

- (b) subject to paragraph (c), disclose a breakdown of its major business activities expressed in absolute terms or in the case of each activity as a percentage of its total business activities; and
  - (c) if the breakdown referred to in paragraph (b) is expressed in absolute terms, ensure that the breakdown is consistent with the figures disclosed in the institution's audited financial statements.
- (2) An authorized institution shall, for each major business activity—
  - (a) subject to subsection (3), disclose the amount of operating assets of the major business activity; and
  - (b) disclose particulars of the major business activity in relation to—
    - (i) total operating income (net of interest expense);
    - (ii) profit or loss before impairment losses and specific provisions and collective provisions for impaired assets;
    - (iii) profit or loss after impairment losses and specific provisions and collective provisions for impaired assets;
    - (iv) profit or loss before taxation; or
    - (v) any combination of any of the matters referred to in subparagraphs (i), (ii), (iii) and (iv).
- (3) For the purposes of subsection (2)(a), the operating assets of a major business activity of an authorized institution are those assets—
  - (a) which are employed in the course of the operating activities of the major business activity; and
  - (b) which are directly attributable to the major business activity or which can be reasonably allocated to that activity.
- (4) Where not less than 10% of an authorized institution's—
  - (a) total operating income (net of interest expense);
  - (b) profit or loss before taxation;
  - (c) total assets;
  - (d) total liabilities; or
  - (e) contingent liabilities and commitments,is booked in a single country or geographical segment, the institution shall disclose, for the item specified in each of paragraphs (a), (b), (c), (d) and (e), the absolute amount in respect of the country or geographical segment, as the case requires.
- (5) For the purposes of subsections (1), (2), (3) and (4), an authorized institution shall ensure that the figures used in determining the breakdown and disclosure of the major business activities referred to in those subsections (including the item specified in each of paragraphs (a), (b), (c), (d) and (e) of subsection (4)) are consistent with the figures disclosed in the institution's audited financial statements.

(6) Where the fees and commission income from a product line of an authorized institution constitutes not less than 10% of the total amount of fees and commission income of the institution, the institution shall separately disclose the fees and commission income attributable to that product line.

(7) An authorized institution shall disclose a breakdown of its cross-border claims by major countries or geographical segments in accordance with—

- (a) the location of the counterparties; and
- (b) the types of counterparties, broken down into banks, public sector entities and others.

(8) An authorized institution shall disclose the gross amount of loans and advances to customers by major countries or geographical segments in accordance with the location of the counterparties.

(9) An authorized institution shall disclose the basis of the country or geographical segment classification used for the purposes of subsections (7) and (8).

(10) An authorized institution shall disclose—

- (a) the amount of impaired loans and advances to customers which are individually determined to be impaired and, if available, overdue loans and advances to customers, disclosed separately broken down by major countries or geographical segments;
- (b) the amounts of specific provisions allocated in respect of the loans and advances referred to in paragraph (a); and
- (c) that portion of its collective provisions which is allocated to any country or geographical segment.

(11) In this section—

“cross-border claim” (跨域債權), in relation to an authorized institution—

(a) subject to paragraph (b), includes—

- (i) receivables and loans and advances;
- (ii) cash and balances and placements with banks (including loans and advances to banks);
- (iii) holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments; and
- (iv) accrued interest and overdue interest on the assets referred to in subparagraphs (i), (ii) and (iii);

(b) does not include—

- (i) claims arising between the institution and its branches or subsidiaries;
- (ii) claims on a counterparty in Hong Kong, except to the extent that such claims are guaranteed by a person outside Hong Kong;

- (iii) claims on a counterparty outside Hong Kong, to the extent that such claims are guaranteed by a person in Hong Kong;
- (iv) claims on a branch of a bank located in Hong Kong, except where the head office of the bank is located outside Hong Kong; or
- (v) claims on a branch of a bank located outside Hong Kong, where the head office of the bank is located in Hong Kong;

“major business activity” (主要業務活動), in relation to an authorized institution, means the business activity constitutes not less than 10% of the total amount of the institution’s—

