Completion Instructions

Return of Market Risk and CVA Risk Capital Charge
Part II – CVA Risk Capital Charge
Form MA(BS)3A(II)

Introduction

1. Form MA(BS)3A(II) ("the Form") should be completed on a monthly basis by each authorized institution incorporated in Hong Kong to calculate its ***CVA risk capital charge*** or its ***risk-weighted amount for CVA risk***.

2. Reporting institutions should read the completion instructions in conjunction with the Banking (Capital) Rules ("Rules"), Supervisory Policy Manual (SPM) MR-2 "CVA risk capital charge" ("SPM MR-2") and relevant supervisory policies as well as guidance related to the CVA risk capital framework. They should refer to section 2, Part 2 and Part 8A of the Rules for the definition of the terms in bold and italics used in this Form and its completion instructions.

Section A: Definitions and Clarification

3. A reporting institution should use the ***reduced basic CVA approach*** or the ***full basic CVA approach*** to calculate its CVA risk capital charge or, subject to the approval of the Monetary Authority ("MA"), the ***standardized CVA approach***, except for those mentioned in paragraph 4.

4. A reporting institution whose aggregate notional amount of non-centrally cleared ***derivative contracts*** never exceeds HKD 1 trillion, the institution may calculate its risk-weighted amount for CVA risk as 100% of the institution's risk-weighted amount for counterparty credit risk. However, the MA may remove this option if it is determined that the CVA risk resulting from the covered positions materially contributes to the institution's overall risk.

5. A reporting institution should calculate its CVA risk capital charge or its risk-weighted amount for CVA risk for covered transactions in both the trading book and the banking book. Covered transactions are all its derivative contracts and (if required by the MA) SFTs that are fair-valued for accounting purposes, except the transactions and contracts specified in Schedule 1A of the Rules.

6. A reporting institution should calculate the CVA risk capital charge for its CVA portfolio on a standalone basis. The CVA portfolio should include all covered transactions and eligible CVA hedges. Eligibility criteria for CVA hedges are specified in paragraph 2.3.1 of the SPM MR-2 for the basic CVA approach and in paragraph 3.1.6 of the SPM MR-2 for the standardized CVA approach.

7. A reporting institution should complete various divisions of this Form according to the following instructions:

(a) a reporting institution using the reduced basic CVA approach should complete Division A of the Form;

(b) a reporting institution using the full basic CVA approach should complete Division B of the Form;

(c) a reporting institution using the standardized CVA approach should complete Division C of the Form; and

(d) a reporting institution calculating the risk-weighted amount for CVA risk as 100% of the institution's risk-weighted amount for counterparty credit risk should complete Division D of the Form.

8. A reporting institution may use a combination of approaches as allowed in Division 5A of Part 2 and section 386 of the Rules. For example, an institution that use a combination of the full basic CVA approach and the standardized CVA approach to calculate its CVA risk capital charge for different counterparties should complete both Divisions B and C of the Form.

Section B: Reduced Basic CVA Approach

9. The reduced basic CVA approach eliminates the element of hedging recognition from the full basic CVA approach. A reporting institution that does not hedge its CVA risk or prefers a simpler approach may choose to use the reduced basic CVA approach instead of the full basic CVA approach.

10. A reporting institution should follow Division 2 of Part 8A of the Rules and the guidance specified in section 2.2 of the SPM MR-2 to calculate and report the CVA risk capital charge under the reduced basic CVA approach in Division A of the Form. The institution should report the CVA risk capital charge $BA\_CVA_{reduced}$, calculated based on the formula in paragraph 2.2.1 of the SPM MR-2, in column (1) of Division A of the Form.

11. For cryptoasset exposures, a reporting institution should also follow Division 7 of Part 12 of the Rules and the guidance specified in section 4 of the SPM MR-2 to calculate the CVA risk capital charge. For covered positions subject to section 386(4)(b) of the Rules, the institution should also include the corresponding CVA risk capital charge in column (1), in addition to the result calculated in accordance with paragraph 10. The CVA risk capital charge is calculated as the risk-weighted amount for CVA risk, as set out in section 386(4)(b) of the Rules, divided by 12.5.

