<u>Completion Instructions</u>

Return on Liquidity Monitoring Tools
<u>Form MA(BS)23</u>

<u>[The explanatory notes provided in this document will be removed after it is finalised.]</u>

<u>INTRODUCTION</u>

1. This Return collects information from authorized institutions (AIs) on a set of liquidity monitoring tools to facilitate the Monetary Authority (MA[1])'s on-going supervision and monitoring of liquidity risk, both for individual AIs and the banking sector as a whole. AIs are also expected to make use of these liquidity monitoring tools, where appropriate, to complement their liquidity risk management.

2. The Completion Instructions (CIs) for this Return should be read in conjunction with the *Return of Liquidity Position of an Authorized Institution* (Form MA(BS)1E) and the associated CIs. Unless otherwise specified or the context otherwise requires, the terms used in these CIs have the meanings adopted in the CIs for MA(BS)1E.

3. This Return consists of 5 parts:

   (i) <u>Part 1</u> collects information on the funding sources that are significant to an AI, and the level of concentration of such funding sources;

   (ii) <u>Part 2</u> collects information on an AI's available unencumbered assets that can be, or have the potential to be, used for the purposes of secured borrowing or raising additional sources of liquidity for the AI where necessary;

   (iii) <u>Part 3</u> collects information on committed facilities received or granted by an AI;

   (iv) <u>Part 4</u> collects information on the maturity profile of an AI's on- and off- balance sheet assets and liabilities for defined time bands, including contractual cash flows and securities flows arising from such assets and liabilities and supplementary information (i.e. an AI's estimation of cash flows for selected items). Such information will be used for analysing the AI's maturity mismatch positions and assessing its potential liquidity needs under different scenarios; and

   (v) <u>Part 5</u> requires an AI (in the case of a category 1 institution) to report the key components of its Liquidity Coverage Ratio (LCR) by significant currency (i.e.

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[1] In this document, the term "MA" refers to "Monetary Authority" or "Hong Kong Monetary Authority", as the context so requires.

denominated in individual currencies to which the AI has significant exposures). The key components are high quality liquid assets (HQLA), total expected cash outflows and total expected cash inflows (before and after the application of relevant ceilings). Such information will facilitate the MA's ongoing monitoring of the relevant AI's potential currency mismatch position under the LCR.

GENERAL INSTRUCTIONS

Bases of reporting

4. AIs should compile this Return on the same bases of reporting as they use for compiling MA(BS)1E.[2] This means (where applicable to the AI) –

(i) Hong Kong Office basis: for all AIs (whether incorporated in or outside Hong Kong);

(ii) Unconsolidated basis: for AIs incorporated in Hong Kong that have one or more overseas branches; and

(iii) Consolidated basis: for AIs incorporated in Hong Kong that have one or more specified associated entities.

Reporting frequency, submission timeline and transitional arrangements

5. Subject to the transitional arrangement provided in paragraph 6 below, all AIs are required to submit this Return (i.e. a separate copy of this Return for each basis of reporting applicable to the AI) to the MA not later than one calendar month after the last day of each month (i.e. the month-end reporting date). If the submission date falls on a public holiday, it will be deferred to the next working day.

6. The first official submission of this Return by AIs will be based on their month-end position of December 2015. As a transitional arrangement, the frequency of submission will be extended to a quarterly basis (instead of monthly) until the submission of this Return based on the month-end position of December 2016 is made. During this transitional period, AIs are required to complete this Return based on the month-end positions of December 2015, March 2016, June 2016, September 2016 and December 2016. The MA will review whether there is a need to extend this transitional arrangement after December 2016.

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[2] Please refer to paragraph 4 of the CIs for MA(BS)1E for a description of the reporting bases.

7. Notwithstanding the implementation of the above transitional arrangement, it is still imperative for AIs to have in place adequate systems and procedures to compile the liquidity monitoring tools specified in this Return as and when necessary in order to facilitate their liquidity risk management.

Valuation of assets, liabilities, obligations, cash flows and securities flows

8. Unless otherwise specified, all assets, liabilities, obligations, cash-flow or securities-flow items reported in this Return should be measured on the basis of their "principal amount". In general, the "principal amount" of marketable assets should be measured at fair value irrespective of the applicable accounting standards. For other on-balance sheet assets, liabilities, obligations and cash-flow items, the "principal amount" means the book value (including, where applicable, any accrued interest up to the month-end reporting date) as determined according to the applicable accounting standards. For off-balance sheet items, the "principal amount" means the contracted amount or, in the case of an undrawn or partially drawn facility, the undrawn amount. Where the trade date of a transaction is different from the settlement date of the transaction, the relevant asset, liability, obligation, cash-flow or securities-flow item arising from the transaction should be reported based on the trade date.

Reporting currencies

9. Unless specified otherwise, the figures to be reported in this Return should be rounded up to the nearest thousand in Hong Kong dollars (HKD), or HKD equivalent in the case of foreign currency items. The closing middle market T/T rates prevailing at the close of business on the position date should be used for conversion purposes.

10. In Part 5 of this Return, AIs which are category 1 institutions are required to provide liquidity information for the calculation of the LCR by "significant currencies". A currency is considered to be significant to an AI if the AI's liabilities denominated in that currency account for 5% or more of its total liabilities (including shareholders' funds).[3] (Although AIs are not required to report currency-specific information in

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[3] Consistent with footnote 9 of the CIs for MA(BS)1E, the following provides guidance on how to apply the 5% benchmark under this Return:

- In applying this benchmark to assess whether an AI has significant exposures to individual currencies on the Hong Kong office basis, the AI should conduct the assessment by reference to the "total liabilities" figure reported by it in item 11 of the monthly *Return of Assets and Liabilities of an Authorized Institution* (Form MA(BS)1). This assessment should at least be conducted by the relevant AI monthly.

- If a locally incorporated AI has any overseas branch and/or specified associated entity, the AI should also assess periodically whether it has significant exposures to individual currencies on an unconsolidated basis or consolidated basis (or on both bases). This assessment on an unconsolidated basis should be based on the "total liabilities" figure reported by the AI in item 11 of the quarterly *Return of Assets and Liabilities of an Authorized Institution* (combined position) (Form MA(BS)1B). The frequency of assessment should therefore be at least quarterly. For the assessment on a other parts of this Return, it is still crucial for them to put in place adequate systems and procedures to ensure that they have the capacity to provide such information if requested by the MA.)

Determination of contractual maturity

11. In determining the contractual maturity date (or the remaining term to maturity) of an asset, liability, obligation or cash-flow item, reference should be made to its contractual terms unless otherwise specified. If there are options for prepayment or deferred payment embedded in the contractual terms that may alter the contractual maturity date of an asset, liability, obligation or cash-flow item, the relevant maturity date should be determined according to the following approach:

(i) If an AI's customer[4] has an option to defer payment to the AI in relation to an asset (or an inflow arising from the asset), the AI should assume that the customer will exercise the option. If however the AI has an option to advance the receipt of payment from its customer in relation to an asset (or an inflow arising from the asset), the AI should assume that the option will not be exercised, unless the AI has already notified its customer that it will exercise the option.

(ii) If an AI has an option to advance payment in relation to a liability or obligation (or the associated outflow) to a customer and there is market expectation that the AI will exercise the option, the AI should assume that the option will be exercised.[5] If however the AI has an option to defer payment in relation to a liability or obligation (or the associated outflow) to a customer, the AI should assume that the option will not be exercised, unless the AI has already notified its customer that it will exercise the option.

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consolidated basis, a locally incorporated AI may measure the benchmark by reference to its consolidated total liabilities (including shareholders' funds) published in its latest financial statements. This assessment on a consolidated basis should be conducted semi-annually once the required consolidated "total liabilities" figure is available.

[Explanatory note: As explained in the HKMA's letter of 24 December 2014 to the Hong Kong Association of Banks, it is acceptable if an AI refers to the amount of consolidated total liabilities published in its latest financial statements. In other words, the HKMA does not strictly require an AI to compile a figure for its consolidated total liabilities based on the regulatory scope of consolidation solely for the purpose of applying this benchmark. Nevertheless, if an AI has any good reason to use the "regulatory consolidation" basis for compiling this figure, it may do so after discussing with the HKMA.]

4 For the purposes of this Return, a "customer" includes a counterparty.

5 This treatment takes into account the possible interaction between an AI and its creditors. For example, if the liability or obligation of an AI (e.g. debt securities issued) is callable at its discretion and the market expects the AI to exercise the option, there may be a case for assuming that the AI will indeed exercise the option for reputation reasons (otherwise the market may perceive the AI as having liquidity problems).

SPECIFIC INSTRUCTIONS

Part 1 Concentration of funding sources

Table A – Significant funding providers

12. Table A of this Part collects information on the reporting institution's 10 largest bank customers[6], 10 largest non-bank customers[7], as well as any other bank or non-bank customer that has provided, on a group basis where applicable[8], funding to the institution exceeding 1% of the institution's total liabilities (including shareholders' funds) at the month-end reporting date[9]. Provide a breakdown of the total amount[10] of funding from these funding providers according to the remaining term to maturity of such funding. Indicate in the second column of this Table whether any funding provider is a connected party[11] of the institution.

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6 In this Return, the term "bank" has the meaning given by section 2(1) of the Banking (Capital) Rules (BCR).

7 In this Return, the term "non-bank customer" means a customer (which is not a bank) of an AI. A non-bank customer may be the HKSAR Government, the MA, any government or central bank (or monetary authority) of a jurisdiction outside Hong Kong, non-bank financial institution, corporate, or any other legal entity.

8 For example, if an AI has received funding from two or more customers that are connected to the same group, the AI should report the aggregate amount of funding received from these customers as if they were a single customer.

9 The 1% benchmark should be measured on the same basis as that described in footnote 3 of these CIs.

10 For all references to "total amount" in this Return, the valuation bases applicable to the items concerned should follow those set out in paragraph 8 of these CIs (unless otherwise specified).

