Annex

Proposed policy refinements/clarifications and corresponding amendments to the Banking (Capital) Rules (Cap. 155L) ("BCR")

This set of proposed amendments to the BCR primarily relates to—

(a) the proposed introduction of certain policy refinements and clarifications regarding the capital base or the consolidation basis used in calculating the capital adequacy ratio;

(b) the implementation of the changes or clarifications to the credit risk framework introduced by the following two documents issued by the Basel Committee on Banking Supervision ("BCBS"):

  (i) *Technical Amendment – Various technical amendments and FAQs*, June 2025;

  (ii) *Technical Amendment – Hedging of counterparty credit risk exposures*, October 2025; and

(c) refinements of the BCR provisions in relation to Type B ECAIs in order to enhance the flexibility of those provisions to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures other than corporate exposures.

The amendments are provided for illustrative purposes only, to demonstrate how proposed policy refinements or clarifications may be incorporated into the BCR. The final form of the amendments to the BCR provisions will be drawn up by the law draftsman of the Department of Justice.

The proposed amendments are prepared based on the current version of the BCR which came into operation on 1 January 2026.

Unless otherwise stated, tables, formulas, sections, subdivisions, divisions, parts and schedules mentioned in this document are those of the BCR.

Unless otherwise specified, any terms and definitions used in this document shall have the meanings assigned to them by the BCR.

I. PROPOSED AMENDMENTS TO REVISE THE CAPITAL TREATMENT REGARDING AN AI'S DIRECT HOLDINGS OF CET1 CAPITAL INSTRUMENTS ISSUED BY FINANCIAL SECTOR ENTITIES THAT ARE MEMBERS OF ITS CONSOLIDATION GROUP

Item 1. Amend section 43 of Division 4, Part 3 (Deductions from CET1 capital)

Amendments to be made		Remarks (including references)
(1)	To amend subsection (1)(q)(i) by replacing "amount of the institution's direct holdings of CET1 capital instruments issued by financial sector entities that are members of the institution's consolidation group" with "applicable amount of the institution's direct holdings of CET1 capital instruments issued by financial sector entities that are members of the institution's consolidation group, calculated in accordance with Schedule 4G".	As we know, the Basel Framework requires banks to subject their capital investments in financial sector entities to a capital deduction framework. Regarding significant LAC investments in CET1 capital instruments issued by financial sector entities, the Basel Framework is clear in cases where a financial sector entity is not a consolidated financial subsidiary (i.e. an exemption from full deduction is provided for up to 10% CET1 of a bank ("10% threshold")), but the Basel Framework allows for different interpretations under the solo capital adequacy ratio calculation, if the financial sector entity is a consolidated financial subsidiary. On this, Hong Kong has all along adopted an approach that excluded financial sector entities that are members of an Authorized Institution ("AI")'s
(2)	To amend subsection (1)(q)(ii) by replacing "amount of the institution's direct holdings of CET1 capital instruments issued by financial sector entities, other than any solo-consolidated subsidiaries, that are members of the institution's consolidation group" with "applicable amount of the institution's direct holdings of CET1 capital instruments issued by financial sector entities, other than any solo-consolidated subsidiaries, that are members of the institution's consolidation group, calculated in accordance with Schedule 4G".	

Amendments to be made	Remarks (including references)
	consolidation group from any exemption threshold so that an AI's direct holdings of CET1 capital instruments issued by such subsidiaries are subject to full deduction under the solo or solo-consolidated capital adequacy ratio calculation. Currently the 10% threshold is only applicable to AIs' holdings of significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of consolidation under the section 3C requirement. See section 43(1)(q) of the BCR which requires an AI to fully deduct from CET1 capital its direct holdings of CET1 capital instruments issued by financial sector entities that are members of its consolidation group under the solo or solo-consolidated capital adequacy ratio calculation. To align with a common approach adopted by certain major jurisdictions (e.g. Australia, Singapore and UK), the HKMA proposes, under Item 1 to Item 4, to allow the 10% threshold to also cover AIs' direct holdings of CET1 capital instruments issued by financial sector entities that are members of its

Amendments to be made	Remarks (including references)
	consolidation group. These amendments will harmonise our regulatory framework with those of certain other major jurisdictions, and will create a more equitable level playing field for AIs while maintaining compliance with the Basel Framework. The proposed amendment under this item will provide that the amount of deduction under section 43(1)(q) should be calculated in accordance with the amended Schedule 4G as proposed in Item 4 below. Reference: see section 2(1) of the BCR for the definition of "section 3C requirement" and section 2(1) and section 35 of the BCR for the definitions of "financial sector entity" and "significant LAC investment".

Item 2. Amend section 65I of Subdivision 6, Division 3, Part 4 (Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities)

Amendments to be made	Remarks (including references)
(1) To add a new subsection to provide that if an AI has direct holdings of CET1 capital instruments issued by financial sector entities that are members of the AI's consolidation group, then for the purpose of calculating its capital adequacy ratio on a solo basis or on a solo-consolidated basis, as the case may be, any amount of those direct holdings that is not deducted from the AI's capital base under section 43(1)(q) must be allocated a risk-weight of 250%.	The amendment is proposed to specify, for the purpose of the STC approach, the risk-weight for an AI's direct holdings of CET1 capital instruments issued by financial sector entities that are members of its consolidation group not deducted from the AIs capital base under section 43(1)(q), consequential to the proposed amendment under Item 1.

Item 3. Amend section 115G of Subdivision 4, Division 3, Part 5 (Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities)

Amendments to be made	Remarks (including references)
(1) To add a new subsection to provide that if an AI has direct holdings of CET1 capital instruments issued by financial sector entities that are members of the AI's consolidation group, then for the purpose of calculating its capital adequacy ratio on a solo basis or on a solo-consolidated basis, as the case may be, any amount of those direct holdings that is not deducted from the AI's capital base under section 43(1)(q) must be allocated a risk-weight of 250%.	The amendment is proposed to specify, for the purpose of the BSC approach, the risk-weight for an AI's direct holdings of CET1 capital instruments issued by financial sector entities that are members of its consolidation group not deducted from the AIs capital base under section 43(1)(q), consequential to the proposed change under Item 1.

Item 4. Amend Schedule 4G (Deduction of Holdings where Authorized Institution has Significant LAC Investments in Financial Sector Entities that are outside Scope of Consolidation under Section 3C Requirement)

Amendments to be made	Remarks (including references)
(1) To amend the heading of Schedule 4G by removing "that are outside Scope of Consolidation under Section 3C Requirement".	The proposed amendment is consequential to Item 1. It expands the application of the existing 10% threshold under Schedule 4G to cover not only an AI's significant LAC investments in CET1 capital instruments issued by financial sector entities outside the scope of consolidation under a section 3C requirement under section 43(1)(p), but also an AI's direct holdings of CET1 capital instruments issued by financial sector entities that are within such scope under section 43(1)(q). As a result, the amount of the AI's direct holdings of CET1 capital instruments issued by financial sector entities that are members of its consolidation group to be deducted from CET1 capital under section 43(1)(q), can be reduced by the remaining balance of the 10% threshold after offsetting the AI's aggregate holdings of significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of consolidation under section 43(1)(p), if any.
(2) To amend the heading of section 1 of Schedule 4G by adding "where Authorized Institution has significant LAC investments in financial sector entities that are outside scope of consolidation under section 3C requirement" after "Deduction of holdings".	
(3) To amend section 1(2) by replacing "in section 43(1)(p)" with "in sections 43(1)(p) and 43(1)(q)".	
(4) To add a new section to provide for the following requirements: **Deduction of direct holdings of CET1 capital instruments issued by financial sector entities that are members of the institution's consolidation group** (1) For the purposes of section 43(1)(q) of these Rules, an AI must (a) calculate the applicable amount of the institution's direct holdings of CET1 capital instruments issued by financial sector entities that are members of the institution's consolidation group to be deducted from CET1 capital under section 43(1)(q)(i); or the applicable amount of the institution's direct holdings of CET1 capital instruments issued by financial sector entities, other than any solo-consolidated subsidiaries, that are members of the institution's consolidation group to be deducted from CET1 capital under	

Amendments to be made	Remarks (including references)
section 43(1)(q)(ii) (as the case requires); and (b) make such deductions from its CET1 capital. (2) The amount of the institution's direct holdings of CET1 capital instruments issued by financial sector entities that are members of the institution's consolidation group to be deducted from the institution's CET1 capital under section 43(1)(q)(i); and the amount of the institution's direct holdings of CET1 capital instruments issued by financial sector entities, other than any solo-consolidated subsidiaries, that are members of the institution's consolidation group to be deducted from CET1 capital under section 43(1)(q)(ii), in each case is the amount by which the shares concerned in aggregate exceed the remaining balance of the 10% of the institution's CET1 capital (calculated after applying all regulatory deductions under sections 38(2) and 43(1) of these Rules except those set out in sections 43(1)(p) and 43(1)(q) of these Rules) after offsetting the amount of the institution's aggregate holdings of significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of consolidation under a section 3C requirement, calculated in accordance with section 1(4) of this Schedule. (3) The amount of an AI's direct holdings of CET1 capital instruments issued by financial sector entities that does not exceed the remaining balance of the 10% threshold as referred to in subsection [(2)] and that is not deducted from the institution's CET1 capital must be risk-weighted at 250%.	

