



## Supervisory Policy Manual

CR-G-9

Exposures to Connected Parties

V.3 – 27.12.19

This module should be read in conjunction with the [Introduction](#) and with the [Glossary](#), which contains an explanation of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

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### Interpretation

In this module (including the Annex):

- **BELR** means the Banking (Exposure Limits) Rules (Cap. 155S);
- unless otherwise specified, a reference to a Rule or a Part means a Rule or a Part respectively of the BELR

### Purpose

To specify systems and controls that Als should have in order to identify, measure, monitor and control their exposures to connected parties (including those covered under Part 8)

### Classification

A statutory guideline issued by the MA under the Banking Ordinance, §7(3)

### Previous guidelines superseded

Circular “Connected lending” dated 12.11.99; CR-G-9 “Connected Lending” (V.1) dated 29.06.01 and CR-G-9 “Exposures to Connected Parties” (V.2) dated 20.11.15

### Application

To all locally incorporated Als

### Structure

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  - 1.1 Grace period
  - 1.2 Background and scope



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Annex A: Illustration of scope of coverage of statutory limits under Part 8

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### 1. Introduction

#### 1.1 Grace period

- 1.1.1 Different grace periods are granted under the BELR. If a provision set out in this module is relevant to a requirement set out in the BELR to which a grace period applies, an AI that makes use of the grace period should refer to a relevant provision set out in the immediate preceding version of this module instead during the grace period.

#### 1.2 Background and scope

- 1.2.1 This module provides guidance on the manner in which the MA proposes to exercise functions in relation to the statutory limitation on exposures to connected parties



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under Part 8, and sets out prudent controls and risk management measures applicable to exposures to connected parties. AIs should read this module in conjunction with the relevant provisions of the BELR.

- 1.2.2 As a general rule, all credits should be granted by an AI on an arm's length basis to protect its best interests.
- 1.2.3 Part 8 limits the exposures<sup>1</sup> which a locally incorporated AI may incur against connected parties. This is to reduce the risk of improper and excessive lending to connected parties which may jeopardise an AI's interests or be detrimental to its financial position. A breach of the statutory limits under Rule 87 (or if applicable, that rule as varied under Rule 88(1)) of Part 8 by an AI is a serious matter and notifiable event under Rule 7(2)(l). Failure to comply with a prescribed notification requirement is an offence under §81C of the Banking Ordinance. The AI is liable to fines and any director, chief executive or responsible manager of the AI is liable to fines and/or imprisonment on conviction.
- 1.2.4 Therefore, AIs should monitor carefully their exposures to connected parties, whether natural persons or companies, and take appropriate steps to control or reduce the risks of connected lending.
- 1.2.5 To prevent breaching the statutory limits under Part 8 and imprudent connected lending, AIs should have a robust system of checks and balances to monitor compliance with the limits, uphold impartiality and prevent credit activities of any kind (including on- and off-balance sheet transactions) which override established credit approval policies and procedures when granting credit facilities to connected parties. AIs should also ensure that the credit assessment undertaken for such lending should not be less stringent than that performed on non-connected parties, and the

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<sup>1</sup> Given that the valuation of exposure under Part 8 takes into account recognized credit risk mitigation, essentially only the amount of exposure unprotected by recognized credit risk mitigation is subject to the limits under Part 8.



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terms and conditions of such lending (e.g. tenor, interest rates, fees, amortisation schedules and collateral requirements) should not be more favourable than those granted to non-connected parties with similar background and creditworthiness.