- (a) total operating income (net of interest expense);
- (b) profit or loss before impairment losses and specific provisions and collective provisions for impaired assets;
- (c) profit or loss after impairment losses and specific provisions and collective provisions for impaired assets; or
- (d) profit or loss before taxation;

“major country or geographical segment” (主要國家或地域分部)—

- (a) in relation to an authorized institution’s cross-border claims, means a country or geographical segment, as the case may be, to which not less than 10% of the institution’s total cross-border claims are attributable after taking into account any recognized risk transfer; or
- (b) in relation to loans and advances to customers, means a country or geographical segment, as the case may be, to which not less than 10% of the institution’s total amount of loans and advances to customers are attributable after taking into account any recognized risk transfer;

“recognized risk transfer” (認可風險轉移)—

- (a) in relation to a cross-border claim of an authorized institution, means that—
  - (i) the claim is guaranteed by a person in a country which is different from that of the counterparty; or
  - (ii) the claim is on an overseas branch of a bank and the head office of the bank is located in a country which is different from that of the overseas branch; or
- (b) in relation to loans and advances of a customer of an authorized institution, means that the loans and advances are guaranteed by a person in a country which is different from that of the customer.

**47. Sector information**

(1) An authorized institution shall disclose the gross amount of loans and advances to customers, broken down into—

(a) loans and advances for use in Hong Kong—

(i) industrial, commercial and financial—

- (A) property development;
- (B) property investment;
- (C) financial concerns;
- (D) stockbrokers;
- (E) wholesale and retail trade;
- (F) manufacturing;
- (G) transport and transport equipment;
- (H) recreational activities;
- (I) information technology; and
- (J) others; and

(ii) individuals—

- (A) loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes;
- (B) loans for the purchase of other residential properties;
- (C) credit card advances; and
- (D) others;

(b) trade finance; and

(c) loans and advances for use outside Hong Kong.

(2) An authorized institution shall disclose the extent to which loans and advances referred to in subsection (1) are covered by collateral or other security.

(3) Where an authorized institution's total amount of loans and advances to a counterparty type, or to a sector which has been classified by the institution as an industry sector, constitutes not less than 10% of the institution's total amount of loans and advances, the institution shall, in respect of that counterparty type or industry sector, as the case may be, disclose—

- (a) the amount of impaired loans and advances which are individually determined to be impaired and, if available, overdue loans and advances, set out separately;
- (b) the amounts of specific provisions and collective provisions; and
- (c) the amount of new provisions charged to profit and loss, and the amount of impaired loans and advances written off during the annual reporting period.

**48. Overdue or rescheduled assets**

- (1) An authorized institution shall—
  - (a) disclose the gross amount of loans and advances to customers which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year;
  - (b) disclose the percentage of its total amount of loans and advances to customers which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year; and
  - (c) ensure that the total amount of loans and advances to customers as disclosed pursuant to paragraphs (a) and (b) corresponds to the total amount of loans and advances for use in Hong Kong, trade finance, and loans and advances for use outside Hong Kong as disclosed pursuant to section 47(1).
- (2) An authorized institution shall disclose—
  - (a) the gross amount of loans and advances to banks which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year; and
  - (b) the percentage of its total amount of loans and advances to banks which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year.
- (3) An authorized institution shall disclose—
  - (a) a description of any collateral held in respect of its overdue loans and advances and any other forms of credit risk mitigation and, unless impracticable, an estimate of the fair value of such collateral or such other forms of credit risk mitigation; and
  - (b) the amount of specific provisions made on such overdue loans and advances.
- (4) An authorized institution shall disclose—
  - (a) the amount of rescheduled loans and advances to customers, excluding those which have been overdue for more than 3 months and disclosed pursuant to subsection (1); and
  - (b) the percentage of such loans and advances to its total amount of loans and advances to customers.
- (5) An authorized institution shall disclose—

- (a) the amount of rescheduled loans and advances to banks, excluding those which have been overdue for more than 3 months and disclosed pursuant to subsection (2); and
- (b) the percentage of such loans and advances to its total amount of loans and advances to banks.

