L.N. 175 of 2017

Banking (Capital) (Amendment) Rules 2017

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Banking (Capital) (Amendment) Rules 2017

(Made by the Monetary Authority under section 97C of the Banking Ordinance (Cap. 155) after consultation with the Financial Secretary, the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, The Hong Kong Association of Banks and The Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies)

1. Commencement

These Rules come into operation on 1 January 2018.

2. Banking (Capital) Rules amended

The Banking (Capital) Rules (Cap. 155 sub. leg. L) are amended as set out in sections 3 to 62.

3. Section 2 amended (interpretation)

(1) Section 2(1), definition of ***asset sale with recourse***, after ", means"—

Add

"an off-balance sheet exposure to the credit risk of an asset sold under".

(2) Section 2(1)—

Repeal the definition of *collective provisions*

Substitute

"***collective provisions*** (集體準備金), in relation to the exposures of an authorized institution, means provisions that—

(a) are held against future and presently unidentified losses; and

(b) are freely available to meet those losses when they materialize in future;".

(3) Section 2(1), definition of ***credit conversion factor***—

Repeal

", 139(1) or 227(1)" (wherever appearing)

Substitute

"or 139(1)".

(4) Section 2(1), definition of ***credit derivative contract***, paragraph (a), before "forward"—

Add

"futures contract,".

(5) Section 2(1)—

Repeal the definition of *credit protection*

Substitute

"***credit protection*** (信用保障)—

(a) in relation to an exposure of an authorized institution, means the protection against the exposure afforded to the institution by—

(i) if the exposure is a non-securitization exposure—recognized credit risk mitigation; or

(ii) if the exposure is a securitization exposure—Part 7 credit risk mitigation (within the meaning of section 227(1)); or

(b) in any other case—means the protection provided by a party against a credit exposure incurred by another party;".

(6) Section 2(1), definition of ***default risk exposure***, paragraph (a)—

Repeal

", 139(1) or 227(1)"

Substitute

"or 139(1)".

(7) Section 2(1)—

Repeal the definition of *direct credit substitute*

Substitute

"***direct credit substitute*** (直接信貸替代項目), in relation to an authorized institution, means an off-balance sheet exposure of the institution arising from an irrevocable transaction or instrument that carries the same credit risk to the institution as a direct extension of credit by the institution, including such an exposure arising from—

(a) a guarantee given by the institution;

(b) a standby letter of credit serving as a financial guarantee for a loan;

(c) an acceptance; or

(d) a credit protection sold under a credit derivative contract in the form of a total return swap or credit default swap booked in the institution's banking book;".

(8) Section 2(1), definition of ***ECAI issue specific rating***, paragraphs (a) and (d)—

Repeal

", 74".

(9) Section 2(1)—

Repeal the definition of *exchange rate contract*

Substitute

"***exchange rate contract*** (匯率合約) means a futures contract, forward contract, swap contract, option contract or similar derivative contract the value of which is determined by reference to the value of, or any fluctuation in the value of—

(a) an underlying currency (including gold); or

(b) an underlying currency index (being an index calculated by reference to a basket of currencies);".

(10) Section 2(1)—

Repeal the definition of *forward asset purchase*

Substitute

"***forward asset purchase*** (遠期資產購買), in relation to an authorized institution, means an off-balance sheet exposure to the credit risk of a loan, security or other asset (other than currency) that the institution has a contractually binding commitment to purchase from another party under a contract (including a put option contract written by the institution) on a specified future date;".

(11) Section 2(1), definition of ***forward forward deposits placed***—

Repeal

"agreement between the institution and another"

Substitute

"off-balance sheet exposure to the credit risk of a party under an agreement between the institution and the".

(12) Section 2(1)—

Repeal the definition of *interest rate contract*

Substitute

"***interest rate contract*** (利率合約) means a futures contract, forward contract, swap contract, option contract or similar derivative contract the value of which changes in response to changes in interest rates;".

(13) Section 2(1), definition of ***nettable***—

Repeal

everything after "institution"

Substitute

", means that the exposure is subject to a recognized netting;".

(14) Section 2(1)—

Repeal the definition of *note issuance and revolving underwriting facilities*

Substitute

"***note issuance and revolving underwriting facilities*** (票據發行及循環式包銷融通), in relation to an authorized institution, means an off-balance sheet exposure of the institution arising from a facility provided in respect of the issue of debt securities by an issuer to the market where the institution and other underwriters under the facility are committed to—

(a) purchase any of those debt securities that cannot be placed in the market; or

(b) provide funding of an equivalent amount to the issuer;".

(15) Section 2(1), definition of ***partly paid-up shares and securities***—

Repeal

everything after "means"

Substitute

"an off-balance sheet exposure to the credit risk of the shares or securities purchased from an issuer where—

(a) only a part of the issue price or nominal face value of the shares or securities has been paid by the institution; and

(b) the institution will be required to pay the unpaid amount in the future;".

(16) Section 2(1), definition of ***potential exposure***—

Repeal

", 139(1) or 227(1)"

Substitute

"or 139(1)".

(17) Section 2(1), definition of ***recognized credit risk mitigation***—

Repeal

"an exposure"

Substitute

"a non-securitization exposure".

(18) Section 2(1), definition of ***recognized credit risk mitigation***, paragraphs (c) and (d)—

Repeal

", 139(1) or 232A"

Substitute

"or 139(1)".

(19) Section 2(1)—

Repeal the definition of *securitization exposure*

Substitute

"***securitization exposure*** (證券化類別風險承擔) means an exposure of a person to a securitization transaction, including such an exposure arising from—

(a) the purchase or repurchase of securitization issues;

(b) the provision of credit protection or credit enhancement to any of the parties to the transaction;

(c) the retention of one or more than one exposure to a tranche in the transaction;

(d) the provision of a liquidity facility (within the meaning of section 227(1)) or servicer cash advance facility (within the meaning of that section) for the transaction; or

(e) the obligation to acquire any investors' interest in the underlying exposures of the transaction if the transaction is subject to an early amortization provision;".

(20) Section 2(1), definition of ***specific provisions***—

Repeal paragraphs (a), (b) and (c)

Substitute

"(a) the institution reasonably considers that one or more than one event has occurred causing the impairment loss;

(b) the event or events exist on the initial recognition of the exposure or occur after the exposure is originated or acquired by the institution; and

(c) the allowance is assessed by the institution by reference to the impact that the event or events have on the cash flows in respect of the exposure insofar as that impact can be reliably estimated;".

(21) Section 2(1)—

Repeal the definition of *trade-related contingency*

Substitute

"***trade-related contingency*** (貿易關聯或有項目), in relation to an authorized institution, means an off-balance sheet exposure of the institution arising from a short-term self-liquidating trade-related obligations associated with the movement of goods, including such an exposure arising from issuing or confirming a letter of credit, from acceptance on a trade bill or from shipping guarantee;".

(22) Section 2(1)—

Repeal the definition of *transaction-related contingency*

Substitute

"***transaction-related contingency*** (交易關聯或有項目), in relation to an authorized institution, means an off-balance sheet exposure of the institution to a customer arising from an irrevocable obligation of the institution to pay a beneficiary when the customer fails to perform a contractual and non-financial obligation, including such an exposure arising from a performance bond, bid bond, warranty or standby letter of credit;".

(23) Section 2(1), definition of ***valid bilateral netting agreement***—

Repeal paragraph (b)

Substitute

"(b) the agreement creates a single legal obligation for all individual contracts or transactions covered by the agreement, and provides, in effect, that—

(i) the institution would have a single claim or obligation to receive or pay only—

(A) for derivative contracts—the net amount of the sum of the positive and negative mark-to-market values of the individual contracts covered by the agreement;

(B) for SFTs—the net amount of the sum of the gains and losses on the individual transactions (including the value of any collateral) covered by the agreement; or

(C) for other transactions giving rise to on-balance sheet exposures or liabilities—the net amount owed to or by the institution in respect of the individual transactions covered by the agreement; and

(ii) the institution would have the claim or obligation in the event that a counterparty to the agreement, or a counterparty to whom the agreement has been validly assigned, fails to comply with any obligation under the agreement due to default, insolvency, bankruptcy or similar circumstance;".

(24) Section 2(1), definition of ***valid bilateral netting agreement***, paragraph (c)(ii), after "contracts"—

Add

"or transactions".

(25) Section 2(1), definition of ***valid bilateral netting agreement***, paragraph (e), after "manages the"—

Add

"contracts or".

(26) Section 2(1), definition of ***valid bilateral netting agreement***, paragraph (f)—

Repeal

"covered by the agreement; and"

Substitute

"or transactions covered by the agreement;".

(27) Section 2(1), definition of ***valid bilateral netting agreement***, paragraph (g), after the semicolon—

Add

"and".

(28) Section 2(1), definition of ***valid bilateral netting agreement***, after paragraph (g)—

Add

"(h) if the agreement covers the netting of SFTs—the agreement allows for prompt liquidation or setting-off of collateral on the occurrence of an event referred to in paragraph (b)(ii);".

(29) Section 2(1)—

(a) definition of ***excess spread***;

(b) definition of ***internal ratings-based (securitization) approach***;

(c) definition of ***investors' interest***;

(d) definition of ***IRB(S) approach***;

(e) definition of ***liquidity facility***;

(f) definition of ***ratings-based method***;

(g) definition of ***regulatory reserve***;

(h) definition of ***securitization position***;

(i) definition of ***servicer cash advance facility***;

(j) definition of ***standardized (securitization) approach***;

(k) definition of ***STC(S) approach***;

(l) definition of ***supervisory formula method***—

Repeal the definitions.

(30) Section 2(1)—

Add in alphabetical order

"***attachment point*** (起賠點), in relation to a tranche of a securitization transaction, means the threshold at which losses in the underlying exposures (within the meaning of section 227(1)) of the transaction would first be allocated to the tranche;

credit-enhancing interest-only strip (提升信用的純利息份額) means an on-balance sheet asset of the originator of a securitization transaction that—

(a) represents a valuation of cash flows related to future margin income (being the gross finance charges and other income expected to be received by the SPE in the transaction in excess of the expenses, including interest payments, charge-offs, fees, and other expenses arising from the SPE, that are expected to be incurred under the transaction); and

(b) is subordinated to claims from other parties to the transaction in terms of the priority of payment or repayment;

detachment point (止賠點), in relation to a tranche of a securitization transaction, means the threshold at which losses in the underlying exposures (within the meaning of section 227(1)) of the transaction would result in the total loss of principal for the tranche;

exposure amount (風險承擔數額), in relation to a securitization transaction, has the meaning given by section 227(1);

IRB pool (IRB組合) means a pool of underlying exposures of a securitization transaction classified as an IRB pool under section 16;

mixed pool (混合組合) means a pool of underlying exposures of a securitization transaction classified as a mixed pool under section 16;

regulatory reserve for general banking risks (一般銀行業務風險監管儲備), in relation to an authorized institution, means that portion of the institution's retained earnings which, for the purposes of paragraph 9 of the Seventh Schedule to the Ordinance, is earmarked or appropriated to maintain adequate provision for losses which the institution will or may incur;

SA pool (標準組合) means a pool of underlying exposures of a securitization transaction classified as an SA pool under section 16;

SEC-ERBA means the securitization external ratings-based approach;

SEC-FBA means the securitization fall-back approach;

SEC-IRBA means the securitization internal ratings-based approach;

SEC-SA means the securitization standardized approach;

securitization external ratings-based approach (證券化外部評級基準計算法) means the method of determining the risk-weight of a securitization exposure set out in Division 8 of Part 7;

securitization fall-back approach (證券化備選計算法) means the method of determining the risk-weight of a securitization exposure set out in Division 10 of Part 7;

securitization internal ratings-based approach (證券化內部評級基準計算法) means the method of determining the risk-weight of a securitization exposure set out in Division 7 of Part 7;

securitization standardized approach (證券化標準計算法) means the method of determining the risk-weight of a securitization exposure set out in Division 9 of Part 7;

tranched credit protection (分份額信用保障) means a credit protection under which—

(a) a party transfers a portion of the credit risk of a securitization exposure or a non-securitization exposure in one or more than one tranche to one or more than one other party, and retains the remaining portion of the credit risk of the exposure; and

(b) the portion transferred and the portion retained are of different seniority;".

4. Section 3F amended (distribution payment requirements)

Section 3F(2)—

Repeal

everything after "unless"

Substitute

"all of the following provisions are complied with—

(a) this section;

(b) if applicable, section 3J or 3K;

(c) if the payment is made on or after 1 January 2018, section 3Z.".

5. Part 1C added

After Part 1B—

Add

"Part 1C

Leverage Ratio

3Y. Interpretation of Part 1C

In this Part—

exposure measure (風險承擔計量), in relation to an authorized institution, means its exposure measure determined in accordance with section 3ZB;

leverage ratio (槓桿比率), in relation to an authorized institution, means the ratio, expressed as a percentage, of its Tier 1 capital to its exposure measure.

3Z. Minimum leverage ratio for authorized institutions

(1) An authorized institution must not at any time have a leverage ratio of less than 3%.

(2) The ratio must be calculated on the same basis as that adopted for the calculation of capital adequacy ratio under Division 7 of Part 2.

3ZA. Authorized institution must notify Monetary Authority of failure to have minimum leverage ratio

An authorized institution that fails to comply with section 3Z must—

(a) on becoming aware of the failure, immediately notify the Monetary Authority of the fact; and

(b) if requested by the Monetary Authority to provide the particulars of the failure to the Monetary Authority—provide the particulars.

3ZB. Determination of exposure measure

(1) An authorized institution must determine its exposure measure in accordance with this section.

(2) The exposure measure is the sum of the following—

(a) the institution's on-balance sheet exposures, excluding those arising from derivative contracts or SFTs (other than collateral for derivative contracts or for SFTs recognized as an on-balance sheet asset under the applicable accounting standard);

(b) the institution's exposures arising from derivative contracts (other than collateral recognized as an on-balance sheet asset under the applicable accounting standard);

(c) the institution's exposures arising from SFTs (other than collateral recognized as an on-balance sheet asset under the applicable accounting standard); and

(d) the institution's off-balance sheet exposures (other than those falling within paragraph (b) or (c)).

(3) The amounts of the exposures mentioned in subsection (2)(a), (b), (c) and (d) are calculated by using the standard calculation methodology set out in the standard return template relating to leverage ratio specified by the Monetary Authority.

(4) The institution may deduct from the sum calculated under subsection (2) its on-balance sheet exposures (other than liability items) deducted from Tier 1 capital.

(5) If the institution is a note-issuing bank, in determining the institution's on-balance sheet exposures for the purposes of this section, certificates of indebtedness issued by the Financial Secretary under section 4 of the Exchange Fund Ordinance (Cap. 66) to, and held by, the institution must not be included.

(6) In this section—

note-issuing bank (發鈔銀行) has the meaning given by section 2 of the Legal Tender Notes Issue Ordinance (Cap. 65).".

6. Section 4 amended (interpretation of Part 2)

Section 4, definition of ***IRB coverage ratio***, paragraph (b)—

Repeal

"IRB(S) approach"

Substitute

"SEC-IRBA".

7. Section 12 amended (exemption for exposures)

Section 12(4)(a)(ii)—

Repeal

"STC(S) approach"

Substitute

"SEC-ERBA, SEC-SA or SEC-FBA".

8. Section 15 substituted

Section 15—

Repeal the section

Substitute

"**15. Authorized institution must use SEC-IRBA, SEC-ERBA, SEC-SA or SEC-FBA to determine risk-weight of securitization exposure**

(1) An authorized institution must use the SEC-IRBA to determine the risk-weight of a securitization exposure to a securitization transaction that is not a re-securitization exposure if—

(a) the pool of underlying exposures of the transaction is classified as an IRB pool; or

(b) all of the following conditions are met—

(i) the pool of underlying exposures of the transaction is classified as a mixed pool;

(ii) the institution is able to calculate the K_{IRB} in accordance with section 254(1) for at least 95% of the total nominal amount of the underlying exposures.

(2) An authorized institution must use the SEC-ERBA to determine the risk-weight of a securitization exposure to a securitization transaction that is not a re-securitization exposure if—

(a) the securitization exposure is rated and the pool of underlying exposures of the transaction is classified as an SA pool; or

(b) all of the following conditions are met—

(i) the securitization exposure is rated and the pool of underlying exposures of the transaction is classified as a mixed pool;

(ii) the institution is unable to calculate the K_{IRB} in accordance with section 254(1) for at least 95% of the total nominal amount of the underlying exposures.

