THE
HONG KONG
ASSOCIATION
OF
BANKS
香港銀行公會

Room 525, 5/F., Prince's Building, Central, Hong Kong
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035
Email: info@hkab.org.hk Web: www.hkab.org.hk

香港中環太子大廈5樓525室
電話：2521 1160, 2521 1169 圖文傳真：2868 5035
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

10 October 2014

By email: baselcommittee@bis.org

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Sirs

Consultation Document on Review of the Pillar 3 disclosure requirements (June 2014)

We refer to the consultative document on the Review of the Pillar 3 disclosure requirements issued by the Basel Committee on Banking Supervision (BCBS) in June 2014. On behalf of our members, we set out in the annex our detailed comments on the proposals in the consultative document.

We hope you would find our comments useful. For any questions, please do not hesitate to contact Ms Caris Wan of the Secretariat at (852) 2521 1855.

Yours faithfully

Eva Wong
Secretary

Enc.

c.c. Ms Karen Kemp, Executive Director (Banking Policy), Hong Kong Monetary Authority

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秘書 黃美嫦

Incorporated by Ordinance, Cap. 364
根據條例第364章成立

Annex: HKAB's comments on BCBS Consultative Document
Standards Review of the Pillar 3 disclosure requirements (June 2014)

I. General comments and recommendations

We support the objective of Pillar 3 disclosures as "the provision of meaningful information about common key risk metrics to market participants". Nevertheless, we are concerned on the following issues and recommend for optimisation:

1. Usefulness and cost benefit analysis

The Basel Committee on Banking Supervision (BCBS) proposal is a comprehensive overhaul of the Pillar 3 disclosure framework. As such, it should consider the usefulness of proposed disclosures and include a cost benefit analysis, for example:

- The Pillar 3 package is a very major expansion of disclosure, in a stipulated format, with little flexibility; it is not clear that this is what investors are demanding.

- Banks are required to publish certain fixed format templates on a quarterly basis and it is not clear that the market wants quarterly delivery of such data. We would like the BCBS to assess user demand, before the global banking community is bound to producing it.

- Our experience with Pillar 3 disclosures is that they are rarely used by investors and analysts or the usage is in a limited way. The soundings of our investors revealed no appetite for additional disclosure or greater frequency. To the limited extent that improvements are being requested, these are being addressed through the Enhanced Disclosure Task Force process.

- Further, the massive expansion of quarterly regulatory data appears disproportionate to the approach to the financial accounting data that banks put into the public domain at odd quarter-ends, and may have unforeseen consequences for that, which currently is seen as an update on the last annual report in respect of change that is material and of interest to the market. These principles need to be applied equally to the regulatory data.

2. Continuity of existing Pillar 3 principles and requirements

The BCBS proposal seems to imply that the principles and requirements set out in the Pillar 3 package will replace the existing Pillar 3 guiding principles issued in 2005 when the Basel II was first introduced. We would like to clarify if this understanding is aligned with the intention of the BCBS.

3. Aggressive timeline

It is proposed that national authorities will give effect to the public disclosure requirements set out in the document by no later than 1 April 2016 and that internationally active banks are encouraged to proceed with earlier implementation of the disclosure requirements.

We find the timeline aggressive, especially given the increased reporting requirement in Europe through COREP, Liquidity and FINREP and the phased implementation of the FSB's Data Gaps Initiative.

Further, the great extent of prescription of quarterly templates will cause major operational challenges at quarters other than financial year end, mainly due to the shorter timeline for quarter / interim reporting, and it would not be possible to achieve the Pillar 3 dates without major re-engineering of systems and processes. We, therefore, are very concerned about the limited time given relative to the significant amount of investment to achieve the requirements.

We recommend some phasing of the requirements, or postpone until phase two, especially for content where existing wide-ranging reviews are still underway, an example being the trading book.

4. Disclosure of hypothetical standardised approach capital

We are concerned at the proposal for disclosure of a hypothetical standardised approach for credit risk. This will potentially cause confusion in the market and could lead to the use of the standardised as the preferred approach on the basis of apparent comparability with other

banks. The parallel disclosure would come at the expense of the more robust and risk related advanced approach.

5. Disclosure frequency

Paragraph 21 requires a significant number of disclosures in line with the reporting schedule of a bank's financial reporting, i.e. if a bank reports quarterly to the market, it should similarly produce quarterly quantitative Pillar 3 reports.