(6) An authorized institution shall disclose the amount of other assets, broken down into major classes of assets (including trade bills and debt securities), which have been overdue for—

- (a) more than 3 months but not more than 6 months;
- (b) more than 6 months but not more than one year; and
- (c) more than one year.

(7) An authorized institution shall disclose the amount of repossessed assets held, irrespective of the accounting treatment of the related loans and advances.

#### **49. Non-bank Mainland exposures**

An authorized institution shall disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material, into the categories in the return for non-bank Mainland exposures submitted by the institution to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period.

#### **50. Currency risk**

(1) Subject to subsections (2) and (3), an authorized institution shall disclose its foreign currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to foreign currency positions it submitted to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period.

(2) Where an authorized institution's net position (in absolute terms) in a particular foreign currency constitutes not less than 10% of the institution's total net position in all foreign currencies, the institution shall disclose in respect of the particular currency its—

- (a) spot assets;
- (b) spot liabilities;
- (c) forward purchases;
- (d) forward sales;
- (e) net options position; and
- (f) net long (or net short) position.

(3) For the purposes of subsection (2), an authorized institution shall calculate its net options position on the basis of—

- (a) the delta-weighted position of its options contracts; or



(b) the institution's internal reporting method.

(4) An authorized institution shall disclose the basis referred to in subsection (3) on which it calculates its net options position.

(5) Where an authorized institution's net structural position (assets less liabilities) in a particular foreign currency constitutes (in absolute terms) not less than 10% of the institution's total net structural position in all foreign currencies, the institution shall disclose that net structural position in that particular foreign currency.

(6) For the purposes of this section, an authorized institution shall convert all foreign currency amounts into their equivalents in Hong Kong dollars as at the reporting date in determining whether its net position or net structural position in a foreign currency constitutes not less than 10% of its total net position or total net structural position, as the case may be, in all foreign currencies.

## **51. Liquidity**

(1) Subject to subsection (2), an authorized institution shall disclose its average liquidity ratio for the annual reporting period.

(2) For the purposes of subsection (1), an authorized institution—

- (a) shall calculate its average liquidity ratio as the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to the liquidity position submitted by the institution to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period;
- (b) may, with the prior consent of the Monetary Authority, include overseas branches or subsidiaries of the institution, or both, in the calculation of its average liquidity ratio.

## **52. Corporate governance**

An authorized institution shall disclose—

- (a) the roles, functions and composition of any key committees established by its board of directors including any executive committee, credit committee, asset and liability committee or audit committee;
- (b) the extent of its compliance with the guideline in the Supervisory Policy Manual module CG—1 issued by the Monetary Authority and entitled “Corporate Governance of Locally Incorporated Authorized Institutions”; and
- (c) particulars of, and the reasons for, any failure by it to comply with the guideline referred to in paragraph (b).

## PART 5

### ADDITIONAL ANNUAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTION USING STC APPROACH TO CALCULATE ITS CREDIT RISK FOR NON-SECURITIZATION EXPOSURES

#### **53. References to authorized institution, etc. in Part 5**

(1) Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(3).

(2) For the avoidance of doubt, it is hereby declared that a reference to a securitization exposure in this Part includes a securitization exposure which is subject to the STC(S) approach in consequence of an exemption under section 12(2)(a) of the Capital Rules.

#### **54. Interpretation of Part 5**

Section 51 of the Capital Rules applies to the interpretation of this Part as that section applies to the interpretation of Part 4 of the Capital Rules.

#### **55. Capital adequacy**

An authorized institution shall disclose—

- (a) a summary of the approach it uses to assess the adequacy of its capital to support current and future activities;
- (b) its capital requirements separately for each class of exposures in respect of which it uses the STC approach;
- (c) its capital requirements for securitization exposures;
- (d) subject to section 61(1), its capital charge for market risk calculated in accordance with—
  - (i) the approach it uses under the Capital Rules to calculate its market risk; or
  - (ii) the approach it has approval under section 20(2)(a) of the Capital Rules to use to calculate its market risk, as the case requires; and
- (e) its capital charge for operational risk calculated in accordance with the approach it uses under the Capital Rules to calculate its operational risk.