(3) An authorized institution must use the SEC-SA to determine the risk-weight of a securitization exposure to a securitization transaction if—

(a) the securitization exposure is unrated and the pool of underlying exposures of the transaction is classified as an SA pool;

(b) all of the following conditions are met—

(i) the securitization exposure is unrated and the pool of underlying exposures of the transaction is classified as a mixed pool;

(ii) the institution is unable to calculate the K_{IRB} in accordance with section 254(1) for at least 95% of the total nominal amount of the underlying exposures; or

(c) the securitization exposure is a re-securitization exposure (whether rated or not).

(4) Despite subsections (1), (2) and (3), an authorized institution must use the SEC-FBA to determine the risk-weight of a securitization exposure to a securitization transaction if—

(a) any of the due diligence requirements in section 15A is not complied with in respect of the exposure or the transaction; or

(b) the institution is unable to use the SEC-IRBA, SEC-ERBA and SEC-SA to determine the risk-weight.".

9. Section 15A added

After section 15—

Add

"**15A. Due diligence requirements for using SEC-IRBA, SEC-ERBA or SEC-SA**

(1) The due diligence requirements for the purposes of section 15(4)(a) are set out in subsections (2), (3) and (4).

(2) The authorized institution concerned must have a comprehensive understanding, on a continuous basis, of the risk characteristics of—

(a) the securitization exposure concerned (whether on-balance sheet or off-balance sheet); and

(b) the pool of underlying exposures of the securitization transaction that gave rise to the securitization exposure.

(3) The institution must be able to access the following information on a continuous basis and in a timely manner—

(a) if the transaction is not a re-securitization transaction—performance information on the underlying exposures (including issuer name and credit quality); and

(b) if the transaction is a re-securitization transaction—

(i) performance information on the underlying exposures (including issuer name and credit quality); and

(ii) information on the risk characteristics and performance of the underlying exposures of the original securitization transaction being re-securitized through the re-securitization transaction.

(4) The institution must have a thorough understanding of each structural feature of the transaction that has the potential to materially affect the performance of the securitization exposure referred to in subsection (2).".

10. Section 16 substituted

Section 16—

Repeal the section

Substitute

"**16. Classification of underlying exposures**

(1) An authorized institution must classify the pool of underlying exposures of a securitization transaction in accordance with this section.

(2) Subject to subsection (5), the institution must classify the pool of underlying exposures of a securitization transaction as an IRB pool if—

(a) all the underlying exposures in the pool are IRB underlying exposures; and

(b) the institution has all the data and information necessary for calculating the risk-weighted amounts of all the IRB underlying exposures in accordance with Part 6.

(3) The institution must classify the pool of underlying exposures of a securitization transaction as a mixed pool if—

(a) some or all of the underlying exposures in the pool are IRB underlying exposures; and

(b) the institution has all the data and information necessary for calculating the risk-weighted amounts of some, but not all, of the underlying exposures in the pool in accordance with Part 6.

(4) The institution must classify the pool of underlying exposures of a securitization transaction as an SA pool if—

(a) the institution uses, or if the underlying exposures were held directly by the institution, it would use, the STC approach or BSC approach to calculate the credit risk for all the underlying exposures in the pool;

(b) some or all of the underlying exposures in the pool are IRB underlying exposures, but the institution is unable to calculate the risk-weighted amount of any of the IRB underlying exposures in accordance with Part 6 due to a lack of necessary data and information;

(c) the securitization transaction is a re-securitization transaction; or

(d) the institution is required by a notice given to it under subsection (5) to do so.

(5) Even if the conditions in subsection (2)(a) and (b) are met, the Monetary Authority may, by notice in writing given to the institution, require it to classify the pool of underlying exposures as an SA pool if the Monetary Authority considers that the classification of the pool as an IRB pool would result in a less prudent estimate of the capital charge for the institution's securitization exposure to the transaction given—

(a) the particular structure of the transaction; or

(b) the characteristics of the underlying exposures of the transaction.

(6) An authorized institution must comply with the requirement of a notice given to it under subsection (5).

(7) In this section—

IRB underlying exposures (IRB組成項目) means underlying exposures that fall, or would fall if they were held directly by the authorized institution concerned, within an IRB class or IRB subclass for which the institution has an approval granted under section 8 to use the IRB approach to calculate the credit risk.".

11. Section 29 amended (solo basis for calculation of capital adequacy ratio)

Section 29(1)(b)(i)—

Repeal

"or both, and to the STC(S) approach"

Substitute

"and to the SEC-ERBA, SEC-SA or SEC-FBA".

12. Section 30 amended (solo-consolidated basis for calculation of capital adequacy ratio)

Section 30(1)(b)(i)—

Repeal

"or both, and to the STC(S) approach"

Substitute

"and to the SEC-ERBA, SEC-SA or SEC-FBA".

13. Section 31 amended (consolidated basis for calculation of capital adequacy ratio)

Section 31(1)(b)(i)—

Repeal

"or both, and to the STC(S) approach"

Substitute

"and to the SEC-ERBA, SEC-SA or SEC-FBA".

14. Section 38 amended (CET1 capital)

Section 38(2)(e)—

Repeal

"referred to in section 40(1)(f)".

15. Section 40 amended (Tier 2 capital)

Section 40(1)—

Repeal paragraph (f)

Substitute

"(f) the amount of the institution's regulatory reserve for general banking risks and collective provisions that may be included in its Tier 2 capital under section 42;

(g) the amount of the excess of the institution's total eligible provisions over its total EL amount that may be included in its Tier 2 capital under section 42(3)(c).".

16. Section 42 amended (provisions supplementary to section 40(1)(f))

(1) Section 42, heading—

Repeal

"**40(1)(f)**"

Substitute

"**40(1)(f) and (g)**".

(2) Section 42(1)—

Repeal

everything before "must not"

Substitute

"(1) An authorized institution that uses only the STC approach or BSC approach to calculate its credit risk for non-securitization exposures".

(3) Section 42(1)(a)—

Repeal

"STC approach or BSC approach, or both"

Substitute

"approach".

(4) Section 42(1)(b)—

Repeal

"STC(S) approach"

Substitute

"SEC-ERBA, SEC-SA or SEC-FBA".

(5) Section 42—

Repeal subsection (2)

Substitute

"(2) An authorized institution that uses only the IRB approach, or a combination of the STC approach and IRB approach, to calculate its credit risk for non-securitization exposures—

(a) subject to paragraph (b), must apportion its total regulatory reserve for general banking risks and collective provisions between the STC approach, IRB approach, SEC-IRBA, SEC-ERBA, SEC-SA and SEC-FBA on a pro rata basis in accordance with the proportions of the institution's risk-weighted amount for credit risk calculated by using those approaches;

(b) may, with the prior consent of the Monetary Authority, use its own method to apportion its total regulatory reserve for general banking risks and collective provisions between the STC approach, IRB approach, SEC-IRBA, SEC-ERBA, SEC-SA and SEC-FBA; and

(c) must, after it has carried out the apportionment referred to in paragraph (a) or (b)—

(i) comply with subsection (1) in respect of the portion apportioned to the STC approach, SEC-ERBA, SEC-SA and SEC-FBA as if it were an authorized institution that uses only the STC approach to calculate its credit risk for non-securitization exposures;

(ii) comply with subsection (3) in respect of the portion apportioned to the IRB approach; and

(iii) comply with subsection (4) in respect of the portion apportioned to the SEC-IRBA.".

(6) Section 42—

Repeal subsection (4)

Substitute

"(4) An authorized institution may include that portion of its total regulatory reserve for general banking risks and collective provisions that is apportioned to the SEC-IRBA under subsection (2)(a) or (b) in its Tier 2 capital up to 0.6% of its risk-weighted amount for credit risk calculated by using the SEC-IRBA.".

17. Section 43 amended (deductions from CET1 capital)

(1) Section 43(1)(e)—

Repeal

"gain-on-sale"

Substitute

"credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital of the institution,".

(2) Section 43(1)(f), before "the amount"—

Add

"subject to section 44A,".

18. Section 44A added

After section 44—

Add

"**44A. Provisions supplementary to section 43(1)(f)**

(1) If an authorized institution is required by a notice given to it under section 43(1)(f) to deduct from its CET1 capital a securitization exposure specified in the notice, the institution must make the deduction based on the exposure amount of the exposure determined under section 235.

(2) An authorized institution may, for the purposes of subsection (1), deduct from the exposure amount determined under section 235 for a securitization exposure—

(a) the specific provisions or partial write-offs made by the institution for the exposure; and

(b) if applicable, the non-refundable purchase price discounts provided to the institution by the seller of the exposure.".

19. Section 51 amended (interpretation of Part 4)

(1) Section 51(1), definition of ***principal amount***, paragraph (b)(ii)—

Repeal

"which is"

Substitute

"arising from".

(2) Section 51(1), definition of ***small business***, paragraphs (a)(i) and (ii) and (b)—

Repeal

"$50"

Substitute

"$100".

20. Section 68 amended (credit-linked notes)

(1) Section 68(a)—

Repeal

"(c)"

Substitute

"(e)".

(2) Section 68—

Repeal paragraph (c).

(3) Section 68(e)—

Repeal

"falls within paragraph (d) and it"

Substitute

"(whether having an ECAI issue specific rating or not)".

21. Section 71 amended (off-balance sheet exposures)

(1) Section 71, Table 10, item 9, column 2—

Repeal

"Commitments which do not fall within any of items 1, 2, 3, 4, 5, 6, 7 and 8 and"

Substitute

"Off-balance sheet exposures that do not fall within any of items 1, 2, 3, 4, 5, 6, 7 and 8 and arise from commitments".

(2) Section 71, Table 10, item 9(d), column 3—

Repeal

"commitment based on its original maturity"

Substitute

"exposure based on the original maturity of the commitment".

(3) Section 71, Table 10, item 9, column 2, definition of ***original maturity***—

Repeal

everything after "in relation to"

Substitute

"a commitment of an authorized institution, means the period between the date on which the institution enters into the commitment and the earliest date on which the institution can, at its option, unconditionally cancel the commitment.".

22. Section 72 amended (provisions supplementary to section 71)

(1) Section 72(e)—

Repeal

"which is"

Substitute

"arising from".

(2) Section 72(f)(i)—

Repeal

"calculated in accordance with section 74 has been provided in respect of"

Substitute

"has been held in respect of the risk-weighted amount calculated in accordance with section 74 or Part 7 for".

(3) Section 72(f)(ii), after "and 10,"—

Add

"or Division 5 of Part 7,".

23. Section 74 amended (determination of risk-weights applicable to off-balance sheet exposures)

(1) Section 74(2)(e)—

Repeal

"assets" (wherever appearing)

Substitute

"assets sold or purchased".

(2) Section 74(2)(g)—

Repeal

"exposure"

Substitute

"credit derivative contract".

(3) Section 74(3)—

Repeal

"institution is"

Substitute

"institution arises from".

(4) Section 74(3)—

Repeal paragraph (a).

(5) Section 74(3)(b)—

Repeal

"if the contract does not have an ECAI issue specific rating,".

(6) Section 74(4)—

Repeal

"institution is"

Substitute

"institution arises from".

(7) Section 74(4)—

Repeal paragraph (a).

(8) Section 74(4)(b)—

Repeal

"if the contract does not have an ECAI issue specific rating,".

(9) Section 74(5)—

Repeal

"institution is"

Substitute

"institution arises from".

(10) Section 74(6)—

Repeal

"institution is"

Substitute

"institution arises from".

(11) Section 74, Formula 1, heading, after "**Risk-weight of**"—

Add

"**Off-balance Sheet Exposure Arising from**".

(12) Section 74(7)—

Repeal

"institution is"

Substitute

"institution arises from".

24. Section 80 amended (collateral which may be recognized for purposes of section 77(i)(ii))

Section 80(1)(d)—

Repeal

everything after "under a"

Substitute

"repo-style transaction that is booked in the institution's trading book.".

25. Section 82 amended (determination of risk-weight to be allocated to recognized collateral under simple approach)

(1) Section 82(1)(a)(ii)—

Repeal

"section 237"

Substitute

"Part 7".

(2) Section 82(2)—

Repeal

"which falls within paragraph (c) or (d) of the definition of ***repo-style transaction*** in section 2(1)".

26. Section 91 amended (minimum holding periods)

Section 91(2)—

Repeal

"(5)" (wherever appearing)

Substitute

"(7)".

27. Section 97 amended (use of value-at-risk model instead of Formula 9)

Section 97(4)(c)(ii)—

Repeal

"(5)"

Substitute

"(7)".

28. Section 101 amended (provisions supplementary to section 100)

Section 101—

Repeal subsection (7)

Substitute

"(7) If an authorized institution has obtained tranched credit protection for its exposure, it must—

(a) decompose the exposure into a protected sub-tranche and an unprotected sub-tranche; and

(b) determine the risk-weighted amount of the exposure in accordance with Part 7.".

29. Section 105 amended (interpretation of Part 5)

Section 105, definition of ***principal amount***, paragraph (b)(ii)—

Repeal

"which is"

Substitute

"arising from".

30. Section 118 amended (off-balance sheet exposures)

(1) Section 118, Table 14, item 9, column 2—

Repeal

"Commitments which do not fall within any of items 1, 2, 3, 4, 5, 6, 7 and 8 and"

Substitute

"Off-balance sheet exposures that do not fall within any of items 1, 2, 3, 4, 5, 6, 7 and 8 and arise from commitments".

(2) Section 118, Table 14, item 9(d), column 3—

Repeal

"commitment based on its original maturity"

Substitute

"exposure based on the original maturity of the commitment".

(3) Section 118, Table 14, item 9, column 2, definition of ***original maturity***—

Repeal

everything after "in relation to"

Substitute

"a commitment of an authorized institution, means the period between the date on which the institution enters into the commitment and the earliest date on which the institution can, at its option, unconditionally cancel the commitment.".

31. Section 119 amended (provisions supplementary to section 118)

(1) Section 119(e)—

Repeal

"which is"

Substitute

"arising from".

(2) Section 119(f)(i)—

Repeal

"calculated in accordance with section 121 has been provided in respect of"

Substitute

"has been held in respect of the risk-weighted amount calculated in accordance with section 121 or Part 7 for".

(3) Section 119(f)(ii), after "and 8,"—

Add

"or Division 5 of Part 7,".

32. Section 121 amended (determination of risk-weights applicable to off-balance sheet exposures)

(1) Section 121(2)(e)—

Repeal

"assets" (wherever appearing)

Substitute

"assets sold or purchased".

(2) Section 121(2)(g)—

Repeal

"exposure"

Substitute

"credit derivative contract".

(3) Section 121(3)—

Repeal

"institution is"

Substitute

"institution arises from".

(4) Section 121(4)—

Repeal

"institution is"

Substitute

"institution arises from".

(5) Section 121(5)—

Repeal

"institution is"

Substitute

"institution arises from".

(6) Section 121(6)—

Repeal

"institution is"

Substitute

"institution arises from".

(7) Section 121, Formula 13, heading, after "**Risk-weight of**"—

Add

"**Off-balance Sheet Exposure Arising from**".

(8) Section 121(7)—

Repeal

"institution is"

Substitute

"institution arises from".

33. Section 126 amended (calculation of risk-weighted amount of exposures taking into account credit risk mitigation effect of recognized collateral)

Section 126(4)(b)—

Repeal

"sections 237, 238 and 239"

Substitute

"Part 7".

34. Section 135 amended (provisions supplementary to section 134)

Section 135—

Repeal subsection (7)

Substitute

"(7) If an authorized institution has obtained tranched credit protection for its exposure, it must—

(a) decompose the exposure into a protected sub-tranche and an unprotected sub-tranche; and

(b) determine the risk-weighted amount of the exposure in accordance with Part 7.".

35. Section 139 amended (interpretation of Part 6)

Section 139(1), definition of ***principal amount***, paragraph (b)(iv)—

Repeal

"which is"

Substitute

"arising from".

36. Section 163 amended (exposure at default under foundation IRB approach—on-balance sheet exposures and off-balance sheet exposures other than OTC derivative transactions and credit derivative contracts)

(1) Section 163, Table 20, item 6—

Repeal everything in column 2

Substitute

"Partly paid-up securities (being an off-balance sheet exposure to the credit risk of the securities purchased from an issuer where only a part of the issue price or nominal face value of the securities has been paid by the institution and the institution will be required to pay the unpaid amount in the future)".

(2) Section 163, Table 20, item 9, column 2—

Repeal

"Commitments which do not fall within any of items 1, 2, 3, 4, 5, 6, 7 and 8 and"

Substitute

"Off-balance sheet exposures that do not fall within any of items 1, 2, 3, 4, 5, 6, 7 and 8 and arise from commitments".

37. Section 209 amended (recognized netting)

(1) Section 209(1), after "agreement"—

Add

"or valid cross-product netting agreement".

(2) Section 209(3), Chinese text—

Repeal

"計算協議"

Substitute

"結算協議".

