HKMA IRRBB: What's new in the revised SPM IR-1?

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Introduction

On 23 December 2025, the Hong Kong Monetary Authority (HKMA) issued the revised Supervisory Policy Manual IR-1 (SPM IR-1), marking the first major update to Hong Kong's interest rate risk in the banking book (IRRBB) framework since 2018. The revised SPM IR-1 became effective on 1 January 2026 and the MA(BS)12A* return for the position as of 31 March 2026 is the first submission subject to the recalibrated interest rate shocks.

The revised SPM IR-1 introduces recalibrated interest rate shocks, formalizes expectations for exempted authorized institutions (AIs), strengthens behavioral model data requirements for non-maturity deposits (NMD) and aligns the definition of retail loan exposures with the updated Banking (Capital) Rules (BCR). These changes collectively impact shock calibration, behavioral modeling, portfolio segmentation and IRRBB reporting practices in Hong Kong.

This brief paper summarizes the key changes under the revised SPM IR-1, evaluates their potential impacts on IRRBB implementation and highlights EY's response strategies. Our objective is to help banks efficiently update their IRRBB frameworks to comply with the regulatory expectations.

*Return of Interest Rate Risk in the Banking Book

Updated definition of retail loans and small business exposures

The definition of retail loans, which includes both individual and small business exposures, has been updated following the amendments to the BCR 64(2) as referenced in the revised SPM IR-1.

Area	Previous definition	Updated definition	Key implication
Retail exposure	Exposure to an individual or **small business** where total exposure less than or equal HK$10 million	Same threshold (less than or equal HK$10 million) **and** must not exceed **0.2%** of the institution's overall regulatory retail portfolio; Real estate exposure* is excluded when determining retail exposure	Adds an additional threshold test and conducts the assessment under the retail exposure eligibility criteria for retail classification
Small business	Unlisted company or unincorporated enterprise with **annual turnover less than or equal HK$100 million**	Corporate entity or consolidated group with **annual sales less than or equal HK$500 million**	Expands eligibility for retail classification, increasing portfolios subject to retail treatment

*Other items excluded from retail exposure could refer to the BCR 64(2)

The implications of the retail loan re-scoping can be broken down into behavioral model and reporting perspectives.

- ***Behavioral-model perspective:*** With a broader retail boundary, additional exposures may now require the consideration of prepayment. The scope and segmentation of the prepayment model may need to be revisited as the new retail loan definition should be retrospectively applied to the historical data for prepayment modeling.
- ***IRRBB reporting and cashflow-slotting perspective:*** Loans subject to prepayment risk that are reclassified from non-retail to retail will be slotted under behavioral cashflows rather than contractual schedules in the MA(BS)12A return. For retail portfolios without significant penalties, prepayment will bring forward expected cashflows, which will impact the Δ Economic Value of Equity (EVE) and Δ Net Interest Income (NII). Meanwhile, non-retail portfolios previously treated as containing embedded automatic interest-rate options may see a change in how option effects are captured after reclassification, although the direction and magnitude will depend on the specific product terms and customer exercise patterns.

What it means to you?

- Review or recalibrate behavioral models per the revised retail definition
- Update logic of retail/non-retail classification for IRRBB reporting for the MA(BS)12A return (as retail and non-retail slotting logics differ)

New interest rate shock scenarios

Currency	ARS	AUD	BRL	CAD	CHF	CNH	CNY	EUR	GBP	HKD	IDR
Parallel	400	350	400	200	175	225	225	225	275	225	400
Short	500	425	500	275	250	300	300	350	425	375	500
Long	300	300	300	175	200	150	150	200	250	200	300

INR	JPY	KRW	MXN	RUB	SAR	SEK	SGD	TRY	USD	ZAR	MOP	Others
325	100	225	400	400	275	275	175	400	200	325	225	400
475	100	350	500	500	375	425	250	500	300	500	375	500
225	100	225	200	300	250	200	225	300	225	300	200	300

Colour guide
(compared with the SPM IR-1 (2018))

Increase Decrease New Unchanged

Key highlights of the recalibrated shocks in the revised SPM IR-1

I. Generally higher stress magnitudes for most currencies compared with the SPM IR-1 (2018).
II. HKD shocks increase across all tenors: Parallel 200 bps increases to 225 bps, Short 250 bps increases to 375 bps, Long 100 bps increases to 200 bps.
III. USD long shock increases from 150 bps to 225 bps. The change in long shock for USD would only impact the "steepener" and "flattener" scenarios, while the other four scenarios remain unchanged.
IV. New currency categories introduced: **MOP** and **Others**, which were not specified in the SPM IR-1 (2018).

