TECHNICAL CRITERIA ON THE SUPERVISORY REVIEW AND EVALUATION PROCESS AS UTILISED BY THE AUTHORITY

(1) In addition to credit, market and operational risk, the review and evaluation process performed by the authority pursuant to Article 17D of the Banking Act 1994 shall include the following:

(a) the results of any stress tests carried out by the credit institutions applying an IRB approach;

(b) the exposure to and management of concentration risk by the credit institutions, including their compliance with the requirements laid down in the Large Exposures Rule BR/02;

(c) the robustness, suitability and manner of application of the policies and procedures implemented by credit institutions for the management of the residual risk associated with the use of recognized credit risk mitigation techniques;

(d) the extent to which the own funds held by a credit institution in respect of assets which it has securitised are adequate, having regard to the economic substance of the transaction, including the degree of risk transfer achieved;

(e) the exposure to, and management of, liquidity risk by credit institutions;

(f) the impact of diversification effects and how such effects are factored into the risk measurement system;

(g) the results of stress tests carried out by institutions using an internal model to calculate market risk capital requirements under Annex VII of BR/08.

(2) The authority shall monitor whether a credit institution has provided implicit support to a securitisation. If a credit institution is found to have provided implicit support on more than one occasion, the authority shall take appropriate measures reflective of the increased expectation that it will provide future support to its securitisations thus failing to achieve a significant transfer of risk.

(3) For the purposes of the determination to be made under Article 17D (3) of the Banking Act 1994, the authority shall consider whether the value adjustments and provisions taken for positions/portfolios in the trading book, as set out in Appendix C of BR/08, enable the credit institution to sell or hedge out its positions within a short period without incurring material losses under normal market conditions.