11 For the purposes of this Return, a "connected party" can be a "connected bank" or a "connected non-bank customer", where –

- a "connected bank" of an AI may include –
  - (i) if the AI is incorporated in Hong Kong, its parent bank, associated entity (which is a bank), or "sister" bank (i.e. the bank is also a subsidiary of its parent bank);
  - (ii) if the AI is incorporated outside Hong Kong, its Head Office, associated entity (which is a bank), or overseas branch (i.e. a "sister" branch of its Hong Kong branch);
- a "connected non-bank customer" of an AI may include any non-bank person that is –
  - (i) an associated entity of the AI;
  - (ii) a controller or minority shareholder controller (as defined in section 2 of the Banking Ordinance (BO)) of the AI and any relative (as defined in section 79 of the BO) of such controller or minority shareholder controller (being an individual); or
  - (iii) any director, chief executive or manager (as defined in section 2 of the BO) of the AI, and any relative of such director, chief executive or manager.

[Explanatory note: It is not entirely appropriate to align the definition of "connected party" with that provided in section 83 of the BO. This is because section 83 is intended to limit locally incorporated AIs' credit risk exposures to non-bank connected parties to guard against undue concentration of credit risk and potential conflict of interest whereas the definition used in this Return is for monitoring liquidity risk of all AIs. Moreover, whilst interbank exposures are exempted for section 83 purposes, such exposures could have material implications for AIs' liquidity risk and therefore should be captured in this Return. On the other hand, the credit approving officers of a locally incorporated AI are captured under section 83 but, in the context of this Return, such officers do not necessarily have to be regarded as "connected parties". In the light of these considerations, the definition of "connected party" provided for the purposes of this Return is made by reference to the relevant meanings provided in the CIs for MA(BS)1E and the Return on Selected Data for Liquidity Stress-testing (Form MA(BS)18), with appropriate modifications.]

Table B – Significant funding instruments

13. Table B of this Part collects information on significant funding instruments used by the reporting institution to obtain funding. The first 4 items are deemed to be significant funding instruments and should be reported, irrespective of whether the 1% benchmark is exceeded.

(i) Report in item 1 the total amount of deposits taken by the institution from retail customers (i.e. individuals). These deposits should be slotted into sub-items (a) to (d) according to the amount of deposit taken from each such customer[12].

(ii) Report in item 2 the total amount of deposits taken by the institution from other non-bank customers. These deposits should be slotted into sub-items (a) to (d) according to the amount of deposit taken from each such customer.

(iii) Report in item 3 the total amount of borrowing from banks by the institution.

(iv) Report in item 4 the total amount of specific types of capital and debt instruments issued by the institution that are still outstanding, as specified in the following sub-items:

- Sub-item (a): capital instruments[13] that are recognized as CET1 capital, Additional Tier 1 capital instruments or Tier 2 capital instruments under the BCR;

- Sub-item (b): negotiable debt instruments issued in the form of certificates of deposit;

- Sub-item (c): debt securities that are senior, unsecured, and not structured (e.g. plain vanilla bonds);

- Sub-item (d): securities that are convertible into equities (but which do not fall within sub-item (a));[14]

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[12] For example, if a retail customer has placed HK$300,000 in total (or an equivalent amount in foreign currencies) with an AI, that total amount of deposit should be reported in item 1(a), irrespective of whether that amount is placed in one (or more than one) deposit account.

[Explanatory note: The collection of information on non-bank customer deposits (i.e. items 1 and 2 in Table B) with a breakdown by deposit amount will enable the MA to monitor on an ongoing basis the stability of deposits in different sizes taken by AIs.]

[13] Such instruments may be issued, for example, in the form of common equities, preference shares or subordinated debt securities.

- Sub-item (e): asset-backed securities, the payments of which are secured by a pool of underlying assets or exposures (e.g. residential mortgage loans, credit card receivables, etc.); and

- Sub-item (f): any other capital or debt instruments (which may or may not be structured) not otherwise covered in sub-items (a) to (e).

(v) Report in item 5 the total amount of any other outstanding funding instrument (or a group of similar funding instruments) issued by the institution, where the outstanding total amount exceeds 1% of the institution's total liabilities (including shareholders' funds).

As in the case of Table A, the institution should provide a breakdown of the total amount of funding from these significant funding instruments according to the remaining term to maturity of such instruments. Instruments without a definite term to maturity should be reported under the column of "> 12 months".

[14] Such convertible securities may be issued in the form of bonds, preference shares or any other instrument.

Part 2 <u>Unencumbered assets available for secured borrowing</u>

14. This Part collects information on the reporting institution's unencumbered assets that are on the institution's balance sheet (whether in the trading book or banking book) as well as collateral received from customers that can be, and have not been, re-hypothecated, where these assets have the potential of being used by the institution as collateral to secure borrowing from the MA (for the account of the Exchange Fund), overseas central banks or governments, or wholesale funding markets. The institution should compile the required information taking into account the collateral policies of the MA or relevant overseas central banks (if applicable), as well as prevailing conditions in relevant secured funding markets. If an asset does not fall within the list of eligible types of collateral under the liquidity facilities or contingency funding mechanisms operated by the MA or other central banks, or if an asset is not reasonably expected to have the potential of being accepted as collateral in secured funding markets under prevailing market conditions, that asset should not be reported in this Part.

15. All assets reported in this Part should be free from encumbrances on the month-end reporting date. In particular, there must not be any regulatory, legal, contractual or other restrictions that inhibit the reporting institution from liquidating, selling, transferring or assigning any asset. To avoid doubt, an asset is not free from encumbrances if it is pledged, either explicitly or implicitly, to secure, collateralize or provide credit enhancement to a transaction; or is designated by the institution to cover specific expenses.[15]

16. To avoid double counting of assets reported in this Part, if an asset is eligible to be reported in more than one item, it should be reported in accordance with the order of items presented in this Part (i.e. the first item within which the asset falls).[16]

17. In this Part, the "location of assets" means the location of the custodian where an asset is kept, or, if the asset is not kept by a custodian, the location of the reporting institution's office or specified associated entity where the asset is booked.

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[15] An AI should assess whether an asset acquired by it (or received from its customers as collateral) is readily available for use as collateral for secured borrowing purposes, taking into account all practical constraints that may limit its ability to use the asset in such a way. If, for example, an asset purchased by the AI is not available for use as collateral for secured borrowing purposes until the settlement is completed, the asset cannot be regarded as an "unencumbered" asset. Otherwise, the asset may be regarded as "free from encumbrances" even before the settlement is completed, so long as it is not otherwise encumbered due to any other factor. (If an asset has been sold by the AI and hence is not on its balance sheet on the "trade date", that asset should not be reported in this Part.)

[16] For example, unencumbered EF debt securities (i.e. Exchange Fund Bills and Notes) held by the reporting institution should be reported in item 1(a), and not in any other item under this Part.

18. Apart from reporting the information required under this Part, the reporting institution should, to the extent practicable, maintain adequate records of other information associated with the unencumbered assets[17]. The MA may, where necessary, require the institution to provide such information in the course of its ongoing risk-based supervision.

Item 1: <u>Assets which are, or may be, acceptable as collateral under the MA's liquidity facilities and other contingency funding mechanisms</u>

19. Report the relevant information in respect of those assets which are, or may be, acceptable as collateral under the MA's liquidity facilities and other contingency funding mechanisms.[18] The relevant liquidity facilities and contingent funding mechanisms operated by the MA include:

(i) Discount Window;
(ii) Renminbi Liquidity Facility;
(iii) Hong Kong Dollar Discount Facility for Hong Kong Government Bonds;
(iv) Term Repos Facility;
(v) the framework of the Lender of Last Resort (LOLR); and
(vi) any other liquidity facility or contingency funding mechanism that may be offered by the MA as and when necessary.

It should be noted that the MA's liquidity facilities and other contingency funding mechanisms may in practice not be accessible by all AIs on an equal footing.[19] Notwithstanding this, the reporting institution should still complete item 1 primarily based on whether the type of asset held by it falls within the list of eligible collateral specified in this item, except that <u>sub-items (g) (Interbank placements after deductions) and (h) (Residential mortgage loans) should be reported only if the institution is a locally incorporated bank.</u>

[<u>Explanatory note</u>: The assets captured in sub-items (g) and (h) may only be accepted by the MA as collateral under the LOLR framework. As the LOLR framework is not normally applicable to overseas incorporated banks and the eligibility of restricted licence banks and deposit-taking companies to be eligible for liquidity support under

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[17] For examples, AIs should maintain, and provide to the HKMA upon request, breakdowns of unencumbered assets by "significant currencies", details of the relevant custodians, expected monetized value taking into account the estimated haircuts on asset values that may be required by the relevant central bank or counterparties in secondary markets, and the internal policy documents specifying the responsible functions (and the required procedures) for monetizing the assets where necessary.

[18] A general introduction of liquidity support that may be provided by the MA to AIs is provided at: *http://www.hkma.gov.hk/eng/key-functions/monetary-stability/liquidity-support-to-banks.shtml*

[19] For example, the Discount Window may not be accessible by all AIs directly. Moreover, it would not normally be the policy of the MA to provide LOLR support to overseas incorporated banks' Hong Kong branches, except under special circumstances as set out in the MA's LOLR policy statement.

this framework may be considered relatively remote, these types of AI are not required to report any information under these two sub-items. If the MA envisages any need to collect such information from these types of AIs, it will discuss with the relevant AIs accordingly.]

Item 2: *<u>Assets which may be used as collateral for borrowing from overseas central banks or governments</u>*

20. If a reporting institution incorporated in Hong Kong (including its overseas branches, and/or specified associated entities in its consolidated group) has access to any liquidity support that may be provided by a central bank or government in an overseas jurisdiction, the institution should report in sub-item (a) the assets held by the institution that can be used as collateral to borrow from the overseas central bank or government.