- 1.2.6 The principle of impartiality and other standards laid down in this module should also apply to other business transactions and dealings (e.g. acquisition/sale of assets, service contracts, lease agreements and construction contracts) between AIs and their connected parties.
- 1.2.7 Rule 6 empowers the MA to require an AI to comply with the statutory limits under the BELR (including the limits on connected party exposures under Rule 87) on an unconsolidated basis, consolidated basis, or on both unconsolidated and consolidated basis (see [CR-L-1](#) Consolidated Supervision of Concentration Risks: BELR Rule 6 for more guidance). The MA has the discretion to decide which subsidiaries of an AI are to be included in the consolidation. Generally, consolidation for the purposes of Rule 6 will include subsidiaries that undertake financial business and those which incur risks regulated by the BELR (e.g. insurance subsidiaries or property holding subsidiaries).
- 1.2.8 When the MA requires an AI to apply the provisions in relation to exposures to connected parties in Part 8 on a consolidated basis, it will specify the manner to implement the consolidation in practice. Unless otherwise specified by the MA, consolidation will only apply to the connected exposures incurred by the AI and all the specified subsidiaries to the connected parties of the AI. The AI's exposures to the connected parties of the subsidiaries and the subsidiaries' exposures to their own connected parties will not be consolidated for the purposes of Part 8 of the BELR.

## 2. Statutory limitation on exposures to connected parties

### 2.1 Scope of connected parties



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2.1.1 Below is a list of connected parties under Rule 85(1) with respect to which the statutory limits prescribed under Rule 87 apply:

<u>Relationship of connected party with AI</u>	<u>Exclusion</u>
(i) Director and his relatives in the case of natural persons	N/A
(ii) Employee who is responsible, either as a member of a committee (e.g. Credit Committee) or individually, for approving applications for financial facilities <sup>2</sup> , and his relatives	N/A
(iii) Controller <sup>3</sup> or minority shareholder controller and his relatives in the case of natural persons	Excluded if the connected party is another AI, or a non-local bank <sup>4</sup> which is not an AI but is approved by the MA under Rule 85(3) <sup>5</sup>
(iv) Firm, partnership or non-listed company <sup>6</sup> in which the AI or any of its controllers, minority shareholder controllers or directors (including their relatives in the case of natural persons) is interested as director, partner, manager or agent	Excluded if the firm, partnership or non-listed company is another AI, or a non-local bank which is not an AI but is approved by the MA under Rule 85(3) <sup>5</sup>

<sup>2</sup> “Financial facility” is defined in Rule 2(1).

<sup>3</sup> The term “controller” means any person who is an indirect controller or a majority shareholder controller as defined in section 2(1) of the Banking Ordinance. For the purposes of identifying connected parties under Rule 85, the MA expects AIs to take into account the substance over form and treat any company controlled by the AI’s controller that is primarily used for obtaining funding from the AI on behalf of the AI’s controller as if it were the AI’s controller itself.

<sup>4</sup> The term “non-local bank” has the meaning given by Rule 85(4).

<sup>5</sup> The MA may attach condition(s) to the approval.

<sup>6</sup> A “non-listed company” is defined under Rule 84(1) as a company not listed on a recognized stock market but excludes any statutory corporation specified in Schedule 3 to the BELR.



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- (v) Natural person, firm, partnership or non-listed company to whom the institution has provided a financial facility of which any controller, minority shareholder controller, or director of the AI (including their relatives in the case of natural persons) is a guarantor<sup>7</sup> N/A

2.1.2 For connected parties who are natural persons, the term “relative” is defined under Rule 85(4) as:

- a parent, grandparent or great grandparent;
- a step-parent or adoptive parent;
- a brother or sister;
- the spouse;
- if the person is a party to a union of concubinage—the other party of the union;
- a cohabitee;
- a parent, step-parent or adoptive parent of a spouse;
- a brother or sister of a spouse;
- a son, step-son, adopted son, daughter, step-daughter or adopted daughter; or
- a grandson, granddaughter, great grandson or great granddaughter.

The terms “adopted”, “cohabitee”, “party to a union of concubinage” and “union of concubinage” are also defined under that Rule.