**56. General qualitative disclosures**

(1) Subject to subsection (2), an authorized institution shall disclose a description of the main types of risk which arise from its business.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall ensure that the description it discloses pursuant to that subsection—

- (a) includes its credit, market, operational, liquidity, interest rate and foreign exchange risks (referred to in this subsection as “principal risks”);
- (b) covers the policies, procedures and controls it uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to the principal risks; and
- (c) includes a description of—
  - (i) the title or position of the board and senior management members who—
    - (A) oversee risk management;
    - (B) set the strategy and policy for each type of principal risk; and
    - (C) set the means for ensuring that the strategy and policy referred to in sub-subparagraph (B) is implemented;
  - (ii) the methods it uses to identify and measure the various types of principal risk;
  - (iii) the particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities;
  - (iv) the methods it uses to monitor and control the principal risks;
  - (v) the use of limits for controlling the principal risks;
  - (vi) the particulars of operational controls; and
  - (vii) the role of internal audit.

**57. Credit risk: specific disclosures**

An authorized institution shall disclose—

- (a) the names of the ECAIs it used in relation to its exposures during the annual reporting period and the institution’s reasons for the differences, if any, between its disclosure under this paragraph and the last disclosure it made under this paragraph;
- (b) the class of exposure for which each ECAI so named is so used;

- (c) a description of the process it used during the annual reporting period to map ECAI issuer ratings or ECAI issue specific ratings to exposures booked in the institution's banking book if that process is not a process prescribed in Part 4 of the Capital Rules;
- (d) for each separately disclosed class of exposures, the total amount of exposures (being the principal amount for on-balance sheet exposures or the credit equivalent amount for off-balance sheet exposures, as the case requires, net of specific provisions) covered by the STC approach;
- (e) for each separately disclosed class of exposures after the effect of recognized credit risk mitigation under the STC approach has been taken into account—
  - (i) the total amount of outstanding exposures (distinguishing between exposures which have an ECAI issue specific rating and those which do not); and
  - (ii) the respective risk-weighted amounts; and
- (f) the amount of credit exposures deducted from the institution's core capital and supplementary capital.

**58. General disclosures for counterparty credit risk-related exposures**

(1) An authorized institution shall disclose, in respect of its counterparty credit risk which arises from OTC derivative transactions, repo-style transactions and credit derivative contracts (other than recognized credit derivative contracts) booked in its banking book or trading book (referred to in this section as "relevant transactions"), a description of—

- (a) the methodology it uses to assign internal capital and credit limits for counterparty credit exposures; and
- (b) its policies for securing collateral and establishing provisions.

(2) An authorized institution shall disclose a breakdown of the major classes of its exposures by counterparty type.

(3) An authorized institution shall disclose, in respect of the relevant transactions—

- (a) the gross total positive fair value of the relevant transactions which are not repo-style transactions;
- (b) the credit equivalent amounts, after taking into account the effect of valid bilateral netting agreements, for the relevant transactions which are not repo-style transactions;
- (c) the net credit exposures to counterparties, after taking into account the effect of any valid bilateral netting agreements, for the relevant transactions which are repo-style transactions;