38. Section 216 amended (provisions supplementary to section 214(1)—substitution framework for corporate, sovereign and bank exposures under foundation IRB approach and for equity exposures under PD/LGD approach)

Section 216(2)—

Repeal paragraph (b)

Substitute

"(b) if the institution has obtained tranched credit protection for its exposure, it must—

(i) decompose the exposure into a protected sub-tranche and an unprotected sub-tranche; and

(ii) determine the risk-weighted amount of the exposure in accordance with Part 7.".

39. Section 221 amended (determination of eligible provisions for calculation of total eligible provisions)

(1) Section 221—

Repeal

"or BSC approach, or both, to"

Substitute

"to".

(2) Section 221—

Repeal

"those eligible provisions"

Substitute

"those regulatory reserve for general banking risks and collective provisions".

(3) Section 221—

Repeal

"or BSC approach, or both, as the case requires,".

40. Section 224 amended (application of scaling factor)

Section 224(1)—

Repeal

everything after "amount of"

Substitute

"its non-securitization exposures as calculated under the IRB approach in accordance with Divisions 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 by a scaling factor of 1.06 to arrive at its risk-weighted amount for credit risk calculated under the IRB approach.".

41. Section 226 amended (calculation of capital floor)

(1) Section 226(3A)(a)(ii) and (5)(a)(ii)—

Repeal

"STC(S) approach"

Substitute

"SEC-ERBA, SEC-SA or SEC-FBA".

(2) Section 226(7)(e)(ia)—

Repeal

"IRB(S) approach"

Substitute

"SEC-IRBA".

(3) Section 226(7)(e)(iii)—

Repeal

"STC(S) approach"

Substitute

"SEC-ERBA, SEC-SA or SEC-FBA".

(4) Section 226(8), Chinese text, definition of ***核心資本***—

Repeal

"義。"

Substitute

"義；".

(5) Section 226(8)—

Add in alphabetical order

"***STC(S) approach*** (STC(S) 計算法) has the meaning given by section 2(1) as in force immediately before 1 January 2018;".

42. Section 226A amended (interpretation of Part 6A)

Section 226A, definition of ***recognized credit derivative contract***—

Repeal

"232A"

Substitute

"227(1)".

43. Section 226I amended (treatments for certain credit derivative contracts)

(1) Section 226I(a)—

Repeal

"calculated in accordance with Part 4, 5 or 6, as the case may be, has been provided"

Substitute

"has been held in respect of the risk-weighted amount calculated in accordance with Part 4, 5, 6 or 7, as the case may be,".

(2) Section 226I(b)—

Repeal

"3, 5 or 6"

Substitute

"5".

44. Section 226M amended (margin period of risk)

(1) Section 226M(1)—

Repeal

"(5)"

Substitute

"(7)".

(2) Section 226M—

Repeal subsection (5).

(3) At the end of section 226M—

Add

"(7) If—

(a) a netting set is one referred to in subsection (1), (2), (3) or (6); and

(b) there have been more than 2 margin call disputes over the netting set during the previous

2 quarters and the disputes have lasted longer than the margin period of risk applicable to that netting set under that subsection,

an authorized institution must use a margin period of risk that is at least double the margin period of risk applicable to that netting set under that subsection for the subsequent 2 quarters.".

45. Section 226ZB amended (exposures of clients to CCPs)

After section 226ZB(4)—

Add

"(5) In determining whether the condition set out in section 226ZA(6)(a) is met for the purposes of subsections (2), (3) and (4), that section is to have effect as if the words "the offsetting transaction for the relevant transaction is identified by the CCP as a client transaction and the collateral for supporting the offsetting transaction" were substituted the words "the collateral for supporting the relevant transaction".".

46. Section 227 amended (interpretation of Part 7)

(1) Section 227(1), definition of ***first loss tranche***—

Repeal

"discount on the purchase price of the receivables provided by the seller of the receivables"

Substitute

"purchase price discount".

(2) Section 227(1)—

Repeal the definition of *implicit support*

Substitute

"***implicit support*** (隱性支持), in relation to a securitization transaction—

(a) means any direct or indirect support that an authorized institution provides (or has provided) to investors in the transaction in excess of its predetermined contractual obligations, with a view to reducing potential or actual losses that they may suffer; and

(b) includes any clean-up call the exercise of which is found to provide credit enhancement to the transaction;".

(3) Section 227(1)—

Repeal the definition of *inferred rating*

Substitute

"***inferred rating*** (推斷評級), in relation to a securitization exposure that does not have an ECAI issue specific rating (***principal exposure***), means the credit assessment rating—

(a) attributed to the principal exposure by making reference to another securitization exposure that has an ECAI issue specific rating; and

(b) the use of which to risk-weight the principal exposure under the SEC-ERBA is allowed under section 268;".

(4) Section 227(1), definition of ***liquidity facility***—

Repeal

"an off-balance sheet securitization exposure of the institution arising from".

(5) Section 227(1), definition of ***principal amount***—

Repeal paragraph (a)

Substitute

"(a) in relation to an on-balance sheet securitization exposure of an authorized institution—

(i) if the exposure is measured at fair value—means the value of the exposure determined in accordance with section 4A; and

(ii) if the exposure is not measured at fair value—means the book value of the exposure; or".

(6) Section 227(1), definition of ***rated***—

Repeal paragraph (a)

Substitute

"(a) an ECAI issue specific rating issued by an ECAI nominated by the authorized institution for the purposes of section 267(1)(a); or".

(7) Section 227(1)—

Repeal the definition of *re-securitization exposure*

Substitute

"***re-securitization exposure*** (再證券化類別風險承擔)—

(a) means a securitization exposure that is an exposure to a re-securitization transaction; but

(b) does not include a securitization exposure of an authorized institution or another person resulting from retranching another securitization exposure where the institution has verified that the cash flows to and from the institution or the person could be replicated, in all circumstances and conditions, by an exposure to a securitization transaction of which the

underlying exposures contain no securitization exposures;".

(8) Section 227(1), definition of ***servicer cash advance facility***—

Repeal

"an off-balance sheet securitization exposure of the institution arising from".

(9) Section 227(1), English text, definition of ***unrated***—

Repeal the semicolon

Substitute a full stop.

(10) Section 227(1)—

(a) definition of ***committed credit line***;

(b) definition of ***credit-enhancing interest-only strip***;

(c) definition of ***credit equivalent amount***;

(d) definition of ***drawn balance***;

(e) definition of ***early amortization period***;

(f) definition of ***excess spread***;

(g) definition of ***investment grade***;

(h) definition of ***investors' interest***;

(i) definition of ***look-through treatment***;

(j) definition of ***ratings-based method***;

(k) definition of ***second loss tranche***;

(l) definition of ***securitization position***;

(m) definition of ***supervisory formula***;

(n) definition of ***supervisory formula method***;

(o) definition of ***uncommitted credit line***;

(p) definition of ***undrawn balance***;

(q) definition of ***weighted average risk-weight***—

Repeal the definitions.

(11) Section 227(1)—

Add in alphabetical order

"***AP***, in relation to a tranche in a securitization transaction, means the value of the attachment point of the tranche determined in accordance with section 247;

DP, in relation to a tranche in a securitization transaction, means the value of the detachment point of the tranche determined in accordance with section 247;

eligible securitization transaction (合資格證券化交易)—see section 229;

eligible synthetic securitization transaction (合資格合成證券化交易)—see section 229;

eligible traditional securitization transaction (合資格傳統證券化交易)—see section 229;

exposure amount (風險承擔數額)—

(a) in relation to a securitization exposure—means the amount determined in accordance with section 235;

(b) in relation to an underlying exposure of a securitization transaction (including an exposure, collateral or asset regarded as an underlying exposure of the transaction for the purposes of this Part) that is a securitization exposure—means the amount determined in accordance with section 235;

(c) in relation to an underlying exposure of a securitization transaction (including an exposure regarded as an underlying exposure of the transaction for the purposes of this Part) that is an exposure to the counterparty default risk of a counterparty in respect of a derivative contract (other than a credit derivative contract)—means the current exposure of the derivative contract; or

(d) in relation to an underlying exposure of a securitization transaction (including an exposure, collateral or asset regarded as an underlying exposure of the transaction for the purposes of this Part) that is not an underlying exposure mentioned in paragraph (b) or (c)—

(i) in the case where the risk-weight of the underlying exposure is required under this Part to be determined in accordance with Part 4—

(A) if the underlying exposure is an on-balance sheet exposure—means the principal amount of the underlying exposure determined in accordance with Part 4; and

(B) if the underlying exposure is an off-balance sheet exposure—means the credit equivalent amount of the underlying exposure determined in accordance with Part 4; and

(ii) in the case where the risk-weight of the underlying exposure is required under this Part to be determined in accordance with Part 6—means the EAD of the underlying

exposure determined in accordance with Part 6;

maturity mismatch (到期期限錯配), in relation to a credit protection in the form of recognized collateral, recognized guarantee or recognized credit derivative contract afforded to an authorized institution against one or more than one exposure—

(a) if there is only one exposure covered by the credit protection—means that the residual maturity of the credit protection determined in the manner set out in section 103(3) and (4) is shorter than the residual maturity of the exposure determined in the manner set out in section 103(3); or

(b) if there is more than one exposure with different residual maturities covered by the credit protection—means that the residual maturity of the credit protection determined in the manner set out in section 103(3) and (4) is shorter than the longest residual maturity of any of the exposures determined in the manner set out in section 103(3);

non-eligible securitization transaction (非合資格證券化交易)—see section 229;

non-eligible synthetic securitization transaction (非合資格合成證券化交易)—see section 229;

non-eligible traditional securitization transaction (非合資格傳統證券化交易)—see section 229;

non-senior tranche (非高級份額)—see section 228;

Part 4 credit risk mitigation (第 4 部減低信用風險措施), in relation to the calculation of the risk-weighted

amount of an underlying exposure of a securitization transaction in accordance with Part 4, means—

(a) recognized netting;

(b) recognized collateral as defined by section 51(1);

(c) recognized credit derivative contract as defined by section 51(1); or

(d) recognized guarantee as defined by section 51(1);

Part 6 credit risk mitigation (第 6 部減低信用風險措施), in relation to the calculation of the risk-weighted amount of an underlying exposure of a securitization transaction in accordance with Part 6, means—

(a) recognized netting;

(b) recognized collateral as defined by section 139(1);

(c) recognized credit derivative contract as defined by section 139(1); or

(d) recognized guarantee as defined by section 139(1);

Part 7 credit risk mitigation (第 7 部減低信用風險措施), in relation to the calculation of the risk-weighted amount of a securitization exposure to a securitization transaction in accordance with this Part, means—

(a) recognized collateral as defined by this section;

(b) recognized credit derivative contract as defined by this section; or

(c) recognized guarantee as defined by this section;

recognized collateral (認可抵押品) means collateral referred to in section 243(2)(a) or (b);

recognized credit derivative contract (認可信用衍生工具合約) means a contract referred to in section 243(2)(d);

recognized guarantee (認可擔保) means a guarantee referred to in section 243(2)(c);

refundable purchase price discount (可退款的買入價折扣), in relation to the sale of receivables by a seller to a buyer, means the portion of the discount on the purchase price that—

(a) is provided by the seller to the buyer for the purpose of providing protection to the buyer against default risk or dilution risk, or both, associated with the receivables; and

(b) may be refunded to the seller based on the performance of the receivables;

senior tranche (高級份額)—see section 228;".

47. Part 7, provisions after section 227 substituted

Part 7—

Repeal everything after section 227

Substitute

"**228. Meaning of *senior tranche*, etc.**

(1) For the purposes of this Part, a senior tranche is a tranche in, or a securitization exposure to, a securitization transaction that is effectively backed or secured by a first legal claim on the entire amount of the underlying exposures of the transaction.

(2) However, if a tranche or securitization exposure that is a senior tranche under subsection (1) (***original senior tranche***) is retranched or partially hedged, the

new senior part formed as a result, instead of the original senior tranche, is the senior tranche.

(3) Fees or other similar payments due under a securitization transaction that could be regarded as falling within subsection (1) or (2) in a technical sense is not a senior tranche.

(4) A reference in this Part to a non-senior tranche is a reference to a tranche or securitization exposure that is not a senior tranche.

(5) A reference in this Part to a securitization exposure in a senior or non-senior tranche is not construed as excluding a securitization exposure that is the only securitization exposure in a senior or non-senior tranche. Therefore the securitization exposure itself is also regarded as a senior or non-senior tranche.

229. Meaning of *eligible securitization transactions*, etc.

(1) For the purposes of this Part—

(a) a traditional securitization transaction is an eligible traditional securitization transaction if all of the following criteria are met—

(i) all the requirements set out in Schedule 9 that are applicable to, or in relation to, the transaction and its originating institution are satisfied;

(ii) the transaction is not one specified in subsection (2); and

(b) a synthetic securitization transaction is an eligible synthetic securitization transaction if all of the following criteria are met—

(i) all the requirements set out in Schedule 10 that are applicable to, or in relation to, the transaction or its originating institution are satisfied;

(ii) the transaction is not one specified in subsection (2).

(2) The transaction is a transaction that—

(a) at least one underlying exposure of which is revolving in nature (***revolving underlying exposure***); and

(b) contains an early amortization provision, or a provision of similar nature, that, if triggered, would—

(i) subordinate the institution's senior or equally ranked interest in the revolving underlying exposures to the interests of other parties to the transaction;

(ii) subordinate the institution's subordinated interest to an even greater degree relative to the interests of other parties to the transaction; or

(iii) in other ways increase the institution's exposure to losses associated with the revolving underlying exposures.

(3) For the purposes of this Part—

(a) a reference to a non-eligible traditional securitization transaction is a reference to a traditional securitization transaction that is not an eligible traditional securitization transaction;

(b) a reference to a non-eligible synthetic securitization transaction is a reference to a synthetic securitization transaction that is not an eligible synthetic securitization transaction;

(c) a reference to an eligible securitization transaction is a reference to an eligible traditional securitization transaction or an eligible synthetic securitization transaction; and

(d) a reference to a non-eligible securitization transaction is a reference to a securitization transaction that is not an eligible securitization transaction.

Division 2—Recognition of Credit Risk Transfer under Securitization Transaction

230. Treatment of underlying exposures of eligible securitization transactions: general

(1) Subject to subsections (3), (4) and (5), an originating institution of an eligible traditional securitization transaction may exclude the underlying exposures of the transaction from the calculation of the risk-weighted amount of its credit exposures under Part 4, 5 or 6 or this Part, as the case requires.

(2) Subject to subsections (3), (4) and (5), an originating institution of an eligible synthetic securitization transaction may—

(a) calculate the risk-weighted amount of the underlying exposures of the transaction in accordance with Part 4, 5 or 6 or this Part, as the case requires, as if the underlying exposures were not securitized; and

(b) subject to section 231, take into account the effect of the credit risk mitigation used for transferring the credit risk of the underlying exposures to the other parties to the transaction in accordance with—

(i) if the credit risk mitigation is in the form of tranched credit protection and the underlying exposures are non-securitization exposures—this Part as if the institution's credit exposure to the underlying exposures were a securitization exposure;

(ii) if the credit risk mitigation is not in the form of tranched credit protection and the underlying exposures are non-securitization exposures—

(A) Divisions 5, 6, 7, 9 and 10 of Part 4 (if the calculation mentioned in paragraph (a) is made in accordance with Part 4);

(B) Divisions 5, 7 and 8 of Part 5 (if the calculation mentioned in paragraph (a) is made in accordance with Part 5); or

(C) Division 10 of Part 6 (if the calculation mentioned in paragraph (a) is made in accordance with Part 6); or

(iii) if the underlying exposures are securitization exposures—Division 5.

(3) The originating institution of the transaction must give notice to the Monetary Authority of its intention to apply the treatment under subsection (1)

or (2) to the underlying exposures of the transaction for the purpose of calculating its capital adequacy ratio when—

(a) the institution applies the treatment for the first time; or

(b) if the transaction ceases to become an eligible securitization transaction after the institution has applied the treatment—the institution reapplies the treatment.

(4) The notice must—

(a) be given at least one month before the treatment is applied; and

(b) be accompanied by—

(i) the information on the particulars of the credit risk to the underlying exposures retained by the institution; and

(ii) a written confirmation that the transaction is an eligible securitization transaction, provided by a person who has sufficient seniority and authority and is independent of the persons (whether inside or outside the institution) responsible for originating the transaction or the underlying exposures.

(5) However, the Monetary Authority may, by notice in writing, require an originating institution not to apply, or to discontinue the application of, the treatment under subsection (1) or (2) to the underlying exposures of the transaction if the Monetary Authority is of the view that—

(a) the confirmation under subsection (4)(b)(ii) is not based on an adequate assessment of the degree of credit risk transfer against the criteria set out in section 229(1)(a) or (b); or

(b) the transaction contains features that render the criteria inadequate to determine whether significant credit risk transfer is achieved.