2.1.3 Under Rule 84(1), a connected natural person is defined, in substance, as a natural person who is a connected party of the AI as specified in (i), (ii) or (iii) of para. 2.1.1 above. Rule 94(2) further provides that an exposure of an AI to any firm, partnership or non-listed company which a connected natural person is able to control shall be deemed to be an exposure to that person.

2.1.4 For the purpose of Rule 94(2), a firm, partnership or non-listed company (“controlled entity”) is treated as being controlled by a connected natural person if: -

<sup>7</sup> For the avoidance of doubt, this is only limited to cases where the guarantee from the relevant guarantor is on the performance of the natural person, firm, partnership or non-listed company to whom the institution has provided a financial facility.



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- the person owns more than 50% of the voting rights in the controlled entity;
- the person has control of a majority of the voting rights in the controlled entity under an agreement with other shareholders (or similar holders of voting rights);
- the person has the right to appoint or remove a majority of the members of the controlled entity's board of directors (or a similar governing body);
- a majority of the members of the controlled entity's board of directors (or a similar governing body) have been appointed solely as a result of the person exercising his or her voting rights; or
- the person has the power, under a contract or otherwise, to exercise a controlling influence over the management or policies of the controlled entity.

### 2.2 Limits under Rule 87

- 2.2.1 Rule 87 imposes various limits on the exposures of locally incorporated AIs to their connected parties who might be able to exert undue influence on the AIs' activities.
- 2.2.2 Under Rule 88, the MA may, by written notice served on an AI, vary any or all of the limits prescribed under Rule 87 after taking into account the considerations set out in Rule 88(2). While the MA should have flexibility to raise or lower a limit under this power, the policy intent is to use the power for tightening a limit only as the situation warrants, e.g. the AI has shown significant weakness in its internal control systems to prevent conflict of interest relating to connected party exposures.
- 2.2.3 Under Rule 87(a), an AI's aggregate connected parties exposure ratio ("ACPE ratio")<sup>8</sup> must not exceed 15%.
- 2.2.4 Under Rule 87(c), an AI's aggregate single connected party exposure ("ASCP exposure")<sup>9</sup> to each connected

<sup>8</sup> ACPE ratio is defined under Rule 84(1) as the ratio of an AI's aggregate connected parties exposure ("ACP exposure") to the amount of the AI's Tier 1 capital.



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natural person must not exceed HK\$10 million, and under Rule 87(b), its aggregate connected natural persons exposure ratio (“ACNPE ratio”) <sup>10</sup> must not exceed 5%.

- 2.2.5 For AIs’ reference, a chart illustrating the scope of coverage of the statutory limits under Part 8 is set out in **Annex A**.

### 2.3 Determination of connected party exposures

2.3.1 The method for valuing an exposure to a connected party is generally the same as that for valuing an exposure to a counterparty under Part 7, subject to any modification under Division 4 of Part 8. In particular, since the valuation of an exposure takes into account credit risk mitigation under Subdivision 2, Division 3 of Part 7, only the CRM uncovered portion <sup>11</sup> of an exposure (as defined under Part 7) to a connected party is subject to the statutory limits under Part 8.

2.3.2 For determining the amount of exposures to a connected party under Part 8, an AI should take into account the following:

- (a) It should be obvious that the policy intent of Part 8 is to regulate exposures to connected parties. To avoid doubt, Rule 48(1)(a) in relation to exemption to an exposure to an affiliate of the institution should be ignored when determining an exposure to a connected party under Part 8;
- (b) Under Rule 93(2), a Category B institution under Part 7 should apply the same scope of credit risk mitigation as a Category A institution to determine the amount of an exposure to a connected party;

<sup>9</sup> Under Rule 89, an AI’s ASCP exposure to a connected party is the same as the institution’s ASC exposure to the party, determined in accordance with Rule 46 of Part 7, subject to any modification under Division 4 of Part 8.

<sup>10</sup> ACNPE ratio is defined under Rule 84(1) as the ratio of an AI’s aggregate connected natural persons exposure (“ACNP exposure”) to the amount of the AI’s Tier 1 capital.