The guidance on frequency in this respect is unclear. In our view, it would be disproportionate to demand a comprehensive Pillar 3 report to be released to the market on a quarterly basis purely because a bank is releasing a quarterly management statement with extract financial information.

We are of the opinion that it is not practicable for banks to publish both financial statements and Pillar 3 report concurrently when two reporting dates align given the level of granularity of information required in the Pillar 3 report, especially for large international banking groups. We would expect the BCBS to allow a reasonable timeframe for the compilation of the Pillar 3 report subsequent to the publication of financial statements.

6. Materiality and relevance

It is important that the disclosure framework should include the concept of materiality. Not including the concept of materiality might easily result in relevant information being overlooked as it might be cluttered by non-material information. This could specifically be the case if some tables / templates are not relevant or not material but still have to be disclosed.

7. Validity of the disclosure requirements

Paragraph 27 states that the BCBS will periodically consider the validity of the disclosure requirements proposed in the new Pillar 3 regime and the need for additional disclosures to reflect changes to the regulatory framework or to meet emerging systemic risks that are identified to be of global significance.

In our view, it is important that the BCBS also needs to regularly review disclosures to see if they are superseded and no longer needed and remove such disclosures.

8. Qualitative commentary to explain significant changes

We are of the opinion that qualitative commentary for significant changes in every template is not useful for readers and might result in information overload. We would expect the BCBS to specify a limited number of scenarios where qualitative commentary is required.

II. From the perspective of implementation, further elaboration/interpretation would be helpful in respect of the following specific disclosure requirements:

1. Flexibility of template

Paragraph 44 states that for flexible format disclosure requirements, banks may present the information in a separate document if it is clearly signposted. The sign posting includes the name and number of the disclosure requirement, the document name in which the disclosure requirement has been published, a web link where relevant and the page and paragraph number of the separate document.

The referencing is very specific and we are concerned that this will make it very difficult to present the disclosures in a different context as it would always have to be presented in a way that still allows the specific referencing. This is particularly relevant for the qualitative disclosures and less of an issue for number disclosures.

The specific referencing requirement seems at odds with paragraph 43 which specifically states that banks may present the information required by a flexible template/table in a format that better suits the bank.

In relation to tables OVA, CRA, CRC, CRE, CCRA, SECA and MRA, it is important to ensure that the flexibility permitted allows cross referencing to a number of different sections within the annual report. Whilst the majority of the qualitative information is already

disclosed in the annual report, in a number of areas it will be embedded into text on broader topics and will be located in different parts of the annual report.

2. Exposure Classes relating to credit risk and counterparty credit risk templates

Our understanding is that the definitions of the exposure classes of reporting institutions should be aligned with the implementation of Basel III. However, it is worth to note that different jurisdictions might have rules under which the definitions of asset / exposure classes would vary with the BCBS's proposal, or lack of such classification. For example, under the European Capital Requirements Regulation (CRR), the exposure classes under Article 112 and Article 147 include "institutions" which includes both banks and securities firms. However, under the Hong Kong Banking (Capital) Rules (BCR), "secured by commercial real estate" & "higher-risk categories" (rows 9 & 12 of templates CR7 & CR8) are not defined under section 54 of BCR and "purchased receivables" (rows 15 & 16 of template CR10) are not defined under section 142 of BCR. Therefore, it is recommended that BCBS can provide detail definitions on those asset / exposure classes so as to facilitate the reporting across jurisdictions in a broadly comparable manner.

III. Comments on specific templates and tables

Part 3: Overview of risk management and RWA

SN	Table/ Template	Item	HKAB Comments
1.	OV1	Overview of RWA (Row 1)	(1) The amounts correspond to significant investments in financial sector entities below the threshold for capital deduction subject to 250% is currently reported under Credit Risk. Since the amount is separately reported under Row 8 in the template, please confirm Credit Risk under Row 1 excludes the amount below threshold for capital deduction subject to 250% risk-weight.
2.	OV1	Overview of RWA (Row 7; Column a)	(2) Please clarify why the cell for RWA of operational risk is blocked.