- (d) the recognized collateral (broken down by type of collateral) held by the institution for the relevant transactions;
  - (e) the credit equivalent amounts, or the net credit exposures, for the relevant transactions after taking into account the effect of any recognized collateral;
  - (f) the respective risk-weighted amounts for the relevant transactions;
  - (g) the notional amounts of recognized credit derivative contracts which provide credit protection for the relevant transactions; and
  - (h) the breakdown of the institution's credit equivalent amounts, or net credit exposures, and the risk-weighted amount of its credit exposures for each type of relevant transaction.
- (4) An authorized institution shall disclose the notional amounts of credit derivative contracts which create exposures to counterparty credit risk—
- (a) segregated between those used for the institution's credit portfolio and those used in the institution's intermediation activities, and broken down into each type of credit derivative contracts used; and
  - (b) broken down into the protection bought and the protection sold within each type of such contract.
- (5) A reference in this section to a relevant transaction which is a repo-style transaction means a transaction which falls within—
- (a) paragraph (c) of the definition of "repo-style transaction" in section 2(1) of the Capital Rules; or
  - (b) where the collateral provided by the authorized institution concerned is money, paragraph (d) of the definition of "repo-style transaction" in section 2(1) of the Capital Rules.

## **59. Credit risk mitigation**

(1) An authorized institution shall disclose, in respect of credit risk mitigation used by it other than for transactions and contracts which fall within section 58(1)—

- (a) its policies and processes for, and an indication of the extent to which it makes use of, on-balance sheet and off-balance sheet recognized netting;
- (b) its policies and processes for the valuation and management of collateral;
- (c) a description of the main types of recognized collateral taken by the institution;

- (d) the main types of guarantor and credit derivative counterparty and their creditworthiness for the recognized guarantees and recognized credit derivative contracts which constitute its credit risk mitigation; and
  - (e) information about both credit and market risk concentrations within the credit risk mitigation used by it.
- (2) An authorized institution shall disclose, for each separately disclosed class of exposures in respect of which the institution uses the STC approach other than for transactions and contracts which fall within section 58(1)—
  - (a) the total exposure (after, if applicable, the effect of any on-balance sheet or off-balance sheet recognized netting has been taken into account) which is covered by recognized collateral after the application of any haircuts required under the Capital Rules; and
  - (b) the total exposure (after, if applicable, the effect of any on-balance sheet or off-balance sheet recognized netting has been taken into account) which is covered by recognized guarantees or recognized credit derivative contracts after the application of any haircuts required under the Capital Rules.
- (3) An authorized institution—
  - (a) shall not make disclosures under this section in respect of credit derivative contracts which are treated as part of synthetic securitization transactions; and
  - (b) shall make disclosures under section 60 in respect of such credit derivative contracts.

## **60. Asset securitization**

- (1) An authorized institution which is an originating institution in securitization transactions shall disclose, in respect of the securitization transactions—
  - (a) the institution's objectives in relation to securitizing the underlying exposures in the securitization transactions and the extent to which the securitization transactions transfer credit risk in respect of the underlying exposures away from the institution to other parties to the transaction;
  - (b) a summary of the institution's accounting policies for the securitization transactions, including—
    - (i) whether the transactions are treated as sales or financings;
    - (ii) recognition of gain-on-sale;

- (iii) key assumptions for valuing the securitization exposures retained (including any significant changes since the immediately preceding annual reporting period and the impact of such changes); and
- (iv) the treatment of synthetic securitization transactions if this is not covered by other accounting policies;
- (c) the total outstanding underlying exposures which have been securitized by the institution and which are subject to Part 7 of the Capital Rules, broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by class of exposure;
- (d) the total outstanding underlying exposures in the securitization transactions entered into by the institution in the annual reporting period and in which the institution did not, during the annual reporting period, retain any securitization exposure;
- (e) the securitization exposures of the institution resulting from the securitization transactions in which the institution only acted as a sponsor;
- (f) in the case of underlying exposures which have been securitized by the institution and which are subject to Part 7 of the Capital Rules—
  - (i) the amount of impaired or overdue exposures securitized, broken down by class of exposure; and
  - (ii) the losses recognized by the institution during the annual reporting period, broken down by class of exposure;
- (g) the total amount of securitization exposures retained and securitization exposures repurchased by the institution, broken down by class of exposure;
- (h) the total amount of securitization exposures retained and securitization exposures repurchased by the institution, the risk-weighted amounts of those exposures and the capital requirements for those exposures, in respect of which the institution uses the STC(S) approach;
- (i) the securitization exposures which have been fully deducted from the institution's core capital, broken down by class of exposure; and
- (j) the credit-enhancing interest-only strips and other exposures which have been deducted from the institution's core capital and supplementary capital, broken down by class of exposure.