21. If a reporting institution incorporated outside Hong Kong has access to any liquidity facility offered by the central bank or government in its home jurisdiction, its Hong Kong branch should report in sub-item (b) any assets held by the branch which, if up-streamed to its Head Office, can be used by its Head Office as collateral to obtain funding from the central bank or government (where applicable) in its home jurisdiction. *[<u>Explanatory note</u>: This is to monitor the risk of asset outflow from a foreign bank branch.]*

Item 3: *<u>Other assets not included elsewhere, but may be used as collateral for secured borrowing in wholesale funding markets</u>*

22. This item captures any other asset that is not reported in item 1 or 2, but is considered by the reporting institution (on reasonable grounds) as having the potential of being used as collateral for secured borrowing in wholesale funding markets (in Hong Kong or elsewhere). To enable the MA's assessment of the institution's funding capacity, the institution is required to provide –

(i) in sub-items (a) and (b), a breakdown of the reported debt securities in terms of the risk-weights assigned to these securities by reference to the standardized (credit risk) approach (STC approach) in the BCR[20]; and

(ii) in sub-item (c), any other assets that are not reported in sub-item (a) or (b), but may have a reasonable potential of being used as collateral for secured borrowing purposes.[21]

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[20] Although the STC approach does not apply to all AIs for regulatory capital purposes, the reporting institution (whether incorporated in or outside Hong Kong) should, for the purpose of reporting item 3 under this Part, calibrate their unencumbered assets required to be reported in sub-items (a) and (b) by reference to this approach.

Item 4: *<u>Memorandum item: Assets reported in items 1 to 3, which are posted by customers to the reporting institution as collateral that can be re-hypothecated by the institution (but have not yet been re-hypothecated)</u>*

23. The reporting institution should identify any assets reported in items 1 to 3 above which are posted by its customers as collateral for obtaining funding from the institution, whereby the institution has a contractual right to re-hypothecate[22] such assets for secured borrowing purposes (but have not yet exercised such right). The total amount and location of such assets should be reported in this item.

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[21] Assets to be reported in this sub-item should not normally include loans, receivables, fixed assets or other similar types of assets, unless the reporting institution is originating or sponsoring a structured financing transaction (e.g. a securitization transaction) using such assets as underlying collateral.

[22] In this Return, the term "re-hypothecation" includes arrangements where the re-hypothecated asset may be (i) pledged as collateral or (ii) sold outright with a commitment to repurchase at a future date.

Part 3 Committed facilities

24. Report in Table A of this Part information relating to any committed facility[23] received from the MA, central banks, governments, banks or non-bank financial institutions, or Forward Commitment Facility (FCF) received from The Hong Kong Mortgage Corporation Limited. Report information relating to committed facilities granted to banks and non-bank financial institutions in Table B of this Part.

25. In respect of each reported facility, indicate whether the facility is received from (or granted to) a connected party[24]. Also report the currency denomination of the facility, total facility limit (whether used or not), expiry date as specified in the relevant facility agreement (taking into account any embedded option for early termination), the amount drawn under the facility as of the month-end reporting date, and whether the facility is received (or granted) on a secured, unsecured or partially secured basis.

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[23] For the purposes of this Return, a "committed facility" means a contractual agreement between an AI and its customer under which the AI has a contractually irrevocable commitment to extend funds to the customer at a future date, whether for credit or liquidity purposes, in accordance with the terms and conditions specified in the agreement. (This definition is in line with the meaning given in rule 39 of the Banking (Liquidity) Rules (BLR), except that this definition is applicable to all AIs for the purposes of this Return.)

A "contractually irrevocable commitment" exists if an AI has undertaken a contractual commitment to provide funding to its customer, where the commitment –

(i) is not cancellable unilaterally by the AI in any circumstances; or

(ii) is cancellable unilaterally by the AI subject to certain contractually defined conditions, but none of which has materialised.

To avoid doubt, the MA does not regard the presence of protective clauses, such as a "material adverse event" clause, "availability of funds" clause or "unconditionally cancellable" clause set out in a facility agreement as a sufficient ground for an AI to establish that its commitment under that facility is "revocable". As always, it is most crucial for the MA to assess whether such clauses, even if stated in a facility agreement, can be practicably executed by the AI. (Please refer to footnote 33 of the CIs for MA(BS)1E.)

[24] For the meaning of "connected party", please refer to footnote 11 of these CIs.

Part 4 Maturity profile and supplementary information

26. This Part collects information on the reporting institution's maturity profile covering its on- and off- balance sheet items, including (i) the total amounts (based on principal amounts) of these items as of the month-end reporting date; (ii) the amounts of cash flows or securities flows arising from these items to be slotted into specific time bands based on contractual maturity (or the institution's estimation where specified); and (iii) the balancing amounts (as referred to below and if applicable to these items). For the purposes of reporting under this Part, the institution should adhere to the following general instructions, in addition to those provided in paragraphs 4 to 11 above, unless specific instructions are otherwise provided:

(i) In determining the remaining term to maturity of the institution's asset, liability, obligation, cash-flow or securities-flow items, it is to be generally assumed that such items will not be rolled over upon their contractual maturity, and the institution will not enter into any new transaction or contract in respect of such items, unless the institution has formally decided and completed all necessary contractual arrangements to roll over any such item, or to enter into any new transaction or contract.[25]

(ii) Unless otherwise specified, the institution should report an asset, liability, obligation, cash-flow or securities-flow item in the "Next day" column of the Tables under this Part (where applicable) if that item has no definite term to maturity but is receivable (or payable) on demand.[26] If an amount of cash or securities receivable (or payable) by the institution is subject to any advance notification requirement, that amount should be reported in the appropriate time bands according to –

- the length of the notification period if the institution has not issued the notice (or received the notice from the customer); or

- the expiry date of the notice if the institution has issued the notice (or received the notice from the customer).[27]

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[25] For example, a loan granted by an AI should be reported according to the earliest maturity date of the loan or, if the AI has agreed with the customer concerned to renew the loan, the maturity date of the loan after renewal. If the loan does not have a definite maturity date and is drawn under a credit facility with an expiry date (or the facility is subject to periodic review, such as an overdraft facility), the loan should be assumed to be repaid when the facility expires (or is due for periodic review).

[26] For example, such cash-flow items include demand, savings and current account deposits, vostro balances and nostro balances – please refer to the CIs for items 1, 6 and 22 in Section A of this Part.

[27] For example, an asset (or liability) that has no definite term to maturity and is callable at one day's notice should be reported under the "Next day" column if the notice has been issued (or received). If such a notice has not been issued (or received), the item should be reported in the "2 to 7 days" column.

(iii) If the amounts receivable (or payable) by the institution involve lead time (say, for completing certain operational procedures), such lead time should be taken into account when the institution reports such amounts in this Part.

(iv) Any asset that has been overdue (but not rescheduled[28]) should be reported in the "Balancing amount" column of the Tables under this Part. If an asset generating a stream of payments (e.g. an instalment loan) is overdue in respect of the most recent instalment payment only, that overdue instalment should be reported in the "Balancing amount" column of the Tables under this Part, whilst the remaining instalments (that are not due for payment yet) should be reported in the appropriate time bands according to their respective contractual payment dates. If, however, the asset has been overdue for two or more instalments or classified by the institution as an asset under the "substandard", "doubtful" or "loss" grade,[29] or if there is any "material adverse event" providing objective evidence that the instalments will not likely be received[30], the entire amount of the asset should be regarded as overdue and reported in the "Balancing amount" column.

(v) If the institution has failed to fulfil a liability or payment obligation for any reason, report the entire amount of that liability or payment obligation in the "Next day" column of the Tables under this Part as soon as such a failure has occurred.

Section A: <u>Contractual maturity profile</u>

On-balance sheet liabilities

27. <u>Item 1 – *Deposits from non-bank customers*</u>

Report in the appropriate time bands of sub-item (a) the total amount of pledged deposits according to the contractual maturity dates of the relevant pledge arrangements.[31]

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[28] If an asset has been rescheduled, its contractual maturity should be determined according to its rescheduled term to maturity.

[29] Please refer to Part II of the *Return of Quarterly Analysis of Loans and Advances and Provisions* (Form MA(BS)2A)

[30] For example, the borrower of a loan has defaulted, or is found unable to honour its contractual obligations, or the lending AI has issued a notice to the borrower demanding full repayment of the loan but this demand has not been fulfilled by the borrower.

[31] In this Return, the term "pledged deposit" means a deposit placed with an AI by a customer (other than a bank) where the deposit is contractually pledged to the AI as collateral to secure the customer's liability or obligation to the AI. For example, if a deposit is pledged by a customer to the reporting institution to secure a loan or credit facility extended to the customer until a specific date (e.g. the repayment date of the loan, or the expiry date of the credit facility, as the case may be), the pledged deposit should be reported according to that specific date.

Report in the "Next day" column of sub-item (b) the total amount of deposits withdrawable on demand (including, for example, deposits maintained in current accounts and savings accounts) by non-bank customers, supplemented by additional information to be reported in item 42 (i.e. the lowest month-end balance of such deposits recorded by the reporting institution in the past 12 months) under Table B3 in Section B of this Part.

Report in the appropriate time bands of sub-item (c) the total amount of term deposits (including call deposits and any other deposits which are withdrawable on notice) due to non-bank customers according to the contractual maturity dates of the term deposits (or, where applicable, any early withdrawal date agreed by the institution in respect of a term deposit) .

28. Item 2 – *Amount payable arising from securities financing transactions (other than securities swap transactions)*

Report in this item the total amount of funds payable by the reporting institution to all types of customers (including banks and non-bank customers)[32] arising from securities financing transactions[33] (other than securities swap transactions[34]) whereby the institution borrows funds from its customers on a collateralized basis, if such funds payable are required to be shown as on-balance sheet liabilities under the applicable accounting standards. Such funds payable by the institution should be reported in the appropriate time bands according to the contractual maturity dates of the relevant securities financing transactions. Please refer to Annex 1 to these CIs for further guidance on the reporting of fund flows (and securities flows) arising from securities financing transactions in this Part.