Part 4: Linkages between financial statements and prudential exposures

<table>
<tr><th>S N</th><th>Table/ Template</th><th>Item</th><th>HKAB Comments</th></tr>
<tr><td>1.</td><td>LI1</td><td>Differences in financial and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories</td><td>(1) It would be useful for the BCBS to confirm on the below areas to ensure our understanding is correct:-

• Under column (h) ‘Not subject to capital requirements” would include assets which do not attract risk requirements due to being deducted from regulatory capital, and liabilities which do not attract risk requirements.

• Assets which attract 0% risk weighting requirement treatment (for example exposures to sovereigns) will continue to be reported under columns (c) to (g).

• Liabilities may be identified as attracting risk requirements where they have been subject to netting or offsetting treatment against assets. If this is not the case, then the row relating to liabilities should be deleted.

(2) There appears to be inconsistency between the explanation for the purpose of the template and the footnote relating to the breakdown of categories for columns (c) to (g). Specifically, as we understand columns (c) to (g) should include accounting balance sheet values rather than exposure values so as to provide information on how accounting balance sheet items are distributed within the regulatory categories. Please confirm if the footnote should be amended / deleted or it should be used in the reconciliation in Template LI2.

(3) The inclusion of two columns for counterparty credit risk and market risk exposures in the spreadsheet will lead to “double counting” where certain types of exposure attract market and counterparty credit risk. As a result non-additive totals will lead to confusion on the interpretation of the table for readers of the accounts. Please confirm if the table should be either amended and / or clarification should be provided in a footnote, to reflect that certain assets may attract both counterparty credit risk and market risk requirements.</td></tr>
</table>

S N	Table/ Template	Item	HKAB Comments
			(4) Regulatory banking book positions of foreign exchange are also subject to market risk treatment, which is not reflected in the template. Please confirm if the template should be either amended and / or clarification should be provided by the BCBS. (5) It seems that securitisation information is reported repeatedly under column (e) "*Regulatory banking book – of which subject to securitization framework*" and row for "Memo items: Securitisation positions included in the above on- and off-balance sheet portfolios. Please clarify the requirements and provide guidance on how to report the two items. (6) We would like to seek for more guidance on how to report the two rows for "*Off-balance sheet amounts considered for regulatory purposes*". We understand that the items to report would be the off-balance sheet exposures subject to credit conversion factors (CCFs), but excluding the derivative transactions and credit derivative contracts. Please confirm and clarify what reporting amounts are required and specify the types of off-balance sheet items required to be disclosed. Also, we would suggest combining these two rows into one single line under "Memo items", as it is not clear how to classify them into "assets" and "liabilities" buckets. For derivative transactions and credit derivative contracts, please confirm banks should report their mark-to-market amounts (i.e. on-balance sheet carrying values) on the two rows "*Derivative financial instruments*". In other words, the derivative notional amounts are not required in this table, and they are NOT to be repeated in the two rows "*Off-balance sheet amounts considered for regulatory purposes*." If the BCBS requires the derivative notional amounts (i.e. potential future exposures) be also reported, we would urge to remove the two "Derivative financial instruments" lines and suggest reporting all current and potential future exposures in one line under "Memo items" category. (7) For client clearing transactions with derivative

S N	Table/ Template	Item	HKAB Comments
			central clearing houses, there could be regulatory capital requirement but no on-balance sheet assets and liabilities recorded. Please confirm whether these transactions should be reported under "*Off-balance sheet amounts considered for regulatory purposes*". Again, please also clarify what amounts should be reported. (8) Under the row "*Repurchase agreements and other similar secured borrowings*", the Repo or Stock Lending transactions attract counterparty credit risk based on the securities sold under repo arrangement or stock lent. Please clarify whether the corresponding on-b/s Repo or stock lending liabilities should be reported under "*of which subject to counterparty credit risk treatment*" or "*Not subject to capital requirements*"
2.	LI2	Main sources of differences in regulatory exposure amounts compared with amounts in financial statements	(1) We do not think the table is sufficient to capture all the differences in CCR between accounting and regulatory exposures. A proposed alternative would be to include the following items:- • Total net assets amounts under regulatory scope of consolidation (excluding off balance sheet items) (sum of total assets and total liabilities as per LI1) • Differences due to the effect of credit risk mitigation • Differences due to consideration of provisions • Differences due to prudential filters • Differences due to capital deductions • Differences due to off-balance sheet amounts recognized in regulatory exposures • Differences due to the impact of the use of own-models in exposures (2) We understand that the regulatory exposure amount is the exposure at default (EAD) which would reconcile with other tables / templates for disclosure. However, there is no EAD for market

