



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/75C
S4/2C
S4/3C

14 July 2020

The Chief Executive
All Locally Incorporated Authorized Institutions

Dear Sir/Madam,

Revised BCBS Credit Valuation Adjustment (“CVA”) Risk Framework

As you may be aware, the Basel Committee on Banking Supervision (“BCBS”) issued on 8 July 2020 its *Targeted revisions to the credit valuation adjustment risk framework*.¹ It replaces an earlier version of the framework originally published as part of the Basel III reform package in December 2017.²

The revised version includes a set of targeted revisions to the earlier standards. It takes into account extensive feedback received on a consultative document³ issued by the BCBS in November 2019, which aims to align the relevant parts of the CVA risk framework with the final market risk standards.

Key targeted revisions to the CVA risk framework include:

- adjustments to certain risk weights in both the standardised approach and the basic approach to align with the revised market risk framework;
- introduction of new index buckets and revision of the aggregation formula in the standardised approach also to align with the revised market risk framework;
- alternations to the scope of the CVA risk framework by excluding some securities financing transactions where the CVA risk stemming from such positions is not material; and
- revision of the overall calibration of the CVA risk framework by reducing the aggregate multiplier in the standardised approach and introducing a similar scalar for the basic approach.

¹ <http://www.bis.org/bcbs/publ/d507.pdf>

² <http://www.bis.org/bcbs/publ/d424.pdf>

³ <http://www.bis.org/bcbs/publ/d488.pdf>

The HKMA previously communicated to align its local implementation of the new CVA risk framework with the latest BCBS timetable, i.e. 1 January 2023, for reporting purposes.⁴ The local implementation of the actual capital requirements based on the new framework will be no earlier than 1 January 2023. Its timing will take into account the implementation progress observed in major jurisdictions. We also expect to closely follow the BCBS' CVA risk framework for the implementation of our local standards and plan to issue a consultation paper later this year.

If you have any questions relating to this letter, please feel free to contact Mr Horace Lee (2878 1540, hhwlee@hkma.gov.hk) or Mr Steven Yu (2878 1324, schyu@hkma.gov.hk).

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairperson, The DTC Association
FSTB (Attn: Ms Eureka Cheung)

⁴ <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200330e1.pdf>