II. PROPOSED AMENDMENTS TO CLARIFY THE CAPITAL TREATMENT FOR SUBSIDIARIES OF AIS THAT ARE REGULATED FINANCIAL INSTITUTIONS OTHER THAN SECURITIES FIRMS OR INSURANCE FIRMS

Item 5. Add the following definition to section 2(1), Part 1 of the BCR

New definition	Remarks (including references)
(1) ***other regulated financial institution***, for the purposes of Parts 2 and 3 means an entity (other than a bank) — (a) that is authorized and supervised by a financial services supervisory authority of Hong Kong (including the Monetary Authority) or any place outside Hong Kong; and (b) that is subject to supervisory arrangements regarding the maintenance of adequate capital to support its business activities comparable to those prescribed for AIs under the Ordinance and these Rules; but (c) does not include an insurance firm, securities firm or a credit rating agency that is authorized by a securities regulator outside Hong Kong or the Securities and Futures Commission to provide credit rating services.	Following the commencement of the Stablecoin Ordinance and the implementation of the regulatory regime for stablecoin issuers in August 2025, the proposed amendments under Item 5 to Item 9 aim to provide banks with clear guidance on the capital treatment for subsidiaries of AIs that are licensed stablecoin issuers or regulated financial institutions other than securities firms or insurance firms (whose treatment is already provided for in the existing provisions of the BCR), thereby reducing compliance uncertainty and enhancing transparency in regulatory implementation. To this end, the proposed amendment under this item seeks to introduce a new definition of "other regulated financial institution" to enable references to the forementioned entities in Parts 2 and 3 of the BCR.

Item 6. Amend section 27 of Division 7, Part 2 (Authorized institution shall calculate its capital adequacy ratio on solo basis, solo-consolidated basis or consolidated basis)

Amendments to be made	Remarks (including references)
(1) To amend subsection (2) by removing "(other than a subsidiary which is an insurance firm or securities firm)" after "a subsidiary of the institution."	The proposed amendment under this item seeks to clarify HKMA's general policy intention that an insurance firm, a securities firm or other regulated financial institution will generally not be included in the AI's consolidated capital adequacy ratio calculation (under a section 3C requirement of the BCR). Instead, an AI's capital investments in these subsidiaries will be subject to the relevant capital deduction treatment under Part 3 of the BCR.
(2) To repeal paragraph (a) of the definition of ***relevant financial activity*** under subsection (3) and replace by "(a) an activity which is ancillary to a principal activity of the institution, including — (i) owning and managing the institution's property; (ii) performing information technology functions for the institution; and (iii) any of the activities set out in paragraphs (b) – (g) of the definition of ***banking or other financial services*** in the Fourteenth Schedule to the Ordinance but are not covered by any other paragraphs of this definition;"	
(3) To add in subsection (3) that "***a subsidiary of the institution***" should generally not include a subsidiary which is an insurance firm, securities firm, or any other regulated financial institution, unless the Monetary Authority is satisfied on reasonable grounds that it is prudent to specify such a subsidiary in a section 3C requirement given to the institution. In considering if it is prudent to specify a subsidiary in a section 3C requirement given to an AI, the Monetary Authority may take into account any or all of the following	

Amendments to be made	Remarks (including references)
considerations: (a) the nature of the business and activities of the subsidiary; (b) the significance of the subsidiary to the AI (including their materiality in terms of size and potential financial impact); (c) the consequent assessment of the risks potentially posed to the AI; and (d) any other factors as the Monetary Authority may consider relevant.	

Item 7. Amend the following definition under section 35 of Division 1, Part 3 (Interpretation of Part 3)

Amendments to be made	Remarks (including references)
(1) To amend the definition of ***financial sector entity*** by replacing "(j) activities ancillary to banking" with "(j) activities ancillary to banking (including any activities listed under the definition of ***banking or other financial services*** in the Fourteenth Schedule to the Ordinance but are not covered by any other paragraphs of this definition**)**".	As part of the proposed amendment to clarify the capital treatment for other regulatory financial institutions, this item seeks to provide more clarity to the scope of financial sector entity by making reference to the activities listed under the definition of "banking or other financial services" in the Fourteenth Schedule to the Banking Ordinance. For the avoidance of doubt, the carrying on of a regulated stablecoin activity would be covered.

Item 8. Amend section 43 of Division 4, Part 3 (Deductions from CET1 capital)

Amendments to be made	Remarks (including references)
(1) To amend section (1)(k) by replacing "securities firm or insurance firm" with "securities firm, insurance firm or any other regulated financial institution".	As part of the proposed amendment to clarify the capital treatment for other regulatory financial institutions, this item seeks to provide the MA with the power to require that any capital shortfall in a subsidiary of AI that is other regulatory financial institution, if not rectified in a timely manner, be deducted from the AI's CET1 capital.

Item 9. Amend section 45 of Division 4, Part 3 (Provisions supplementary to section 43(1)(k))

Amendments to be made	Remarks (including references)
(1) To amend section 45(1) by replacing "securities firm or insurance firm" with "securities firm, insurance firm or other regulated financial institution" wherever appearing.	The proposed amendment is consequential to Item 8.
(2) To amend section 45(1) by replacing "securities regulator or insurance regulator" with "securities regulator, insurance regulator or any other financial services supervisory authority responsible for supervising the other regulated financial institutions".	

III. PROPOSED AMENDMENTS TO ENHANCE THE "ANTI-AVOIDANCE" PROVISION UNDER SECTION 46 REGARDING AI'S CREDIT EXPOSURES TO ITS CONNECTED COMPANIES

Item 10. Amend section 46 of Division 4, Part 3 (Provisions supplementary to section 43(1)(n), (o), (p) and (q))

Amendments to be made	**Remarks (including references)**
To repeal all subsections and replace with provisions to provide for the following requirements:	Currently, section 46 of the BCR provides an "anti-avoidance" provision that requires capital deduction for credit exposures to a connected company of an AI, treating such exposures as if they were direct capital investments by the AI in the connected company, unless the AI can demonstrate to the MA's satisfaction that the credit exposures were incurred in the ordinary course of its business. While the underlying principle of this "anti-avoidance" provision remains sound, we learn from supervisory
(1) An AI must treat as part of the capital investment that is to be deducted under section 43(1)(n) the aggregate amount of any loans, facilities or other credit exposures provided by the institution to any connected company of the institution where the connected company is a commercial entity as if such loans, facilities or other credit exposures were direct capital investment by the institution in the commercial entity, unless the AI has made an adequate assessment to conclude that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the institution's business.	

Amendments to be made		Remarks (including references)
(2)	An AI must treat as part of the amount of its direct holdings, indirect holdings and synthetic holdings of CET1 capital instruments that are to be deducted under section 43(1)(o), (p) and (q) the aggregate amount of any loans, facilities or other credit exposures provided by the institution to any connected company of the institution where the connected company is a financial sector entity as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the institution in the financial sector entity, unless the AI has made an adequate assessment to conclude that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the institution's business.	experience that its application can be inefficient and operationally burdensome for AIs. The HKMA therefore proposes to revise this provision so that an AI will, in practice, not be required to apply capital deduction to credit exposures to a connected company if the AI has made an adequate assessment to conclude that such exposures were incurred in the ordinary course of the AI's business. Further guidance on the assessment in this regard will then be provided in the relevant supervisory policy manual modules.
(3)	Despite subsections (1) and (2), if the Monetary Authority determines that the loan was not made, the facility was not granted, or any such other credit exposure was not incurred in the ordinary course of the institution's business, the Monetary Authority may require the AI to treat the aggregate amount of any loans, facilities or other credit exposures referred to in subsections (1) and (2) as part of the capital investment or the amount of its direct holdings, indirect holdings and synthetic holdings of CET1 capital instruments, as the case requires, that are to be deducted under section 43(1)(n), (o), (p) or (q).	