<sup>11</sup> The meaning of CRM uncovered portion is given under Rule 39(1).





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(c) Under Rule 93(3), an interest in land that meets specified criteria is treated as a recognized collateral for valuing an exposure to a connected party.

2.3.3 With ASCP exposure to a single connected party determined according to paras. 2.3.1 and 2.3.2 above, an AI's aggregate connected parties exposure ("ACP exposure") is simply the sum of the AI's ASCP exposure to all of its connected parties.

2.3.4 An AI's aggregate connected natural persons exposure ("ACNP exposure") is the sum of the AI's ASCP exposure to all of its connected natural persons.

### 2.4 Exposures disregarded under Rule 92

2.4.1 The MA may give a written consent under Rule 92, subject to such conditions as the MA may think proper to attach thereto, to allow an exposure or a class of exposures not to be taken into account for determining an AI's ASCP exposure to a connected party, if the MA considers that it is reasonable to do so, having regard to—

- (a) the nature of, and the risks associated with, the exposure or class of exposures;
- (b) any risk mitigation measures taken by the institution to manage those risks;
- (c) the risks associated with those measures; and
- (d) any other factors that the MA considers relevant.

2.4.2 AIs should note that the consent under Rule 92 will only be granted on a very exceptional basis after considering all the circumstances of the application. An exemption will likely be granted, if, in the case of common directors, the connected party concerned is a non-commercial organization. Whilst each case will be considered on its own merits, the following criteria should, as a minimum, be satisfied, though this will not in itself be sufficient for exemption to be granted:

- in relation to a facility, the facility granted is on arm's length terms and commercially justified;



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- in the case of common directors, the relevant director(s) of the AI should play no part in the approval process;
- in the case of common directors, the relevant director(s) of the AI should have no executive responsibility, except in situations where an executive director of the AI is appointed as a director of the borrower only to help protect the existing interests of the AI as a lender; and
- in the case of an intra-group exposure, the connected party is under effective consolidated supervision.

### 2.5 Exposures protected by recognized credit risk mitigation

- 2.5.1 Although Part 8 only applies to exposures not protected by recognized credit risk mitigation, care should also be taken by AIs when considering to incur protected exposures to connected parties in order to prevent conflict of interests.
- 2.5.2 As mentioned under para. 2.3.2(c), an interest in land is acceptable as recognized collateral under Part 8 (while it is not under Part 7). The legal meaning of “land” includes houses and other buildings upon it.
- 2.5.3 AIs should closely monitor their protected exposures to connected parties to ensure that changes in circumstances (e.g. reduction in credit rating of a credit protection provider or fluctuations in the value of collateral) will not lead to a breach of the limits under Part 8.

## 3. Controls over exposures to connected parties

### 3.1 Oversight by Board of Directors

- 3.1.1 The Board should fully understand the AI’s legal obligations under the BELR in relation to exposures to connected parties and ensure that the AI complies with such obligations.
- 3.1.2 The Board should ensure that the AI establishes a policy on exposures to connected parties that is appropriate to



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its business and risk profile. The policy, and any changes thereto, should be reviewed and approved by the Board.

- 3.1.3 Exposures to connected parties should be reviewed and approved by the Board (or the Credit Committee or any other committee with authority delegated from the Board). The Board should also receive regular reports on the amount of outstanding exposures to connected parties, including the amount of such exposures which falls within the scope of Part 8.
- 3.1.4 Any write-off of exposures to connected parties exceeding a specified amount or otherwise posing special risks to the AI should be approved by the Board (or the Credit Committee or any other committee with authority delegated from the Board). The write-off policy for such exposures (including the threshold for approval by the Board or other committee) should be appropriate to the AI's business and risk profile.
- 3.1.5 Any member of the Board with conflicting interests should not be involved in the approval and management of exposures to connected parties.
- 3.1.6 Where necessary the Board should obtain legal advice in relation to exposures to connected parties.