(6) To avoid doubt, an originating institution that applies the treatment under subsection (1) or (2) to the underlying exposures of a securitization transaction must—

(a) calculate in accordance with this Part the risk-weighted amounts of the securitization exposures to the transaction retained, held or purchased by the institution; and

(b) include the amounts in the calculation of the institution's capital adequacy ratio.

231. Treatment of underlying exposures of eligible synthetic securitization transactions in case of maturity mismatch or call option

(1) This section applies if—

(a) an originating institution of an eligible synthetic securitization transaction intends to take into account, under section 230(2)(b), the effect of the credit risk mitigation used for transferring the credit risk of the underlying exposures of the transaction;

(b) where the credit risk mitigation is in the form of tranched credit protection—the risk-weight assigned to the unprotected sub-tranche concerned under this Part is below 1,250%; and

(c) either—

(i) there is a maturity mismatch between the underlying exposures of the transaction and the credit protection through which the credit risk is transferred under the transaction; or

(ii) the transaction incorporates a call option (other than a clean-up call) which is capable, when exercised, of terminating the transaction and the credit protection on a specified date.

(2) The institution may take into account the effect of the credit protection in its calculation of the risk-weighted amount of the underlying exposures if—

(a) the credit protection has an original maturity of not less than 1 year and a residual maturity of more than 3 months; and

(b) the institution takes into account the effect of the maturity mismatch or the call option by adjusting the value of the credit protection by using Formula 12, with the residual maturity of the underlying exposures determined as the longest residual maturity of any of the underlying exposures of the transaction.

(3) To avoid doubt, for credit risk mitigation referred to in section 230(2)(b)(ii), the institution must apply the treatment under subsection (2) instead of the treatments for maturity mismatch under Parts 4, 5 and 6.

232. Treatment of expected losses and provisions in respect of underlying exposures

(1) This section applies to an authorized institution if—

(a) it is the originating institution of an eligible securitization transaction;

(b) it applies the treatments under section 230(1) or (2) to the underlying exposures of the transaction;

(c) the underlying exposures are still held on the balance sheet of the institution; and

(d) the institution would use the IRB approach to calculate the credit risk for the underlying exposures if they were not securitized.

(2) The institution—

(a) must not, in determining the institution's total eligible provisions for the purposes of sections 42(3)(c) and 43(1)(i), include any specific provisions, partial write-offs, regulatory reserve for general banking risks and collective provisions made for, or any non-refundable purchase price discounts on, the underlying exposures; and

(b) must not, in determining the institution's total EL amount for the purposes of those sections, include the EL amount estimated for the underlying exposures.

233. Treatment of underlying exposures of non-eligible securitization transactions

(1) An originating institution of a non-eligible traditional securitization transaction—

(a) must calculate the risk-weighted amount of the underlying exposures of the transaction in accordance with Part 4, 5 or 6 or this Part, as the case requires, as if the underlying exposures were not securitized; and

(b) must not, in its capital base determined in accordance with Part 3, include any gain-on-sale or any other increase in its CET1 capital arising from the transaction.

(2) An originating institution of a non-eligible synthetic securitization transaction—

(a) must calculate the risk-weighted amount of the underlying exposures of the transaction in accordance with Part 4, 5 or 6 or this Part, as the case requires, as if the credit risk of the underlying exposures were not transferred to the other parties to the transaction; and

(b) must not, in the calculation under paragraph (a), take into account the effect of the credit risk mitigation used for transferring the credit risk of the underlying exposures to the other parties to the transaction.

(3) An originating institution of a non-eligible securitization transaction that has—

(a) calculated the risk-weighted amount of the underlying exposures of the transaction in accordance with subsection (1) or (2); and

(b) included the amount in the calculation of its capital adequacy ratio,

is not required to calculate risk-weighted amounts for any securitization exposures it may have to the transaction.

234. Measures for authorized institution providing implicit support

(1) If an authorized institution provides implicit support to a securitization transaction, it—

(a) must, in calculating its capital adequacy ratio, include the risk-weighted amounts calculated for all the underlying exposures of the transaction under these Rules as if the underlying exposures were not securitized;

(b) must not, in its capital base determined in accordance with Part 3, include any gain-on-sale or any other increase in its CET1 capital arising from the transaction;

(c) must notify the Monetary Authority, within 1 month from the date on which the support is provided, of the particulars of the following matters—

(i) the support provided; and

(ii) the impact of the support on the institution's capital adequacy ratio; and

(d) must disclose publicly the particulars mentioned in paragraph (c)(i) and (ii).

(2) If an authorized institution provides or has provided implicit support to more than one securitization transaction (whether at the same time or not), the Monetary Authority may, by notice in writing given to the institution—

(a) require the institution not to apply the treatment under section 230(1) and (2) to other securitization transactions for the period, or

until the occurrence of the event, specified in the notice; or

(b) advise the institution that the Monetary Authority is considering exercising the power under section 97F of the Ordinance to vary any capital requirement rule applicable to the institution, including by increasing all or any of its CET1 capital ratio, Tier 1 capital ratio and Total capital ratio.

(3) The originating institution of a securitization transaction must comply with the requirement of a notice given to it under subsection (2)(a).

(4) To avoid doubt, subsection (2)(b) does not operate to limit the circumstances in respect of which the Monetary Authority may exercise the power under section 97F of the Ordinance in relation to an authorized institution to which that subsection applies.

Division 3—General Requirements for Risk-weighting Securitization Exposures

235. Determination of exposure amount of securitization exposure

(1) An authorized institution must determine the exposure amount of an on-balance sheet securitization exposure as—

(a) if the exposure arises from a funded credit protection provided by the institution—the amount determined under subsection (4) or (5)(b); or

(b) in any other case—the principal amount of the exposure (net of purchase price discounts if applicable).

(2) An authorized institution must determine the exposure amount of an off-balance sheet securitization exposure as—

(a) if the exposure is a default risk exposure—the amount calculated by using the same approach or method the institution is required under section 10A to use to calculate its default risk exposure;

(b) if the exposure arises from an unfunded credit protection provided by the institution—the amount determined under subsection (4) or (5)(b); or

(c) in any other case, the amount calculated by multiplying the principal amount of the exposure by—

(i) if the exposure arises from the undrawn portion of a qualified servicer cash advance facility provided by the institution—a factor that is the same as the CCF under the STC approach applicable to a commitment that may be cancelled at any time unconditionally by the institution; or

(ii) in any other case—a factor of 100%.

(3) For the purposes of subsection (2)(c), a servicer cash advance facility is a qualified servicer cash advance facility if—

(a) the facility documentation clearly identifies and limits the circumstances under which the facility may be drawn;

(b) the authorized institution providing the facility is entitled to full reimbursement of cash advanced under the facility, and the entitlement—

(i) ranks senior to payment or repayment of other claims on cash flows from the underlying exposures of the transaction; and

(ii) is not subject to any deferral or waiver by the institution;

(c) drawings under the facility are limited to the amount assessed by the institution as likely to be repaid fully from the cash flows generated by the underlying exposures or through realization of the underlying exposures or any credit enhancement available in the transaction;

(d) the facility is not able to be drawn so as to provide credit support to cover losses already incurred in respect of the pool of underlying exposures prior to the drawing;

(e) there are no regular or continuous drawings under the facility to indicate that the facility is either—

(i) used to provide permanent or regular funding to investors in the securitization issues; or

(ii) structured such that drawdown is certain; and

(f) the facility is unconditionally cancellable by the institution without prior notice to the person to whom the facility is provided.

(4) If an authorized institution provides full or proportional credit protection to a securitization exposure, it must determine the exposure amount of its securitization exposure arising from the credit protection as the amount of the portion of the securitization exposure on which it has provided the credit protection.

(5) If an authorized institution provides tranched credit protection to a securitization exposure or non-securitization exposure, it must—

(a) decompose the exposure into a protected sub-tranche and an unprotected sub-tranche; and

(b) determine the exposure amount of its securitization exposure arising from the credit protection as the amount of the protected sub-tranche.

236. Calculation of risk-weighted amount of securitization exposure

(1) Subject to subsections (2) and (3) and Division 5, an authorized institution must calculate the risk-weighted amount of a securitization exposure by multiplying the exposure amount of the exposure determined in accordance with section 235 by the risk-weight of the exposure determined in accordance with Division 4, 7, 8, 9 or 10.

(2) For the purposes of subsection (1), if the institution—

(a) provides full or proportional credit protection to a securitization exposure, the institution must calculate the risk-weighted amount of the credit protection as if it directly held the portion of the exposure on which it has provided the credit protection;

(b) provides tranched credit protection to a securitization exposure, the institution must calculate the risk-weighted amount of the credit protection as if it had direct exposure to the sub-tranche of the securitization exposure on which it has provided the credit protection;

(c) provides tranched credit protection to, or obtains tranched credit protection for, a non-securitization exposure, the institution must calculate the risk-weighted amounts of the protected sub-tranche and the unprotected sub-tranche as if they were tranches of a securitization transaction of which the underlying exposure is the non-securitization exposure.

(3) For the purposes of subsection (1), the exposure amount of a securitization exposure determined in accordance with section 235—

(a) may be reduced by any specific provisions or write-offs made for the securitization exposure; and

(b) if the securitization exposure is subject to a risk-weight of 1,250% and the institution is the originating institution of the securitization transaction concerned, may be further reduced by—

(i) the amount of any specific provisions made by the institution for the underlying exposures of the transaction; and

(ii) if the underlying exposures of the transaction consist of purchased receivables—the amount of any non-refundable purchase price discounts on the receivables provided to the institution by the seller.

(4) To avoid doubt—

(a) collective provisions made in respect of the underlying exposures of a securitization transaction must not be included in any calculation under this Part; and

(b) if only the drawn portion of a revolving facility has been securitized—

(i) only that portion is subject to the requirements under this Part; and

(ii) the risk-weighted amount of the undrawn portion of the facility must be calculated in accordance with Part 4, 5 or 6, as the case requires.

237. Treatment of refundable purchase price discount provided, and first-loss protection obtained, by authorized institution for purchased receivables

(1) If an authorized institution has, as a seller of receivables, provided a refundable purchase price discount to the buyer of the receivables, the institution must calculate the risk-weighted amount of the discount in accordance with this Part as if it

were a first-loss tranche of a securitization transaction.

(2) If an authorized institution is a buyer of receivables and the seller of the receivables has provided a refundable purchase price discount to the institution in respect of the receivables, the institution may—

(a) treat the discount as a first-loss protection; and

(b) calculate the risk-weighted amount of its credit exposure to the receivables in accordance with this Part as if the credit exposure were a securitization exposure.

(3) If any recognized collateral or recognized guarantee obtained by an authorized institution for its purchased receivables provides first-loss protection to the default risk or dilution risk, or both, in respect of the receivables, the institution may take into account the first-loss protection in the calculation of the risk-weighted amount of its credit exposure to the receivables in accordance with this Part as if the credit exposure were a securitization exposure.

238. Treatment of derivative contract for mitigating market risk in securitization transaction

The risk-weight of a securitization exposure to a securitization transaction arising from a derivative contract used for mitigating market risk in the transaction must be inferred from—

(a) a securitization exposure (***reference exposure***) to the transaction that ranks equally in respect of payment or repayment with the derivative contract; or

(b) if such a reference exposure does not exist—the next tranche in the transaction that is subordinated to the derivative contract.

239. Treatment of overlapping securitization exposures

(1) This section applies if—

(a) an authorized institution has more than one securitization exposure to the same securitization transaction; and

(b) the institution is able to verify that fulfilling its obligations with respect to a securitization exposure (***exposure A***) will preclude all or part of the institution's losses on another securitization exposure (***exposure B***) under all circumstances.

(2) The institution may, after determining the amount with which exposure A overlaps exposure B (***overlapping portion***), apply the treatments set out in subsection (3) instead of calculating the risk-weighted amount of each of the securitization exposures based on the full exposure amount of each of the securitization exposures.

(3) The treatments are—

(a) if both exposures are booked in the institution's banking book—

(i) calculating the risk-weighted amount of the overlapping portion in accordance with this Part by attributing it to exposure A; and

(ii) calculating the risk-weighted amount of the portion of each of the exposures that is not the overlapping portion in accordance with this Part; and

(b) if one of the exposures is booked in the institution's banking book (***banking book exposure***) and the other is booked in the trading book (***trading book exposure***)—

(i) if the institution is able to determine whether attributing the overlapping portion to the banking book exposure or to the trading book exposure will result in a higher regulatory capital for the overlapping portion—

(A) calculating the regulatory capital for the overlapping portion by attributing it to the exposure that will result in a higher regulatory capital for the overlapping portion; and

(B) calculating the regulatory capital for the portion of each of the exposures that is not the overlapping portion in accordance with this Part or Part 8, as the case requires; or

(ii) if the institution is unable to so determine—calculating the regulatory capital for the exposures in accordance with both this Part and Part 8 as if there were no overlapping portion.

(4) To avoid doubt, subsection (3)(b) does not operate to exclude the following amounts from the calculation of total market risk capital charge for specific risk under Part 8—

(a) the regulatory capital calculated under subsection (3)(b)(i)(A) for the overlapping portion that has been attributed to the trading book exposure of the institution; and

(b) the regulatory capital calculated under subsection (3)(b)(i)(B) for that portion of the trading book exposure of the institution that is not the overlapping portion.

(5) In this section—

regulatory capital (監管資本), in relation to a securitization exposure booked in the trading book or an overlapping portion that has been attributed to the exposure, means the market risk capital charge for specific risk calculated in accordance with the provisions in Part 8 that are applicable to securitization exposures.

Division 4—Floors and Caps on Capital Requirements for Securitization Exposures

240. Floors on risk-weights determined by using SEC-IRBA, SEC-ERBA or SEC-SA

(1) Subject to subsections (3) and (4), if the risk-weight of a securitization exposure (other than a re-securitization exposure) determined by using the SEC-IRBA, SEC-ERBA or SEC-SA, as the case requires, is lower than 15%, a risk-weight of 15% must be assigned to the exposure.

(2) Subject to subsection (4), if the risk-weight of a re-securitization exposure determined by using the SEC-SA is lower than 100%, a risk-weight of 100% must be assigned to the exposure.

(3) The risk-weight determined for a rated securitization exposure by using the SEC-ERBA (after applying subsection (1) if applicable) must not be lower than the risk-weight determined by using the SEC-ERBA (after applying that subsection if applicable) for a senior tranche in the same securitization transaction with the same rating and maturity.

(4) If—

(a) the risk-weight of an unrated securitization exposure in a non-senior tranche of a securitization transaction is determined by using the SEC-SA; and

(b) the next more senior tranche or securitization exposure in the same securitization transaction is rated,

the risk-weight determined by using the SEC-SA (after applying subsection (1) if applicable) for the unrated securitization exposure is subject to a floor which is equal to the risk-weight determined by using the SEC-ERBA (after applying that subsection if applicable) for the rated tranche or securitization exposure.

241. Caps on risk-weights for exposures in senior tranches determined by using SEC-IRBA, SEC-ERBA or SEC-SA

(1) An authorized institution may apply the treatment set out in subsection (2) to a securitization exposure in a senior tranche (***senior exposure***) of a securitization transaction only if—

(a) it has the information on the composition of the underlying exposures of the transaction at all times so that it is able to determine the risk-weights of the underlying exposures in accordance with these Rules; and

(b) the senior exposure is not a re-securitization exposure.

(2) If the risk-weight of the senior exposure determined by using the SEC-IRBA, SEC-ERBA or SEC-SA (after applying section 240 if applicable) is higher than the weighted average risk-weight of the underlying exposures (***risk-weight cap***) calculated in accordance with subsection (3), (4), (5) or (6) (using the exposure amounts of the underlying exposures for weighting the risk-weights), the institution may assign to the senior exposure a risk-weight equal to the risk-weight cap (regardless of whether the risk-weight cap is lower than 15% or not).

(3) If the senior exposure is backed by an IRB pool, the risk-weight cap is calculated by using the following risk-weights—

(a) the risk-weights derived by multiplying the risk-weights of the underlying exposures in the IRB pool determined under Part 6 by a scaling factor of 1.06; and

(b) the risk-weight applicable to the expected loss (within the meaning of section 139(1)) of the underlying exposures in the IRB pool derived by multiplying the expected loss by 12.5.

(4) If the senior exposure is backed by an SA pool, the risk-weight cap is calculated by using the risk-weights of the underlying exposures in the SA pool determined under Part 4.

(5) If the senior exposure is backed by a mixed pool and the institution is required under section 15 to use the SEC-IRBA to determine the risk-weight of the senior exposure, the risk-weight cap is calculated by using the following risk-weights—

(a) for the portion of the underlying exposures in the mixed pool for which the institution is able to calculate a K_{IRB} in accordance with section 254(1)—the risk-weights of the underlying exposures calculated under subsection (3); and

(b) for the portion of the underlying exposures in the mixed pool for which the institution is unable to calculate a K_{IRB} in accordance with section 254(1)—the risk-weights of the underlying exposures determined under Part 4.