IV. PROPOSED AMENDMENTS TO IMPLEMENT TECHNICAL AMENDMENTS AND FAQS ISSUED BY BCBS

IV(i) Proposed amendments to implement FAQs in relation to unhedged credit exposures

Item 11. Amend section 51A of Division 1, Part 4 (Meaning of unhedged credit exposure)

Amendments to be made		Remarks (including references)
(1)	To repeal paragraph (b) of the definition of ***unhedged credit exposure*** in subsection (1).	Currently under the BCR, the currency mismatch multiplier (which is designed to address the exchange rate risk in cases where, for certain exposures to individuals, the currency of an exposure is different from the currency of the borrower's income) only applies to non-revolving loans. In June 2025, BCBS issued a set of FAQs to clarify that the multiplier should also be applied to revolving facilities and derivative contracts. Reference: The FAQs set out in the document "*Various technical amendments and FAQs*" issued by the BCBS in June 2025.
(2)	To replace subsection (3) with a paragraph to provide that: For the purpose of paragraph (d) of the definition of ***unhedged credit exposure*** in subsection (1), the Monetary Authority must develop implementing technical standards to specify the methods for determining the relevant amounts of the exposures arising	Reference: see section 2(1) of the BCR for the definition of "current Basel Framework". The proposed wording is similar to existing

Amendments to be made	Remarks (including references)
from various types of credit facilities or transactions, having regard to— (a) paragraph 20.93 of Chapter CRE20 of the current Basel Framework; and (b) the risk profile, features, terms and conditions of the credit facilities or transactions.	section 59D(4) of the BCR. For a simple product such as a mortgage loan, the relevant amount is the monthly instalment payment. However, for other products such as revolving credit facilities and derivative contracts, determining what the relevant amount should be is not straightforward, and can be a complex process (as is the case with bespoke investment products that have embedded derivatives designed for private banking customers). Additionally, flexibility is necessary to accommodate new products with innovative features that may be launched by AIs from time to time. It is also important to note that the Basel FAQs provide only general guidance, and when it comes to actual operations, there are still many gaps that should be filled by supervisors in order to ensure consistent and prudent interpretations by banks. As such, it is impractical to specify in the BCR an exhaustive list of the relevant amounts (and how each of these amounts should be calculated) for all existing or potential future products. A

Amendments to be made	Remarks (including references)
	pragmatic approach is therefore proposed so that the MA would be allowed to issue implementing technical standards to specify the methods for determining the relevant amounts of the exposures arising from various types of credit facilities or transactions, and to adjust such methods from time to time to reflect new development and implementation experience.

IV(ii) Proposed amendments to implement technical amendments in relation to the hedging of counterparty credit risk ("CCR")

Item 12. Amend section 51 of Division 1, Part 4 (Interpretation of Part 4)

Amendments to be made	Remarks (including references)
(1) To amend the definition of ***credit protection covered portion*** as follows: (a) in each of paragraphs (b), (c), (d) and (e), add "subject to paragraph [(f)]" before "in the case of", where paragraph [(f)] is the new paragraph proposed below (see Item 12(1)(d)); (b) in paragraph (d), repeal the word "or" after the semi-colon;	Reference: Annex 1 to *Technical Amendment – Hedging of counterparty credit risk exposures* issued by the BCBS in October 2025 (***BCBS CCR TA***) and the definition of "counterparty credit risk" in section 2(1) of the BCR. The amendments reflect the amendments to

Amendments to be made	Remarks (including references)
(c) in paragraph (e), add "or" after the semi-colon; and (d) after paragraph (e), add a new paragraph [(f)] to provide that in the case of a recognized guarantee or a credit derivative contract recognized under section 99 or 99B where the exposure is an exposure to CCR in respect of derivative contracts and the amount of credit protection provided by the guarantee or credit derivative contract is fixed or capped—the protected portion of the exposure calculated in accordance with the new section [226C] as proposed in Item 18 or new section 377[(5A)] as proposed in Item 19 below.	CRE22.79 of the Basel Framework introduced by BCBS CCR TA. The tentative paragraph number of the new paragraph proposed in this Item 12 is subject to change as deemed appropriate by the law draftsman. The same applies to the tentative section, subsection or paragraph numbers of other new provisions proposed in the Items below.

Item 13. Amend section 101 of Division 9, Part 4 (Provisions supplementary to section 100)

Amendments to be made	Remarks (including references)
(1) To amend— (a) subsection (1) by replacing "subsection (9)" with "subsections [(7A)] and (9)", where subsection [(7A)] is the new subsection proposed below; and (b) subsection (7) by replacing "If" with "Subject to subsection [(7A)], if".	Reference: Page 2 (the bullet on pari passu and pro rata loss sharing/tranches) of *BCBS CCR TA*. The amendments are intended to clarify that— (a) subsection (1) does not apply to recognized credit derivative contracts used by AIs for hedging exposures to CCR in respect of derivative contracts. The extent to which these exposures are covered by the contracts should be determined in accordance with the
(2) To add a new subsection [(7A) after subsection (7)] to provide that if an AI has obtained credit protection for its exposure to CCR in respect of derivative contracts and the amount of the credit protection is fixed or capped, subsections (1) and (7) do not apply to the exposure and the credit protection.	

Amendments to be made	Remarks (including references)
	new provisions proposed in Item 18 and Item 19 for implementing the new CRE51.18 introduced by BCBS CCR TA; and (b) subsection (7), which is the treatment of tranched credit protection, is also not applicable to exposures and credit protection that are subject to the new provisions proposed in Item 18 and Item 19, as the treatments under these new provisions should prevail, regardless of whether the fixed or capped credit protection provides tranched credit protection. Currently, pari passu and pro rata loss sharing is addressed by section 100(2). No amendment to that section is necessary because the "credit protection covered portion" referred to in that section, after the amendment proposed in Item 12, will be calculated in accordance with the new provisions proposed in Item 18 and Item 19. In other words, section 100(2) will not override the new provisions.

Item 14. Amend section 105 of Division 1, Part 5 (Interpretation of Part 5)

Amendments to be made	Remarks (including references)
(1) To amend the definition of ***credit protection covered portion*** as follows: (a) in each of paragraphs (b) and (c), add "subject to paragraph [(d)]" before "in the case of", where paragraph [(d)] is the new paragraph proposed below (see Item 14(1)(d)); (b) in paragraph (b), repeal the word "or" after the semi-colon; (c) in paragraph (c), add "or" after the semi-colon; and (d) after paragraph (c), add a new paragraph [(d)] to provide that in the case of a recognized guarantee or a credit derivative contract recognized under section 133 where the exposure is an exposure to CCR in respect of derivative contracts and the amount of credit protection provided by the guarantee or credit derivative contract is fixed or capped—the protected portion of the exposure calculated in accordance with the new section [226C] as proposed in Item 18 or new section 377[(5A)] as proposed in Item 19 below.	Reference: Annex 1 to *BCBS CCR TA*. The amendment, which is similar to the one proposed in Item 12, is intended to align the treatment of credit protection in the form of guarantee or credit derivative contract under the basic approach with that under the STC approach.

Item 15. Amend section 135 of Division 7, Part 5 (Provisions supplementary to section 134)

Amendments to be made	Remarks (including references)
(1) To amend— (a) subsection (1) by replacing "subsection (9)" with "subsections [(7A)] and (9)",	The amendments are the same as those proposed in Item 13.

Amendments to be made	Remarks (including references)
where subsection [(7A)] is the new subsection proposed below; and (b) subsection (7) by replacing "If" with "Subject to subsection [(7A)], if". (2) To add a new subsection [(7A) after subsection (7)] to provide that if an AI has obtained credit protection for its exposure to CCR in respect of derivative contracts and the amount of the credit protection is fixed or capped, subsections (1) and (7) do not apply to the exposure and the credit protection.	

Item 16. Amend section 216 of Division 10, Part 6 (Provisions supplementary to section 214(1)—substitution framework for corporate, sovereign and bank exposures under foundation IRB approach)

Amendments to be made	Remarks (including references)
(1) To amend subsection (2) by, in each of paragraphs (a) and (b), replacing "if" with "subject to paragraph [(c)], if", where paragraph [(c)] is the new paragraph as proposed in Item 16(2) below.	Reference: Page 2 (the bullet on "Pari passu and pro rata loss sharing/tranches") and Annex 1 to *BCBS CCR TA*.
(2) To add a new paragraph [(c)] [after subsection (2)(b),] to provide that if the institution's underlying exposure is an exposure to CCR in respect of derivative contracts and the amount of credit protection provided by the guarantee or credit derivative contract is fixed or capped, then— (a) paragraphs (a) and (b) do not apply to that underlying exposure and the credit protection; and (b) the covered portion is equal to the protected portion calculated in accordance with	The amendments to section 216 of the BCR reflect the amendments to CRE32.22 of the Basel Framework with regard to the corporate, bank and sovereign exposures under the foundation IRB approach, as introduced by BCBS CCR TA. See also Item 12 and Item 13 for implementing the similar revised Basel standards under the

Amendments to be made	Remarks (including references)
the new section [226C] as proposed in Item 18 or new section 377[(5A)] as proposed in Item 19 below.	standardised approach.

Item 17. Amend section 217 of Division 10, Part 6 (Provisions supplementary to section 214(1)—substitution framework for corporate and sovereign exposures under advanced IRB approach and for retail exposures under retail IRB approach)

Amendments to be made		Remarks (including references)
(1)	To amend subsection (1) by adding "[(1C)]," after "subsections (1A), (1B)," where subsection [(1C)] is the new subsection proposed below.	Reference: Annex 1 to *BCBS CCR TA*. The amendments to section 217 of the BCR reflect the amendments to CRE32.22 of the Basel Framework with regard to the corporate and sovereign exposures under the advanced IRB approach and the retail exposures under the retail IRB approach, as introduced by BCBS CCR TA.
(2)	To amend subsection (1A) by replacing "subsection (1B)" with "subsections (1B) and [(1C)]".	
(3)	To add a new subsection [(1C)] [after subsection (1B)] to provide that if the institution's underlying exposure is an exposure to CCR in respect of derivative contracts and the amount of credit protection provided by the guarantee or credit derivative contract is fixed or capped, the covered portion under subsection (1A) is equal to the protected portion calculated in accordance with the new section [226C] as proposed in Item 18 or new section 377[(5A)] as proposed in Item 19 below.	