### 3.2 Policy on exposures to connected parties

- 3.2.1 The policy on exposures to connected parties for internal risk management purposes should cover, at a minimum, the following:
- the categories of connected parties – these should at least comprise the categories specified in Rule 85(1) and the following parties:
    - the AI's senior management and key staff (collectively comprising chief executive and managers<sup>12</sup>) and the relatives<sup>13</sup> of such persons;

<sup>12</sup> The terms "chief executive" and "manager" are as defined in §2 of the Banking Ordinance.

<sup>13</sup> The term "relative" is as defined in Rule 85(4) (see para. 2.1.2 above).



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- the AI's subsidiaries<sup>14</sup>, fellow subsidiaries<sup>15</sup> and other entities (including special purpose entities) over which the AI is able to exert control<sup>16</sup>; and
- the controllers, minority shareholder controllers, directors, senior management and key staff<sup>17</sup> (and the relatives of such persons) of the AI's subsidiaries, fellow subsidiaries and other entities referred to in the second sub-bullet;
- the calculation of exposures to connected parties – this should take into account the requirements under Rule 94, the principles underlying which should, for risk management purposes, be similarly extended to cover the persons and entities referred to in the preceding three sub-bullets;
- the application of the policy to exposures booked in the AI's subsidiaries;
- the maximum limits that apply to exposures to connected parties (individually or in aggregate) before credit risk mitigation ("CRM") and after CRM, taking into account the limits specified in Rule 87<sup>18</sup>;
- the interest rates and other terms and conditions (such as tenor, fees, and amortisation schedules) that apply to various types of exposure to connected parties. In general, these should not be more favourable than the terms and conditions applicable

<sup>14</sup> AIs should make reference to §2 of the Banking Ordinance for the meaning of "holding company" and "subsidiary".

<sup>15</sup> For the purposes of this module, "fellow subsidiaries" mean any entity in which a controller of the AI is able to exert control. The term "control" should be subject to the same interpretation as set out in para. 2.1.4 above.

<sup>16</sup> The term "control" in this paragraph should be subject to the same interpretation as set out in para. 2.1.4 above.

<sup>17</sup> For an AI's subsidiary, fellow subsidiary or other entity which is not an AI itself, "senior management and key staff" means the chief executive officer (or equivalent) and those persons having a principal responsibility for a line of business within the subsidiary, fellow subsidiary or entity concerned.

<sup>18</sup> Rule 87 applies only to exposure to connected parties after CRM. However, the HKMA considers that it is also a good practice for AIs to establish their own internal limits on exposure to connected parties before CRM. This is consistent with prudent credit management practices.



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to exposures to non-connected parties under similar circumstances<sup>19</sup>;

- the authority and procedures for approving exposures to connected parties, including the extent to which such exposures should be subject to approval or review by the Board (or the Credit Committee or other committee with authority delegated from the Board). Directors and credit officers who are connected with the borrowing party should be restricted from taking part in the credit approval process;
- the policy and procedures for approving the write-off of exposures to connected parties (including circumstances under which such write-off should be approved by the Board (or a committee of the Board)) (see also para. 3.1.4 above);
- the arrangements for reporting exposures to connected parties to the HKMA and for ensuring the accuracy of such reports; and
- the arrangements for ensuring compliance with the AI's policy on exposures to connected parties, including the specific officers responsible for this.

3.2.2 The policies should be submitted to the HKMA upon request.

### 3.3 Monitoring of exposures to connected parties

3.3.1 AIs should assign a designated independent unit or officer, e.g. compliance officer, to monitor exposures to connected parties and to ensure their compliance with both statutory and internal limits.