29. Item 3 – *Amount payable arising from derivative contracts*

Report in the appropriate time bands of this item the total amount of funds payable by the reporting institution to all types of customers arising from derivative contracts according to the contractual payment dates, if such funds payable are required to be shown as on-balance sheet liabilities under the applicable accounting standards. Further guidance on the reporting of cash flows and securities flows arising from

[32] The meanings of "banks" and "non-bank customers" are provided in footnotes 6 and 7 of these CIs.

[33] In this Return, the terms "securities financing transaction", "secured funding transaction", "secured lending transaction" and "securities swap transaction" have the respective meanings given in rule 17 or 39 of the BLR (as the case may be), except that the relevant meanings are generally applicable to all AIs for the purposes of this Return.

[34] Usually, a securities swap transaction involves an exchange of securities instead of money. This type of transaction is therefore not covered by item 2 (and item 18) in Section A of this Part. However, securities flows arising from securities swap transactions, together with those arising from other types of securities financing transaction, should be included in the relevant items in Section A (items 12 and 29 where applicable) and Section B (Table B1) of this Part.

common types of derivative contracts (i.e. options, futures, forwards and swaps) for the purposes of this Part is set out in Annex 2 to these CIs.

30. Item 4 – *Due to MA for a/c of Exchange Fund*

Report in the appropriate time bands of this item the total amount of funds payable to the MA (for the account of the Exchange Fund) according to the contractual maturity dates of such funds payable, unless such funds payable are otherwise covered in item 2 or 3.

31. Item 5 – *Due to overseas central banks*

Report in the appropriate time bands of this item the total amount of funds payable to central banks in jurisdictions outside Hong Kong according to the contractual maturity dates of such funds payable, unless such funds payable are otherwise covered in item 2 or 3.

32. Item 6 – *Due to banks*

Report in the appropriate time bands of this item the total amount of funds payable to other banks according to the contractual maturity dates of such funds, unless such funds payable are otherwise covered in item 2 or 3.

33. Item 7 – *Debt securities, prescribed instruments and structured financial instruments issued and outstanding*

Report in the appropriate time bands of this item the total amount of debt securities, prescribed instruments and structured financial instruments issued by the reporting institution that are still outstanding according to the redemption dates of such securities and instruments. Such debt securities and instruments are to be reported based on their redemption value, regardless of whether they are marketable. Perpetual debt securities and instruments (other than those being reported as capital instrument under item 9) should be reported in the "Balancing amount" column under this item.

34. Item 8 – *Other liabilities*

Report in the appropriate time bands of this item the total amount of other on-balance sheet liabilities not included elsewhere according to the maturity dates of such liabilities. These liabilities include, for example, liabilities or payables arising from forthcoming settlement of transactions, operating expenses, tax-related liabilities and any liabilities in transit or in suspense accounts[35].

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[35] Other liabilities of an AI that are maintained in suspense accounts include all credit balances relating to customers' funds but not held in their names, such as balances in accounts holding customers' funds awaiting

If the reporting institution has passed a resolution to distribute dividends (or any of its shareholders' funds) and the distributable amount has been recognized as "dividends payable" (as a type of "other liabilities"), report the distributable amount in the appropriate time bands of this item according to the timing of distribution.

35. <u>Item 9 – *Capital and reserves*</u>

This item covers the reporting institution's capital and reserves, including paid-up capital, retained earnings and any other capital instruments[36] issued by the institution. Report the total amount of capital instruments with a definite term to maturity in the appropriate time bands according to the instruments' redemption dates. Other capital and reserves that are not expected to be distributed (or capital instruments of a perpetual nature which are not expected to be redeemed) should be reported in the "Balancing amount" column under this item.

If the institution has passed a resolution to distribute dividends (or any of its shareholders' funds) but the distributable amount has not yet been recognized as "dividends payable" (and hence not covered in item 8), report the distributable amount in the appropriate time bands of this item according to the estimated timing of distribution.

Off-balance sheet obligations and unaccrued payables

36. <u>Item 11 – *Irrevocable loan commitments or facilities granted*</u>

This item covers all irrevocable loan commitments or facilities[37] granted by the reporting institution (excluding any amount that has already been drawn). Report in the appropriate time bands of sub-item (a) the total amount of irrevocable loan commitments or facilities according to the expected dates and amounts of drawdown that the institution has ascertained.

Report in the appropriate time bands of sub-item (b) the total amount of all other irrevocable loan commitments or facilities granted by the reporting institution[38]

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investment or for the purpose of meeting acceptances or other payments, but exclude interest in suspense which has been netted off from corresponding accounts. Please refer to the CIs for item 10.2 of the *Return of Assets and Liabilities of an Authorized Institution* (Form MA(BS)1) for more details.

[36] Such capital instruments may include, for example, term preference shares, term subordinated debt securities and convertible securities.

[37] Please refer to footnote 23 of these CIs for elaboration on the criteria for treating a loan commitment or facility as "irrevocable".

[38] Item 11(b) covers all loan commitments or facilities not included in item 11(a), except credit card facilities.

(excluding any amount that has already been drawn) according to relevant contractual terms and conditions (taking into account any contractual notification period – please refer to the general instructions provided in paragraph 26 above). This item will be supplemented by additional information to be reported in item 43 under Table B3 in Section B of this Part (reflecting the estimated dates and amounts of drawdown of those commitments or facilities based on the institution's behavioural assumptions on customer drawdown adopted in its liquidity risk management process).

37. Item 12 – *Contractual obligations arising from securities financing transactions (not included in item 2)*

Report in the appropriate time bands of this item the total amount of off-balance sheet obligations (whether in terms of cash or securities) payable by the reporting institution to all types of customers arising from securities financing transactions (such as securities repurchase transactions (repos), securities reverse repurchase transactions (reverse repos), securities swaps and similar types of transactions not otherwise reported in item 2) according to the contractual maturity dates of such transactions. Such obligations include, for example, the institution's obligations to pay money for repurchase of securities sold (or obligations to deliver securities repurchased by customers) under securities financing transactions. Please refer to Annex 1 to these CIs for further guidance.

38. Item 13 – *Contractual obligations arising from derivative contracts (not included in item 3)*

Report in the appropriate time bands of this item the total amount of off-balance sheet obligations of the reporting institution to all types of customers arising from derivative contracts (not otherwise reported in item 3) according to the contractual payment dates. Please refer to Annex 2 to these CIs for further guidance.

39. Item 14 – *Off-balance sheet obligations not included in items 11 to 13*

This item covers all other off-balance sheet obligations of the reporting institution (not otherwise reported in items 11 to 13), such as obligations arising from "direct credit substitutes", "transaction-related contingencies" and "trade-related contingencies" as defined in the BCR.

Report in the appropriate time bands of sub-item (a) the total amount of those off-balance sheet obligations that the reporting institution has been called upon to fulfil (and therefore the institution has ascertained the timing of payment and amount payable under the obligations) according to the expected dates and amounts of payment.[39] The institution's obligations arising from letters of credit issued and acceptances on trade bills should also be included in this item, to the extent that inward bills or trust receipt loans are expected to be granted under the relevant letters of credit or acceptances.

Report in sub-item (b) the total amount of those off-balance sheet obligations that the institution has not been called upon to fulfil, taking into account the contractual notice periods if such obligations are called upon by the institution's customers.[40] Additionally, report in item 44 under Table B3 in Section B of this Part the institution's estimation of the dates and amounts of payment under the off-balance sheet obligations reported in this sub-item, taking into account any relevant behavioural assumptions adopted by the institution for such obligations in its liquidity risk management process, and other relevant circumstances.

40. Item 15 – *Unaccrued payables not included elsewhere*

This item covers any expenses and other outflows of the reporting institution, where such expenses and outflows have not yet been accrued as of the month-end reporting date (and hence not yet reflected on the institution's balance sheet). Report in the appropriate time bands of this item the total amount of such unaccrued payables according to the timing of accrual pursuant to the terms and conditions of the relevant transactions and the applicable accounting standards.[41]

On-balance sheet assets

41. Item 17 – *Currency notes and coins*

Report in this item the total amount of currency notes and coins held by the reporting institution. The amount readily usable by the institution should be reported in the "Next day" column under this item. If any portion of the currency notes and coins is

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[39] Usually, if an AI has been called upon to fulfil an off-balance sheet obligation, the amount payable should be accounted for as an on-balance sheet liability. Otherwise, that amount payable should be reported in item 14(a).

Upon receipt of its customer's request for payment, an AI should normally have full knowledge of the timing of payment and amount payable by it. If, however, the exact timing or amount of payment is yet to be ascertained, the AI should report this obligation in this sub-item according to its reasonable estimation having regard to the relevant circumstances.

[40] For example, if an AI's customer is required to give the AI an advance notice of at least 7 days in order to request payment under an off-balance sheet obligation (but the AI has not received any such notice from the customer), the AI should report this obligation under the time band of "8 days to 1 month" in item 14(b). If the AI has to fulfil an obligation on demand, or if there is no contractual specification of a notice period, that obligation should be reported in the "Next day" column under item 14(b).

[41] For example, assume that an AI has a deposit which will mature in 6 months' time. The book value of this deposit (including any interest accrued up to the month-end reporting date – please refer to paragraph 8 above) should be reported in item 1 (deposits from non-bank customers). The interest to be accrued on that deposit in the remaining term to maturity (hence not yet reflected in the AI's balance sheet) should be reported in item 15.

in transit, report that amount in other time bands according to the expected time of receipt by the institution.

42. Item 18 – *Amount receivable arising from securities financing transactions (other than securities swap transactions)*

Report in this item the total amount of funds receivable by the reporting institution from all types of customers (including banks and non-bank customers) arising from securities financing transactions (other than securities swap transactions) whereby the institution lends funds to its customers on a collateralized basis, if such funds receivable are required to be shown as on-balance sheet assets under the applicable accounting standards. The funds receivable by the institution should be reported in the appropriate time bands according to the contractual maturity dates of the relevant securities financing transactions. Please refer to Annex 1 to these CIs for further guidance.