S N	Table/ Template	Item	HKAB Comments
			risk, and therefore it is unclear what the purpose of column (e) is. We would propose to delete column (e) and column (a) in order to avoid confusion about the total exposure amount. We would also suggest that column (f) is relabelled as CCR in the regulatory trading book. (3) The template asks for the impact of using prudent valuations on the exposures, and it is hard to see how the prescribed PVA methodology could be identified into impacts at anything other than the highest portfolio levels. We would suggest the BCBS to provide an example of how valuation adjustments would be reflected on rows "Financial statement amount under regulatory scope of consolidation", "Differences due to prudential filters" and "Regulatory exposure amounts". (4) The footnote instructions require "Off-balance sheet amounts subject to credit conversion factors (CCF) are not included in this template". Please clarify whether this refer to the population reported under the two rows of "Off-balance sheet amounts considered for regulatory purposes" in Template LI1. For clarity beyond doubt, please confirm these "off-balance sheet amounts" would not be required under the row of "Regulatory exposure amounts" either. To remind, if this is the case, these "Regulatory exposure amounts" may not match the regulatory exposures reported in the other templates as required in the rest of this consultation document. For instance, client clearing transactions with derivative central clearing houses are off-balance sheet transactions but subject to regulatory capital requirement. (5) Please clarify which row or rows in Template LI1 should the row "Financial statement amount under regulatory scope of consolidation" in Template LI2 reconcile with.

Part 5: Credit risk

SN	Table/ Template	Item	HKAB Comments
I. General Information about credit risk			
1.	CRA	General qualitative information about credit risk	Please specify and illustrate with example about the criteria for the definition of credit risk approach that should be described or referenced under item (b). Is it in relation to risk calculation approach or broad risk management approach?
2.	CR1	Analysis of exposures by products	(1) Please confirm if asset items (for example of fixed assets) other than "Loans" and "Debt securities" would fall into the scope of this template. Please also confirm if "Loans" here includes "Nostro Balances". (2) Please confirm if irrevocable loan commitments refer to undrawn commitments that are "not unconditionally cancellable". (3) Please specify and illustrate with example what should be reported under "non-defaulted exposures – impaired" because impaired exposures appeared to be captured by the definition of defaulted exposures under Basel framework. (4) Please define and illustrate with example defaulted exposures and past due exposures for off balance sheet exposures. (5) Please clarify why "partial write-offs" need to be tracked specifically in the template as such balances should have already written off from the gross exposures.
3.	CR2	Changes in defaulted loans and debt securities	(1) Please confirm defaulted loans and debt securities refer to amounts impaired and/or past due for more than 90 days. (2) It is not clear what column (a) represent, please provide clarification.

<table>
<tr><th>S N</th><th>Table/ Template</th><th>Item</th><th>HKAB Comments</th></tr>
<tr><td>4.</td><td>CRB</td><td>Additional disclosures related to assets subject to credit risk treatment</td><td>Overall comment:

Please provide definition of restructured exposure in this context.

Our understanding is that credit exposures refer to “EAD” for calculation of capital requirement. Please confirm.

Specific item comment:

(1) For item (a), the term “past due” should convey the same meaning for both accounting and regulatory purpose whereas the term “default” is only defined for regulatory purpose. Thus, the requirement to disclose the differences between the definition of past due and default for accounting and regulatory purposes appeared to be irrelevant. Please consider to take out this requirement.

(2) For item (b), please illustrate with example the qualitative disclosure on the extent of past-due exposure (more than 90 days) not impaired.

(3) For item (e), please provide clarification if geographical areas is defined in terms of country of incorporation, country of business, country of risk (e.g. after risk transfer) or others. Please consider any quantitative threshold that constitutes a geographical segment.

(4) For item (h), please define “commercial restructuration” and “forbearance aimed at recovery of problematic exposures” and their linkage to impaired and not impaired restructured exposures.</td></tr>
<tr><td colspan="4">II. Protections available for credit risk exposures</td></tr>
<tr><td>5.</td><td>CR3</td><td>Protections – overview</td><td>(1) The protection levels of a bank would not fluctuate significantly over time, so providing this data more frequently than annually does not add extra value.

(2) Please confirm the table includes exposures and CRMs of both IRB and STC approach.