Potential impact on EVE and NII

Larger interest rate shocks for major currencies like USD and HKD require banks to account for more extreme rate movements. **In certain scenarios, the higher shock magnitudes will result in a greater decline in EVE, thereby increasing ΔEVE**. Similarly, NII projections will become more sensitive to rate changes, as larger shocks may amplify repricing mismatches and behavioral assumptions.

Potential impact on behavioral models

The enlarged shock magnitudes **mainly affect** banks that employ scenario-specific behavioral modeling. Additional sensitivity testing on the behavioral models should be performed accordingly.

IRRBB management

Significant adverse changes in either metric can trigger business strategy adjustments, e.g., reducing embedded options in products or shifting away from fixed-term deposit funding. Additionally, outlier results under EVE or NII may prompt the HKMA to impose enhanced supervisory measures, capital requirements and extra reporting.

What it means to you?

- Consider whether internal EVE/NII limits should be recalibrated in light of the higher shock magnitudes
- Review whether the changes in shock sizes alter the interest rate hedging strategies or risk appetite settings
- Evaluate whether the revised shocks necessitate a review or recalibration of the behavioral models

Other updates in the revised SPM IR-1

- **Reporting requirement for exempted AIs:** Overseas-incorporated banks without a locally incorporated affiliate or subsidiary in Hong Kong continue to be treated as "exempted AIs". The reporting requirement summarizes below:

Locally incorporated affiliate/ subsidiary in Hong Kong?	Status under the revised SPM IR-1
Yes	**Not exempted –** full local requirements apply
No	**Exempted –** subject to HKMA discretion to require the entity to implement the local IRRBB framework and meet corresponding reporting standards with reasonable notice

Exempted AIs are suggested to maintain active communications with the HKMA to confirm the reporting requirement.

- **NMD behavioral model data requirements:** The revised SPM IR-1 sets out explicit expectations for the minimum length of historical data used in NMD behavioral modeling:

Availability of historical data	Regulatory requirement under the revised SPM IR-1
At least 10 years	Use the **full dataset** for behavioral modeling
Less than 10 years but at least 7 years	**Notify the supervisor** and use the full dataset
Less than 7 years	**Obtain supervisory approval** and apply a **prudential cushion** (i.e., conservative adjustment to behavioral parameters such as maturity or core-deposit ratios)

Note: Overseas branches without any locally incorporated affiliates or subsidiaries from its Head Office are currently reporting under MA(BS)12 instead of MA(BS)12A. **The reporting under MA(BS)12 remain unaffected** by the shock recalibration, as the HKMA continues to apply the same standardized 200 basis-point parallel shock.

What it means to you?

- Confirm exemption status under the revised SPM IR-1 and maintain proactive dialogue with the HKMA
- Ensure NMD behavioral model data meet the revised SPM IR-1 requirements on data period, approval and prudential cushion
- For banks with NMD historical data less than seven years, option to develop NMD behavioral models subject to the communication with the HKMA

How EY teams can help?

EY is at the forefront of helping clients implement IRRBB standards. We are committed to closely monitoring any updates to the HKMA standards. Meanwhile, we provide a broad range of services to assist you in navigating the implementation of the revised standard:

Services	Service descriptions
IRRBB framework assessment and compliance review	Assess the impact of the revised SPM IR-1 on banks' IRRBB frameworks, with focus on implications for internal trigger limit structure, shock-linked thresholds, capital impact and MA(BS)12A reporting. Assess the impact on behavioral models and MA(BS)12A reporting due to the change in retail loan definition. Conduct independent reviews of IRRBB processes and controls to help ensure compliance with the revised SPM IR-1.
Internal interest rate shock scenario design	Based on our stress-testing experience, assist banks in designing **institution-specific stress scenarios** that consider entity size, complexity, business activities and risk profile.
IRRBB return generation improvement	Develop or refine automated IRRBB return-generation tools (e.g., VBA, Python or Alteryx) based on MA(BS)12A completion instructions. Update mapping and calculation logics to reflect revised retail exposure and small business definitions.

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