



HONG KONG MONETARY AUTHORITY  
香港金融管理局

*Banking Policy Department*

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

13 December 2024

The Chief Executive  
All Authorized Institutions

Dear Sir/Madam,

**Banking (Capital)(Amendment) Rules 2023 - Supplementary Guidance on the Revised Credit Risk Framework**

I am writing to inform you that, following consultation with the two industry Associations, the HKMA is issuing the above guidance today.

The purpose of the guidance is to facilitate consistent application of the revised credit risk framework introduced by the Banking (Capital) (Amendment) Rules 2023 (BCAR) that take effect on 1 January 2025.

The contents of the guidance (mostly in the form of Q&A) include—

- Chapter I - Introduction
- Chapter II - Use of ECAI ratings for the purposes of the Banking (Capital) Rules (BCR)
- Chapter III - STC approach
- Chapter IV - IRB approach
- Chapter V - Counterparty credit risk
- Chapter VI - Securitization

Chapter II contains guidance on the administrative arrangement for ECAI nomination under the revised credit risk framework. Chapters III and IV<sup>1</sup> are largely a compilation of the HKMA's responses to the comments received from the industry during previous consultations on the BCAR, Chapter IV also

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<sup>1</sup> Chapter IV is currently under revision, primarily to accommodate the review of the SPM module CA-G-4 on "Validating Risk Rating Systems under the IRB Approach". Please refer to the HKMA's letters to the HKAB and the DTC Association dated 29 November 2024, available on the HKMA's public website (<https://www.hkma.gov.hk/eng/regulatory-resources/consultations/>) and the private website (<http://www.stet.iclnet.hk/index.htm>).

superseding the “IRB Approach” section of the “Questions and Answers on Banking (Capital) Rules”, which was last updated on 31 December 2014<sup>2</sup>. Chapter V is an updated version of the guidance on counterparty credit risk capital standard issued by the HKMA on 3 June 2021<sup>3</sup>, reflecting the revised capital requirements introduced by the BCAR (e.g. reclassification of CVA risk from counterparty credit risk to market risk). Chapter VI is essentially the implementation guidance on securitization framework issued on 26 March 2018<sup>4</sup>, with updates to the subsection references to section 230 of the BCR. Chapters III, IV and V also incorporate clarifications made by the HKMA in light of a few enquires received from individual authorized institutions, and certain Basel requirements that have not been included in the BCAR (e.g. the eligibility criteria for a covered bond to receive preferential capital treatments).

We envisage that the issuance of supplementary guidance will be a continuing process. Updates and additions will be made as appropriate to address common interpretative issues, or to incorporate further guidance issued by the Basel Committee. Authorized institutions are also welcome to submit any questions to their usual supervisory contacts at the HKMA should there be areas where they wish to seek further clarification.

On-line access to the guidance is available in the webpage for “Banking Legislation, Policies and Standards Implementation / Capital” on the HKMA’s public website (<https://www.hkma.gov.hk>) and the Supervisory Communication Website (<https://www.stet.iclnet.hk>).

Yours faithfully,

Cho-hoi Hui  
Acting Executive Director (Banking Policy)

Encl

cc: The Chairperson, The Hong Kong Association of Banks  
The Chairperson, The DTC Association  
FSTB (Attn: Mr Justin To)

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<sup>2</sup> <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20141231e1.pdf>

<sup>3</sup> <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210603e1a1.pdf>

<sup>4</sup> <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2018/20180326e1.pdf>