(3) Please advise whether the “exposure secured by collateral, financial guarantees or credit derivatives” reported should involve a</td></tr>
</table>

S N	Table/ Template	Item	HKAB Comments
			consideration of the haircut (e.g. currency mismatch / maturity mismatch) in the Basel CRM requirement. If the value of collateral is calculated after haircut, we understand that the haircut refers to regulatory haircut under STD approach while the haircut under IRB approach refers to internal haircut. Please clarify the protection amount is before or after haircut and provided the standard guideline for disclosure. (4) The scope of collateral is unclear and suggests to specify whether all collateral or only "recognised collateral" as per Basel Accord should be counted in reporting of "Exposure secured by collateral".
6.	CR4	Protected exposures and coverage ratio	(1) Please specify whether separate tables need to be shown for IRB and STC approach. (2) Please clarify what exposures should be included in the template. Does it include only Loans and Debt securities? or include Other off balance sheet and OTC exposures? (3) As banks' facility and collateral structure could be very complicated, we suggest a detail reporting guideline should be set out for example the treatment if more than one facility is secured by the same collateral, or if the same exposure is secured by both collateral and financial guarantees.
7.	CR5	Protected exposures by guarantor rating class	(1) General: Please specify whether separate template is needed for IRB and STC exposures. (2) External Rating Definition: The second best rating is used for RWA calculation. The definition of External Rating in the template, however, is required to use the worst rating by rating agencies. Please clarify why there is inconsistency between the RWA calculation and disclosure.
8.	CR6	Exposures protected by credit derivatives: breakdown by counterparty rating	External Rating Definition: The second best rating is used for RWA calculation. The definition of External Rating in the template, however, is required to use the worst rating by rating agencies. Please clarify why there is inconsistency between the RWA calculation and disclosure.

SN	Table/ Template	Item	HKAB Comments
III. Credit Risk under standardized approach			
9.	CR7 & CR8	CR7: Standardised approach – credit risk exposure and CRM effects & CR8: Standardised approach – exposures by asset classes and risk weights	(1) General: Please confirm the credit risk exposures do not include amount below threshold for deduction (subject to 250% RW). (2) Credit exposures post CCF and post-CRM: Please specify whether the credit exposures amount is after provisions.
IV. Credit Risk under internal risk-based approaches			
10.	CR9	Credit risk exposures by portfolio and PD range	(1) It requires to report on the (weighted average) PD and/or LGD for various IRB portfolios, including Corporate - Specialised Lending. We assume that the inclusion of the Specialised Lending portfolios for these two templates are only applicable if the AI is using its internal model(s) for the SL portfolio, but not for AIs adopting the supervisory slotting approach. Please confirm. (2) Please confirm if banks can use internal PD scale rather than the specific PD scale provided by BCBS.
11.	CR10	IRB – credit risk mitigation techniques	(1) One exposure might have various types of CRMs, including collateral, financial guarantees and credit derivatives. Please clarify whether the amount reported under RWA post CRM is considering all types of CRMs altogether, or considering one type of CRMs and excluding other CRMs. (2) If the amount reported under RWA post CRM is considering all types of CRMs altogether, please clarify how the RWA is allocated between columns a, b and c. Please provide illustrative example to explain how the RWA is reported under columns b – d under multiple CRMs situations. (3) Please explain the purpose of showing the RWA post CRM by collateral, financial guarantee and credit derivatives separately. (4) The property of residential mortgage exposures is

S N	Table/ Template	Item	HKAB Comments
			considered in RWA calculation through assigning a calibrated Loss Given Default % specific to this product. Please clarify the RWA based on the calibrated LGD of residential mortgage is reported under RWA pre CRM or RWA post CRM. (5) If the RWA based on the calibrated LGD is reported under RWA post CRM, please confirm an uncalibrated LGD without considering the residential properties should be used to calculate the amount for RWA pre CRM. (6) For column (b), some allocation logic has to be assumed as the facility-to-CRM is not always a 1-to-1 relationship particularly for the corporate SME exposures, therefore the RWA breakdown by each CRM category will be subject to such in-house logic and may not be completely comparable across banks. (7) For column (c), we understand that the inclusion of Specialised Lending - FIRB / AIRB is not applicable for banks adopting the supervisory slotting approach, as the consideration of the underlying assets (held as collaterals) is already embedded in the RW associated. Please confirm. (8) It is not clear what should be reported in columns (b), (c) and (d), is each one calculated separately? Or should they be cumulative for example column (c) would be after the effect of collateral and financial guarantees. It would be helpful to provide an illustrative example. (9) Please clarify if the RWA figures under columns (b), (c) and (d) are cumulative, should cell 17d in the template equal to total credit RWA (excluding CCR) under IRB approach. (10) Some of the pre CRM disclosures particularly the RWA for retail mortgages without assuming any capital benefit are very demanding and we do not believe that this disclosure would add any value. For IRB CRM is generally included into either the PD or LGD models and it is therefore unclear how RWAs for pre CRM items would be calculated. The nature of CRM is often a defining component of the model. For example there is no model for