43. Item 19 – *Amount receivable arising from derivative contracts*

Report in the appropriate time bands of this item the total amount of funds receivable by the reporting institution from all types of customers arising from derivative contracts according to the contractual receivable dates, if such funds receivable are required to be shown as on-balance sheet assets under the applicable accounting standards. Further guidance on the reporting of common types of derivative contracts (i.e. options, futures and swaps) for the purposes of this item is set out in Annex 2 to these CIs.

44. Item 20 – *Due from MA for a/c of Exchange Fund*

Report in the appropriate time bands of this item the total amount of funds due from the MA (for the account of the Exchange Fund) according to the contractual maturity dates on which the funds are to be received by the reporting institution, unless such funds receivable are otherwise covered in item 18 or 19. This item includes, for example, the balance of funds maintained by the institution in its Hong Kong dollar Real Time Gross Settlement Account.

45. Item 21 – *Due from overseas central banks*

Report in the appropriate time bands of this item the total amount of funds due from central banks in jurisdictions outside Hong Kong according to the contractual maturity dates on which the funds are to be received by the reporting institution, unless such funds receivable are otherwise covered in item 18 or 19.[42] Reserves placed with an overseas central bank to meet minimum reserve requirements (hence not withdrawable) should be reported in the "Balancing amount" column under this item. Withdrawable

[42] This may be applicable if an AI has any banking operation in an overseas jurisdiction.

reserves should be reported according to the CIs provided in paragraph 26 (particularly sub-paragraphs (ii) and (iii)) above.

Where applicable, the reporting institution's renminbi funds maintained in its Renminbi Fiduciary Account opened with the People's Bank of China through the Renminbi Clearing Bank should be reported in this item.

46. Item 22 – *Due from banks*

Report in the appropriate time bands of this item the total amount of funds due from other banks according to the contractual maturity dates on which the funds are to be received by the reporting institution, unless such funds receivable are otherwise covered in item 18 or 19.

47. Item 23 – *Debt securities, prescribed instruments and structured financial instruments held (net of short positions)*

This item covers debt securities, prescribed instruments and structured financial instruments held by the reporting institution, net of the institution's short positions in such securities or instruments (if any).[43] Follow the general instructions provided in paragraph 8 above in determining whether the securities and instruments held should be reported based on fair value or book value (including any accrued interest) under this item.

Report in sub-item (a) the total amount of those debt securities and instruments held by the reporting institution that are "readily monetizable" under the "Next day" column of this sub-item. In this regard, sub-item (a) includes (i) the stock of unencumbered "high-quality readily liquefiable assets"[44] maintained by the institution as liquidity cushion pursuant to section 8 of module LM-2 "Sound Systems and Controls for Liquidity Risk Management" in the Supervisory Policy Manual[45]; and (ii) other debt securities and instruments that will be redeemed on "Next day".

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[43] If an AI has any short position in a debt security, report that short position in the "Next day" column (by deducting the short position from the amount of debt securities reported in that column) under this item. If the AI has entered into any transaction that will obligate it to take a short position in a debt security starting from a specific date (for example, starting from Day 7 from the month-end reporting date), that short position should be reflected in the relevant time band (i.e. to be deducted from the debt securities reported in the "2 to 7 days" column in this example).

[44] The term "high-quality readily liquefiable assets" is referred to in the MA's circular letter of 25 September 2013 in the context of the liquidity cushion required to be maintained by AIs under LM-2.

[45] For the purposes of reporting under this Part, the liquidity cushion maintained by an AI under LM-2 can be regarded as "readily monetizable" on the premises that (i) the debt securities and instruments have an established and active secondary market (whether in Hong Kong or elsewhere); and (ii) the AI manages its liquidity cushion in accordance with the requirements set out in LM-2, hence providing assurance that the liquidity cushion can be readily monetized (whether by outright sale or entering into repo-style transactions collateralized by the assets concerned).

Report in the appropriate time bands of sub-item (b)(i) the total amount of those debt securities and instruments held by the reporting institution that are not "readily monetizable" (because the assets concerned have been pledged to the institution's customers) according to the contractual maturity dates on which such debt securities and instruments can be released from the relevant pledge arrangements.[46]

Report in the appropriate time bands of sub-item (b)(ii) the total amount of those debt securities and instruments held by the reporting institution that are not "readily monetizable" due to other reasons (i.e. not reported in sub-item (a) or (b)(i))[47] according to the remaining term to maturity of the assets concerned, taking into account any embedded options that may alter their maturity profile (please refer to paragraph 11 above for general instructions on the treatment of embedded options).

48. Item 24 – *Acceptances and bills of exchange held*

Report in this item the total amount of acceptances and bills of exchange held by the reporting institution representing claims on other banks and non-bank customers. Usance bills should be reported in the appropriate time bands according to the contractual credit periods. Sight bills should be reported in the appropriate time bands according to the expected dates of receipt of payment, taking into account, for example, any lead time required to complete all necessary documentation and operating procedures for execution of the payment.

49. Item 25 – *Loans and advances to non-bank customers*

Report in the appropriate time bands of this item the total amount of loans and advances extended by the reporting institution to its non-bank customers according to their remaining term to maturity. In the cases of instalment loans, revolving loans, overdue loans and rescheduled loans, follow the general instructions provided in paragraph 26 above. Also provide supplementary information in item 45 under Table B3 in Section B of this Part based on the institution's estimation of the dates and amounts of repayment of the loans and advances concerned, taking into account behavioural assumptions affecting the prepayment or rollover behaviour of its customers and other relevant circumstances.

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[46] This reporting approach is based on the assumption that debt securities and instruments that have been pledged as collateral under securities financing transactions entered into by an AI can be readily monetized when released from the relevant pledge arrangements (whether by outright sale or entering into another repo-style transaction collateralized by the assets concerned).

[47] These debt securities and instruments may not have an active secondary market for repo or outright sale, or their marketability may be inhibited by any legal or regulatory restrictions, or operational limitations within the AI concerned.

50. Item 26 – *Other assets*

This item covers other on-balance sheet assets (not reported in items 17 to 25), including, for example, assets or receivables arising from forthcoming settlement of transactions, investments (other than those included in item 23) and associated interests or dividends receivable (if not reported elsewhere)[48], tax-related assets, and any assets in transit or in suspense accounts[49].

Report in the "Next day" column of this item the total amount of investments or holdings in marketable assets (e.g. gold and listed equities) only if such assets are readily monetizable (e.g. by virtue of their being traded in established and active secondary markets, whether in or outside Hong Kong). Otherwise, report the total amount of other assets that are not marketable in the appropriate time bands according to their remaining terms to maturity. Report the total amount of other assets that do not have a definite term to maturity (such as shareholding interests in unconsolidated subsidiaries and associated companies, properties and fixed assets) in the "Balancing amount" column of this item.

In line with the general instructions provided in paragraph 8 above, marketable assets covered in this item should be reported based on fair value. Other assets that are not marketable should be reported based on book value (including any accrued interest).

Off-balance sheet claims and unaccrued receivables

51. Item 28 – *Irrevocable loan commitments or facilities received*

This item covers only irrevocable loan commitments or facilities received by the reporting institution (excluding any amount that has already been drawn).

Report in the appropriate time bands of sub-item (a) the total amount of those irrevocable loan commitments or facilities (that the institution has ascertained that it will, and is able to, draw) according to the expected dates and amounts of drawdown, taking into account any lead time required for completing any documentation or operational procedures for the drawdown (e.g. notice of drawdown).

Report in the appropriate time bands of sub-item (b) the total amount of all other irrevocable loan commitments or facilities received by the reporting institution that are

[48] Such investments include those in listed equities, gold, commodities and other financial assets (and associated interest or dividends receivable on such investments).

[49] Other assets of an AI that are maintained in suspense accounts include all debit balances relating to customers' funds but not held in their names, such as balances awaiting transfer to customers' accounts. Please refer to the CIs for item 22.3 of the *Return of Assets and Liabilities of an Authorized Institution* (Form MA(BS)1) for more details.

not reported in sub-item (a) (excluding any amount that has already been drawn) according to the general instructions provided in paragraph 26 (particularly sub-paragraphs (ii) and (iii)) above.

If a loan commitment or facility received by the reporting institution is not readily usable or the institution has no intention to use the facility at any time, report the total amount of that loan commitment or facility under the "Balancing amount" column of this sub-item.

52. Item 29 – *Contractual claims arising from securities financing transactions (not included in item 18)*

Report in the appropriate time bands of this item the total amount of off-balance sheet claims (whether in terms of cash or securities) receivable by the reporting institution from all types of customers arising from securities financing transactions (such as reverse repos, securities swaps, and similar types of transactions not otherwise reported in item 18) according to the contractual maturity dates of such transactions. Such claims include, for example, the money receivable by the institution arising from a customer's repurchase of securities sold to the institution (and the securities receivable by the institution upon repurchase from its customer) under securities financing transactions. Please refer to Annex 1 to these CIs for further guidance.

53. Item 30 – *Contractual claims arising from derivative contracts (not included in item 19)*

Report in the appropriate time bands of this item the total amount of off-balance sheet claims of the reporting institution on all types of customers arising from derivative contracts (not otherwise reported in item 19) according to the contractual dates of receiving such claims. Please refer to Annex 2 to these CIs for further guidance.

54. Item 31 – *Off-balance sheet claims not included in items 28 to 30*

This item covers all other off-balance sheet claims of the reporting institution (i.e. not otherwise reported in items 28 to 30).[50]

Report in the appropriate time bands of sub-item (a) the total amount of those off-balance sheet claims according to the expected dates and amounts of payment of such claims as ascertained by the reporting institution. Such claims may, for example, arise from a situation in which the institution has requested its customer to fulfil a

[50] An AI's off-balance sheet claims on its customers may arise from, for example, guarantees provided by customers and accepted by the AI.

contractual obligation by payment to the institution on a specific date, and there is no indication that the customer will not fulfil the obligation.

Normally, the reporting institution should have full knowledge of the timing and amounts of payment to be received under its off-balance sheet claims. If, however, the exact dates and amounts of payment to be received have yet to be ascertained, such claims should be reported in the "Balancing amount" column of sub-item (b).