Section C: Full Basic CVA Approach

12. The full basic CVA approach recognises the counterparty spread hedges and is intended for reporting institutions that hedge their CVA risk.

13. A reporting institution should follow Division 3 of Part 8A of the Rules and the guidance specified in section 2.3 of the SPM MR-2 to calculate and report the CVA risk capital charge under the full basic CVA approach in Division B of the Form.

14. A reporting institution should report in:

(a) column (1) the CVA risk capital charge $BA\_CVA_{reduced}$, calculated based on the formula in paragraph 2.2.1 of the SPM MR-2;

(b) column (2) the CVA risk capital charge BA_CVA_{hedged}, calculated based on the formula in paragraph 2.3.3 of the SPM MR-2, which recognises ***eligible CVA hedges***; and

(c) column (3) the CVA risk capital charge under the full basic CVA approach, calculated based on the formula in paragraph 2.3.2 of the SPM MR-2.

15. For cryptoasset exposures, a reporting institution should also follow Division 7 of Part 12 of the Rules and the guidance specified in section 4 of the SPM MR-2 to calculate the CVA risk capital charge. For covered positions subject to section 386(4)(b) of the Rules, the institution should also include the corresponding CVA risk capital charge in columns (1) and (2), in addition to the results calculated in accordance with paragraph 14 (a) and (b), respectively. The CVA risk capital charge is calculated as the risk-weighted amount for CVA risk, as set out in section 386(4)(b) of the Rules, divided by 12.5.

Section D: Standardized CVA Approach

D.1 CVA risk capital charge under the standardized CVA approach

16. A reporting institution should follow Division 4 of Part 8A of the Rules and the guidance specified in section 3 of the SPM MR-2 to calculate the CVA risk capital charge under the standardized CVA approach. The standardized CVA approach makes use of CVA sensitivities to capture ***CVA delta*** and ***CVA vega*** risks within each ***risk class***.

17. For cryptoasset exposures, a reporting institution should also follow Division 7 of Part 12 of the Rules and the guidance specified in section 4 of the SPM MR-2 to calculate the CVA risk capital charge. In particular,

(a) group 2a cryptoasset exposures are ineligible for the use of the standardized CVA approach; and

(b) the CVA risk for covered positions subject to section 386(4)(b) of the Rules should be reported in either Division A or Division B of the Form in accordance with paragraphs 11 and 15, respectively.

18. The six risk classes are (i) interest rate risk, (ii) foreign exchange risk, (iii) counterparty credit spread risk, (iv) reference credit spread risk, (v) equity risk and (vi) commodity risk. However, there is no vega risk capital charge for counterparty credit spread risk.

19. The reporting institution should follow the step-by-step approach set out in paragraph 3.3.12 of the SPM MR-2 to determine the capital charges for CVA delta risk and CVA vega risk, respectively.

D.1.1 Division C.1 of Form MA(BS)3A(II) – Standardized CVA Approach – Summary of CVA risk capital charge under standardized CVA approach

20. Division C.1 of the Form provides a summary of capital charges calculated under the standardized CVA approach.

21. For both item 1 (CVA delta risk capital charge) and item 2 (CVA vega risk capital charge),

    (a) the CVA risk capital charges reported in column (1) should be extracted from Divisions C.2 to C.7 of the Form; and

    (b) the CVA risk capital charges reported in column (2) are the totals of the respective item.

22. Item 3 (total CVA delta and vega risk capital charge) is the simple sum of capital charges reported in column (2) of item 1 and 2 above.