S N	Table/ Template	Item	HKAB Comments
			residential secured LGD assuming there is no collateral. (11) In cases where the exposures are covered by both collaterals and financial guarantees simultaneously, please advise the sequence in reporting the values under columns b and c.
12.	CR11	IRB – RWA flow statements	*CR11: IRB - RWA flow statements and CCR7: RWA flow statements - exposures under Internal Model Method* (1) It should be noted that the RWA flow depends quite highly on the basis of preparation and order of calculations, if this is not going to be stipulated then a detailed explanation of the basis of calculation should be required. (2) The introduction of "RWA flow statements" and breakdown of RWA amounts by the key drivers of changes with a detailed granularity is quite a new concept. Although well-developed bank's in-house IT systems and human resources can be assumed ready which would facilitate the RWA flow disclosure, such requirement is still quite a demanding exercise. (3) We propose to simplify the disclosure requirement on this statement, say, by lowering the granularity, or even to consider abandoning the requirement of this template.
13.	CR12	IRB – Back-testing of probability of default (PD) per portfolio	It requires banks to report a 5-year average historical annual default rate in the template, which may create heavy data and regulatory reporting burden to the banks in the first year of reporting. We therefore recommend a "transitional arrangement" to apply to this template for the first 5 years of implementation, so that banks will be more capable to achieve the disclosure requirement. • *For example:* Disclosure of the 1st year (year 2016): 1 year annual default rate Disclosure of the 2nd year (year 2017): 2 year annual default rate ... Disclosure of the 5th year(year 2020) and thereafter: 5 year annual default rate.

SN	Table/ Template	Item	HKAB Comments
14.	CRF	Qualitative disclosures related to specialised lending and equities under the simple risk weight method	The purpose of template is to provide qualitative data on use of external ratings. Please clarify whether the template is required for exposures using internal ratings under “Supervisory slotting criteria approach”.

Part 6: Counterparty credit risk

SN	Table/ Template	Item	HKAB Comments
1.	CCRA	Qualitative disclosure related to counterparty credit risk	(1) For banks not assigning the operating limits in terms of internal capital, item (b) may not be relevant. Please confirm. (2) Further clarity should be provided on the desired content and context for item (c). As guarantees are one of a number of mitigants, please provide further clarity on why there is a particular focus on these. Also in terms of the assessment of CCPs, please clarify whether this pertains to assessing their credit standing or the risk that arises or other. We would like to seek guidance and illustrate example of this reporting requirement. For assessments of CCPs, is the BCBS expecting discussion on banks' assessment of the credit standing of the CCPs, or the risks associated with the positions of the CCPs? (3) While table CCRA is a qualitative disclosure, item (e) requires a quantitative estimate on the incremental collateral requirement upon the reporting bank's credit rating downgrade. This could be confusing to readers as the objective of the CCRA is to describe the risk management of the bank.
2.	CCR1	Analysis of counterparty credit risk exposure (CCR) by approach	(1) Column (d) EAD post CRM, there are EAD amounts required in a number of reporting templates, namely: CCR3 (column i), CCR4 (column d) and CCR8 (column a). Please confirm if they are supposed to cross-reference to CCR1 and provide more clarity on the footnote instructions on they how should be co-related. (2) Column (c) Alpha used for computing regulatory EAD, Alpha is considered as commercially sensitive information for a bank. We would urge the BCBS to consider an alternative reporting approach.