Also report in the "Balancing amount" column of sub-item (b) the total amount of those off-balance sheet claims under which the reporting institution has not requested its customers to fulfil their obligations of payment to the institution.

55. Item 32 – *Unaccrued receivables not included elsewhere*

This item covers any interest and other receivables of the reporting institution that have not yet been accrued as of the month-end reporting date (hence not yet reflected in the institution's balance sheet). Report in the appropriate time bands of this item the total amount of such unaccrued receivables according to the timing of accrual pursuant to the contractual terms and conditions of the relevant transactions and the applicable accounting standards.[51]

Section B: Supplementary information

56. Section B of this Part collects certain supplementary information to facilitate the MA's supervisory review of the reporting institution's maturity profile.

Table B1: Contractual maturity of securities flows arising from securities financing transactions

57. This Table captures maturity information on securities flows arising from all types of securities financing transactions (including securities swap transactions), which supplements maturity information collected under Section A of this Part in respect of cash flows arising from securities financing transactions (excluding securities swap transactions). Please refer to the CIs set out in paragraphs 58 to 61 below and the illustrative examples provided in Annex 1 to these CIs for the relevant reporting requirements.

[51] For example, if an AI has an interbank placement that will mature in 6 months' time. The book value of that placement (including interest accrued up to the month-end reporting date – please refer to paragraph 8 above), should be reported in item 22. The interest to be accrued in the remaining term to maturity of that placement (hence not yet reflected in the AI's balance sheet as of the month-end reporting date) should be reported in item 32.

58. Item 36 – *Securities pledged to the reporting institution as collateral under securities financing transactions (to be returned to customers)*

This item covers securities pledged to the reporting institution as collateral under securities financing transactions, which may be secured lending transactions, securities swap transactions and similar types of transactions.

Report in the "Next day" column of sub-item (a) the total amount of those pledged securities that the reporting institution can readily monetize through re-hypothecation.

Report in the appropriate time bands of sub-item (b)(i) the total amount of those pledged securities that have been re-hypothecated by the reporting institution (and hence cannot be readily monetized) according to the contractual maturity dates on which the securities will be released from the relevant re-hypothecation arrangements.

Report in sub-item (b)(ii) the total amount of those pledged securities that are not readily monetizable by the reporting institution for other reasons. For example, the securities may not have an active repo market, or cannot be re-hypothecated because of legal, regulatory or contractual restrictions, or operational limitations within the institution.

Report in the appropriate time bands of sub-item (c) (as a memorandum item) the total amount of pledged securities reported in sub-items (a), (b)(i) and (b)(ii)) according to the contractual dates of return of those securities by the reporting institution to its customers.

59. Item 37 – *Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)*

This item covers securities purchased by the reporting institution under securities financing transactions, which may be reverse repos, securities swap transactions and similar types of transactions, where the securities will be repurchased by the institution's customers at a future date.

Report in the "Next day" column of sub-item (a) the total amount of those purchased securities that the reporting institution can readily monetize through re-hypothecation.

Report in the appropriate time bands of sub-item (b)(i) the total amount of those purchased securities that have been re-hypothecated by the reporting institution (and hence cannot be readily monetized) according to the contractual maturity dates on which the securities will be released from the relevant re-hypothecation arrangements.

Report in sub-item (b)(ii) the total amount of those purchased securities that are not readily monetizable by the reporting institution for other reasons. For example, the securities may not have an active repo market, or cannot be re-hypothecated because of legal, regulatory or contractual restrictions or operational limitations within the institution.

Report in the appropriate time bands of sub-item (c) (as a memorandum item) the total amount of purchased securities reported in sub-items (a), (b)(i) and (b)(ii)) according to the contractual dates of repurchase of those securities by the reporting institution's customers.

60. Item 38 – *Securities pledged to customers as collateral under securities financing transactions (to be returned to the reporting institution)*

This item covers securities owned by the reporting institution that have been pledged to its customers under securities financing transactions, which may be secured funding transactions, securities swap transactions and similar types of transactions.

Report in the appropriate time bands of this item the total amount of securities covered under this item according to the contractual dates of return of those securities to the reporting institution. To avoid doubt, securities received by the institution from customers under a securities financing transaction and re-hypothecated by the institution in another securities financing transaction need not be reported in this item, as the information on such "re-hypothecated securities" is captured in item 36(b)(i) or 37(b)(i) as the case may require.

61. Item 39 – *Securities sold to customers under securities financing transactions (to be repurchased by the reporting institution)*

This item covers securities owned by the reporting institution that have been sold to its customers under securities financing transactions, which may be repos, securities swap transactions and similar types of transactions, but which will be repurchased by the institution at a future date.

Report in the appropriate time bands of this item securities covered under this item according to the contractual dates of repurchase of those securities by the reporting institution. As in item 38, securities received by the institution from customers under a securities financing transaction (e.g. reverse repo) and sold by the institution under another securities financing transaction (e.g. repo) need not be reported in this item, as the information on such "re-hypothecated securities" is captured in item 36(b)(i) or 37(b)(i) as the case may require.

Table B2: Contractual maturity of securities flows arising from derivative contracts

62. This Table captures maturity information on securities flows arising from derivative contracts, which supplements maturity information collected under Section A of this

Part in respect of cash flows arising from such contracts. In addition to the CIs provided in paragraphs 63 and 64 below, please refer to further guidance and illustrative examples provided in Annex 2 to these CIs.

63. Item 40 – *Securities pledged to the reporting institution as collateral under derivative contracts (to be returned to customers)*

This item covers securities pledged to the reporting institution as collateral under derivative contracts. Report in the appropriate time bands of this item the total amount of securities covered under this item according to the contractual dates of return of those securities to the institution. The methodology for reporting under the sub-items is similar to that applicable to item 36.

64. Item 41 – *Securities pledged to customers as collateral under derivative contracts (to be returned to the reporting institution)*

This item covers securities owned by the reporting institution that have been pledged to customers under derivative contracts. Report in the appropriate time bands of this item the total amount of securities covered under this item according to the contractual dates of return of those securities to the institution. The methodology for reporting under this item is similar to that applicable to item 38.

Table B3: Estimated cash flows arising from selected assets, liabilities and off-balance sheet items (based on behavioural assumptions)

65. This Table collects information on the reporting institution's cash-flow estimations arising from certain assets, liabilities and off-balance sheet items, taking into account behavioural assumptions relevant to such items. The institution's cash-flow estimations for the purposes of reporting under this Table should be in line with its internal methodologies and assumptions for conducting cash-flow projections as part of its liquidity risk management process. Such methodologies and assumptions should themselves be consistent with the relevant guidance specified by the MA[52], and be practically feasible having regard to the relevant circumstances faced by the institution.

66. Item 42 – *Demand, savings and current account deposits (referred to in item 1(b)) – according to the lowest month-end balance recorded in past 12 months*

Report in the "Balancing amount" column of this item the lowest month-end aggregate balance of demand, savings and current account deposits (referred to in item 1(b) under Section A of this Part) as recorded by the reporting institution in the past 12 months (including the reporting month). *[Explanatory note: This provides some*

52 Please refer to LM-2 (particularly sections 4, 5 and Annex A).

baseline information about the level of such deposits that have continuously stayed with the reporting institution in the past year although they can be withdrawn on demand. Where appropriate, the MA will also assess an institution's liquidity profile by reference to other measures of deposit stability, such as the total amount of stable retail deposits and stable small business deposits reported by a category 1 institution in MA(BS)1E.]

67. Item 43 – *Irrevocable loan commitments or facilities granted (referred to in item 11(b)) – according to estimated dates and amounts of drawdown by customers*

Report in the appropriate time bands of this item the total amount of irrevocable loan commitments or facilities granted by the reporting institution (referred to in item 11(b) under Section A of this Part) according to estimated dates and amounts of drawdown by customers of those commitments or facilities based on the institution's behavioural assumptions on liquidity needs arising from such commitments or facilities adopted in its liquidity risk management process.

68. Item 44 – *Off-balance sheet obligations (referred to in item 14(b)) – according to estimated dates and amounts of payment to customers*

Report in the appropriate time bands of this item the total amount of the reporting institution's off-balance sheet obligations (referred to in item 14(b) under Section A of this Part) according to the estimated dates of payment to customers and amounts payable under those obligations based on the institution's behavioural assumptions on liquidity needs arising from such obligations adopted in its liquidity risk management process.

69. Item 45 – *Loans and advances to non-bank customers (referred to in item 25) – according to estimated dates and amounts of repayment by customers*

Report in the appropriate time bands of this item the total amount of loans and advances to non-bank customers extended by the reporting institution (referred to in item 25 under Section A of this Part) according to the estimated dates and amounts of payment by customers based on the institution's assumptions adopted in its liquidity risk management regarding the prepayment or rollover behaviour of its customers and the relevant circumstances faced by the institution.

Part 5 <u>LCR by significant currencies (to be reported by category 1 institutions only)</u>

70. In this Part, a reporting institution that is a category 1 institution should report the specified information regarding the constitution of the institution's LCR in respect of HKD, USD, Renminbi (irrespective of whether these currencies are "significant" to the institution as measured by the 5% benchmark), and any other "significant currency" (as determined in accordance with paragraph 10 above) applicable to it. The specified information includes –

Column A	Total HQLA (before adjustments for the 15% ceiling on level 2B assets and the 40% ceiling on the sum of level 2A assets and level 2B assets);
Column B	Total HQLA (after adjustments for the 2 ceilings referred to in Column A;
Column C	Total expected cash outflows;
Column D	Total expected cash inflows (before application for the 75% ceiling calculated by reference to "total expected cash outflows"); and
Column E	Total expected cash inflows (after application for the ceiling referred to in Column D).

71. In determining the values of the above components, the reporting institution should refer to the CIs provided in Part 2 of MA(BS)1E, except that the instructions associated with the treatment of Alternative Liquidity Approaches (as provided in Annex 1 to the CIs for MA(BS)1E) are not applicable for the purposes of reporting under Part 5 of this Return. Moreover, cash flows across different currencies should not be offset for the purposes of reporting under this Part.