3.3.2 AIs should have adequate information systems to measure their exposures to connected parties and identify exceptions promptly. The list of connected parties should be updated regularly. Any exceptions

<sup>19</sup> An exception may be appropriate for beneficial terms that are part of a remuneration package whether under a specific employment contract or offered pursuant to, and in a manner consistent with, an AI's pre-existing documented staff policy (e.g. staff receiving credit at favourable rates).



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should be reported promptly to the appropriate level of management. If the exception is serious or the amount involved is significant, it should be reported directly to the Board or Audit Committee.

- 3.3.3 AIs should also be vigilant to situations in which a non-connected party (to which an exposure exists) subsequently becomes a connected party. Hence, in addition to monitoring exposures to, or transactions with, existing connected parties, an AI should have robust systems and procedures to promptly identify new connected parties (to which there are existing exposures) and ensure that the statutory or internal limits on exposures to connected parties (whether individually or in aggregate) will continue to be observed. For example, an AI's policy and procedures in relation to any merger and acquisition should include checking the extent of the AI's exposures to the target entity being considered under the merger/ acquisition (and its senior management and key staff), and assessing the implications in respect of the AI's compliance with statutory and internal limits relating to exposures to connected parties.
- 3.3.4 Internal Audit should conduct regular reviews to check whether an AI's established policies, limits and procedures in relation to exposures to connected parties are strictly adhered to.
- 3.3.5 As an additional safeguard, it is advisable for AIs to centralise all aspects of the granting, and subsequent management, of exposures to connected parties at their head office in Hong Kong so that such exposures can be more effectively monitored and controlled.

## 4. Disclosure and regulatory reporting

### 4.1 Financial disclosure

- 4.1.1 AIs, in consultation with their external auditors, should ensure that they have properly disclosed details of their connected party transactions as required by:
- the Companies Ordinance (e.g. loans to directors under §383);



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- Hong Kong Accounting Standard 24 “Related Party Disclosures” issued by the Hong Kong Institute of Certified Public Accountants; and
- other relevant disclosure rules (e.g. “Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited” published by Hong Kong Exchanges and Clearing Limited).

### 4.2 Regulatory reporting

- 4.2.1 AIs should establish systems and procedures to ensure the accuracy of reporting in respect of exposures to connected parties in the HKMA’s “Return of Large Exposure – MA(BS)28”<sup>20</sup> and “Certificate of Compliance – MA(BS)1F(a)”.
- 4.2.2 Any cases of breaching the limits under Part 8<sup>21</sup> should be reported to the HKMA immediately. In case of doubt, AIs should consult with the HKMA or seek relevant legal advice.

### 4.3 Capital adequacy treatment

- 4.3.1 An AI’s loans, facilities or other credit exposures (“specified exposure”) provided to-
- a connected company<sup>22</sup>, pursuant to §46(1) of the Banking (Capital) Rules (BCR), should be treated as part of its capital investment in that connected company that is to be deducted under §43(1)(n) of the BCR<sup>23</sup>; and
  - a connected company that is a financial sector entity, pursuant to §46(2) of the BCR, should be treated as

<sup>20</sup> Form MA(BS)28 will replace MA(BS)1D as the Return of Large Exposures starting from 1 July 2019. However this is subject to a grace period of 6 months up to 31 December 2019 during which AIs which are not yet ready to report by the new form MA(BS)28 may continue to report form MA(BS)1D, as if the former section 83 of the Banking Ordinance were still in operation.

<sup>21</sup> These should include instances where the breaches of the limits under Part 8 were only triggered after taking into account the exposures referred to under Footnote 3 or the exposures which might have been exempted under Rule 48(1)(a) if not for para. 2.3.2(a) of this module.

<sup>22</sup> The term “connected company” is defined in §35 of the BCR.

<sup>23</sup> Under §43(1)(n) of the BCR, any capital investment in a connected company of the AI where that connected company is a commercial entity to the extent that the net book value of such investment exceeds 15% of the capital base of the institution as reported in the institution’s capital adequacy ratio return as at the immediately preceding calendar quarter end date must be deducted from its CET1 capital.