S N	Table/ Template	Item	HKAB Comments
3.	CCR3	Standardised approach - CCR exposures by asset classes and risk weights	(1) We question the value in providing this data quarterly where there may not be significant changes in exposures within this timeframe. Therefore these disclosures should be on annual basis. (2) Please clarify whether this refer to the standardised methodology for RWA or the new methodology for measuring EAD to be implemented in 2016. (3) We would like to seek clarification from the BCBS on whether exposures to central counterparties and exposures to specialized lending counterparties should be reported in the column (h) "others" in the template. If exposures to qualifying central counterparties should be included in the template, we would propose to add the risk weight of 2%/4% to provide clarity to the readers. (4) Please specify the credit exposure is before or after provision.
4.	CCR4	IRB - CCR exposures by portfolio and PD scale	(1) We question the value in providing such granular information on a quarterly basis. (2) Please clarify the purpose of disclosing the number of obligors. (3) It is unclear what is required as CCF in the context of counterparty credit risk- under columns (b) and (c). It would be useful to see an example of an off-balance sheet exposure under CCR where CCF would apply. (4) In relating to "Original on balance sheet gross exposures" and "Off balance sheet exposures pre CCF under columns (a) and (b), it is not clear if these two data requirement prescribed in the footnote instruction would properly capture the relevant risk exposures. For instance, should derivatives be reported as on-balance sheet or off-balance sheet items? If on-balance sheet, should the notional amount rather than the on-balance sheet mark-to-market carrying amount be reported under column (a)? We would urge the BCBS to provide examples of common products

S N	Table/ Template	Item	HKAB Comments
			on CCR exposures, such as derivatives and securities financing transactions, to demonstrate the reporting requirement under columns (a) and (b). (5) The footnote instruction requires “the obligor maturity weighted by EAD” be reported in column (h). As there is a cap of 5 years applied on the remaining maturity in calculating risk weight, we would like to seek confirmation from the BCBS that the same remaining maturity used for the calculation of risk weight should be applied in column (h) reporting. (6) Please confirm the Retail CCR exposures under AIRB approach is not necessary as per definition of the template.
5.	CCR5	Composition of collateral for counterparty credit risk exposure	(1) We would like to seek clarification from the BCBS on whether this template should cover the collateral posted to or received from CCP. There is not much description detailing the CCR table linkage, it could be difficult for readers to interpret how such collateral data would inter-relate to the CCR capital requirement reported in the other few CCR templates. Besides, it would be helpful if the BCBS could clearly define what constitutes “Segregated” and “Unsegregated” for this reporting. (2) Please also advise whether the “fair value of collaterals received” reported have to consider the haircut (e.g. currency mismatch / maturity mismatch) in the Basel CRM requirement.
6.	CCR6	Credit derivative exposures	(1) We would like to seek confirmation from the BCBS on whether credit derivatives from both of regulatory trading book and regulatory banking book should be included. (2) Please clarify whether netting should be applied in the reported numbers. Detailed guidance and illustrative example would be useful to demonstrate the appropriate reporting under this template.

SN	Table/ Template	Item	HKAB Comments
7.	CCR7	RWA flow statements- exposures under Internal Model Method	(1) Further clarification should be provided on the differences between rows (4) and (5). (2) Please clarify whether row (7) relates to/incorporates FX translation risk. (3) We suggest "Other" on row 8 could be used as a catch-all. It would be useful for the BCBS to clarify whether there is any restriction as to what proportion of RWAs can be included under this item; (4) We suggest to supplement detailed footnotes describing the basis of preparation of the template.
8.	CCR8	Exposures to central counterparties	(1) *Netting under rows 6 and 16* The template requires a reporting of exposures to CCP by product categories: (i) OTC derivatives, (ii) exchange-traded derivatives, (iii) securities financing transactions, and (iv) Netting sets where cross-product netting has been approved in rows 3 to 6 and rows 13 to 16. We would like to seek clarification from the BCBS on whether the "cross-product netting" should be narrowly defined to (i) a netting among just the three categories of OTC derivatives, exchange-traded derivatives and securities financing transactions, or (ii) it would include a netting of cross-products within one of these three categories. Besides, please confirm whether row 2 is equivalent to summation of rows 3 to 6 and row 12 is equivalent to the summation of rows 13 to 16. (2) *The purpose of template* This template requirement on exposures to CCP is granular and comprehensive in nature. However, the capital requirement on CCP is comparatively low. Also, the calculation of this capital requirement is largely a standardized risk-weighting methodology, and not much judgmental discretion or internal modelling can be applied. We would therefore urge the BCBS to reconsider whether the cost of completing this template would outweigh the benefits for banks.

