
Part I – Summary Certificate on Capital Adequacy Ratios
Form MA(BS)3(I)

Introduction

1. Form MA(BS)3(I) is divided into two divisions:

   (a) Division A – to be completed by all reporting institutions;
   (b) Division B – to be completed by reporting institutions using the ***internal ratings-based approach (IRB approach)***.

2. Division A is for a reporting institution to provide summary information on its quarter-end Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio and the relevant aggregate figures (mainly extracted from other parts of the Return) for computing the ratios. Division B collects information for the determination of the ***capital floor***, where applicable, to a reporting institution using the IRB approach. Division C is for a reporting institution to report information relating to capital buffer requirements applicable to it.

3. This return and its completion instructions should be read in conjunction with the Banking (Capital) Rules and the relevant supervisory policy/guidance on the revised capital adequacy framework.

Specific Instructions

Division A: Calculation of Capital Adequacy Ratios

4. The figures reported for items 1.1 to 1.3, 2.1 to 2.6(ii), 2.8, and 2.9 should be extracted from other parts of the Return. See **Annex I-A** for a mapping table on items in this Form and the corresponding items in other Forms.

5. Reporting institutions using the IRB approach, regardless of whether they also use other prescribed approaches to calculate credit risk, are not required to complete item 2.5, since the total ***CVA risk-weighted amount*** of the institutions reported under Part IIIf has already been incorporated into the institutions' ***risk-weighted amount for credit risk*** (credit RWA) reported under Part IIIc and reflected under item 2.3.

6. Only reporting institutions using the IRB approach are required to complete item 2.10 and item 6. It should be noted that item 2.10 will only be accessible to the relevant institutions which have answered "Yes" to the filtering question in Division B on whether it is subject to the capital floor requirement. In these cases, item 2.10 should be equal to item 4 of Division B. In calculating the IRB coverage ratio under item 6, the credit RWA in respect of the relevant reporting institutions' exposures to central

counterparties (***CCP***) (i.e. item 2.4) are excluded from the denominator.

7. Only reporting institutions using the ***basic approach (BSC approach)*** or the ***standardized (credit risk) approach (STC approach)*** need to complete item 2.12(i). This item refers to the amount of the institution's regulatory reserve for general banking risks and ***collective provisions*** which exceeds 1.25% of the institution's credit RWA reported under items 2.1, 2.2 and 2.6(i). To avoid doubts, risk-weighted amount for CCP and CVA, if any, is excluded for the calculation of this 1.25% cap.

8. Item 2.12(ii) refers to the portion of cumulative fair value gains arising from the revaluation of the institution's holdings of land and buildings (except land and buildings mortgaged to the reporting institution to secure a debt) which is not included in Tier 2 Capital. For this purpose, whether such amount should be net or gross of deferred tax liabilities will be based on the prevailing accounting standards applicable within a given jurisdiction.

Division B: Calculation of Capital Floor

9. A reporting institution using the IRB approach (whether foundation or advanced) for capital adequacy purposes is subject to a capital floor for the first three years of the adoption of the IRB approach. The use of the capital floor is to prevent a sudden fall in capital charges solely as a result of the changes in how the credit RWA is measured.

10. A reporting institution migrating from the ***foundation IRB approach*** (FIRB) to the ***advanced IRB approach*** (AIRB) will generally not be subject to the capital floor if it has already been subject to a capital floor for a period of three years since its adoption of the FIRB. However, a reporting institution that is migrating to the AIRB during the first three years of using the FIRB will need to continue to adopt the capital floor for the remaining period. For example, a reporting institution moving to the AIRB after using the FIRB for two years should continue to be subject to the capital floor in the third year.

11. The Monetary Authority (MA) may require a reporting institution using the IRB approach to keep the capital floor in place beyond the three-year period or reinstate the capital floor requirement for a reporting institution in the following circumstances-

   (i) for so long as the MA is satisfied that the prevailing banking supervisory standards relating to capital issued by the Basel Committee require a capital floor to continue to be applied to entities using the Internal Ratings-Based Approach beyond the first three years of adoption; and

   (ii) where this is deemed appropriate by the MA based on the institution's circumstances (e.g. IRB compliance problems have emerged pending rectification or possible material prudential concerns on the financial soundness of the institution).

12. A reporting institution using the IRB approach should indicate whether it is subject to the capital floor requirement as at the reporting date by answering the filtering question at the top of Division B by inputting either "Yes" or "No". Those

institutions which have answered "Yes" should proceed to complete the data table in Division B below the question, while the others should go directly to Part II of the return.

(A) Calculation of capital charge for the application of capital floor

13. Subject to paragraph 18, a reporting institution which is subject to the capital floor should calculate the difference between:

(i) the floor amount of capital (capital floor) as calculated in accordance with paragraphs 14 to 16 (details to be reported under items 1(i) to (x) of Division B); and

(ii) the actual amount of capital as calculated in accordance with paragraph 17 (details to be reported under items 2(i) to (ix) of Division B).