Hong Kong Monetary Authority
June 2015

Annex 1

Reporting of cash flows and securities flows arising from securities financing transactions (under Part 4 of this Return)

Introduction

1. This Annex provides illustrative examples on how cash flows and securities flows arising from securities financing transactions should be reported in Part 4 of this Return.[53]

Scenario 1 – Securities financing transaction under which securities are pledged by the reporting institution as collateral in exchange for a sum of money from the customer

2. On the reporting date, the reporting institution holds a stock of debt securities[54] with a fair value of $100, $20 of which have been pledged by the institution to its customer under a securities financing transaction with a remaining term to maturity of 1 month. The remaining stock of unencumbered debt securities ($80) is assumed to be readily monetizable. The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

[53] The examples presented in this Annex cover mainly securities financing transactions that involve an exchange of a sum of money in return for securities, whether by way of pledge, outright sale (and repurchase) or outright purchase (and resale). In the case of securities swap transactions (which involve an exchange of securities), the securities flows arising from such transactions should follow the relevant treatments associated with securities flows as demonstrated in the examples. For instance, AIs may refer to the illustrations under Table B1 in Scenarios 1 and 3 for the reporting of securities flows under a typical securities swap transaction.

[54] In the examples presented in this Annex, it is assumed that debt securities are used as the underlying assets to support securities financing transactions. In the event that the underlying assets in such transactions are not debt securities, the reporting methodologies demonstrated in this Annex are still applicable, except that the inflows arising from those assets are to be reported in other items (e.g. item 26 – other assets) instead of item 23. It is also assumed the underlying assets are marketable and are therefore measured on the basis of fair value. Otherwise, the underlying assets should be measured on the basis of book value (including any accrued interest).

A. **Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
		Next day	2 to 7 days	8 days to 1 month
2 Amount payable arising from securities financing transactions (other than securities swap transactions)	20[55]			20
22 Due from banks	20[56]	20		
23 Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
(a) Readily monetizable	80[57]	80		
(b) Not readily monetizable				
(i) Pledged to customers	20[58]			20
(ii) Others				

Table B1	Total amount	Contractual maturity of securities flows arising from securities financing transactions		
		Next day	2 to 7 days	8 days to 1 month
38 Securities pledged to customers as collateral under securities financing transactions (to be returned to the reporting institution)	20[59]			20

55 This reflects the funds borrowed by the institution under the securities financing transaction, to be payable to the customer when the transaction is settled in 1 month's time.

56 For simplicity's sake, all examples presented in this Annex disregard any possible haircuts that may be applied to the underlying securities in a real-life securities financing transaction. In addition, the funds received by the institution under the transaction are assumed to be placed with other banks and usable on "next day", as reported in item 22. Notwithstanding these hypothetical assumptions, an AI should report real-life transactions under Part 4 taking into account the actual terms and conditions involved.

57 As the remaining stock of debt securities ($80) is assumed to be "readily monetizable", this remaining stock should be reported in item 23(a) (under the "Next day" column). (If any portion of the remaining stock of debt securities, other than that already pledged to customers, is not readily monetizable for any other reasons, report that portion in item 23(b)(ii).)

58 The portion of debt securities that has been pledged to customers should be reported in item 23(b)(i) according to the contractual dates on which the debt securities are released from the relevant pledge arrangements (i.e. no longer encumbered and readily monetizable).

59 Table B1 in Section B of Part 4 is intended to specifically capture securities flows arising from securities financing transactions. The securities pledged by the institution in this scenario should also be reported in item 38.

Scenario 2 – Securities financing transaction under which securities are sold by the reporting institution to the customer for a sum of money (with a commitment to repurchase the securities at a future date)

3. This Scenario is similar to Scenario 1, except that the reporting institution has sold a portion of its stock of debt securities ($20) outright under a securities financing transaction (e.g. repo), with a commitment to repurchase those securities in 1 month's time. The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A. Contractual maturity profile	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
		Next day	2 to 7 days	8 days to 1 month
2 Amount payable arising from securities financing transactions (other than securities swap transactions)				
12 Contractual obligations arising from securities financing transactions (not included in item 2)	20[60]			20
22 Due from banks	20	20		
23 Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
(a) Readily monetizable	80	80		
(b) Not readily monetizable				
(i) Pledged to customers				
(ii) Others				
29 Contractual claims arising from securities financing transactions (not included in item 18)	20			20

Table B1	Total amount	Contractual maturity of securities flows arising from securities financing transactions		
		Next day	2 to 7 days	8 days to 1 month
39 Securities sold to customers under securities financing transactions (to be repurchased by the reporting institution)	20			20

60 Under Scenario 2, the institution does not have an on-balance sheet liability to repay the funds received from the outright sale of securities under the transaction. However, the institution has a contractual obligation under the transaction to repurchase the securities sold, and repay the funds previously received from the outright sale of securities (reportable in item 12), in 1 month's time.

Scenario 3 – Securities financing transaction under which securities are pledged by the customer to the reporting institution as collateral in exchange for a sum of money from the institution

4. Under this Scenario, assume that the reporting institution, apart from holding a stock of debt securities ($100), has received debt securities ($30) from its customer as collateral under a securities financing transaction with a remaining term to maturity of 1 month on the reporting date. All those securities held or received as collateral ($130) are assumed to be readily monetizable. It is also assumed that the institution has the right to re-hypothecate the pledged securities but has not exercised this right yet. The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A. Contractual maturity profile		Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
6	Due to banks	30[61]	30		
18	Amount receivable arising from securities financing transactions (other than securities swap transactions)	30[62]			30
23	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	100[63]	100		

Table B1		Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
36	Securities pledged to the reporting institution as collateral under securities financing transactions (to be returned to customers)				
	(a) Readily monetizable through re-hypothecation	30	30		
	(c) Memorandum item: Securities reported in sub-items (a) and (b) – according to contractual dates of return to customers				30

61 For simplicity's sake, it is assumed that the institution has funded its lending under the transaction by interbank borrowing repayable by the institution on demand. The same assumption is adopted in the other examples that involve the institution providing funds to its customers.

62 This reflects the funds provided by the institution to its customer, to be received when the transaction matures in 1 month's time.

63 As the securities are pledged to the institution as collateral, these securities are not on-balance sheet assets reportable under item 23. Nonetheless, the pledged securities should be reported in item 36(a) as these securities are assumed under this scenario to be readily monetizable and the institution has the right of re-hypothecation which has not been exercised. The amount of pledged securities to be returned by the institution to its customer in 1 month's time should also be reported under item 36(c).

Scenario 4 – Securities financing transaction under which securities are purchased by the reporting institution from the customer for a sum of money (with a commitment to resell the securities at a future date)

5. This Scenario is similar to Scenario 3, except that the reporting institution has purchased debt securities ($30) outright under a securities financing transaction (e.g. reverse repo), with a commitment to resell the securities in 1 month's time. The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

	A. Contractual maturity profile	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
6	Due to banks	30	30		
12	Contractual obligations arising from securities financing transactions (not included in item 2)	30			30
18	Amount receivable arising from securities financing transactions (other than securities swap transactions)				
23	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	130[64]	130		
29	Contractual claims arising from securities financing transactions (not included in item 18)	30			30

	Table B1	Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
37	Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)				
	(a) Readily monetizable through re-hypothecation	30	30		
	(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of repurchase by customers				30

64 Under Scenario 4, the institution's purchase of the securities should be reflected in item 23(a). The institution does not have an on-balance sheet amount receivable arising from the transaction (item 17). However, it has an off-balance sheet claim on its customer reportable under item 29 (representing the funds to be received when its customer repurchases the securities in 1 month's time). Simultaneously, the institution has an off-balance sheet obligation to return the securities to its customer (as reflected in item 12).

The amount of securities purchased (and to be resold) by the institution should also be reported in item 37(a) (and item 37(c)) under Table B1.

Scenario 5 (Extension of Scenario 3): Portion of securities pledged to the reporting institution under the securities financing transaction in Scenario 3 is re-hypothecated (as collateral) under another securities financing transaction

6. As an extension of Scenario 3, on the same reporting date, a portion of the debt securities ($25 out of $30) received by the reporting institution as collateral under the securities financing transaction in Scenario 3 (which has a remaining term to maturity of 1 month) is re-hypothecated by the institution as collateral in exchange for a sum of money from another customer under another securities financing transaction (which has a remaining term to maturity of 7 days). The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A. **Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
		Next day	2 to 7 days	8 days to 1 month
2 Amount payable arising from securities financing transactions (other than securities swap transactions)	25[65]		25	
6 Due to banks	30	30		
18 Amount receivable arising from securities financing transactions (other than securities swap transactions)	30			30
22 Due from banks	25	25		
23 Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
(a) Readily monetizable	100	100		

Table B1	Total amount	Contractual maturity of securities flows arising from securities financing transactions		
		Next day	2 to 7 days	8 days to 1 month
36 Securities pledged to the reporting institution as collateral under securities financing transactions (to be returned to customers)				
(a) Readily monetizable through re-hypothecation	5[66]	5		
(b) Not readily monetizable				
(i) Re-hypothecated	25		25	
(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of return to customers				30

65 This reflects the funds borrowed by the institution (for a period of 7 days) through re-hypothecating a portion of the securities pledged to the institution. The funds borrowed by the institution are assumed to be placed with other banks and usable on "next day" as reported in item 22 – please refer to footnote 56 of these CIs.

66 As a portion of the debt securities pledged to the institution has been re-hypothecated by the institution, the remaining portion ($5) of the securities is reported in item 36(a), given that this remaining portion is still readily monetizable. The re-hypothecated securities ($25) should be reported in item 36(b)(i), which will be released from re-hypothecation in 7 days' time.