(6) If—

(a) the senior exposure is backed by a mixed pool; and

(b) the institution is required under section 15 to use the SEC-ERBA or SEC-SA to determine the risk-weight of the senior exposure,

the risk-weight cap is calculated by using the risk-weights of the underlying exposures (including those that would be subject to the IRB approach if they

were not securitized or if they were held by the institution) in the mixed pool determined under Part 4.

242. Maximum capital charge for all securitization exposures to securitization transaction

(1) The maximum capital charge calculated in accordance with this section does not apply to—

(a) securitization exposures held by an investing institution; and

(b) re-securitization exposures.

(2) If the total capital charge calculated by an originating institution of a securitization transaction under the SEC-IRBA, SEC-ERBA or SEC-SA (after applying sections 240 and 241, if applicable) for all its securitization exposures to the transaction is higher than the maximum capital charge calculated for the transaction under subsection (3), the institution may use the maximum capital charge so calculated as the total capital charge for the exposures in the calculation of its capital adequacy ratio.

(3) The maximum capital charge for a securitization transaction to which an originating institution has securitization exposures is calculated as the product of—

(a) the capital charge factor (K_p) for the pool of underlying exposures of the transaction determined under subsection (4), (5) or (6);

(b) the largest proportion of interest that the institution holds in one or more than one tranche of the transaction (P) determined under subsection (7); and

(c) the total exposure amount of the underlying exposures.

(4) If the securitization exposures are backed by an IRB pool and the risk-weights for the exposures are determined by using the SEC-IRBA, K_p is the K_{IRB} calculated for the pool in accordance with section 254(1).

(5) If the securitization exposures are backed by an SA pool and the risk-weights for the exposures are determined by using the SEC-ERBA or SEC-SA, K_p is the K_{SA} calculated for the pool in accordance with section 275.

(6) If the securitization exposure are backed by a mixed pool and the risk-weights for the exposures are determined by using the SEC-IRBA, SEC-ERBA or SEC-SA, K_p is the weighted average of the following 2 ratios (using the exposure amounts of the underlying exposures as the weights)—

(a) the K_{IRB} calculated in accordance with section 254(1) for the portion of the pool for which the institution is able to calculate the K_{IRB}; and

(b) the K_{SA} calculated in accordance with section 275 for the portion of the pool for which the institution is unable to calculate the K_{IRB} in accordance with section 254(1).

(7) An originating institution must determine P (expressed as a percentage) as follows—

(a) if the institution has at least one securitization exposure in a single tranche of a securitization transaction—P is equal to the total nominal amount of its securitization exposures in the tranche divided by the nominal amount of the tranche; or

(b) if the institution has securitization exposures in different tranches of a securitization transaction—the institution must calculate a P for each tranche in accordance with paragraph (a) and take the one with the largest value as the P for the purpose of calculating the maximum capital charge under subsection (3).

(8) Despite the application of the maximum capital charge calculated under this section by an originating institution of a securitization transaction to its securitization exposures to the transaction, the entire amount of any gain-on-sale and other increase in the CET1 capital, and the entire amount of any credit-enhancing interest-only strips, arising from the transaction are subject to the deduction required under section 43.

Division 5—Use of Credit Risk Mitigation for Securitization Exposures

243. Credit risk mitigation recognized for purpose of calculating the risk-weighted amounts of securitization exposures

(1) An authorized institution may only take into account the credit risk mitigations specified in subsection (2) in calculating the risk-weighted amount of its securitization exposure.

(2) The credit risk mitigations are—

(a) if the risk-weight of the securitization exposure is determined by using the SEC-IRBA—collateral, including collateral pledged by SPEs, that is recognized financial collateral or recognized IRB collateral as defined by section 139(1);

(b) if the risk-weight of the securitization exposure is determined by using the SEC-ERBA, SEC-SA or SEC-FBA—collateral, including collateral pledged by SPEs, that is recognized collateral as defined by section 51(1);

(c) a guarantee provided by a person (other than an SPE) falling within section 98(a)(i), (ii), (iii), (iv) or (v), or a corporate (other than an SPE) specified in subsection (3), that fulfils the requirements set out in section 98(b), (c), (d), (e), (f), (g), (h), (i) and (j); and

(d) a credit derivative contract provided by a person (other than an SPE) falling within section 99(1)(b)(i), (ii), (iii), (iv) or (v), or a corporate (other than an SPE) specified in subsection (3), that fulfils the requirements set out in section 99(1)(a), (c) to (q), (2) and (3).

(3) The corporate is one that—

(a) if it is incorporated outside India—

(i) has an ECAI issuer rating that, if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1, 2 or 3; and

(ii) had an ECAI issuer rating at the time the credit protection was given that, if mapped

to the scale of credit quality grades in Part 1 of Table C in Schedule 6, would result in the corporate being assigned a credit quality grade of 1 or 2; or

(b) if it is incorporated in India—

(i) has an ECAI issuer rating that—

(A) if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6—would result in the corporate being assigned a credit quality grade of 1, 2 or 3; or

(B) if mapped to the scale of credit quality grades in Part 2 of that Table—would result in the corporate being assigned a credit quality grade of 1, 2, 3 or 4; and

(ii) had an ECAI issuer rating at the time the credit protection was given that—

(A) if mapped to the scale of credit quality grades in Part 1 of Table C in Schedule 6—would result in the corporate being assigned a credit quality grade of 1 or 2; or

(B) if mapped to the scale of credit quality grades in Part 2 of that Table—would result in the corporate being assigned a credit quality grade of 1, 2 or 3.

244. Treatment of Part 7 credit risk mitigation—full or proportional credit protection

(1) This section applies if—

(a) an authorized institution obtains a Part 7 credit risk mitigation for its securitization exposure; and

(b) the credit risk mitigation provides full or proportional credit protection against the exposure.

(2) The institution may take into account the credit risk mitigation effect of the credit protection in calculating the risk-weighted amount of the exposure only if the effect is taken into account in accordance with subsection (3), (4), (5) or (6).

(3) Subject to subsection (7), if—

(a) the institution uses the IRB approach to calculate its credit risk for non-securitization exposures; and

(b) the risk-weight of the securitization exposure is determined by using the SEC-IRBA,

the credit risk mitigation effect of the credit protection must be taken into account by applying the treatments under the foundation IRB approach set out in Division 10 of Part 6.

(4) If—

(a) the institution uses the IRB approach to calculate its credit risk for non-securitization exposures; and

(b) the risk-weight of the securitization exposure is determined by using the SEC-ERBA, SEC-SA or SEC-FBA,

the credit risk mitigation effect of the credit protection must be taken into account by applying the treatments set out in Divisions 7, 9 and 10 of Part 4.

(5) If the institution uses the STC approach to calculate its credit risk for non-securitization exposures, the credit risk mitigation effect of the credit protection must be taken into account by using the same approaches that it uses for recognized credit risk mitigation obtained for non-securitization exposures under Part 4.

(6) If the institution uses the BSC approach to calculate its credit risk for non-securitization exposures, the credit risk mitigation effect of the credit protection must be taken into account—

(a) for recognized collateral—by using the simple approach (within the meaning of section 51(1));

(b) in any other case—in accordance with Part 4.

(7) In applying the treatment under subsection (3) in respect of recognized collateral, the institution must, instead of taking into account the credit risk mitigation effect of the collateral through the determination of the LGD of the securitization exposure, take into account the effect by applying Formula 19 in the manner set out in section 160(3) with the following modifications—

(a) the reference to EAD in component E of Formula 19 is to be construed as a reference to the exposure amount of the securitization exposure determined in accordance with section 235 (after the adjustments set out in section 236(3) if applicable); and

(b) the net credit exposure (E*) calculated under Formula 19 for the securitization exposure is to be taken as the exposure amount of the securitization exposure for the purposes of section 236(1).

245. Treatment of Part 7 credit risk mitigation—tranched credit protection

(1) This section applies if—

(a) an authorized institution obtains a Part 7 credit risk mitigation for its securitization exposure; and

(b) the credit risk mitigation provides tranched credit protection against the exposure.

(2) The institution must—

(a) decompose the exposure into a protected sub-tranche and an unprotected sub-tranche; and

(b) determine the risk-weighted amount of each sub-tranche in accordance with subsection (3).

(3) The institution must—

(a) determine the risk-weighted amount of the protected sub-tranche by taking into account the credit risk mitigation effect of the tranched credit protection in accordance with section 244; and

(b) determine the risk-weighted amount of the unprotected sub-tranche by using the SEC-IRBA, SEC-ERBA, SEC-SA or SEC-FBA, as the case requires, and in accordance with sections 240, 241 and 249.

246. Treatment of maturity mismatch between securitization exposures and credit protection

For the purposes of sections 244 and 245, if there is a maturity mismatch between the credit protection and the securitization exposure, section 231(2) applies to the exposure and the credit protection as it applies to—

(a) the underlying exposures of a synthetic securitization transaction; and

(b) the credit protection through which the credit risk of the underlying exposures is transferred under the transaction.

Division 6—Determination of Certain Inputs Used in Risk-weighting Approach

247. Value of attachment point and value of detachment point of tranche in securitization transaction

(1) Subject to subsection (3), the value of the attachment point (***AP***) of a tranche in a securitization transaction (***relevant tranche***) is the greater of the following—

(a) the ratio (expressed in decimals) of the amount specified in subparagraph (i) to the amount specified in subparagraph (ii)—

(i) the total outstanding amount of all the underlying exposures of the transaction minus the total outstanding amount of the relevant tranche and all other tranches in the transaction that are senior to, or rank equally with, the relevant tranche;

(ii) the total outstanding amount of all the underlying exposures of the transaction;

(b) zero.

(2) Subject to subsection (3), the value of the detachment point (***DP***) of a relevant tranche is the greater of the following—

(a) the ratio (expressed in decimals) of the amount specified in subparagraph (i) to the amount specified in subparagraph (ii)—

(i) the total outstanding amount of all the underlying exposures of the transaction minus the total outstanding amount of all tranches in the transaction that are senior to the relevant tranche;

(ii) the total outstanding amount of all the underlying exposures of the transaction;

(b) zero.

(3) In determining the AP or DP of a tranche in a securitization transaction—

(a) over-collateralization and the loss-absorbing part of funded reserve accounts that provide credit enhancement must be included as tranches of the transaction;

(b) the assets forming the loss-absorbing part of the funded reserve accounts must be included as underlying exposures of the transaction; and

(c) any unfunded reserve accounts (including those to be funded by future receipts from underlying exposures) and any facilities, derivative contracts or assets that do not provide credit enhancement must not be included in the calculations of the AP and DP.

(4) For the purposes of subsection (3), an authorized institution must take into account the economic substance of the securitization transaction so as to determine conservatively whether there are anything falling within the items that must or must not be included under subsection (3)(a), (b) or (c) in light of the structure of the transaction.

248. Tranche maturity of tranche in securitization transaction

(1) Subject to subsections (2), (3), (4) and (5), an authorized institution must calculate the tranche maturity of a tranche in a securitization transaction by using Formula 24 or 25.

Formula 24

Tranche Maturity Based on Contractual Cash Flows

$$M_T = \sum_t t \cdot CF_t \Big/ \sum_t CF_t$$

where—

(a) M_T is the tranche maturity of the tranche; and

(b) CF_t is the cash flows (including principal, interest payments and fees) contractually payable under the tranche by the issuer in the securitization transaction in period t.

Formula 25

Tranche Maturity Based on Final Legal Maturity

$$M_T = 1 + (M_L - 1) \cdot 80\%$$

where—

(a) M_T is the tranche maturity of the tranche; and

(b) M_L is the final legal maturity of the tranche.

(2) An authorized institution must use Formula 25 to calculate the tranche maturity of a tranche in a securitization transaction if—

(a) the contractual payments under the tranche—

(i) are not unconditional; or

(ii) depend on the actual performance of the underlying exposures of the transaction; or

(b) the dates on which the contractual payments under the tranche will be paid are unknown or uncertain.

(3) However, if the securitization exposure to the transaction is an off-balance sheet exposure or the securitization exposure arises from an instrument where the risk of the securitization exposure is not limited to the losses realized until the maturity of the instrument, the tranche maturity of the securitization exposure is the maximum period of time (which may be longer than the contractual maturity of the exposure) the institution is exposed to the potential losses from the pool of underlying exposures of the transaction.

(4) If the exposure mentioned in subsection (3) arises from a commitment provided by the institution to the transaction, the tranche maturity of the exposure must be calculated as the sum of—

(a) the contractual maturity of the commitment; and

(b) either of the following—

(i) for underlying exposures in the pool that are not revolving in nature—the longest maturity of the underlying exposures in the pool to which the institution would be exposed after a draw of the commitment has occurred;

(ii) for underlying exposures in the pool that are revolving in nature—the longest contractually possible remaining maturity of assets that might be added to the pool in future during the revolving period of the securitization transaction.

(5) If—

(a) a securitization exposure of an authorized institution arises from—

(i) a credit protection provided by the institution to a securitization exposure or securitization transaction; or

(ii) a tranched credit protection provided by the institution to a non-securitization exposure; and

(b) the institution is only exposed to losses that occur up to the maturity of the credit protection,

the institution may use the contractual maturity of the credit protection as the tranche maturity of the exposure and does not need to comply with subsections (3) and (4).

(6) The tranche maturity is measured in years and subject to a floor of 1 year and a cap of 5 years.

249. Supplementary provisions to sections 236 and 245 in relation to tranched credit protection

(1) This section applies to an authorized institution that uses the SEC-IRBA, SEC-ERBA or SEC-SA to determine the risk-weight of the protected sub-tranche or unprotected sub-tranche of a securitization exposure to a securitization transaction (***original exposure***) covered by tranched credit protection obtained or provided by the institution.

(2) If the institution uses the SEC-IRBA or SEC-SA to determine the risk-weights of the sub-tranches, it must—

(a) calculate the AP and DP separately for each sub-tranche as if the sub-tranche were directly issued as a separate tranche under the transaction at its inception; and

(b) calculate the K_{IRB} in accordance with section 254 (in the case of the SEC-IRBA) or the K_{SA} in accordance with section 275 (in the case of the SEC-SA), based on the entire pool of the underlying exposures of the transaction for the purpose of determining the risk-weights of the sub-tranches.

(3) If the institution uses the SEC-ERBA to determine the risk-weights of the sub-tranches, it must—

(a) assign the risk-weight of the original exposure determined by using the SEC-ERBA to the sub-tranche that has the highest priority of repayment among the sub-tranches; and

(b) for a sub-tranche of lower priority of repayment—

(i) determine the risk-weight of the sub-tranche by using the SEC-ERBA by—

(A) regarding the ECAI issue specific rating or the inferred rating of a tranche in the same securitization transaction that is subordinated to the tranche within which the original exposure falls as if the rating were that of the sub-tranche; and

(B) using the tranche thickness for the sub-tranche calculated by subtracting AP of the sub-tranche from the DP of the sub-tranche, where the AP and the DP are calculated separately for the sub-tranche as if the sub-tranche were directly issued as a separate tranche under the transaction at its inception; or

(ii) if there is no rated subordinated tranche available for applying the treatment set out in subparagraph (i), determine the risk-weight of the sub-tranche as the greater of—

(A) the risk-weight of the sub-tranche determined by using the SEC-SA, based on the AP and DP calculated

separately for the sub-tranche as if the sub-tranche were directly issued as a separate tranche under the transaction at its inception; and

(B) the risk-weight of the original exposure determined by using the SEC-ERBA without taking into account any credit protection afforded to the original exposure.

(4) For the purposes of subsections (2) and (3), a sub-tranche of lower priority of repayment must be treated as a non-senior tranche regardless of whether the original exposure, prior to any credit protection, is an exposure in a senior tranche or not.

Division 7—Risk-weighting Requirements under SEC-IRBA

250. Application of Division 7

This Division applies to an authorized institution that is required to use the SEC-IRBA to determine the risk-weight of a securitization exposure to a securitization transaction under section 15.

251. Determination of risk-weights of securitization exposures

(1) Subject to subsection (5), an authorized institution must determine the risk-weight of a securitization exposure in a tranche of a securitization transaction (***relevant tranche***) in accordance with subsection (2), (3) or (4).

(2) If the DP of the relevant tranche is less than or equal to the K_{IRB} calculated in accordance with

section 254 for the pool of underlying exposures of the transaction (***relevant K_{IRB} value***), the institution must assign a risk-weight of 1,250% to the exposure.