If the floor amount of capital is larger than the actual amount of capital, the institution is required to report the product of such difference and 12.5 in item 4 of Division B and add such amount to the credit RWA (i.e. in item 2.10 of Division A). Otherwise, the figures reported under item 4 of Division B and item 2.10 of Division A should be zero.

14. For a reporting institution that has started to use the IRB approach within the transitional period from 1 January 2007 to 31 December 2009, the capital floor is derived by applying an adjustment factor (see paragraph 16) to the sum of the following amounts:

(a) 8% of the total RWA[1] (to be reported under item 1(v)) as calculated:

(i) for credit risk under the BSC approach or the STC approach[2] (to be reported under item 1(i)(a) or (b), as the case requires);
(ii) for credit risk in respect of securitization exposures under the ***standardized (securitization) approach (STC(S) approach)***, where applicable (to be reported under item 1(i)(c)); and
(iii) for market risk under the approach in use (i.e. the ***standardized (market risk) approach*** and/or the ***internal models approach***) (to be reported under item 1(ii)).

The total RWA is determined by:

Credit RWA + market risk capital charges x 12.5

[1] To facilitate a closer comparison with the capital calculation under the current Accord, a reporting institution adopting the IRB approach within the transitional period is not required to include the RWAs calculated for operational risk for the calculation of the capital floor.

[2] Subject to the prior consent of the MA, a reporting institution using the STC approach for the calculation of credit RWA before migrating to the IRB approach within the transitional period may use the STC approach as the basis for calculating the capital floor.

(b) plus all deductions from the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital (to be reported under item 1(vi));

(c) less the amount of regulatory reserve for general banking risks and collective provisions which is included in the Tier 2 capital (to be reported under item 1(vii)).

15. For a reporting institution that has started, or will start, to use the IRB approach after the transitional period, the calculation of the capital floor is derived by applying an adjustment factor (see paragraph 16) to the sum of the following amounts:

(a) 8% of the total RWA (to be reported under item 1(v)) as calculated:

(i) for credit risk under the STC approach (to be reported under item 1(i)(b));
(ii) for credit risk in respect of securitization exposures under the STC(S) approach, where applicable (to be reported under item 1(i)(c));
(iii) for credit risk in respect of exposures to CCP in accordance with Division 4 of Part 6A (the amount reported under item 5 of Part IIIe to be reported under item 1(i)(d));
(iv) for credit risk in respect of ***CVA risk*** to counterparties in accordance with Division 3 of Part 6A (the aggregate of the CVA risk-weighted amounts reported under Part IIIf to be reported under item 1(i)(e));
(v) for market risk under the approach in use (to be reported under item 1(ii)); and
(vi) for operational risk under the approach in use (i.e. the ***basic indicator approach***, the ***standardized (operational risk) approach*** or the ***alternative standardized approach)*** (to be reported under item 1(iii)).

The total RWA is determined by:

Credit RWA + market risk capital charges x 12.5 + operational risk capital charges x 12.5

(b) plus all deductions from the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital (to be reported under item 1(vi));

(c) less the amount of regulatory reserve for general banking risks and collective provisions which is included in the Tier 2 capital (to be reported under item 1(vii)).

16. The adjustment factors to be used for the calculation of the floor amount of capital by a reporting institution starting to use the IRB approach within or after the transitional period are set out in the table below, unless the MA has specified another adjustment factor (not exceeding 100%) pursuant to section 225(5)(c) or (6)(c)(i) of the Rules.

Date of IRB approach implementation	1st year of implementation	2nd year of implementation	3rd year of implementation
Within transitional period	95%	90%	80%
After transitional period[3]	90%	80%	70%

The institution is required to fill in the applicable adjustment factor in item 1(ix).

(B) Calculation of capital charge under the various approaches in use

17. In the years in which the capital floor applies, a reporting institution should also calculate the actual amount of capital as follows:

(a) 8% of total RWA (to be reported under item 2(v)) as determined under the various approaches in use for

(i) credit risk, including credit risk in respect of securitization exposures or exposures to central counterparties where applicable (to be reported under items 2(i)(a), (b), (c), (d), (e) or (f), as the case requires);
(ii) market risk (to be reported under item 2(ii)); and
(iii) operational risk (to be reported under item 2(iii)).

The total RWA is determined by:

Credit RWA + market risk capital charges x 12.5 + operational risk capital charges x 12.5

(b) plus all deductions from the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital (to be reported under item 2(vi)), including the shortfall amount (i.e. ***total EL amount*** > ***total eligible provisions***) derived from EL-EP calculation (See Section C of the Completion Instructions for MA(BS)3(IIIc));

(c) less the amount of regulatory reserve for general banking risks and collective provisions included in the Tier 2 capital (to be reported under item 2(vii)) if the institution uses the BSC approach, the STC approach and/or the STC(S) approach for any portion of its credit exposures;

(d) less the surplus amount of provisions under the IRB approach (i.e. where total eligible provisions > total EL amount) included in the Tier 2 capital derived from EL-EP calculation; and the portion of total regulatory reserve for general banking risks and collective provisions relevant to the IRB(S) approach that is included in the Tier 2 capital (to be reported under item 2(viii)).