Scenario 6 (Extension of Scenario 4): Portion of securities purchased by the reporting institution under the securities financing transaction in Scenario 4 is re-hypothecated (as collateral) under another securities financing transaction

7. As an extension of Scenario 4, on the same reporting date, a portion of the debt securities ($25 out of $30) purchased by the reporting institution under the securities financing transaction in Scenario 4 (e.g. reverse repo) (which has a remaining term to maturity of 1 month) is re-hypothecated by the institution as collateral in exchange for a sum of money from another customer under another securities financing transaction (which has a remaining term to maturity of 7 days). The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A.	**Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
2	Amount payable arising from securities financing transactions (other than securities swap transactions)	25[67]		25	
6	Due to banks	30	30		
12	Contractual obligations arising from securities financing transactions (not included in item 2)	30			30
18	Amount receivable arising from securities financing transactions (other than securities swap transactions)				
22	Due from banks	25	25		
23	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	105	105		
	(b) Not readily monetizable				
	(i) Pledged to customers	25		25	
29	Contractual claims arising from securities financing transactions (not included in item 18)				30

67 The funds ($25) borrowed by the institution through re-hypothecation of debt securities purchased under the securities financing transaction in Scenario 4 are repayable in 7 days' time, and hence should be reported in item 2. The funds borrowed are assumed to be placed with other banks and usable on demand (as reported in item 22). The re-hypothecated securities are still on the institution's balance sheet but pledged to customers for 7 days (as reported in item 23(b)(i)).

The securities financing transaction in Scenario 4 (in which debt securities of $30 are purchased) and the associated re-hypothecation of a portion of the securities purchased ($25 out of $30) should also be reported in item 37 under Table B1 as indicated.

Table B1	Total amount	Contractual maturity of securities flows arising from securities financing transactions		
		Next day	2 to 7 days	8 days to 1 month
37 Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)				
(a) Readily monetizable through re-hypothecation	5	5		
(b) Not readily monetizable				
(i) Re-hypothecated	25		25	
(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of repurchase by customers				30

Scenario 7 (Variation of Scenario 6) - Portion of securities purchased by the reporting institution under the securities financing transaction in Scenario 4 is sold by the institution under another securities financing transaction for a sum of money (with a commitment to repurchase the securities in 7 days' time)

8. This Scenario is similar to Scenario 6, except that the portion of debt securities ($25 out of $30) purchased by the reporting institution under the securities financing transaction in Scenario 4 (e.g. reverse repo) (which has a remaining term to maturity of 1 month) is sold by the institution (instead of being pledged as collateral under Scenario 6) in another securities financing transaction subject to a repurchase obligation (e.g. repo) (which has a remaining term to maturity of 7 days). The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A.	**Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
2	Amount payable arising from securities financing transactions (other than securities swap transactions)				
6	Due to banks	30	30		
12	Contractual obligations arising from securities financing transactions (not included in item 2)	55[68]		25	30
22	Due from banks	25	25		
23	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	105	105		
29	Contractual claims arising from securities financing transactions (not included in item 18)	55		25	30

	Table B1	Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
37	Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)				
	(a) Readily monetizable through re-hypothecation	5	5		
	(b) Not readily monetizable				
	(i) Re-hypothecated	25		25	
	(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of repurchase by customers				30

68 This represents the institution's cash and securities outflows arising from 2 irrevocable off-balance sheet obligations, i.e. (i) repurchasing that portion of "repo securities" ($25) in 7 days' time, and (ii) selling the whole portion of securities purchased under the reverse repo ($30) in 1 month's time. These obligations should be reflected in item 12. At the same time, the corresponding off-balance sheet claims, i.e. (i) securities ($25) to be received upon expiry of the repo in 7 days' time and (ii) the funds ($30) to be received upon expiry of the reverse repo in 1 month's time, should be reflected in item 29.

<u>Reporting methodologies for payables and receivables arising from derivative contracts (under Part 4 of this Return)</u>

1. This Annex provides specific guidance for the reporting of contractual cash flows and securities flows (whether on- or off-balance sheet) arising from common types of derivative contracts (i.e. options, futures and swaps).

2. For the purposes of Part 4 of this Return, a derivative contract is assumed to be settled on a net basis (unless otherwise specified in certain types of swap contracts as presented in this Annex). It should however be noted that the netting of payables and receivables <u>across</u> derivative contracts are not allowed, irrespective of whether the reporting institution has established a valid bilateral netting agreement with its customer.[69]

Options

3. If an option is "in the money"[70] on the reporting date, it is assumed that the option will be exercised by the option holder on the earliest possible exercise date[71].

    - If the option is held by the reporting institution, report the expected amount receivable by the institution under the appropriate time band in item 19 or 30, depending on whether the option position is recognized as an on-balance sheet item under the applicable accounting standards.

    - If the option is written by the reporting institution (and held by its customer), report the expected amount payable by the institution under the appropriate time band in item 3 or 13, depending on the applicable accounting standards.

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[69] Whilst a bilateral netting agreement allows the contractual parties to offset the liabilities and claims between them in the case of any party going into default, the maturity profile is intended to reflect an AI's liquidity position under a "business as usual" situation, meaning that neither the AI nor its counterparty is assumed to go into default before the actual occurrence of any such event.

[70] For options, "in the money", "at the money" and "out of the money" have the following meanings:

	"in the money"	"at the money"	"out of the money"
Call options	S > X	S = X	S < X
Put options	S < X	S = X	S > X

"S" means the spot price of the underlying asset, and "X" means the exercise price of the underlying asset.

[71] The earliest possible exercise date should be determined according to the terms and conditions of an option. For example, a "European option" can be exercised only on the final maturity date. In the case of an "American option", the earliest possible exercise date may be "next day", taking into account any contractual notice period for early exercise.

The expected amount receivable or payable by the institution can be approximated by the replacement cost of the option (measured at fair value on the reporting date), only if the option will not generate periodic inflows or outflows by the institution before the option is settled ultimately.

4. If an option contract is "at the money" or "out of the money" on the reporting date, it is assumed that the option will not be exercised by the holder and therefore can be disregarded for the purposes of Part 4 of this Return.

Futures and forwards

5. If the reporting institution has entered into a futures contract (or a forward contract), report the net floating gain arising from the contract in item 19 or 30 (or report the net floating loss arising from the contract loss in item 3 or 13), depending on whether the contract is recognized as an on-balance sheet item according to the applicable accounting standards. The net floating gain or loss should be reported under the appropriate time period according to the earliest possible settlement date.

Swaps

6. If the reporting institution has entered into a swap contract[72] that will create a series of funds payable and receivable by the institution throughout the term of the contract, the replacement cost of the contract (as recognized under the applicable accounting standards) may not always be able to reflect the potential impacts of this contract on the institution's liquidity profile. The periodic payables and receivables arising from swap contracts should be treated on a "cash-flow basis" for the purposes of Part 4 of this Return. This means that the institution should report the amounts of periodic payables and receivables arising from a swap contract under the appropriate time bands of the relevant items (whether item 3, 13, 19 or 30). The payables and receivables should be calculated by reference to the current market prices or rates applicable to that contract. Whether the payables and receivables are reported as on- or off-balance sheet items should be determined according to the applicable accounting standards.

7. For example, under a HKD-USD currency swap contract that has a remaining term to maturity of 1 year, the reporting institution is obliged to pay a fixed amount of HKD7.8 million to its customer quarterly in exchange for USD$1 million. (In other words, the amounts payable and receivable by the reporting institution periodically are exchanged on <u>gross</u> basis in this example). Assume that the HKD-USD market exchange rate on the reporting date was 7.76. If the institution needs to recognize the

[72] A swap contract includes, for example, an interest rate swap, a currency swap and any other similar swap contract, but not a securities swap which should be treated as a securities financing transaction.

replacement cost of the swap contract ("X") as an on-balance sheet item pursuant to the applicable accounting standards, the institution should report the periodic receivables and payables under this contract in Part 4 of this Return as demonstrated in the Table under paragraph 8 of this Annex.[73]

8. In addition to reporting the periodic payables and receivables under the appropriate time bands in items 3 and 19 respectively, the reporting institution should report the replacement cost of the swap contract ("X") under the "Total amount" column of item 3 if the institution is bearing a floating loss under the contract (as in this example), or the "Total amount" column of item 19 if the institution is bearing a floating gain under the contract. (This will serve as an additional reference to enable supervisory assessment on the potential impact of the swap contract on the institution's earnings and capital.)

(HK$'000)

A.	**Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year
3	Amount payable arising from derivative contracts	X	7,800	7,800	15,600
19	Amount receivable arising from derivative contracts		7,760	7,760	15,520

9. If the periodic payables and receivables arising from a swap contract are contractually allowed to be settled on a net basis, the reporting institution should report the net amount payable or receivable under the appropriate time band(s) according to the periodic settlement date(s). Following the example presented in paragraphs 7 and 8 of this Annex, the net amounts payable by the reporting institution periodically should be reported as follows:

(HK$'000)

A.	**Contractual maturity profile**	Total amount on reporting date	Contractual maturity of cash flows arising from the relevant items		
			> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year
3	Amount payable arising from derivative contracts	X	40	40	80
19	Amount receivable arising from derivative contracts		0	0	0

[73] If the institution has to book the swap contract as an off-balance sheet item pursuant to the applicable accounting standards, the institution should report the periodic payables and receivables arising from the swap transaction in items 13 and 30 of Part 4 respectively, whilst the replacement cost of the swap contract should be reported under the "Total amount" column of item 13 if the institution is bearing a floating loss under the contract, or under the "Total amount" column of item 30 if the institution is bearing a floating gain under the contract.

Securities pledged as collateral under derivative contracts

10. Securities flows arising from derivative contracts should be reported specifically in Table B2 under Section B of Part 4 of this Return.

- Any securities pledged to the reporting institution as collateral under derivative contracts should be reported (at fair value if marketable) in item 40. The reporting methodology for this item is similar to that for item 36.

- If the reporting institution has pledged its own securities to customers as collateral under derivative contracts (where these securities are still on the institution's balance sheet (in item 23(b)(i)), it should report these securities (at fair value if marketable) specifically in item 41. The reporting methodology for this item is similar to that for item 38.