(3) If—

(a) the AP of the relevant tranche is less than the relevant K_{IRB} value; and

(b) the DP of the relevant tranche is greater than the relevant K_{IRB} value,

the institution must determine the risk-weight (expressed in decimals) of the exposure by using Formula 26.

Formula 26

Risk-weight Formula when DP > K_{IRB} > AP

$$RW = \left[\left(\frac{K_{IRB} - AP}{DP - AP}\right) \cdot 12.5\right] + \left[\left(\frac{DP - K_{IRB}}{DP - AP}\right) \cdot 12.5 \cdot K_{SSFA(K_{IRB})}\right]$$

where—

(a) RW is the risk-weight of the exposure;

(b) K_{IRB} is the relevant K_{IRB} value; and

(c) $K_{SSFA(K_{IRB})}$ is the capital charge per unit of securitization exposure calculated in accordance with section 253 for the relevant tranche.

(4) If the AP of the relevant tranche is greater than or equal to the relevant K_{IRB} value, the institution must determine the risk-weight (expressed in decimals) of the exposure by using Formula 27.

Formula 27

Risk-weight Formula when AP ≥ K_{IRB}

$$RW = K_{SSFA(K_{IRB})} \cdot 12.5$$

where—

(a) RW is the risk-weight of the exposure; and

(b) $K_{SSFA(K_{IRB})}$ is the capital charge per unit of securitization exposure calculated in accordance with section 253 for the relevant tranche.

(5) If the underlying exposures of the transaction consist of purchased receivables, the dilution risk in respect of the receivables must be taken into account in accordance with section 252 in the determination of the risk-weight of the securitization exposure unless the institution has assessed prudently that the dilution risk faced by it in respect of the receivables is immaterial.

252. Treatment of dilution risk of underlying exposures for purposes of section 251

(1) For the purposes of section 251, if the underlying exposures of a securitization transaction consist of purchased receivables—

(a) a separate K_{IRB} must be calculated for the dilution risk ($K_{IRB(dilution)}$) of the receivables in accordance with section 254(1) and Divisions 9 and 10 of Part 6; and

(b) a separate K_{IRB} must be calculated for the default risk ($K_{IRB(default)}$) of the receivables in accordance with section 254(1) and Divisions 9 and 10 of Part 6.

(2) If the default risk and dilution risk of the purchased receivables are treated in an aggregate manner within the transaction such that losses from both risks are covered by the same credit enhancement or credit protection, the authorized institution concerned must calculate the K_{IRB} of the purchased receivables covering both risks by adding together the 2 figures obtained under subsection (1).

(3) If the credit enhancement or credit protection within the transaction is only available to cover losses from either the default risk or the dilution risk of the purchased receivables but not both, the authorized institution concerned must, for the purposes of determining the AP, DP and tranche maturity of the tranche in respect of each of the 2 risks and whether a $K_{IRB(dilution)}$ or $K_{IRB(default)}$ or both is to be used in calculating the risk-weight of a securitization exposure to the transaction—

(a) ascertain how the losses arising from default risk and dilution risk would be allocated to the tranche within which the securitization exposure falls; and

(b) make conservative assumptions about the extent to which the securitization exposure would benefit from the credit enhancement or credit protection.

253. Capital charge per unit of securitization exposure under SEC-IRBA

An authorized institution must calculate the capital charge per unit of securitization exposure for a tranche of a securitization transaction (***relevant tranche***) by using Formula 27A.

Formula 27A

Capital Charge per Unit of Securitization Exposure under SEC-IRBA

$$K_{SSFA(K_{IRB})} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

where—

(a) $K_{SSFA(K_{IRB})}$ is the capital charge per unit of securitization exposure for the relevant tranche;

(b) $a = -(1/(p \cdot K_{IRB}))$, where p is the p-parameter for the relevant tranche calculated in accordance with section 260;

(c) $u = DP - K_{IRB}$;

(d) $l = \max (AP - K_{IRB}; 0)$;

(e) e is a constant that is the base of the natural logarithm; and

(f) K_{IRB} is the K_{IRB} calculated in accordance with section 254 (and section 252 if applicable) for the pool of underlying exposures of the transaction.

254. Calculation of K_{IRB} for underlying exposures

(1) If the pool of underlying exposures of a securitization transaction (including assets or exposures that are treated as the underlying exposures of the transaction under section 256 or 257) is an IRB pool, the K_{IRB} (expressed in decimals) of the pool is the ratio of the amount specified in paragraph (a) to the amount specified in paragraph (b)—

(a) the IRB capital charge calculated for the underlying exposures in the pool in accordance with section 255;

(b) the total exposure amount of the underlying exposures in the pool.

(2) If the pool of underlying exposures of a securitization transaction (including assets or exposures that are treated as the underlying exposures of the transaction under section 256 or 257) is a mixed pool, the K_{IRB} of the pool must be calculated by using Formula 27B.

Formula 27B

Calculation of K_{IRB} of Mixed Pool

$$K_{IRB} = d \cdot K_{IRB}^{(\text{subpool 1})} + (1 - d) \cdot K_{SA}^{(\text{subpool 2})}$$

where—

(a) d is the percentage of the total exposure amount of the underlying exposures in the pool for which the authorized institution concerned is able to calculate a K_{IRB} in accordance with subsection (1) over the total exposure amount of all the underlying exposures in the pool;

(b) $K_{IRB}^{(subpool\ 1)}$ is the K_{IRB} calculated in accordance with subsection (1) for those underlying exposures in the pool for which the institution is able to so calculate a K_{IRB}; and

(c) $K_{SA}^{(subpool\ 2)}$ is the K_{SA} calculated in accordance with section 275 for those underlying exposures in the pool for which the institution is unable to calculate a K_{IRB} in accordance with subsection (1).

255. Calculation of IRB capital charge for underlying exposures in IRB pool

(1) Subject to subsection (2) and sections 256, 257, 258 and 259, the IRB capital charge for the underlying exposures (including defaulted underlying exposures) in an IRB pool is calculated as the sum of—

(a) the product of—

(i) the risk-weighted amount (after applying the scaling factor of 1.06) of the underlying exposures calculated in accordance with Part 6 (as if the underlying exposures were held directly by

the authorized institution concerned if they are not held by the institution); and

(ii) 0.08; and

(b) the EL amount of the underlying exposures calculated in accordance with Part 6.

(2) For the purposes of subsection (1), an authorized institution may take into account the credit risk mitigation effect of any Part 6 credit risk mitigation afforded to individual underlying exposures, or to the entire pool of the underlying exposures, in the manner set out in Part 6.

256. Specific requirements applicable to calculation of K_{IRB}— SPE's exposure

(1) If a securitization transaction involves an SPE, all exposures incurred by the SPE (***SPE's exposure***) in respect of the transaction (including assets in which the SPE may have invested a reserve account or cash collateral account, and claims on counterparties resulting from derivative contracts entered into by the SPE with the counterparties) must be treated as underlying exposures of the transaction in calculating the K_{IRB} in accordance with section 254(1).

(2) However, the authorized institution concerned is not required to comply with subsection (1) in respect of an SPE's exposure if the institution has assessed prudently that the risk of the exposure—

(a) is immaterial; or

(b) does not have any adverse effect on the securitization exposure concerned.

(3) If the SPE's exposure arises from a derivative contract other than a credit derivative contract, in

calculating the IRB capital charge for the underlying exposures in the pool concerned in accordance with section 255, the risk-weighted amount of the SPE's exposure is the product of—

(a) the current exposure of the derivative contract; and

(b) the risk-weight of the counterparty concerned determined in accordance with Part 6.

257. Specific requirements applicable to calculation of K_{IRB}— collateral for funded synthetic securitization transaction

(1) This section applies to the calculation of the K_{IRB} in accordance with section 254(1) for a pool of underlying exposures of a funded synthetic securitization transaction if—

(a) assets are held under the transaction as collateral for the repayment of the securitization exposure concerned; and

(b) the default risk of the collateral is subject to tranched loss allocation.

(2) The authorized institution concerned must—

(a) treat the collateral as an underlying exposure of the transaction; and

(b) include the risk-weighted amount of the collateral (calculated as the product of the exposure amount of the collateral and its risk-weight determined in accordance with Part 6 or this Part) in the calculation of the IRB capital charge for the underlying exposures in the pool under section 255.

(3) However, the institution is not required to comply with subsection (2) if it has assessed prudently that the exposure amount of the collateral or the default risk of the collateral is immaterial.

258. Further provisions to sections 256 and 257

(1) A derivative contract or collateral that has been included in the calculation of the IRB capital charge for the underlying exposures in a pool under section 256(3) or 257(2) must not be included in the calculation of the total exposure amount of the underlying exposures in the pool under section 254(1)(b).

(2) The K_{IRB} of the pool of underlying exposures (including those exposures referred to in section 256(1) or 257(2)) must be calculated by using the exposure amounts of those underlying exposures without deducting—

(a) any specific provisions or partial write-offs made for such exposures; or

(b) any non-refundable purchase price discounts on such exposures.

259. Treatment of default risk of underlying exposures in calculation of K_{IRB}

(1) Subject to subsection (4), an authorized institution may calculate the risk-weighted amount for default risk in respect of underlying exposures (regardless of whether they are purchased receivables or not) for the purposes of section 255(1)(a)(i) by using the top-down approach referred to in section 198(3) in accordance with the provisions in Divisions 9 and 10 of Part 6 that are applicable to the approach if—

(a) the underlying exposures fall or would fall within the IRB class of retail exposures under the IRB approach;

(b) the institution is unable to use internal data as the primary source of information for estimating the risk characteristics for the underlying exposures under section 177(2)(a); and

(c) all other requirements under Part 6 (except section 177(2)(b)) and Schedule 2 applicable to the IRB class of retail exposures are met by the institution in respect of the underlying exposures.

(2) If the institution uses the top-down approach under subsection (1)—

(a) references to "purchased receivables", "retail receivables" or "receivables" in the provisions in Divisions 9 and 10 of Part 6 that are applicable to the top-down approach are to be construed as references to the underlying exposures; and

(b) the institution may use external data to estimate the PD and LGD of the underlying exposures provided that the institution has verified in a prudent manner that—

(i) there is a strong link between the institution's process of grouping the underlying exposures into portfolios under section 200(a) and the classification process used by the external data source; and

(ii) there is a strong link between the credit risk profile of the underlying exposures and the composition of the external data.

(3) For the purposes of subsection (1)(c)—

(a) the institution is regarded as having met the requirement of section 200(d) if it meets the requirement through a party to the securitization transaction concerned acting for and in the interest of the investors in the transaction in accordance with the terms of the related securitization documents; and

(b) in the document referred to in section 200(d)—

(i) references to "a bank purchasing receivables" or "the bank" are to be construed as references to the institution, except in the first bullet point of paragraph 496 of the document where the references are to be construed as references to the securitization transaction concerned; and

(ii) references to "purchased receivables", "receivables" or "receivable" are to be construed as references to the underlying exposures concerned.

(4) If the Monetary Authority considers that—

(a) any of the requirements referred to in subsection (1)(c) is not met in respect of any of the underlying exposures; or

(b) the institution uses external data to estimate the PD and LGD but has not verified in a prudent manner the matter mentioned in subsection (2)(b)(i) or (ii),

the Monetary Authority may give a notice in writing specified in subsection (5) to the institution.

(5) The notice may—

(a) require the institution not to use the top-down approach to calculate the risk-weighted amount for default risk in respect of the underlying exposures; and

(b) require the institution to use the SEC-ERBA, SEC-SA or SEC-FBA to determine the risk-weight of a securitization exposure backed by the underlying exposures.

(6) An authorized institution must comply with the requirements of a notice given to it under subsection (4).

260. Calculation of p-parameter

(1) The p-parameter for a tranche in a securitization transaction is calculated by using Formula 27C.

Formula 27C

p-parameter under SEC-IRBA

$$p = \max\left[0.3; \left(A + \left(\frac{B}{N}\right) + C \cdot K_{IRB} + D \cdot LGD_{SEC} + E \cdot M_T\right)\right]$$

where—

(a) p is the p-parameter for the tranche;

(b) N is the effective number of underlying exposures of the pool of underlying exposures of the transaction calculated in accordance with section 261 or 263;

(c) K_{IRB} is the K_{IRB} calculated in accordance with section 254 (and section 252 if applicable) for the pool;

(d) LGD_{SEC} is the exposure-weighted average LGD of the pool calculated in accordance with section 262 or 263;

(e) M_T is the tranche maturity of the tranche calculated in accordance with section 248; and

(f) A, B, C, D, and E are values determined in accordance with Part 1 or 2 of Table 24 based on whether the tranche is a senior tranche or a non-senior tranche, the type of underlying exposures and the value of N.

Table 24

Inputs for Calculation of p-parameter

Part 1

Applicable to Underlying Exposures that are Wholesale Exposures

	A	B	C	D	E
Senior tranche, $N \geq 25$	0	3.56	-1.85	0.55	0.07
Senior tranche, $N < 25$	0.11	2.61	-2.91	0.68	0.07

	A	B	C	D	E
Non-senior tranche, N ≥ 25	0.16	2.87	-1.03	0.21	0.07
Non-senior tranche, N < 25	0.22	2.35	-2.46	0.48	0.07

Part 2

Applicable to Underlying Exposures that are Retail Exposures

	A	B	C	D	E
Senior tranche	0	0	-7.48	0.71	0.24
Non-senior tranche	0	0	-5.78	0.55	0.27

(2) In Table 24—

(a) ***retail exposures*** (零售風險承擔) mean underlying exposures that would fall within the IRB class of retail exposures under the IRB approach if they were not securitized; and

(b) ***wholesale exposures*** (批發風險承擔) mean underlying exposures that are not retail exposures.

(3) For a pool of underlying exposures of a securitization transaction that consists of both retail exposures and wholesale exposures—

(a) if the pool is an IRB pool, an authorized institution must—

(i) divide the pool into 2 sub-pools, one comprising retail exposures and the other comprising wholesale exposures;

(ii) calculate separate p-parameters for the 2 sub-pools by using Formula 27C; and

(iii) then calculate the p-parameter for the tranche concerned as the weighted average of the 2 separate p-parameters using the nominal amount of the underlying exposures in each sub-pool as the weight; or

(b) if the pool is a mixed pool, an authorized institution must calculate the p-parameter for the tranche concerned based only on the underlying exposures in the pool for which the institution is able to calculate a K_{IRB} in accordance with section 254(1).

(4) To avoid doubt, in calculating the p-parameter for a sub-pool by using Formula 27C under subsection (3)(a)(ii), the N, K_{IRB} and LGD_{SEC} in that Formula must be calculated based only on the underlying exposures in the sub-pool.

261. Effective number of underlying exposures

The effective number of underlying exposures of a pool of underlying exposures of a securitization transaction is calculated by using Formula 27D.

Formula 27D

Effective Number of Underlying Exposures

$$N = \frac{(\sum_i EAD_i)^2}{\sum_i EAD_i^2}$$

where—

(a) N is the effective number of underlying exposures of the pool; and

(b) EAD_i is the EAD associated with the i^{th} obligor in the pool determined by regarding all the underlying exposures to the i^{th} obligor as one single exposure.

262. Exposure-weighted average LGD

(1) The exposure-weighted average LGD of a pool of underlying exposures of a securitization transaction is calculated by using Formula 27E.

Formula 27E

Exposure-weighted Average LGD

$$LGD_{SEC} = \frac{\sum_i LGD_i \cdot EAD_i}{\sum_i EAD_i}$$

where—

(a) LGD_{SEC} is the exposure-weighted average LGD of the pool;

(b) LGD_i is the average LGD associated with all the underlying exposures to the i^{th} obligor in the pool; and

(c) EAD_i is the EAD associated with the i^{th} obligor in the pool determined by regarding all the underlying exposures to the i^{th} obligor as one single exposure.

(2) If—

(a) the underlying exposures of a securitization transaction to the i^{th} obligor are purchased receivables whose default risk and dilution risk are treated in an aggregate manner as described in section 252(2); or

(b) the SEC-IRBA is used to determine the risk-weight of the purchased receivables covered by the first-loss protection mentioned in section 237(3), and both default risk and dilution risk of the receivables are covered by the same recognized collateral or recognized guarantee,

the LGD_i in Formula 27E must be calculated as the weighted average of the LGD for the default risk of the i^{th} obligor and the 100% LGD for the dilution risk in respect of the receivables.

(3) For the purposes of subsection (2)—

(a) the LGD for default risk must be weighted by using the IRB capital charge calculated for the default risk; and

(b) the LGD for dilution risk must be weighted by using the IRB capital charge calculated for the dilution risk.