Item 18. Add a new section to Division 1 of Part 6A (Calculation of Counterparty Credit Risk)

Matters to be provided	Remarks (including references)
[After section 226B], add a new section on the treatments of recognized guarantees and recognized credit derivative contracts under Part 6A to provide that:	Reference: New CRE51.18 set out in Annex 1 to *BCBS CCR TA*.
(1) This proposed new section [226C] applies to the calculation of an AI's default risk exposure to a counterparty if— (a) the AI uses a recognized guarantee or recognized credit derivative contract (***subject hedging instrument***) to hedge the CCR arising from its derivative contracts entered into with that counterparty; (b) the amount of protection provided by the subject hedging instrument is fixed or capped; and (c) if the AI uses the advanced IRB approach or the retail IRB approach to calculate the risk-weighted amount of the default risk exposure, the credit risk mitigating effect of the subject hedging instrument is taken into account by adjusting the AI's estimate of the PD of that exposure.	This new section does not apply to an AI that uses the advanced IRB approach or the retail IRB approach to calculate the risk-weighted amount of the default risk exposure and chooses to adjust its LGD estimate under section 217(1) to reflect the credit risk mitigating effect of the recognized guarantee or recognized credit derivative contract. Under such a case, dividing the EAD of the exposure into a protected portion and an unprotected portion is unnecessary. For reference, the expectation set out in BCBS CCR TA (p.2) that the *"methodology for producing adjusted LGD estimates for exposures subject to the TA should reflect the considerations set out in CRE51.18"* will be included in the HKMA's supervisory guidelines.
(2) The amount of the protected portion of a default risk exposure (i.e. the amount of the exposure that is covered by a subject hedging instrument) must be calculated as follows: (a) Firstly, calculate the amount of the default risk exposure in accordance with	

Matters to be provided	Remarks (including references)
Division 1A, 2 or 2A of Part 6A, as the case requires; (b) Secondly, calculate the amount of the unprotected portion of the default risk exposure in accordance with the paragraph as proposed under Item 18(3) below; and (c) Lastly, calculate the amount of the protected portion as the difference between the amount calculated under paragraph (a) of this Item 18(2) and the amount calculated under paragraph (b) of this Item 18(2).	
(3) Subject to the paragraph as proposed under Item 18(9) below, the unprotected portion is equal to the amount of the default risk exposure that would be calculated in accordance with Division 1A, 2 or 2A of Part 6A if the subject hedging instrument is treated under that Division as if it were a fixed amount of cash collateral that is within the netting set concerned and in the same currency as that of the default risk exposure, where that fixed amount is equal to the adjusted protection amount determined in accordance with the paragraph as proposed under Item 18(4) below.	
(4) Subject to the paragraphs as proposed under Item 18(5) and (6) below, the adjusted protection amount is the following amount of the subject hedging instrument— (a) in the case of fixed protection—the fixed notional amount; or (b) in the case of capped protection—the nominal maximum protection amount.	
(5) The adjusted protection amount of a subject hedging instrument is subject to the following limitations—	The requirements proposed in this Item 18(5) aim to ensure consistency with the existing requirements in

Matters to be provided	Remarks (including references)
(a) If the instrument is a credit derivative contract recognized under section 99(3) or (4) or section 133(3) or (4), the adjusted protection amount must not exceed the maximum amount of the contract that may be recognized under that section; (b) If the instrument is a credit derivative contract that falls within section 99(3) or (4) and constitutes a recognized credit derivative contract under section 211(1), the adjusted protection amount must not exceed the maximum amount of the contract that may be recognized under section 99(3) or (4); (c) If the instrument is a credit derivative contract recognized under section 99B(1) or section 213(1), the adjusted protection amount must not exceed the amount of the internal risk transfer concerned; (d) If the instrument is a credit derivative contract recognized under section 99B(3)(a) or (b) or section 213(3)(a) or (b), the adjusted protection amount must not exceed the maximum amount of the internal risk transfer concerned that may be recognized under that section.	sections 99(3) and (4), 133(3) and (4), 99B(1) and (3), 211(1) and 213(1) and (3). Under these sections, the amount recognized for the purpose of capital calculations may be smaller than the fixed notional amount or the nominal maximum protection amount of the credit derivative contract. For clarity, a reference to section 212 concerning recognized guarantees and recognized credit derivative contracts under the advanced IRB approach and retail IRB approach is deemed unnecessary, given the operation of the substitution framework (see our remarks for Item 18(1) above).
(6) If the subject hedging instrument has a residual maturity that is shorter than the residual maturity of the default risk exposure— (a) in the case where the AI uses the STC approach to calculate the risk-weighted amount of the default risk exposure, the adjusted protection amount must be reduced in the same way as set out in section 103(1); (b) in the case where the AI uses the BSC approach to calculate the risk-weighted amount of the default risk exposure, the adjusted protection amount must be treated	Reference: Last paragraph of the new CRE51.18 set out in Annex 1 to *BCBS CCR TA*. The requirements proposed in this Item 18(6) aim to align the treatments for maturity mismatch with those under Parts 4, 5 and 6 of the BCR. Regarding the proposed paragraph (c), this aligns with section 216(6), which requires that the value of

Matters to be provided	Remarks (including references)
as zero; (c) in the case where the AI uses the foundation IRB approach to calculate the risk-weighted amount of the default risk exposure, the adjusted protection amount must be reduced in the same way as set out in section 103(1), with all necessary modifications; or (d) in the case where the AI uses the advanced IRB approach or the retail IRB approach to calculate the risk-weighted amount of the default risk exposure and chooses to adjust its estimate of the PD of that exposure under section 217(1), the adjusted protection amount must be reduced in the same way as set out in section 103(1), with all necessary modifications.	the credit protection must be adjusted in accordance with section 103, with all necessary modifications, for exposures under the foundation IRB approach. The same applies to exposures under the advanced IRB approach and the retail IRB approach, provided that the AI opts for PD adjustment to reflect the credit risk mitigating effects under section 217(1). This is reflected in the proposed paragraph (d). This proposed new section does not need to specify the treatment for currency mismatch set out in the new CRE51.18 because— (a) the term "credit protection covered portion" referred to in sections 100(4) and 134(4) (which implement CRE22.82 and CRE22.83 cited in the new CRE51.18) will include the protected portion calculated under this proposed new section (see the amendments to the definition of "credit protection covered portion" proposed in Item 12 and Item 14); and (b) the proposed amendments to sections 216 and 217 (in Item 16 and Item 17) are intended to

Matters to be provided	Remarks (including references)
have the same effect as point (a) above.	
(7) For the purposes of the paragraph as proposed in Item 18(6) above, the residual maturity of a subject hedging instrument must be determined in accordance with— (a) section 103(3), if the AI falls within paragraph (a), (c) or (d) as proposed in Item 18(6) above; or (b) section 137(2), if the AI falls within paragraph (b) as proposed in Item 18(6) above.	Reference: Last paragraph of the new CRE51.18 set out in Annex 1 to *BCBS CCR TA*, and CRE22.14 of the Basel Framework.
(8) To avoid doubt, if the adjusted protection amount has been reduced in accordance with the paragraph as proposed in Item 18(6) above, section 103 or 216(6) does not apply to the protected portion referred to in paragraph (c) as proposed in Item 18(2) above that is calculated based on such adjusted protection amount.	This provision is intended to avoid double counting the maturity mismatch between the subject hedging instrument and the default risk exposure.
(9) If a subject hedging instrument provides capped proportionate protection such that only a fixed percentage of the exposure or loss is protected up to the maximum protection amount, an AI must adjust the calculation of the unprotected portion under the paragraph as proposed in Item 18(3) above appropriately to reflect the limitations of such protection.	Reference: Footnote 4 to the new CRE51.18 set out in Annex 1 to *BCBS CCR TA*.

Item 19. Amend section 377 of Division 3, Part 12 (Calculation of default risk exposure of group 2b cryptoasset derivative contract)

Amendments to be made	Remarks (including references)
(1) To add a new subsection [5A after subsection (5)] to provide that if— (a) an AI uses a recognized guarantee or recognized credit derivative contract to hedge the counterparty credit risk arising from a netting set that contains exclusively or partially group 2b cryptoasset derivative contracts; (b) the amount of protection provided by the guarantee or credit derivative contract is fixed or capped; and (c) if the AI uses the advanced IRB approach or the retail IRB approach to calculate the risk-weighted amount of the default risk exposure to the counterparty concerned, the credit risk mitigating effect of the guarantee or credit derivative contract is taken into account by adjusting the AI's estimate of the PD of that exposure, the amount of the protected portion of the default risk exposure in respect of the netting set (i.e. the amount of the exposure covered by the guarantee or credit derivative contract) must be calculated in accordance with the new section [226C] as proposed in Item 18 above, subject to the modifications set out in Item 19(2) below.	Reference: Annex 1 to *BCBS CCR TA*. See Item 18 for the proposed new section [226C] in Part 6A.
(2) The modifications referred to in Item 19(1) are— (a) for a netting set that only consists of group 2b cryptoasset derivative contracts, references in the new section [226C] as proposed in Item 18 above to Division 1A, 2 or 2A of Part 6A are taken to be references to section 377;	

Amendments to be made	Remarks (including references)
(b) for a netting set that consists of both group 2b cryptoasset derivative contracts and derivative contracts other than group 2b cryptoasset derivative contracts, references in the new section [226C] as proposed in Item 18 above to Division 1A, 2 or 2A of Part 6A are taken to be references to Division 1A, 2 or 2A of Part 6A and section 377.	

