

**Explanatory notes on proposed revisions to the templates of Return of Large Exposures (MA(BS)28)<sup>1</sup>**

<b>Part</b>	<b>Column</b>	<b>Item</b>	<b>Remarks</b>
IA			It is proposed to introduce a new Part IA to collect general information of the AI in relation to the reporting of MA(BS)28.
IA	Locally incorporated AIs/ Overseas incorporated AIs	1	<b>Tier 1 capital</b>  Item 1 is for reporting the amount of Tier 1 capital to facilitate ease of supervisory analysis of an AI’s large exposures as compared with the size of its Tier 1 capital.
IA	Locally incorporated AIs/ Overseas incorporated AIs	2	<b>Category A / Category B institution</b>  Item 2 is for reporting- (A) in relation to a locally incorporated AI, whether it is a Category A institution or Category B institution; and (B) in relation to an overseas incorporated AI, whether it operates as if it were a Category A institution or Category B institution, under MA(BS)28.  This item, together with item 3(e), aims to facilitate a better understanding of the CRM treatment of an AI’s exposures reported in MA(BS)28.
IA	Locally incorporated AIs/ Overseas incorporated AIs	3	<b>The adoption of selected measurement approach (if applicable)</b>  Item 3 is for reporting whether an AI has adopted certain selected measurement approach (if applicable) available under MA(BS)28, including:  (a) The SA-CCR approach (b) The SA(CCR) approach (applicable to overseas incorporated AIs only) (c) Alternative method for calculating the default risk exposures for an intragroup counterparty (applicable to overseas incorporated AIs only) <sup>2</sup>

<sup>1</sup> Unless otherwise specified, the terms used in this Note have the same meaning as set out under the “Interpretations” section of the existing completion instructions for MA(BS)28 (the CIs).

<sup>2</sup> Please refer to footnote 8 of the CIs.

Part	Column	Item	Remarks
			<p>(d) Alternative measurement approach for indirect exposure from recognized collateral for an AI which adopts the SA-CCR approach / SA(CCR) approach<sup>3</sup></p> <p>(e) Alternative treatment of credit risk adjustment and risk transfer mechanism in home jurisdiction (applicable to overseas incorporated AI only)<sup>4</sup></p> <p>Item 3(a), (b), (c) and (d) aims to facilitate understanding of the treatment of an AI's default risk exposure arising from its derivative contracts and the relevant indirect exposure determined in accordance with paragraph 15 of the CIs.</p> <p>Item 3(e), together with item 2 above, aims to provide a clear picture on an AI's CRM treatment reported in MA(BS)28. This item will also eliminate the current notification requirement under paragraph 16 of the CIs.</p>
I			<p>It is proposed to expand the scope of capture of Part I from the current design of exposures to just non-bank connected parties to <u>exposures to all connected parties of an AI</u>.</p> <p>Under the proposed revised design, a bank that is excluded from the definition of “connected party” under rule 85(1) by virtue of rule 85(2) of the BELR may still be captured by Part I if it falls within paragraphs (iii) or (iv) of the definition of “connected party” under paragraph 7 of the CIs (for example, a bank subsidiary of the reporting AI). The revised reporting scope aims to better align with the scope of “connected party” under paragraph 3.2.1 of the SPM module CR-G-9 and to facilitate a more comprehensive supervisory oversight of an AI's exposures to connected parties.</p>

<sup>3</sup> Please see the last sub-paragraph under paragraph 15 of the CIs.

<sup>4</sup> Please see paragraph 16 of the CIs.

<b>Part</b>	<b>Column</b>	<b>Item</b>	<b>Remarks</b>
I, II, III, IV, V	(3)		<p><b>On-balance sheet exposures in the banking book (excluding those in relation to columns (5) and (6))</b></p> <p>It is proposed to delete the cross-reference to column (5), which covers off-balance sheet exposures, for simplicity.</p>
I, II, III, IV, V	(5)		<p><b>Off-balance sheet exposures arising from commitments and contingent liabilities</b></p> <p>It is proposed to delete “arising from commitments and contingent liabilities” from the heading to make it clearer that all off-balance sheet exposures are covered under this column.</p>
I, II, III, V	(13)		<p><b>Memorandum item: Economic sector</b></p> <p>It is proposed to add a new column (13) for reporting the economic sector into which an AI’s counterparty / LC group falls according to its major line of business. With a view to reduce compliance efforts, it is proposed to leverage on the classification of exposure types as set out in the credit risk capital framework under the Banking (Capital) Rules (BCR) or, in the case of an AI incorporated overseas, the comparable capital regulations in its place of incorporation. An AI is to classify the relevant entities into 3 broad economic sectors listed below with reference to the capital regulation applicable to it:<sup>5</sup></p> <p>(a) Banks,</p>

<sup>5</sup> For example, based on the proposed amendments to the BCR for implementing the Basel III final reform package issued by the HKMA for industry consultation on 30 June 2022 and subject to the legislative outcome, a locally incorporated AI may categorise its exposures into the three proposed economic sectors in the following manner:

- STC approach – referring to the proposed definition of “ECAI ratings based portfolio” under BCR section 51(1): (1) Banks - exposures that meet the description of paragraph (a)(v) “bank exposures”; (2) Non-bank financial institutions (NBFIs) - exposures that meet the description of paragraph (a)(vi) “non-bank financial institution exposures”; (3) Other counterparties – exposures that do not fall within the other two economic sectors.
- IRB approach – referring to item 3 “Bank exposure” in the amended Table 16 under BCR section 142: (1) Banks - exposures that meet the description of the IRB subclass “Banks (excluding covered bonds)”; (2) NBFIs - exposures that meet the description of the IRB subclass “regulated financial institutions”; (3) Other counterparties – exposures that do not fall within the other two economic sectors.

Part	Column	Item	Remarks
			<p>(b) Non-bank financial institutions; and (c) Other counterparties.</p> <p>The new item aims to facilitate better monitoring of sectoral concentration risk of the large exposures as well as connected exposures of AIs, taking into account recommendations of the IMF as set out in the FSAP report on Hong Kong<sup>6</sup>.</p>
I	(14)		<p><b>Memorandum item: AI’s relationship with the connected party</b></p> <p>It is proposed to add a new column (14) for reporting how a connected party is related to the reporting AI in order to facilitate supervisory review of the AI’s connected exposures, taking into account recommendations of the IMF as set out in the FSAP report on Hong Kong<sup>6</sup>. The reporting AI should indicate whether the entity falls within the following paragraphs of the definition of “connected party” under paragraph 7 of the CIs:</p> <ul style="list-style-type: none"> <li>(a) Paragraph (i): Rule 85(1)(a)</li> <li>(b) Paragraph (i): Rule 85(1)(b)</li> <li>(c) Paragraph (i): Rule 85(1)(c)</li> <li>(d) Paragraph (i): Rule 85(1)(d)</li> <li>(e) Paragraph (i): Rule 85(1)(e)</li> <li>(f) Paragraph (i): Rule 85(1)(f)</li> <li>(g) Paragraph (i): Rule 85(1)(g)</li> <li>(h) Paragraph (i): Rule 85(1)(h)</li> <li>(i) Paragraph (ii)</li> <li>(j) Paragraph (iii)</li> <li>(k) Paragraph (iv)</li> </ul> <p>If an entity falls within multiple paragraphs above, all relevant paragraphs should be reported under this column.</p>
I		Memorandum Items	<p><b>Aggregate exposure to non-bank connected parties</b></p> <p>As explained above, it is proposed to expand the scope of capture of Part I from</p>

<sup>6</sup> <https://www.imf.org/en/Publications/CR/Issues/2021/06/15/Peoples-Republic-of-ChinaHong-Kong-Special-Administrative-Region-Financial-Sector-Assessment-50213>.

Part	Column	Item	Remarks
			the current design of exposures to just non-bank connected parties to <u>exposures to all connected parties</u> of an AI (i.e. banks and non-banks).
III		Memorandum Item	For better clarity, it is proposed to refine the description of this item to (without changing anything else):  “ <b>For monitoring of clustering limit: Aggregate amount of large exposure excluding banks</b> ”
IV	(11)		<b>Provision(s) under which exemption is granted</b>  This item is for reporting the provision of the BELR under which an exemption is granted. Consequential to the ongoing proposed amendments to the BELR, the list of drop-down options of BELR rule numbers will have to be updated where appropriate.
V		Memorandum Items	<b>Internal aggregate intragroup exposure limit (applicable to locally incorporated AIs only)</b>  It is proposed to add a new memorandum item for the reporting of the size of the internal aggregate intragroup exposure limit of a reporting AI. This aims to facilitate the supervision of an AI’s compliance with the requirement under the 1 <sup>st</sup> bullet of paragraph 2.11.1 of the SPM module CR-G-8 on the setting of internal limit for the AI’s aggregate intragroup exposures.
V		Memorandum Items	<b>Internal limit on exposure to each non-bank group entity (applicable to locally incorporated AIs only)</b>  It is proposed to add a new memorandum item for the reporting of the size of the internal limit on exposure to each non-bank group entity of a reporting AI as agreed with the case team to facilitate the supervision of an AI’s compliance with the relevant intragroup limit.
V		Memorandum Items	<b>Aggregate intragroup exposures</b>

Part	Column	Item	Remarks
			<p data-bbox="804 237 1342 309"><b>(applicable to locally incorporated AIs only)</b></p> <p data-bbox="804 344 1342 819">It is proposed to align the reporting scope of this item with the item of “Internal aggregate intragroup exposure limit” above for the sake of consistency. After the proposed revisions, AIs will be required to report the aggregate intragroup exposure as determined in accordance with the 1st bullet of paragraph 2.11.1 of CR-G-8 for the purpose of complying with the internal aggregate intragroup exposure limit instead of just the exposure to affiliate as exempted under BELR rule 48(1)(a).</p>