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part of the amount of the AI's direct holdings, indirect holdings and synthetic holdings of CET1 capital instruments that are to be deducted under §43(1)(o), (p) and (q) of the BCR,

unless the AI can demonstrate to the satisfaction of the MA that the specified exposure was incurred in the ordinary course of business.

AIs should put in place sufficient controls (including, but not limited to, an independent review by the compliance or other appropriate function) to ensure that the relevant exposures to connected companies have been incurred in the ordinary course of business. As appropriate, the HKMA may review the effectiveness of such controls as part of its ongoing supervisory work. AIs should note that there are differences in the meanings of “connected company” (for capital adequacy purposes) and “connected party” (for the purposes of this module).

4.3.2 The MA would normally consider a specified exposure to have been incurred in the ordinary course of business if the AI can demonstrate that the exposure:

- is interest bearing at a rate that is comparable to that of similar credits granted by the AI to an ordinary customer;
- has a final maturity;
- is granted on commercial terms; and
- is not capital in nature (e.g. it is not used by the recipient to fund investment in subsidiaries).

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### Legend

**A:** denotes any firm, partnership or non-listed company (other than a firm, partnership or non-listed company which is another AI, or a non-local bank approved by the MA under Rule 85(3)). To avoid doubt, “A” referred to in different boxes in the chart should not be construed as representing the same entity.

**B:** denotes any natural person, firm, partnership or non-listed company. To avoid doubt, “B” referred to in different boxes in the chart should not be construed as representing the same entity.

**C:** denotes any firm, partnership or non-listed company. To avoid doubt, “C” referred to in different boxes in the chart should not be construed as representing the same entity.

**#:** denotes, in relation to any two boxes in the chart linked together by this symbol, that the person in the upper box is able to control the entity in the lower box. The term “control” follows the interpretation set out in para. 2.1.4 of this module.

**\***: denotes, in relation to any two boxes in the chart linked together by this symbol, that the person in the upper box is a director, partner, manager or agent of the entity in the lower box.

**^:** denotes, in relation to any two boxes in the chart linked together by this symbol, that the person in the upper box is a guarantor of a financial facility provided by the AI to the person/ entity in the lower box.

### Explanatory Notes

1. The chart should be read in conjunction with Part 8 and section 2 of this module.
2. Each yellow rectangle in the chart illustrates one of the six situations in which an AI’s aggregate exposure to a single connected natural person in the upper box of the rectangle, as specified in Rule 85(1)(a), (b), (c), (d), (e) or (f), is subject to the limit of HK\$10 million under Rule 87(c). By virtue of Rule 94(2), the same limit also covers an AI’s aggregate exposure to an entity in the lower box of the rectangle if the connected natural person in the upper box of the rectangle is able to control that entity. For example, as depicted in the first yellow rectangle from the left, an AI’s aggregate exposure to any director of the AI and any firm, partnership or non-listed company that the director is able to control should not exceed HK\$10 million. The connected parties shown in the



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yellow rectangles correspond to connected natural persons referred to in para. 2.1.3 of this module.

3. The green rectangle in the chart illustrates that an AI's aggregate exposure to all connected parties shown in the six yellow rectangles (i.e. those natural persons specified in Rule 85(1)(a), (b), (c), (d), (e) and (f) and those entities covered by virtue of Rule 94(2)) should not exceed 5% of its Tier 1 capital under Rule 87(b).
4. The blue rectangle in the chart illustrates that an AI's aggregate exposure to all connected parties within the rectangle, whether they are natural persons or otherwise, should not exceed 15% of its Tier 1 capital under Rule 87(a). The connected parties include those shown in the yellow rectangles and those specified in Rule 85(1)(g) and (h) (i.e. corresponding to those specified in (iv) and (v) of para. 2.1.1 of this module).