V. PROPOSED AMENDMENTS RELATED TO TYPE B ECAIS

V(i) Proposed amendments related to the credit risk framework

Item 20. Amend section 2 of Part 1 (Interpretation)

Amendments to be made		Remarks (including references)
(1)	Repeal the definition of ***home jurisdiction***.	Currently, there are three Type B ECAIs the credit ratings issued by which can be used for determining the risk-weights applicable to non-securitization exposures to corporates incorporated in India (other than those that are specialized lending). In other words, the MA has, under section 4B(3)(b) of the BCR, imposed restrictions such that an exposure must meet the following conditions in order for the credit rating assigned by a Type B ECAI to the exposure or the
(2)	Add a new definition of "***section 4B specified exposure***" with the following meaning: "in relation to a Type B ECAI, where the restrictions imposed by the Monetary Authority under section 4B(3)(b) include one or more conditions that an exposure must meet in order for the ECAI rating assigned by the Type B ECAI to that exposure or the obligor in respect of that exposure to be eligible for use for the purposes of these Rules, means an exposure that fulfils those conditions".	

Amendments to be made	Remarks (including references)
	obligor in respect of that exposure to be eligible for use for the purposes of the BCR (under the BCR, if an exposure is unrated, the ECAI rating assigned to the obligor in respect of the exposure can be used for determining the risk-weight applicable to the exposure): • it is a non-securitization exposure; • it is an exposure to a corporate incorporated in India; and • it is not a specialized lending. The HKMA expects that more domestic rating agencies are likely to be interested in seeking recognition under the HKMA's ECAI recognition framework. However, the current provisions in respect of Type B ECAIs are not capable of accommodating restrictions imposed by the MA that relate to aspects other than the place of incorporation. The proposed amendments are therefore intended to enhance the adaptability of these provisions. As a result of the above amendments, all

Amendments to be made	Remarks (including references)
	references to "home jurisdiction" in sections 54D, 79, 226BW, 226MD, 243, 281T and Table 27D will disappear and the term "section 4B specified exposure" will be deployed in the amendments to those sections. Hence, there is a need to repeal the definition of "home jurisdiction" and introduce the new defined term "section 4B specified exposure". These amendments are required to expand the conditions of recognition of Type B ECAIs beyond exposures to corporates incorporated in the home jurisdiction (i.e. India).

Item 21. Amend section 4B of Division 1, Part 2 (Recognition of ECAIs)

Amendments to be made	Remarks (including references)
(1) To amend subsection (3) by adding— (a) a new paragraph [(ba) after paragraph (b)] to read "for any entity that has been recognized by the Monetary Authority under subsection (1)(a) by means of indirect recognition, any adjustments that must be made to the mappings of credit quality grades to risk-weights set out in Division 3 of Part 4 or Division 8 of Part 7 for the credit assessment ratings issued by the entity;"; and (b) in paragraph (d), ", adjustments" after "the restrictions".	Currently, there are four ECAIs that have been recognized by the HKMA based on the recognition granted to the ECAIs by the banking regulators of their home jurisdictions (i.e. falling within the definition of "indirect recognition" as proposed under paragraph (a) of Item 21(3) below). As such, it is the HKMA's policy that the mapping between credit quality grades and risk-weights

Amendments to be made	Remarks (including references)
(2) To add a new subsection [after subsection (3)] to provide that the Monetary Authority may require the adjustments referred to in subsection [(3)(ba)] only if the Monetary Authority considers that the adjustments are necessary to ensure that the risk-weights referred to in paragraph (a) of this Item 21(2) will not be lower than the risk-weights referred to in paragraph (b) of this Item 21(2) as proposed below — (a) the risk-weights assigned to exposures under Part 4 or 7 based on the credit assessment ratings issued by the entity concerned; (b) the risk-weights that would be assigned to the same exposures based on those ratings under the capital adequacy standards applicable to banks incorporated in the relevant jurisdiction.	under the BCR for these ECAIs must not be less stringent than the mapping published by those banking regulators. Out of those four ECAIs, three of them are Type B ECAIs recognized by the HKMA based on the recognition granted by the Reserve Bank of India (RBI). The RBI proposes to introduce the following changes to its mapping for Indian rating agencies (the current plan being that the proposal, once finalised, will come into operation on 1 April 2027): (a) the mapping of an Indian rating agency's ratings to risk-weights will be automatically adjusted if the probability of default published by the rating agency for any of its rating categories (e.g. BBB) exceeds the relevant threshold specified by the RBI; (b) the mapping is subject to annual review by the RBI. In view of the fact that the above changes may result in the risk-weight assigned to a rating category (such as BBB) changing from year to year, the
(3) To add a new subsection [after the new subsection as proposed in Item 21(2) above] to provide that in section 4B— (a) ***indirect recognition***, in relation to an ECAI, means recognition that is given to the ECAI by the Monetary Authority under section 4B(1) based on the recognition (however described) given to the ECAI by a banking supervisory authority or other regulatory authority of a jurisdiction outside Hong Kong. (b) ***relevant jurisdiction***, in relation to an ECAI recognized by the Monetary Authority by means of indirect recognition, means the jurisdiction referred to in the definition of ***indirect recognition***.	

Amendments to be made	Remarks (including references)
	amendments proposed to section 4B are intended to ensure that a mechanism is in place to enable the HKMA to promptly reflect changes in mapping under the RBI's capital rules in the HKMA's capital framework.

Item 22. Amend section 54C of Subdivision 2, Division 3 of Part 4 (Due diligence requirements)

Amendments to be made	Remarks (including references)
(1) To amend paragraph (d) of the definition of "base risk-weight" in subsection (7) by repealing "or 4".	This is a consequential amendment in relation to Item 30.

Item 23. Amend section 54D of Subdivision 3, Division 3 of Part 4 (Mapping ECAI rating to credit quality grade)

Amendments to be made	Remarks (including references)
(1) To amend subsection (2) as follows: (a) In paragraph (a), replace "to a corporate incorporated outside the home jurisdictions of Type B ECAIs or a specialized lending; and" with "or a specialized lending;". (b) Add a new paragraph after paragraph (a) "the exposure is not a section 4B specified exposure; and".	See Item 20 for the proposed new definition of "section 4B specified exposure". The amendments proposed to section 54D are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures other than corporate exposures.

Amendments to be made	Remarks (including references)
(2) To amend subsection (3) as follows: (a) In paragraph (a), replace "to a corporate incorporated outside the home jurisdictions of Type B ECAIs or a specialized lending; and" with "or a specialized lending;". (b) Add a new paragraph after paragraph (a) "the exposure is not a section 4B specified exposure; and".	
(3) To amend subsection (4) by replacing "general corporate exposure to a corporate incorporated in the home jurisdiction of" with "section 4B specified exposure in relation to".	Since the restrictions imposed on a Type B ECAI under section 4B(3)(b) of the BCR could be different from those imposed on another Type B ECAI, it is necessary to make it clear which Type B ECAI the exposure is related to.
(4) To amend subsection (5) by adding a new paragraph after paragraph (a) "the exposure is not a section 4B specified exposure;".	
(5) To amend subsection (6) as follows: (a) In paragraph (a), repeal "to a corporate incorporated outside the home jurisdictions of Type B ECAIs". (b) Add a new paragraph after paragraph (a) "the exposure is not a section 4B specified exposure;".	
(6) To amend subsection (7) as follows: (a) In paragraph (a), replace "general corporate exposure to a corporate incorporated	The remark for the proposed amendments to subsection (4) is also applicable to the proposed

Amendments to be made	Remarks (including references)
in the home jurisdiction of a Type B ECAI" with "section 4B specified exposure in relation to". (b) In paragraph (c), replace "corporate or a long-term ECAI issue specific rating (***reference rating***) to any other exposure to the corporate" with "obligor in respect of the exposure or a long-term ECAI issue specific rating (***reference rating***) to any other exposure to the obligor". (c) In the post-amble of subsection (7), replace "corporate" with "obligor".	amendments to subsection (7).
(7) To amend subsections (8)(a) and (9) by replacing "for Type A ECAIs" in both subsections with "applicable to the ECAI that assigns the rating".	

Item 24. Amend section 55 of Subdivision 3, Division 3, Part 4 (Sovereign exposures)

Amendments to be made	Remarks (including references)
(1) To amend subsection (1) by replacing "54D(2) or (5)" with "54D(2), (4), (5) or (7)".	The amendment is intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for certain sovereign exposures. Currently, no Type B ECAI's ratings may be used for sovereign exposures.