[3] Lower adjustment factors are used to take account of the inclusion of operational risk capital charges for the calculation of capital floor after the transitional period (see also footnote 1).

(C) Adjustments to the calculation methods of capital floors

18. Where the MA extends or reapplies the capital floor requirement to a reporting institution using the IRB approach in the circumstance stated in paragraph 11(i), the MA may specify in a notice to the institution –

(i) an adjustment factor (not exceeding 100%) for the purposes of calculating the floor amount of capital; and

(ii) any other adjustments to the method of calculating the floor amount of capital and the actual amount of capital,

which is considered reasonable by the MA to ensure that the capital floor is calculated substantially in accordance with the relevant prevailing banking supervisory standards relating to capital issued by the Basel Committee.

Division C: Capital Buffer Requirements

19. A reporting institution is required to observe the following in reporting under this Division:

Item		Reporting
1.	Net CET1 capital ratio[4]	Report the ratio, expressed as a percentage, of (a) the amount of the institution's CET1 capital less the amount of CET1 capital that the institution requires for complying with the minimum CET1 capital ratio, Tier 1 capital ratio and Total capital ratio applicable to it as set out in section 3B of the Rules and as varied by the Monetary Authority under section 97F of the Banking Ordinance, to (b) the sum of the institution's risk-weighted amount for credit risk, risk-weighted amount for market risk and risk-weighted amount for operational risk, as determined in accordance with the Rules (i.e. the Total risk-weighted amount as reported under item 2.13 in Division A).
2.	Buffer level	Report the buffer level that is applicable to an institution, expressed as a percentage and calculated according to section 3G of the Rules – (a) if the institution is a G-SIB or a D-SIB – Item 2.1 + 2.2 + 2.3 in this Division; or (b) in any other cases – Item 2.1 + 2.2 in this Division.
2.1	Capital conservation buffer	Report the CB ratio for calculating an institution's buffer level under section 3G of the Rules as at the reporting

[4] Reporting reflects calculation requirement under section 3E(2) of the Rules.

Item		Reporting
	ratio (CB ratio)	date.
2.2	Countercyclical capital buffer ratio (CCyB ratio)	Report the CCyB ratio for calculating an institution's buffer level under section 3G of the Rules as at the reporting date. The CCyB ratio reported in this item should be consistent with the ratio reported in the cell labelled "CCyB ratio" in column (8) of the Quarterly Reporting on the Countercyclical Capital Buffer (Form MA(BS)x).
2.3	Higher loss absorbency ratio (HLA ratio)	Report the HLA ratio notified by the Monetary Authority as applicable to the institution, if any, for calculating the institution's buffer level under section 3G of the Rules as at the reporting date.

Hong Kong Monetary Authority
March 2016

Annex I-A

Items in MA(BS)3(I)		Cross reference with other return forms
Division A	Division B	
1.1	N/A	MA(BS)3(II) – Item (E) of Part II(a)
1.1(i)	N/A	MA(BS)3(II) – Item (B) of Part II(a)
1.1(ii)	N/A	MA(BS)3(II) – Item (D) of Part II(a)
1.2	N/A	MA(BS)3(II) – Item (G) of Part II(a)
1.3	N/A	MA(BS)3(II) – Item (H) of Part II(a)
2.1	2(i)(a)	MA(BS)3(IIIa) – Item (A+B) of Division B
2.2	2(i)(b)	MA(BS)3(IIIb) – Item (A+B) of Division B
2.3	2(i)(c)	MA(BS)3(IIIc) – Item 10 of Division A
2.4	1(i)(d) 2(i)(f)	MA(BS)3(IIIe) – Item 5
2.5	1(i)(e)	<u>For AIs not using the IRB approach</u> MA(BS)3(IIIf) – Item "Total" row of "Risk-weighted Amount" column of Division A + Item 3 of "Risk-weighted Amount" column of Division B <u>For AIs using the IRB approach</u> *Division A of Part I*: The figure should be zero. Refer to paragraph 5 for details *Division B of Part I*: MA(BS)3(IIIf) – Item "Total" row of "Risk-weighted Amount" column of Division A + Item 3 of "Risk-weighted Amount" column of Division B
2.6(i)	2(i)(d)	MA(BS)3(IIId) – Column 1 of item 1(f) of Division I
2.6(ii)	2(i)(e)	MA(BS)3(IIId) – Column 1 of item 2(g) of Division I
2.8	2(ii)	MA(BS)3(IV) – Item 3 of Division G
2.9	2(iii)	MA(BS)3(V) – Item 5
N/A	2(vi)	MA(BS)3(II) –Sum of items (f)(i) to (xxii), items (i)(i) to (vii) and items (r)(i) to (vi) of Part II(a)
N/A	2(vii)	MA(BS)3(II) – Item (o) of Part II(a)
N/A	2(viii)	MA(BS)3(II) – Items (p) and (q) of Part II(a)