23. A reporting institution should scale up the aggregate capital charge by a multiplier m_{CVA} (reported in item 4) to determine the total CVA risk capital charge under standardized CVA approach. The basic level of m_{CVA} is set at 1. However, the MA may require the institution to use a higher level of m_{CVA}, taking into account the level of model risk for the calculation of the CVA sensitivities (e.g. if the level of model risk for the calculation of CVA sensitivities is too high or the dependence between the institution's exposure to a counterparty and the counterparty's credit quality is not appropriately taken into account in its CVA calculations).

D.1.2 Division C.2 of Form MA(BS)3A(II) – Standardized CVA Approach – Interest rate risk

24. A reporting institution should report the CVA risk capital charge for interest rate risk factors in Division C.2 of the Form.

25. A reporting institution should calculate and report in item 1 the capital charge for each CVA delta and CVA vega bucket. The bucket-level capital charges for CVA delta and CVA vega are then aggregated and the reporting institution should report the aggregated figures in item 2. The total CVA risk capital charge in item 3 is a simple sum of CVA delta and CVA vega risk capital charges obtained in item 2.

26. For interest rate risk, each currency represents a bucket. A reporting institution should insert an additional row for any currency that is not listed in the table. The corresponding risk weights and correlations for aggregation of capital charges are specified in paragraphs 3.5.3 to 3.5.7 and paragraphs 3.6.2 to 3.6.3 of the SPM MR-2.

D.1.3 Division C.3 of Form MA(BS)3A(II) – Standardized CVA Approach – Foreign exchange risk

27. A reporting institution should report the CVA risk capital charge for foreign exchange risk factors in Division C.3 of the Form. A bucket is set for each exchange rate between HKD and the currency an instrument is denominated in. The corresponding risk weights and correlations for the aggregation of capital charges are specified in paragraphs 3.5.9 to 3.5.11 and paragraph 3.6.2 of the SPM MR-2.

D.1.4 Division C.4 of Form MA(BS)3A(II) – Standardized CVA Approach – Counterparty credit spread risk

28. A reporting institution should report the CVA risk capital charge for counterparty credit spread risk factors in Division C.4 of the Form. There is no CVA vega risk capital charge for counterparty credit spread risk. Buckets are differentiated by sector. The corresponding risk weights and correlations for aggregation of capital charges are specified in paragraphs 3.5.12 to 3.5.18 of the SPM MR-2.

D.1.5 Division C.5 of Form MA(BS)3A(II) – Standardized CVA Approach – Reference credit spread risk

29. A reporting institution should report the CVA risk capital charge for reference credit spread risk factors in Division C.5 of the Form. Buckets are differentiated by credit quality and sector. The corresponding risk weights and correlations for the aggregation of capital charges are specified in paragraphs 3.5.19 to 3.5.23 and paragraph 3.6.2 of the SPM MR-2.

D.1.6 Division C.6 of Form MA(BS)3A(II) – Standardized CVA Approach – Equity risk

30. A reporting institution should report the CVA risk capital charge for equity risk factors in Division C.6 of the Form. Buckets are differentiated by market capitalisation, economy and sector. The corresponding risk weights and correlations for aggregation of capital charges are specified in paragraphs 3.5.24 to 3.5.31 and paragraph 3.6.2 of the SPM MR-2.

D.1.7 Division C.7 of Form MA(BS)3A(II) – Standardized CVA Approach – commodity risk

31. A reporting institution should report the CVA risk capital charge for commodity risk factors in Division C.7 of the Form. Several commodities of similar nature are grouped into single buckets. The corresponding risk weights and correlations for the aggregation of capital charges are specified in paragraphs 3.5.32 to 3.5.33 and paragraph 3.6.2 of the SPM MR-2.

<u>Section E: Treatment where Total Notional Amount of Non-Centrally Cleared Derivative Contracts Does not Exceed HKD 1 Trillion on a Permanent Basis</u>

32. A reporting institution should report in Division D of the Form the notional amount of the institution's non-centrally cleared derivative contracts and the risk-weighted amount for CVA risk. Guidance of this approach is provided in paragraph 1.4.2 of the SPM MR-2.

Hong Kong Monetary Authority
January 2026