Item 25. Amend section 58 of Subdivision 3, Division 3, Part 4 (Multilateral development bank exposures and unspecified multilateral body exposures)

Amendments to be made	Remarks (including references)
(1) To amend subsections (2)(a)(i) and (3) by replacing "54D(2) or (5)" with "54D(2), (4), (5) or (7)".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for multilateral development bank exposures and unspecified multilateral body exposures. Currently, no Type B ECAI's ratings may be used for these exposures.

Item 26. Amend section 59 of Subdivision 3, Division 3, Part 4 (Bank exposures)

Amendments to be made	Remarks (including references)
(1) To amend subsection (2) by replacing "54D(2) or (6)" with "54D(2), (4), (6) or (7) by mapping to a LT ECAI rating mapping table".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for certain bank exposures. Currently, no Type B ECAI's ratings may be used
(2) To amend the heading of Table 3 by repealing "**for Type A ECAIs**".	
(3) To amend subsection (3) by adding "or (4) by mapping to an ST ECAI rating mapping table" after "54D(3)".	

Amendments to be made		Remarks (including references)
(4)	To amend the heading of Table 4 by repealing "**for Type A ECAIs**".	for bank exposures.
(5)	To amend Table 4 as follows: (a) in column 2, add "for Type A ECAIs" after "Credit quality grade"; (b) add a new column next to Column 2: Credit quality grade for Type B ECAIs 1, 2 3 4 5	

Item 27. Amend section 59A of Subdivision 3, Division 3, Part 4 (Provisions supplementary to section 59)

Amendments to be made		Remarks (including references)
(1)	To amend subsections (1)(a)(i), (2)(a)(i), (3)(a) and (6) by adding "or (7)" after "54D(6)".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for certain bank exposures. Currently, no Type B ECAI's ratings may be used for bank exposures.
(2)	To amend subsections (1)(b), (2)(b) and (4)(a) by replacing "sections 54D(3) and 59(3)" with "section 54D(3) or (4) and section 59(3)".	
(3)	To amend subsection (4)(b) by replacing "sections 54D(6) and 59(2)" with "section 54D(6) or (7) and section 59(2)".	

Item 28. Amend section 59D of Subdivision 3, Division 3, Part 4 (Eligible covered bond exposures)

Amendments to be made	Remarks (including references)
(1) To amend subsection (1) by replacing "that has been assigned a credit quality grade under section 54D(2) in accordance with Table 4B" with "in accordance with Table 4B if the exposure has been assigned a credit quality grade under section 54D(2) or (4) by mapping to a LT ECAI rating mapping table".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for eligible covered bond exposures. Currently, no Type B ECAI's ratings may be used for these exposures.
(2) To amend subsection (2) by adding "or (4)" after "54D(2)".	

Item 29. Amend section 60 of Subdivision 3, Division 3, Part 4 (Exposures to qualifying non-bank financial institutions)

Amendments to be made	Remarks (including references)
(1) To amend subsection (2) by replacing "54D(2), (3) or (6)" with "54D(2), (3), (4), (6) or (7)".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures to qualifying non-bank financial institutions. Currently, no Type B ECAI's ratings may be used for these exposures.

Item 30. Amend section 61 of Subdivision 3, Division 3, Part 4 (General corporate exposures)

Amendments to be made	Remarks (including references)
(1) To amend Table 5 as follows: (a) In column 3 of the table, repeal "for Type A ECAIs". (b) Repeal column 4. (c) In column 6, replace "30%" with "20%".	See Item 21 for information on the recognition of Type B ECAIs. Currently, there are three Type B ECAIs. All of them are recognized by the HKMA based on the recognition granted by the Reserve Bank of India (RBI). Since the latest mapping proposed by the RBI no longer contains a risk-weight of 30% and will be the same as the mapping set out in the Basel Framework, column 4 of Table 5 in section 61 of the BCR is no longer needed.

Item 31. Amend section 62 of Subdivision 3, Division 3, Part 4 (Specialized lending)

Amendments to be made	Remarks (including references)
(1) To amend subsection (1) by replacing "54D(2) or (3)" with "54D(2), (3) or (4)".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for specialized lending. Currently, no Type B ECAI's ratings may be used for specialized lending.

Item 32. Amend section 68 of Subdivision 9, Division 3, Part 4 (Exposures to credit-linked notes)

Amendments to be made	Remarks (including references)
(1) To amend subsection (1)(a) by replacing "for Type A ECAIs or the LT ECAI rating mapping table for Type B ECAIs, as the case requires" with "applicable to the ECAI that assigns the rating".	The amendment is intended to provide more flexibility to accommodate cases where a mapping table is applicable to one, but not all, of the Type B ECAIs.

Item 33. Amend section 79 of Division 5, Part 4 (Collateral which may be recognized under simple approach)

Amendments to be made	Remarks (including references)
(1) To amend subsections (1)(e) and (f) by replacing "for Type A ECAIs" with "applicable to the ECAI that assigns the rating".	The amendment is intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for certain sovereign exposures. Also see Item 24 for amendments related to sovereign exposures.
(2) To amend subsection (1)(h) by repealing everything after "a long-term ECAI issue specific rating" and replacing the repealed portion with "that, if mapped to a credit quality grade in accordance with the LT ECAI rating mapping table applicable to the ECAI that assigns the rating, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;"	The amendment is intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures other than corporate exposures. Also see Item 25 to Item 29 for amendments related to exposures other than corporate exposures.

Amendments to be made	Remarks (including references)
(3) To repeal subsection (1)(i).	Subsection (1)(i) is no longer needed as subsection (1)(h), if amended as proposed in Item 33(2) above, would cover the debt securities originally covered by subsection (1)(i).
(4) To repeal subsection (1)(k) and substitute with the following: "debt securities issued by an entity (other than an entity falling within paragraph (g)) that meet all of the following conditions— (i) an exposure to the debt securities is a section 4B specified exposure in relation to a Type B ECAI; (ii) the debt securities have a short-term ECAI issue specific rating issued by that Type B ECAI; (iii) the rating referred to in subparagraph (ii), if mapped to a credit quality grade in accordance with the ST ECAI rating mapping table applicable to the Type B ECAI, would result in the debt securities being assigned a credit quality grade of 1, 2, 3 or 4;"	The amendment is intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures other than corporate exposures. To avoid doubt, it is possible that a debt security falls within both subsections (1)(j) and (k) if it has more than one short-term issue specific rating. No amendment is proposed to subsection (1)(l)(iii) and (iv), which means that only Type A ECAIs' ratings may be used for the purpose of determining whether a bank's unrated debt securities may be recognized as collateral for capital calculations.

Item 34. Amend section 226BW of Subdivision 5, Division 1A, Part 6A (Calculation of add-on for subsets in asset class of credit-related derivative contracts)

Amendments to be made	Remarks (including references)
(1) To amend subsection (2)(b) by replacing "entity k referred to in paragraph (a) is a	The amendments are intended to provide more

Amendments to be made		Remarks (including references)
	corporate incorporated in the home jurisdiction of" with "an exposure to the entity k referred to in paragraph (a) would be a section 4B specified exposure in relation to".	flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures to entities other than corporates.
(2)	To amend subsection (2)(b)(i) by replacing "for Type B ECAIs" with "applicable to that Type B ECAI".	The amendment is intended to accommodate scenarios in which a mapping table is made for a particular Type B ECAI.
(3)	To amend Column 2 of Table 23AC as follows: (a) For Item 1 of the table, replace "1" with "1, 2"; (b) For Item 2 of the table, replace "2" with "3"; (c) For Item 3 of the table, replace "3" with "4"; (d) For Item 4 of the table, replace "4" with "5"; (e) For Item 5 of the table, replace "5" with "6"; and (f) For Item 6 of the table, replace "6, 7" with "7".	The amendments are intended to align the mapping for the three Indian ECAIs with that for Type A ECAIs. The reason for this alignment is the same as that for the amendments proposed in Item 30.
(4)	To amend subsection (4)(a) as follows: (a) In subparagraph (i), replace "for Type A ECAIs—would be mapped to a credit quality grade of 1, 2, 3 or 4; or" with "applicable to the rating—would be mapped to a credit quality grade of 1, 2, 3 or 4; and". (b) Repeal subparagraph (ii).	Subparagraph (ii) can be repealed because the banking regulator in the home country of the existing Type B ECAIs has proposed to align the risk-weights applicable to these ECAIs' ratings with the risk-weight scale set out in the Basel Framework. As a result, there is no longer a need

Amendments to be made	Remarks (including references)
	to establish a higher threshold for Type B ECAIs' ratings.

Item 35. Amend section 226MD of Division 2A, Part 6A (Calculation of potential future exposure of derivative contract)

Amendments to be made	Remarks (including references)
(1) To amend subsection (3)(a) as follows: (a) In subparagraph (i), replace "for Type A ECAIs—would be mapped to a credit quality grade of 1, 2, 3 or 4; or" with "applicable to the rating—would be mapped to a credit quality grade of 1, 2, 3 or 4; and". (b) Repeal subparagraph (ii).	Subparagraph (ii) can be repealed because the banking regulator in the home country of the existing Type B ECAIs has proposed to align the risk-weights applicable to these ECAIs' ratings with the risk-weight scale set out in the Basel Framework. As a result, there is no longer a need to establish a higher threshold for Type B ECAIs' ratings.
(2) To repeal subsection (4)(b) and substitute with the following: "if an exposure to the entity would be a section 4B specified exposure in relation to a Type B ECAI (***relevant Type B ECAI***) or the credit instrument is such a section 4B specified exposure— (i) the LT ECAI rating mapping table for Type A ECAIs in cases where the rating is	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures to entities other than corporates.