263. Simplified method for calculating N and LGD_{SEC}

(1) In this section—

(a) C_1, in relation to a pool of underlying exposures of a securitization transaction, is the ratio of the amount specified in subparagraph (i) to the amount specified in subparagraph (ii)—

(i) the nominal amount of the largest underlying exposure in the pool;

(ii) the total nominal amount of all the underlying exposures in the pool; and

(b) C_m, in relation to a pool of underlying exposures of a securitization transaction, is the ratio of the amount specified in subparagraph (i) to the amount specified in subparagraph (ii)—

(i) the sum of the nominal amounts of the largest m underlying exposures in the pool, where m is a number set by an authorized institution for the purposes of this section;

(ii) the total nominal amount of all the underlying exposures in the pool.

(2) If C_1 calculated for a pool of underlying exposures of a securitization transaction is not more than 0.03, the authorized institution concerned may—

(a) instead of calculating the exposure-weighted average LGD ($\boldsymbol{LGD_{SEC}}$) of the pool in accordance with section 262, set the LGD_{SEC} of the pool at 0.5; and

(b) instead of using Formula 27D to calculate the effective number of underlying exposures ($\boldsymbol{N}$) of the pool—

(i) if both C_l and C_m are known to the institution—calculate N in accordance with Formula 27F; or

Formula 27F

Calculation of N when C_l and C_m are Known

$$N = \left(C_l \cdot C_m + \left(\frac{C_m - C_l}{m - 1} \right) \cdot \max\{1 - m \cdot C_l, 0\} \right)^{-1}$$

(ii) if only C_l is known to the institution—calculate N as $1/C_l$.

Division 8—Risk-weighting Requirements under SEC-ERBA

264. Application of Division 8

This Division applies to an authorized institution that is required to use the SEC-ERBA to determine the risk-weight of a securitization exposure to a securitization transaction under section 15.

265. Determination of risk-weights of securitization exposures with long-term ratings

(1) An authorized institution must determine the risk-weight of a securitization exposure that has a long-term ECAI issue specific rating or a long-term inferred rating by applying the following steps—

(a) map the rating of the exposure to a scale of credit quality grades specified in Table A in Schedule 11;

(b) determine whether the exposure is in a senior tranche or a non-senior tranche and calculate the tranche maturity applicable to the exposure in accordance with section 248;

(c) determine a risk-weight in accordance with subsection (4) or (5), as the case requires, based on the results obtained under paragraphs (a) and (b); and

(d) allocate to the exposure the risk-weight determined in accordance with subsection (2) or (3).

(2) If the exposure is in a senior tranche, the risk-weight of the exposure is the one determined under subsection (1)(c).

(3) If the exposure is in a non-senior tranche, the risk-weight of the exposure is the one calculated by using Formula 27G.

Formula 27G

Risk-weight Formula for Non-senior Tranche

$$RW = (RW_{LT}) \cdot [1 - \min(T;50\%)]$$

where—

(a) RW is the risk-weight of the exposure;

(b) RW_{LT} is the risk-weight determined under subsection (1)(c); and

(c) T is the tranche thickness of the tranche, which is equal to the DP of the tranche minus the AP of the tranche.

(4) If the exposure is in a tranche with a tranche maturity of 1 year or 5 years, the institution must determine the risk-weight in accordance with Table 25 based on the credit quality grade, tranche maturity and seniority of the exposure.

Table 25

Risk-weights for Long-term Credit Quality Grades

Long-term credit quality grade	Senior tranche		Non-senior tranche	
	Tranche maturity of 1 year	Tranche maturity of 5 years	Tranche maturity of 1 year	Tranche maturity of 5 years
1	15%	20%	15%	70%
2	15%	30%	15%	90%
3	25%	40%	30%	120%
4	30%	45%	40%	140%
5	40%	50%	60%	160%
6	50%	65%	80%	180%
7	60%	70%	120%	210%

Long-term credit quality grade	Senior tranche		Non-senior tranche	
	Tranche maturity of 1 year	Tranche maturity of 5 years	Tranche maturity of 1 year	Tranche maturity of 5 years
8	75%	90%	170%	260%
9	90%	105%	220%	310%
10	120%	140%	330%	420%
11	140%	160%	470%	580%
12	160%	180%	620%	760%
13	200%	225%	750%	860%
14	250%	280%	900%	950%
15	310%	340%	1,050%	1,050%
16	380%	420%	1,130%	1,130%
17	460%	505%	1,250%	1,250%
18	1,250%	1,250%	1,250%	1,250%

(5) If the exposure is in a tranche with a tranche maturity of neither 1 year nor 5 years, the institution must—

(a) determine the risk-weights for a tranche maturity of 1 year and a tranche maturity of 5 years that are corresponding to the credit quality grade and the seniority of the exposure in accordance with subsection (4); and

(b) calculate the risk-weight applicable to the tranche maturity of the exposure by using linear interpolation between the 2 risk-weights determined under paragraph (a).

266. Determination of risk-weights of securitization exposures with short-term ratings

An authorized institution must determine the risk-weight of a securitization exposure that has a short-term ECAI issue specific rating or a short-term inferred rating by applying the following steps—

(a) map the rating of the exposure to a scale of credit quality grades specified in Table B in Schedule 11; and

(b) allocate a risk-weight to the exposure in accordance with Table 26 based on the grade so mapped.

Table 26

Risk-weights for Short-term Credit Quality Grades

Short-term credit quality grade	Risk-weight
1	15%
2	50%

Short-term credit quality grade	Risk-weight
3	100%
4	1,250%

267. Use of ECAI issue specific ratings for determination of risk-weights

(1) An authorized institution must, in using an ECAI issue specific rating issued by an ECAI for the purposes of determining the risk-weight of a securitization exposure to a securitization transaction—

(a) ensure that it has nominated the ECAI for the purposes of this Part in accordance with section 70(1), (2) and (3) and that it complies with subsections (4), (5) and (6) of that section and for this purpose—

(i) references in that section to "each of its ECAI ratings based portfolios", "ECAI ratings based portfolio" and "that portfolio" are to be construed as references to securitization exposures; and

(ii) references in that section to "this Part" are to be construed as references to this Part; and

(b) if 2 or more ECAIs have different ECAI issue specific ratings applicable to the exposure—determine the rating applicable to the exposure in the manner set out in section 69(2)(b).

(2) If credit protection is provided to specific underlying exposures, or the entire pool of underlying exposures, of the transaction and the credit protection has been reflected in the ECAI issue specific rating assigned to a securitization exposure to the transaction—

(a) for credit protection provided by a credit protection provider falling within section 98(a) or 99(1)(b), the institution—

(i) must determine the risk-weight of the exposure by reference to that rating; and

(ii) must not include the credit risk mitigation effect of that credit protection in any other calculations under this Part; or

(b) for credit protection not provided by a credit protection provider falling within section 98(a) or 99(1)(b)—the institution must treat the exposure as unrated for the purposes of this Part.

(3) If Part 7 credit risk mitigation is provided to protect only a specific securitization exposure within a given structure or tranche of the transaction and has been reflected in the ECAI issue specific rating assigned to the exposure, the institution must—

(a) regard the exposure as unrated for the purposes of this Part; and

(b) take into account the credit risk mitigation effect of the Part 7 credit risk mitigation in accordance with Division 5.

(4) If an ECAI issue specific rating assigned to a securitization exposure to the transaction is wholly or partly based on unfunded support (including a liquidity facility or credit enhancement) provided by

the institution to the transaction, the institution must calculate the risk-weighted amount of the exposure in accordance with this Part as if it were unrated.

(5) To avoid doubt, an authorized institution falling within subsection (4) must continue to hold regulatory capital for its other securitization exposures (including the unfunded support) to the transaction.

268. Inferred ratings

An authorized institution may use the credit assessment rating attributed by it to a securitization exposure (***principal exposure***) by making reference to another securitization exposure that has an ECAI issue specific rating (***reference exposure***) to risk-weight the principal exposure only if—

(a) the principal exposure has no applicable ECAI issue specific rating;

(b) the reference exposure, in all respects, ranks equally with, or is subordinated to, the principal exposure, after taking into account credit enhancements, if any, in the assessment of the relative subordination of the principal exposure and the reference exposure;

(c) the maturity of the reference exposure is not shorter than that of the principal exposure;

(d) the reference exposure has not ceased to exist;

(e) the credit assessment rating attributed to the principal exposure is updated on an ongoing basis in order to reflect any subordination of the principal exposure or any changes in the

ECAI issue specific rating of the reference exposure;

(f) the ECAI issuing the ECAI issue specific rating of the reference exposure has been nominated for the purposes of section 267(1)(a) and, if applicable, the rating is determined in compliance with section 267(1)(b); and

(g) the reference exposure is not required to be treated as an unrated securitization exposure under section 267(2), (3) or (4).

Division 9—Risk-weighting Requirements under SEC-SA

269. Application of Division 9

This Division applies to an authorized institution that is required to use the SEC-SA to determine the risk-weight of a securitization exposure to a securitization transaction under section 15.

270. Determination of risk-weights of securitization exposures

(1) If an authorized institution knows the delinquency status for more than 5% of the total nominal amount of the entire pool of underlying exposures of a securitization transaction, the institution must determine the risk-weight of the securitization exposure to the transaction in accordance with section 271.

(2) If an authorized institution knows the delinquency status for not more than 5% of the total nominal amount of the entire pool of underlying exposures of a securitization transaction, the institution must

allocate a risk-weight of 1,250% to the securitization exposure to the transaction.

271. Risk-weights of securitization exposures falling within section 270(1)

(1) The risk-weight of a securitization exposure in a tranche of a securitization transaction falling within section 270(1) (***relevant tranche***) must be determined in accordance with this section.

(2) If the DP of the relevant tranche is less than or equal to the K_A calculated in accordance with section 273 for the pool of underlying exposures of the transaction (***relevant K_A value***), the institution must assign a risk-weight of 1,250% to the exposure.

(3) If—

(a) the AP of the relevant tranche is less than the relevant K_A value; and

(b) the DP of the relevant tranche is greater than the relevant K_A value,

the institution must determine the risk-weight (expressed in decimals) of the exposure by using Formula 27H.

Formula 27H

Risk-weight Formula when DP > K_A > AP

$$RW = \left[\left(\frac{K_A - AP}{DP - AP}\right) \cdot 12.5\right] + \left[\left(\frac{DP - K_A}{DP - AP}\right) \cdot 12.5 \cdot K_{SSFA(K_A)}\right]$$

where—

(a) RW is the risk-weight of the exposure;

(b) K_A is the relevant K_A value; and

(c) $K_{SSFA(K_A)}$ is the capital charge per unit of securitization exposure calculated in accordance with section 272 for the relevant tranche.

(4) If the AP of the relevant tranche is greater than or equal to the relevant K_A value, the institution must determine the risk-weight (expressed in decimals) of the exposure by using Formula 27I.

Formula 27I

Risk-weight Formula when AP ≥ K_A

$$RW = K_{SSFA(K_A)} \cdot 12.5$$

where—

(a) RW is the risk-weight of the exposure; and

(b) $K_{SSFA(K_A)}$ is the capital charge per unit of securitization exposure calculated in accordance with section 272 for the relevant tranche.

272. Capital charge per unit of securitization exposure under SEC-SA

An authorized institution must calculate the capital charge per unit of securitization exposure for a tranche of a securitization transaction (***relevant tranche***) by using Formula 27J.

Formula 27J

Capital Charge per unit of Securitization Exposure under SEC-SA

$$K_{SSFA(K_A)} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

where—

(a) $K_{SSFA(K_A)}$ is the capital charge per unit of securitization exposure for the relevant tranche;

(b) $a = -(1/(p \cdot K_A))$, where p is equal to—

(i) 1 if the securitization exposures in the tranche are not re-securitization exposures; or

(ii) 1.5 if the securitization exposures in the tranche are re-securitization exposures;

(c) $u = DP - K_A$;

(d) $l = \max (AP - K_A; 0)$;

(e) e is a constant that is the base of the natural logarithm; and

(f) K_A is the capital charge factor for the pool of underlying exposures of the transaction calculated in accordance with section 273.

273. Calculation of capital charge factor for underlying exposures

(1) If an authorized institution knows the delinquency status for the entire pool of underlying exposures of a securitization transaction, the institution must calculate the capital charge factor for the pool by using Formula 27K.

Formula 27K

K_A when Delinquency Status for all of Total Nominal Amount of Pool of Underlying Exposures is Known

$$K_A = (1 - W) \cdot K_{SA} + W \cdot 0.5$$

where—

(a) K_A is the capital charge factor for the pool;

(b) K_{SA} is the K_{SA} calculated in accordance with section 275 for the pool; and

(c) W is the delinquency ratio of the pool.

(2) If an authorized institution knows the delinquency status for more than 5%, but not all, of the total nominal amount of the entire pool of underlying exposures of a securitization transaction, the institution must determine the capital charge factor for the pool by applying the following steps—

(a) divide the entire pool into 2 subpools so that—

(i) subpool 1 comprises underlying exposures of which the delinquency status is known; and

(ii) subpool 2 comprises underlying exposures of which the delinquency status is unknown; and

(b) calculate the capital charge factor for the entire pool by using Formula 27L.

Formula 27L

K_A when Delinquency Status for more than 5% (but not all) of Total Nominal Amount of Pool of Underlying Exposures is Known

$$K_A = \left(\frac{EAD_{Subpool\ 1}}{EAD_{entire\ pool}} \cdot K_A^{Subpool\ 1} \right) + \frac{EAD_{Subpool\ 2}}{EAD_{entire\ pool}}$$

where—

(a) K_A is the capital charge factor for the pool;

(b) $EAD_{Subpool\ 1}$ is the total exposure amount of the underlying exposures in subpool 1;

(c) $EAD_{Subpool\ 2}$ is the total exposure amount of the underlying exposures in subpool 2;

(d) $EAD_{entire\ pool}$ is the total exposure amount of the underlying exposures in the entire pool; and

(e) $K_A^{Subpool\ 1}$ is the capital charge factor calculated in accordance with subsection (1) for subpool 1.

(3) In this section—

delinquency ratio (拖欠比率)—

(a) in relation to a pool of underlying exposures that are non-securitization exposures, means the ratio of the amount specified in subparagraph (i) to the amount specified in subparagraph (ii)—

(i) the total nominal amount of delinquent underlying exposures in the pool;

(ii) the total nominal amount of all the underlying exposures in the pool; or

(b) in relation to a pool of underlying exposures that are securitization exposures, is zero;

delinquent underlying exposure (拖欠組成項目) means an underlying exposure that is—

(a) 90 days or more past due;

(b) subject to bankruptcy or insolvency proceedings;

(c) in the process of foreclosure;

(d) held as real estate owned; or

(e) in default as defined in the documents of the securitization transaction concerned.

274. Provisions supplementary to section 273

For the purposes of section 273, if the underlying exposures of a securitization transaction consist of both non-securitization exposures and securitization exposures, an authorized institution must—

(a) classify underlying exposures that are securitization exposures into subset 1 and underlying exposures that are non-securitization exposures into subset 2;

(b) determine the capital charge factor for each of the subsets in accordance with section 273, using the delinquency ratio (within the meaning of section 273(3)) determined for the underlying exposures in each subset; and

(c) determine the capital charge factor for the entire pool of the underlying exposures as the weighted-average of the 2 capital charge factors calculated under paragraph (b), using the nominal amount of the underlying exposures in each subset as the weight.

275. Calculation of K_{SA} for underlying exposures

The K_{SA} (expressed in decimals) of a pool of underlying exposures of a securitization transaction (including assets or exposures that are treated as the underlying exposures of the transaction under section 277 or 278) is the ratio of the amount specified in paragraph (a) to the amount specified in paragraph (b)—

(a) the SA capital charge calculated for the underlying exposures in the pool in accordance with section 276;

(b) the total exposure amount of the underlying exposures in the pool.

276. Calculation of SA capital charge for underlying exposures

(1) Subject to sections 277, 278 and 279, the SA capital charge for the underlying exposures in a pool is calculated as the product of—

(a) the risk-weighted amount of the underlying exposures calculated—

(i) in accordance with Part 4 (for underlying exposures that are non-securitization exposures); or

(ii) in accordance with this Part (for underlying exposures that are securitization exposures),

as if the underlying exposures were held directly by the authorized institution concerned if they are not held by the institution; and

(b) 0.08.

(2) For the purposes of subsection (1), an authorized institution may take into account the credit risk mitigation effect of any Part 4 credit risk mitigation or Part 7 credit risk mitigation afforded to individual underlying exposures, or to the entire pool of the underlying exposures, in the manner set out in—

(a) Part 4 (for Part 4 credit risk mitigation afforded to underlying exposures that are non-securitization exposures); and

(b) this Part (for Part 7 credit risk mitigation afforded to underlying exposures that are securitization exposures).

277. Specific requirements applicable to calculation of K_{SA}—SPE's exposure

(1) If a securitization transaction involves an SPE, all exposures incurred by the SPE (***SPE's exposure***) in respect of the transaction (including assets in which the SPE may have invested a reserve account or cash collateral account, and claims on counterparties resulting from derivative contracts entered into by the SPE with the counterparties) must be treated as underlying exposures of the transaction in calculating the K_{SA} in accordance with section 275.