SN	Table/ Template	Item	HKAB Comments
			(3) *Client clearing transactions* Please confirm client clearing transactions with central counterparties should also be reported in this template.

Part 7: Securitization

SN	Table/ Template	Item	HKAB Comments
1.	SEC5 & SEC6	Securitisation positions in the banking book and associated regulatory capital requirements – bank acting as originator, as sponsor or as investor	(1) The securitisation exposures are broken down by S&P style long term rating bands, AA- or better, A+ to BBB-, BB to CCC-, below CCC- and short term rating bands. We would urge to the use of risk weight bands instead, as similar to the template CR8 and template CCR3 under standardized approach. (2) The template SEC5 covers securitisation positions in the banking book in which the bank acts as either an originator or a sponsor. It would be clearer if the template would differentiate between these two types of positions.

Part 8: Market risk

SN	Table/ Template	Item	HKAB Comments
1.	MRB	Qualitative disclosures for banks using the IMA	(1) We would like to seek clarification from the Committee on the meaning of aggregation approach as required in Row e(iv) of the table. (e.g. is it from portfolio aggregation perspective; or the aggregation of VaR, SVaR, IRC and CRC?) (2) We understand that row (g) relates to stressed VaR rather than stress testing more generally. Please confirm.
2.	MR1	Market risk under standardised approach	(1) The frequency should align with reporting schedule of financial statements. (2) What is the level of details in the explanation?
3.	MR2	Market risk under internal model approach	(1) The proposed MR2 template includes some elements of standard rules for specific risk. These are also captured in MR1. We therefore propose that the standard rules requirements be removed from template MR2. (2) It would be helpful if the BCBS can provide examples on row 7 “other capital charges”.
4.	MR3	RWA movement by key driver	[Template MR3] (1) Further clarification should be provided on the differences between “Model updates/changes and “Methodology and policy”, as well as “Movement in risk levels” and “Market movement”. (2) It is difficult to segregate changes due to “Market movement” and “Movement in risk levels” as risk exposures will dynamically flex with market movement for many businesses. We recommend merging these two categories or provision of a more explicit and clear definition of “Market movement” and “Movement in risk level”. (3) Please also clarify how standardised exposures are covered. (4) The market risk capital charge is calculated based on average of VaR/Stressed VaR/IRC/CRM. For VaR component, each of the VaR figures is

S N	Table/ Template	Item	HKAB Comments
			based on different positions and market data (say recent 2-year data). In order to attribute the VaR movement as required, it is computationally intensive as it would involve dozens of recalculation of VaR for the same set of positions by different sets of market data. On the other hand, the Stressed VaR/IRC/CRM are calibrated to a stress period, which is usually unchanged. The attribution is less computationally intensive. After the implementation of Basel 2.5, the VaR component contribution to the market risk RWA becomes insignificant, and the market risk RWA is dominated by Stressed VaR/IRC/CRM. Considering the computation intensity and little help on explaining the RWA movement, it is suggested that the attribution of movement of VaR can be excluded. (5) The introduction of "Market risk RWA movement" and breakdown of RWA amounts by the key drivers of changes with a detailed granularity is quite a new concept and quite a demanding exercise. It would require significant resources to implement, given that number of runs required. We therefore propose to simplify the disclosure requirement on this template, or even to consider abandoning the requirement of this template. [Template MR3 & MR4] (6) These two templates require the reporting of selected attributes of VaR, and Stressed VaR. We would like to confirm with the BCBS that the (i) VaR and (ii) Stressed VaR should include the "VaR of Risk Not in VaR" and "Stressed VaR of Risk Not in VaR" respectively.
5.	MR4	Internal models approach (IMA) for trading portfolios	(1) It is unclear how this template would be applied for banks which have multiple regulatory VaR approvals and therefore have different max/min values for the different periods and days. (2) The frequency should align with reporting schedule of financial statements.

SN	Table/ Template	Item	HKAB Comments
			(3) What is the level of details in the explanation?
6.	MR5	Comparison of VaR estimates with gains/losses	The back-testing information in Template MR5 is really only of genuine added value to analysts/investors when the back-testing signals potential failure of the VaR model. Otherwise it is a potential distraction. Also we do not believe is it useful to compare actual P&L to VaR due to the inclusion of fees, commissions and other P&L components which are included in the actual P&L but not the VaR. Our view is that the VaR should be compared with hypothetical P&L only.