Amendments to be made	Remarks (including references)
issued by a Type A ECAI; or (ii) the LT ECAI rating mapping table applicable to the relevant Type B ECAI in cases where the rating is issued by the relevant Type B ECAI.".	
(3) To amend subsection (5) as follows: (a) Repeal paragraphs (a)(ii), (b)(ii) and (c)(ii). (b) In paragraph (a)(i), replace "(b)(i); or" with "(b);". (c) In paragraph (b)(i), replace "(b)(i)" with "(b)". (d) In paragraph (c)(i), replace "(b)(i); or" with "(b).".	The remarks for the amendments to subsection (3) also apply to the amendments to subsection (5).

Item 36. Amend section 227A of Division 1, Part 7 (Meaning of ECAI issue specific rating)

Amendments to be made	Remarks (including references)
(1) To amend subsection (1)(a) and (2)(a) by replacing "a Type A ECAI" with "an ECAI".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for securitization exposures.

Item 37. Amend section 243 of Division 5, Part 7 (Credit risk mitigation recognized for purpose of calculating the risk-weighted amounts of securitization exposures)

Amendments to be made		Remarks (including references)
(1)	To amend subsection (3)(a) by replacing "it is not a corporate incorporated in the home jurisdiction of any of the Type B ECAIs" with "an exposure to the entity would not be a section 4B specified exposure".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for entities other than corporates.
(2)	To amend subsection (3)(b) by replacing "it is a corporate incorporated in the home jurisdiction of" with "an exposure to the entity would be a section 4B specified exposure in relation to".	
(3)	To amend subsection (3)(b)(i) and (ii) by replacing "corporate" with "entity".	

Item 38. Amend Schedule 7 (Standard Supervisory Haircuts)

Amendments to be made		Remarks (including references)
(1)	To amend column 2 of Part 1 of Table A as follows: (a) For Item 1— (i) In paragraph (a)(ii), replace "LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 1 in the ST ECAI rating mapping table for Type A ECAIs" with "applicable LT ECAI rating mapping table, a credit quality grade of 1 in the ST ECAI rating mapping table for Type A ECAIs, or a credit quality grade of 1 or 2 in the ST ECAI rating mapping table for Type B ECAIs".	The amendments are consequential to the amendments proposed in Item 30 and Item 33.

Amendments to be made	Remarks (including references)
(ii) In paragraph (b)(ii), replace "LT ECAI rating mapping table for Type A ECAIs" with "applicable LT ECAI rating mapping table". (b) For Item 2— (i) In paragraph (a)(ii), replace "LT ECAI rating mapping table for Type A ECAIs or a credit quality grade of 2 or 3 in the ST ECAI rating mapping table for Type A ECAIs" with "applicable LT ECAI rating mapping table, a credit quality grade of 2 or 3 in the ST ECAI rating mapping table for Type A ECAIs, or a credit quality grade of 3 or 4 in the ST ECAI rating mapping table for Type B ECAIs". (ii) In paragraph (b)(ii), replace "LT ECAI rating mapping table for Type A ECAIs" with "applicable LT ECAI rating mapping table". (c) For Item 3, paragraphs (a)(ii) and (b)(ii), replace "LT ECAI rating mapping table for Type A ECAIs" with "applicable LT ECAI rating mapping table".	
(2) To amend column 2 of Part 2 of Table A as follows: (a) For Item 1— (i) In paragraph (a), replace "LT ECAI rating mapping table for Type A ECAIs" with "applicable LT ECAI rating mapping table". (ii) In paragraph (c), repeal "LT ECAI rating mapping table or". (b) For Item 2— (i) In paragraph (a), replace "LT ECAI rating mapping table for Type A ECAIs"	

Amendments to be made	Remarks (including references)
with "applicable LT ECAI rating mapping table". (ii) In paragraph (c), repeal "LT ECAI rating mapping table or".	
(3) To amend section 2 by adding a new paragraph providing for a new definition of "***applicable LT ECAI rating mapping table***" as follows: (a) ***applicable LT ECAI rating mapping table***, in relation to an ECAI issuer rating or a long-term ECAI issue specific rating issued by an ECAI, means the LT ECAI rating mapping that is applicable to ECAI ratings issued by that ECAI.	

V(ii) Proposed amendments related to the market risk framework

Item 39. Amend section 281 of Division 1, Part 8 (Interpretation of Part 8 and Schedule 3)

Amendments to be made	Remarks (including references)
(1) To amend the definition of ***investment grade*** as follows: (a) In paragraph (a) of the definition, replace "to an issuer, being a sovereign, of any debt security to a credit quality grade in the LT ECAI rating mapping table for Type A ECAIs" with "by an ECAI to an issuer, being a sovereign, of any debt security to a credit quality grade in the LT ECAI rating mapping table applicable to that ECAI". (b) In paragraph (b) of the definition, replace "to any debt security issued by a bank or securities firm to a credit quality grade in the LT ECAI rating mapping table,	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures other than corporate exposures.

Amendments to be made	Remarks (including references)
or ST ECAI rating mapping table, for Type A ECAIs;" with "by an ECAI to any debt security issued by a bank or securities firm to a credit quality grade in the LT ECAI rating mapping table, or ST ECAI rating mapping table, applicable to that ECAI; or". (c) In paragraph (c) of the definition, replace "to any debt security issued by a corporate (within the meaning of section 51(1) or 139(1), as the case requires) to a credit quality grade in the LT ECAI rating mapping table, or ST ECAI rating mapping table, for Type A ECAIs; or" with "by an ECAI to any debt security issued by a corporate (within the meaning of section 51(1) or 139(1), as the case requires) to a credit quality grade in the LT ECAI rating mapping table, or ST ECAI rating mapping table, applicable to that ECAI;". (d) Repeal paragraph (d) of the definition.	

Item 40. Amend section 281T of Division 1D, Part 8 (Calculation of SA-DRC (non-securitization))

Amendments to be made	Remarks (including references)
(1) To amend subsection (8)(a) by replacing "a corporate incorporated in the home jurisdiction of a Type B ECAI" with "an obligor where an exposure to which would be a section 4B specified exposure".	The amendments are intended to provide more flexibility to accommodate recognition of additional Type B ECAIs, if any, whose ratings may be used for exposures other than corporate exposures. See Item 20 for the proposed definition of "section
(2) To amend the heading of Table 27D by replacing "**that are Corporates Incorporated in Home Jurisdiction of Type B ECAI**" with "**where Exposures to which are Section 4B Specified Exposures**".	

Amendments to be made	Remarks (including references)
	4B specified exposure".

VI. OTHER PROPOSED MISCELLANEOUS AMENDMENTS

Item 41. Amend section 54E of Subdivision 3, Division 3 of Part 4 (Application of ECAI ratings)

Amendments to be made	Remarks (including references)
(1) To amend subsections (3)(a) and (4)(a) by replacing "may" with "must".	Reference: CRE22.12 of the Basel Framework. The amendment is proposed to clarify the policy intention that the low quality rating must be used in the situation described in subsection (3)(a) or (4)(a).

Item 42. Amend section 65C of Subdivision 5, Division 3 of Part 4 (Risk-weights of regulatory commercial real estate exposures)

Amendments to be made	Remarks (including references)
(1) To amend Column 3 of Table 8 by replacing "attributed risk-weight" (wherever appearing) with "applicable risk-weight".	Reference: CRE20.85 and 20.89(1) of the Basel Framework. The amendment is proposed to clarify the risk weights that are applicable to individuals and small businesses.

Item 43. Amend section 101 of Division 9, Part 4 (Provisions supplementary to section 100)

Amendments to be made	Remarks (including references)
(1) To amend subsection (9) by replacing "institution) that provides that, on the happening of a credit event, the protection seller" with "institution), or a recognized guarantee, under which the credit protection provider".	Reference: CRE22.79(2) of the Basel Framework. The amendment is proposed to better align with the requirement set out in CRE22.79(2) of the Basel Framework that applies to both guarantees and credit derivative contracts.

Item 44. Amend section 135 of Division 7, Part 5 (Provisions supplementary to section 134)

Amendments to be made	Remarks (including references)
(1) To amend subsection (9) in the same way as proposed in Item 43.	The amendment is proposed to align with the amendment proposed in Item 43.

Item 45. Amend section 139 of Division 1, Part 6 (Interpretation of Part 6)

Amendments to be made	Remarks (including references)
(1) To amend the definition of ***cash item*** in subsection (1) by repealing "cryptoassets," in paragraph (g) of the definition.	The proposed amendment aligns with the treatment of exposures of the same nature under sections 65L(1)(b) and 114A(1)(b).