(2) However, the authorized institution concerned is not required to comply with subsection (1) in respect of an SPE's exposure if the institution has assessed prudently that the risk of the exposure—

(a) is immaterial; or

(b) does not have any adverse effect on the securitization exposure concerned.

(3) If the SPE's exposure arises from a derivative contract other than a credit derivative contract, in calculating the SA capital charge for the underlying exposures in the pool concerned in accordance with section 276, the risk-weighted amount of the SPE's exposure is the product of—

(a) the current exposure of the derivative contract; and

(b) the risk-weight of the counterparty concerned determined in accordance with Part 4.

278. Specific requirements applicable to calculation of K_{SA}—collateral for funded synthetic securitization transaction

(1) This section applies to the calculation of the K_{SA} in accordance with section 275 for a pool of underlying exposures of a funded synthetic securitization transaction if—

(a) assets are held under the transaction as collateral for the repayment of the securitization exposure concerned; and

(b) the default risk of the collateral is subject to tranched loss allocation.

(2) The authorized institution concerned must—

(a) treat the collateral as an underlying exposure of the transaction; and

(b) include the risk-weighted amount of the collateral (calculated as the product of the exposure amount of the collateral and its risk-weight determined in accordance with Part 4 or this Part) in the calculation of the SA capital charge for the underlying exposures in the pool under section 276.

(3) However, the institution is not required to comply with subsection (2) if it has assessed prudently that the exposure amount of the collateral or the default risk of the collateral is immaterial.

279. Further provisions to sections 277 and 278

(1) A derivative contract or collateral that has been included in the calculation of the SA capital charge for the underlying exposures in a pool under section 277(3) or 278(2) must not be included in the calculation of the total exposure amount of the

underlying exposures in the pool under section 275(b).

(2) The K_{SA} of the pool of underlying exposures (including those exposures referred to in section 277(1) or 278(2)) must be calculated by using the exposure amounts of those underlying exposures without deducting—

(a) any specific provisions or partial write-offs made for the exposures; or

(b) any non-refundable purchase price discounts on the exposures.

Division 10—Risk-weighting Requirements under SEC-FBA

280. Application of Division 10

This Division applies to an authorized institution that is required to use the SEC-FBA to determine the risk-weight of a securitization exposure to a securitization transaction under section 15.

280A. Risk-weights of securitization exposures

An authorized institution must allocate a risk-weight of 1,250% to a securitization exposure to a securitization transaction.".

48. Section 283 amended (positions to be used to calculate market risk)

Section 283(2)(a)—

Repeal

"232A"

Substitute

"227(1)".

49. Section 287A amended (calculation of market risk capital charge for specific risk for interest rate exposures that fall within section 286(a)(ii))

(1) Section 287A(1)—

Repeal

"Part 7"

Substitute

"the pre-amended Part 7".

(2) Section 287A(2)—

Repeal

"section 15"

Substitute

"the pre-amended section 15".

(3) Section 287A(3A)(a)—

Repeal

"; and"

Substitute

"of the pre-amended Rules; and".

(4) Section 287A(5), (6), (7), (8), (9) and (12)—

Repeal

"Part 7"

Substitute

"the pre-amended Part 7".

(5) After section 287A(12)—

Add

"(13) Subject to subsection (14), a word or expression used in this section that is also used in the pre-amended section 15 or pre-amended Part 7 has the same meaning in this section as in that section or Part.

(14) Subsection (13) does not apply to the references to "securitization exposure", "re-securitization exposure", "rated", "unrated" and "tranche".

(15) In this section—

pre-amended Part 7 (原有的第7部) means Part 7 of the pre-amended Rules;

pre-amended Rules (《原有的規則》) means these Rules as in force immediately before 1 January 2018;

pre-amended section 15 (原有的第15條) means section 15 of the pre-amended Rules.".

50. Section 307 amended (specific risk)

Section 307(5)(b)—

Repeal

"section 15"

Substitute

"the pre-amended section 15 (within the meaning of section 287A(15))".

51. Section 316 amended (positions to be used to calculate market risk)

Section 316(2)(a)—

Repeal

"232A"

Substitute

"227(1)".

52. Section 323 amended (interpretation of Part 9)

Section 323, definition of ***non-interest income***, paragraph (a)—

Repeal subparagraph (i)

Substitute

"(i) gains minus losses arising from the institution's trading in—

(A) foreign currencies;

(B) derivative contracts; and

(C) securities;".

53. Schedule 1 amended (specifications for purposes of certain definitions in these Rules)

Schedule 1, Part 1, after item 10—

Add

"11. Hong Kong Science and Technology Parks Corporation.".

54. Schedule 1A amended (transactions and contracts not subject to CVA capital charge)

Schedule 1A, section 1(d)—

Repeal

"232A"

Substitute

"227(1)".

55. Schedule 2 amended (minimum requirements to be satisfied for approval under section 8 of these Rules to use IRB approach)

Schedule 2—

Repeal

"& 186 & Sch. 3]"

Substitute

", 186 & 259 & Sch. 3]".

56. Schedule 6 amended (credit quality grades)

Schedule 6—

Repeal

"232A, 281 & 287 & Sch. 7]"

Substitute

"243, 281 & 287 & Sch. 7]".

57. Schedule 7 amended (standard supervisory haircuts for comprehensive approach to treatment of recognized collateral)

(1) Schedule 7, section 1, Table, Part 1, item 1, column 3—

Repeal

", or Table A or Table B in Schedule 11".

(2) Schedule 7, section 1, Table, Part 1, item 2, column 3—

Repeal

", or Table A or Table B in Schedule 11".

(3) Schedule 7, section 1, Table, Part 1, item 3, column 3—

Repeal

", or Table A or Table B in Schedule 11".

(4) Schedule 7, section 1, Table, Part 1, item 4, column 3—

Repeal

", or Table A or Table B in Schedule 11".

(5) Schedule 7, section 1, Table, Part 1, item 5—

Repeal everything in column 3

Substitute

"grade 4 (in relation to Table A, Table B or Part 1 of Table C in Schedule 6)".

(6) Schedule 7, section 1, Table, Part 1, item 6—

Repeal everything in column 3

Substitute

"grade 4 (in relation to Table A in Schedule 6)".

(7) Schedule 7, section 2—

Repeal paragraphs (b) and (c)

Substitute

"(b) sovereign issuers include sovereign foreign public sector entities and multilateral development banks;

(c) in the case of a debt security issued by a multilateral development bank (whether it is recognized collateral mentioned in section 79(1)(h) of these Rules or not), the credit quality grade or short-term credit quality grade applicable to the debt security is determined by mapping the ECAI issue specific rating concerned to a scale of credit quality grades in accordance with Table A or Part 1 of Table E in Schedule 6;

(ca) in the case of a debt security or recognized collateral that is a securitization exposure, the credit quality grade or short-term credit quality grade applicable to the securitization exposure is determined by mapping the ECAI issue specific rating concerned to a scale of credit quality grades in accordance with Part 1 of Table C or Part 1 of Table E in Schedule 6;".

58. Schedule 9 amended (requirements to be satisfied for using section 229(1)(a) of these Rules)

(1) Schedule 9, heading—

Repeal

"**Using Section 229(1)(a) of these Rules**"

Substitute

"**Traditional Securitization Transaction to be Eligible Traditional Securitization Transaction**".

(2) Schedule 9—

Repeal

"[s. 229]"

Substitute

"[s. 229 & Sch. 10A]".

(3) Schedule 9—

Repeal

"An originating institution in a traditional securitization transaction shall demonstrate to the satisfaction of the Monetary Authority that"

Substitute

"The requirements specified for the purposes of section 229(1)(a)(i) in respect of an originating institution of a traditional securitization transaction are".

(4) Schedule 9, paragraph (d)—

Repeal

"counsel"

Substitute

"counsel (whether in-house or external)".

(5) Schedule 9—

Repeal paragraphs (j), (k) and (l)

Substitute

"(j) if the transaction includes a clean-up call—all the requirements set out in section 1 of Schedule 10A are met in respect of the clean-up call;

(k) if the transaction is subject to an early amortization provision—any one or more of the requirements set out in section 2 of Schedule 10A are met in respect of the early amortization provision; and

(l) the securitization transaction does not include a termination option or trigger except—

(i) a clean-up call in respect of which all the requirements set out in section 1 of Schedule 10A are met;

(ii) any termination provision for specific changes in tax or regulation; and

(iii) an early amortization provision in respect of which any one or more of the requirements set out in section 2 of Schedule 10A are met.".

(6) Schedule 9—

Repeal paragraph (m).

59. Schedule 10 amended (requirements to be satisfied for using section 229(1)(b) of these Rules)

(1) Schedule 10, heading—

Repeal

"**Using Section 229(1)(b) of these Rules**"

Substitute

"**Synthetic Securitization Transaction to be Eligible Synthetic Securitization Transaction**".

(2) Schedule 10—

Repeal

"[ss. 229, 243 & 255]"

Substitute

"[s. 229 & Sch. 10A]".

(3) Schedule 10, section 1—

Repeal

"An originating institution in a synthetic securitization transaction shall demonstrate to the satisfaction of the Monetary Authority that"

Substitute

"The requirements specified for the purposes of section 229(1)(b)(i) in respect of an originating institution of a synthetic securitization transaction are".

(4) Schedule 10, section 1—

Repeal paragraph (a)

Substitute

"(a) subject to section 2 of this Schedule, significant credit risk associated with the underlying exposures of the transaction has been transferred from the institution to third parties through relevant credit protection that is recognized collateral, a recognized guarantee or a recognized credit derivative contract under Part 4 (regardless of whether the institution uses the STC approach to calculate the credit risk of the underlying exposures if they were not securitized);".

(5) Schedule 10, section 1—

Repeal paragraphs (b) and (c).

(6) Schedule 10, section 1(d)—

Repeal

"counsel"

Substitute

"counsel (whether in-house or external)".

(7) Schedule 10, section 1—

Repeal paragraphs (g) and (h)

Substitute

"(g) if the transaction includes a clean-up call—all the requirements set out in section 1 of Schedule 10A are met in respect of the clean-up call; and

(h) if the transaction is subject to an early amortization provision—any one or more of the requirements set out in section 2 of Schedule 10A are met in respect of the early amortization provision.".

(8) Schedule 10, section 1—

Repeal paragraphs (i) and (j).

(9) Schedule 10—

Repeal section 2

Substitute

"**2. Provisions supplementary to section 1(a)**

For the purposes of section 1(a) of this Schedule—

(a) the SPE in the securitization transaction concerned must not be recognized as a credit protection provider; and

(b) if the underlying exposures concerned consist of securitization exposures, the reference to "a corporate that has an ECAI issuer rating" in

sections 98(a)(vi) and 99(1)(b)(vi) is to be construed as a reference to a corporate specified in section 243(3).".

60. Schedule 10A added

After Schedule 10—

Add

"**Schedule 10A**

[Schs. 9 & 10]

Requirements Supplementary to Schedules 9 and 10

1. Requirements in respect of clean-up calls

The requirements set out in respect of a clean-up call for the purposes of paragraph (j) of Schedule 9 and section 1(g) of Schedule 10 are the following—

(a) the exercise of the clean-up call is entirely at the discretion of the originating institution concerned except where the clean-up call is exercised under circumstances beyond the control of any party to the securitization transaction concerned;

(b) the clean-up call is not structured—

(i) to reduce or avoid potential or actual losses to investors or other parties to the transaction; or

(ii) to provide credit enhancement to those investors and parties; and

(c) the clean-up call is exercisable only when 10% or less of the principal amount of the securitization issues or underlying exposures at the commencement of the transaction remains outstanding.

2. Requirements in respect of early amortization provision

The requirements set out in respect of an early amortization provision for the purposes of paragraph (k) of Schedule 9 and section 1(h) of Schedule 10 are the following—

(a) the securitization transaction subject to the provision includes a replenishment structure under which—

(i) underlying exposures that are revolving in nature (***revolving underlying exposures***) are to be replenished by exposures that are non-revolving in nature; and

(ii) the early amortization ends the ability of an originating institution of the transaction to add new underlying exposures;

(b) the provision—

(i) has features that are akin to a structure that is non-revolving in nature in that the credit risk in respect of the revolving underlying exposures does not return to the originating institution of the transaction; and

(ii) does not result in subordination of the institution's interest;

(c) investors in the securitization issues remain fully exposed to future drawdowns by the borrowers in respect of the revolving underlying exposures even if the provision has been triggered; and

(d) the provision is solely triggered by events not related to the performance of the underlying exposures of the securitization transaction or of the originating institution of the transaction.".

61. Schedule 11 substituted

Schedule 11—

Repeal the Schedule

Substitute

"Schedule 11

[ss. 265 & 266]

Mapping of ECAI Issue Specific Ratings into Credit Quality Grades under SEC-ERBA

Table A

Long-term Credit Quality Grades

Long-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
1	AAA	Aaa	AAA	AAA	AAA

Long-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
2	AA+	Aa1	AA+	AA+	AA+
3	AA	Aa2	AA	AA	AA
4	AA-	Aa3	AA-	AA-	AA-
5	A+	A1	A+	A+	A+
6	A	A2	A	A	A
7	A-	A3	A-	A-	A-
8	BBB+	Baa1	BBB+	BBB+	BBB+
9	BBB	Baa2	BBB	BBB	BBB
10	BBB-	Baa3	BBB-	BBB-	BBB-
11	BB+	Ba1	BB+	BB+	BB+
12	BB	Ba2	BB	BB	BB
13	BB-	Ba3	BB-	BB-	BB-
14	B+	B1	B+	B+	B+
15	B	B2	B	B	B
16	B-	B3	B-	B-	B-
17	CCC+	Caa1	CCC	CCC+	CCC
	CCC	Caa2	CC	CCC	CC
	CCC-	Caa3	C	CCC-	C
18	any rating below CCC-	any rating below Caa3	any rating below C	any rating below CCC-	any rating below C

Table B

Short-term Credit Quality Grades

Short-term credit quality grade	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.	Japan Credit Rating Agency, Ltd.
1	A-1+	P-1	F1+	a-1+	J-1+
	A-1		F1	a-1	J-1
2	A-2	P-2	F2	a-2	J-2
3	A-3	P-3	F3	a-3	J-3
4	any rating below A-3	any rating below P-3	any rating below F3	any rating below a-3	any rating below J-3".

62. Schedules 12, 13 and 14 repealed

Schedules 12, 13 and 14—

Repeal the Schedules.

Norman CHAN
Monetary Authority

17 October 2017

Explanatory Note

These Rules are made by the Monetary Authority under section 97C of the Banking Ordinance (Cap. 155) to amend the Banking (Capital) Rules (Cap. 155 sub. leg. L) (***principal Rules***).

2. The main purpose of these Rules is to amend the principal Rules to implement the capital standards set out in the following documents issued by the Basel Committee on Banking Supervision—

(a) *Revisions to the securitization framework* issued in December 2014 (revised in July 2016), which provides for a revised framework for the calculation of the credit risk for securitization exposures;

(b) *Basel III leverage ratio framework and disclosure requirements* issued in January 2014, which sets out the computation methodology of the leverage ratio for implementing Basel III leverage ratio framework, together with the associated disclosure requirements; and

(c) *Regulatory treatment of accounting provisions-interim approach and transitional arrangements* issued in March 2017, which provides the basis for the interim regulatory capital treatment of accounting provisions under the new International Financial Reporting Standard 9.

3. The revised framework for the calculation of the credit risk for securitization exposures is mainly set out in the revised Part 7 of the principal Rules (see sections 46 and 47 of these Rules). Amendments are also made to Part 8 of the principal Rules to the effect that, despite the basis for calculating the credit risk

for securitization exposures has changed, the basis for calculating the market risk for securitization exposures held in the trading book of an authorized institution will remain unchanged (see sections 48 to 51 of these Rules).

4. A new Part 1C is added to the principal Rules to prescribe the minimum leverage ratio that must be maintained by an authorized institution and the basis of consolidation that must be used for calculating the leverage ratio (see section 5 of these Rules).

5. The interim regulatory capital treatment of accounting provisions is implemented by amending the definitions of ***collective provisions*** and ***specific provisions*** in section 2(1) of the principal Rules.

6. These Rules also—

(a) revise the definition of ***small business*** by increasing the current threshold on annual turnover from $50 million to $100 million (see section 19(2) of these Rules);

(b) include the Hong Kong Science and Technology Parks Corporation as a domestic public sector entity under the principal Rules (see section 53 of these Rules);

(c) make other minor amendments to improve the clarity of certain provisions of the principal Rules.

7. These Rules come into operation on 1 January 2018.