Amendments to be made	Remarks (including references)
(2) Add a new definition of "***covered portion***" with the following meaning: "in relation to an exposure of an authorized institution that is covered by a recognized guarantee or a recognized credit derivative contract, means the portion of the exposure (which may be all of the exposure) that is covered by— (a) subject to paragraph (g), in the case of a recognized guarantee or a credit derivative contract which fall within section 99(1) or (2) constitute a recognized credit derivative contract under the substitution framework—the maximum liability of the credit protection provider to the institution under the recognized guarantee or recognized credit derivative contract, as the case may be; (b) subject to paragraph (g), in the case of a credit derivative contract which fall within section 99(3) or (4) constitute a recognized credit derivative contract under the substitution framework—the maximum liability of the credit protection provider to the institution under the recognized credit derivative contract, up to the maximum amount of the contract that may be recognized under section 99; (c) subject to paragraphs (d) and (g), in the case of a recognized guarantee or a credit derivative contract recognized under section 212— the maximum liability of the credit protection provider to the institution under the recognized guarantee or recognized credit derivative contract, as the case may be; (d) subject to paragraph (g), in the case of a credit derivative contract recognized under section 212 and that the credit events specified in the contract do not include the credit event described in section 99(1)(l)(iii)—the maximum liability of the credit	To improve clarity, the proposed amendments supplement the requirements for determining the covered portion and the uncovered portion, as referenced in sections 214, 216, 217 and 219 of the BCR. The wording of the proposed amendments is largely aligned with the definitions of "credit protection covered portion" and "credit protection uncovered portion" under section 51(1) to ensure consistency.

Amendments to be made	Remarks (including references)
protection provider to the institution under the recognized credit derivative contract, up to the maximum amount of the contract that may be recognized under section 99, as if the contract were recognized under section 99(3) or (4), as the case may be; (e) subject to paragraph (g), in the case of a credit derivative contract recognized under section 213(1)—the maximum liability of the credit protection provider or credit protection providers to the institution under the external hedge referred to in that section, up to an amount equal to the amount of the internal risk transfer concerned; (f) subject to paragraph (g), in the case of a credit derivative contract recognized under section 213(3)(a) or (b)—the maximum liability of the credit protection provider or credit protection providers to the institution under the external hedge referred to in that section, up to the maximum amount of the internal risk transfer concerned that may be recognized under that section; or (g) in the case of a recognized guarantee or a credit derivative contract recognized under section 211, 212 or 213 where the exposure is an exposure to CCR and the amount of credit protection provided by the guarantee or credit derivative contract is fixed or capped—the protected portion of the exposure calculated in accordance with the new section [226C] as proposed in Item 18 or new section 377[(5A)] as proposed in Item 19 above."	
(3) Add a new definition of "***uncovered portion***" with the following meaning: "in relation to an exposure of an authorized institution that is covered by a recognized	

Amendments to be made	Remarks (including references)
guarantee or a recognized credit derivative contract, means the portion of the exposure that is not the covered portion."	

Item 46. Amend section 205 of Division 10, Part 6 (Recognized financial receivables)

Amendments to be made	Remarks (including references)
(1) To amend paragraph (i) of subsection (1) by replacing "and the level of concentration on a particular receivable obligor within the pool of receivables" with ", the level of concentration on a particular receivable obligor within the pool of receivables and the potential concentration risk within the institution's total exposures".	Reference: CRE36.139 of the Basel Framework and A56(d) of Chapter IV of Supplementary Guidance on the Revised Credit Risk Framework CRE36.139 provides three factors that must be reflected in the loan-to-value ratio (equivalent to the term "margin" in the Basel standard) between the amount of the exposure covered by the pool of receivables constituting the receivable collateral and the value of the pool of receivables. Currently, two of the three factors are implemented through section 205(1)(i) of the BCR, while the third is incorporated into the HKMA's regulatory guidance. We propose to include the third factor in the BCR to ensure a cohesive and unified presentation of the requirement.

Item 47. Amend section 206 of Division 10, Part 6 (Recognized commercial real estate and recognized residential real estate)

Amendments to be made	Remarks (including references)
(1) To amend the section as follows: (a) in paragraph (k), repeal the word "and" after the semi-colon; (b) in paragraph (l), replace the full stop with a semi-colon; (c) after paragraph (l), add a new paragraph [(m)] to provide that the institution shall monitor the extent of any permissible prior claims on the property collateral; and (d) after the proposed new paragraph [(m)], add another new paragraph [(n)] to provide that the institution shall monitor the risk of environmental liability arising in respect of the property collateral.	Reference: CRE36.132(3) and (4) of the Basel Framework and A58 of Chapter IV of Supplementary Guidance on the Revised Credit Risk Framework While the requirements set out in CRE36.132(3) and (4) have been incorporated into the HKMA's regulatory guidance, we propose to include them in the BCR to ensure a cohesive and unified presentation.

Item 48. Amend section 213 of Division 10, Part 6 (Recognized internal risk transfer to trading book)

Amendments to be made	Remarks (including references)
(1) To amend subsection (2) as follows— (a) paragraph (a)(i), replacing "a third party" with "an eligible third-party protection provider"; (b) paragraph (a)(iii), replacing "section 99(1)(a), (b), (c), (l), (m), (n), (o), (p), (q) and (r); or" with "section 99(1)(a), (c), (l), (m), (n), (o), (p), (q) and (r); or"; (c) paragraph (b)(i), replacing "third parties" by "eligible third-party protection	Reference: RBC25.21 of the Basel Framework Section 213 of the BCR implements RBC25.21 of the Basel Framework under the IRB approach, which sets out the conditions for recognising internal risk transfer. However, the Basel standard does not specify nor define the criteria for

Amendments to be made	Remarks (including references)
providers"; (d) paragraph (b)(ii), replacing "section 99(1)(a), (b), (c), (l), (m), (n), (o), (p), (q) and (r);" with "section 99(1)(a), (c), (l), (m), (n), (o), (p), (q) and (r);";	establishing an eligible third party of an external hedge, merely referring to such a party as an "eligible third-party protection provider". Therefore, section 213(2)(a)(iii) and (b)(ii) conservatively mirrors section 99B(2)(a)(iii) and (b)(ii) under the STC approach. Accordingly, AIs using the IRB approach may recognise an internal risk transfer only if the third party entering into the credit derivative contract with the institution meets the criteria set out in section 99(1)(b), among other requirements. We reviewed the recognition approaches adopted by other major jurisdictions and noticed that they apply the respective approach-specific criteria for eligible credit protection providers under the standardised approach and the IRB approach for credit risk mitigation purposes to third parties that have entered into external hedge transactions, thereby enabling a wider range of potential protection providers under the IRB approach. The HKMA proposes following this mainstream approach to ensure a level playing field while remaining compliance with
(2) To amend subsection (4) by adding a new definition for the purposes of subsection (2)(a) and (b): ***eligible third-party protection provider***, means— (i) in relation to the foundation IRB approach, a third party that is a credit protection provider and meets the description under section 211(3), (4) and (5); and (ii) in relation to the advanced IRB approach or the retail IRB approach, a third party that is a credit protection provider that the institution has recognized for credit risk mitigation purposes under the substitution framework, provided that the institution meets the requirement of section 212(1)(d).	

Amendments to be made	Remarks (including references)
	the Basel Framework.

Item 49. Amend section 216 of Division 10, Part 6 (Provisions supplementary to section 214(1)—substitution framework for corporate, sovereign and bank exposures under foundation IRB approach)

Amendments to be made	Remarks (including references)
(1) To amend subsection (2) by replacing "into the portion covered by the recognized guarantee or recognized credit derivative contract (referred to in this section as ***covered portion***) and the portion not covered by the recognized guarantee or recognized credit derivative contract (referred to in this section as ***uncovered portion***)" with "into a covered portion and an uncovered portion".	This is a consequential amendment in relation to Item 45(2) and Item 45(3).
(2) To amend subsection (7) by replacing "a recognized credit derivative contract that provides that, on the happening of a credit event, the protection seller" with "a recognized credit derivative contract, or a recognized guarantee, under which the credit protection provider".	The amendment is proposed to align with the amendment proposed in Item 43. Under CRE32.23, the treatment for guarantees and credit derivatives under the foundation IRB approach closely follows that under the standardised approach, including the requirement specified in CRE22.79(2).

Item 50. Amend section 217 of Division 10, Part 6 (Provisions supplementary to section 214(1)—substitution framework for corporate and sovereign exposures under advanced IRB approach and for retail exposures under retail IRB approach)

Amendments to be made	Remarks (including references)
(1) To amend subsection (1A) by replacing "into the portion covered by the recognized guarantee or recognized credit derivative contract (***covered portion***) and the portion not covered by the recognized guarantee or recognized credit derivative contract (***uncovered portion***)" with "into a covered portion and an uncovered portion".	This is a consequential amendment in relation to Item 45(2) and Item 45(3).

Item 51. Amend section 226A of Division 1, Part 6A (Interpretation of Part 6A)

Amendments to be made	Remarks (including references)
(1) To repeal the definition of ***credit protection covered portion.***	This definition is no longer needed as it has not been used in any provision in Part 6A.