(2) An authorized institution which is the originating institution in securitization transactions which are subject to an early amortization provision shall disclose—

- (a) the total principal amount of the drawn balances of the underlying exposures attributed to the originator's and investors' interests, broken down by class of exposure;
- (b) the total capital requirements, in respect of which the institution uses the STC(S) approach, incurred by the institution against the originator's retained shares of the principal amount of the drawn balances and undrawn balances of the underlying exposures, broken down by class of exposure; and
- (c) the total capital requirements, in respect of which the institution uses the STC(S) approach, incurred by the institution against the investors' shares of the principal amount of the drawn balances and undrawn balances of the underlying exposures, broken down by class of exposure.

(3) An authorized institution which is the originating institution in securitization transactions shall disclose a summary of the securitization transactions it has entered into during the annual reporting period including—

- (a) the underlying exposures which have been securitized, broken down by class of exposure; and
- (b) the amount of recognized gain or loss on sale, broken down by class of exposure.

(4) An authorized institution shall disclose, in respect of its securitization transactions and the securitization exposures assumed by it (whether it is the originating institution or an investing institution)—

- (a) the roles played by the institution in the securitization transactions (including a description of its involvement in each class of exposures into which the underlying exposures in the securitization transactions would fall); and
- (b) the names of the ECAIs the institution used in relation to the securitization exposures during the annual reporting period and the class of securitization exposure for which each such ECAI was so used.

(5) An authorized institution which is an investing institution in securitization transactions shall disclose, in respect of the related securitization exposures assumed by it—

- (a) the total amount of the securitization exposures, broken down by class of exposure;
- (b) the total amount of the securitization exposures, the risk-weighted amount of the securitization exposures, and the capital requirements for the securitization exposures, in respect of which the institution uses the STC(S) approach; and
- (c) the securitization exposures which the institution has deducted from its core capital and supplementary capital, broken down by class of exposure.



(6) Section 227(1) of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 7 of the Capital Rules.

## 61. Market risk

(1) An authorized institution which has an exemption under section 22(1) of the Capital Rules shall disclose that fact.

(2) An authorized institution which uses the STM approach to calculate its market risk shall disclose—

- (a) its positions covered by the approach; and
- (b) its market risk capital charge for its—
  - (i) interest rate exposures (including options exposures if applicable);
  - (ii) equity exposures (including options exposures if applicable);
  - (iii) foreign exchange (including gold) exposures (including options exposures if applicable); and
  - (iv) commodity exposures (including options exposures if applicable).

(3) An authorized institution which uses the IMM approach to calculate its market risk capital charge shall—

- (a) disclose the positions covered by the approach;
- (b) subject to paragraph (c), disclose a description of—
  - (i) the methodologies it uses to ensure it complies with section 316(3) of the Capital Rules in respect of its valuation of market risk positions; and
  - (ii) the extent to which the methodologies referred to in subparagraph (i) are so used;
- (c) ensure that the description referred to in paragraph (b) includes—
  - (i) an articulation of the soundness standards on which the institution's internal capital adequacy assessment is based; and
  - (ii) a description of the methodologies the institution uses to achieve a capital adequacy assessment which is consistent with the soundness standards;
- (d) for each position covered by the approach, disclose—
  - (i) the characteristics of the internal models it uses;
  - (ii) a description of the stress-testing the institution applies to the position; and
  - (iii) a description of the approach the institution uses to back-test or validate the accuracy and consistency of the internal models it uses and the modelling processes; and

- (e) for each position covered by the approach and for each internal model used by the institution for the position, separately disclose—
  - (i) the institution's average, high and low VaR for the annual reporting period and the VaR as at the last trading day of the annual reporting period; and
  - (ii) a comparison of VaR estimates with actual gains or losses experienced by the institution and a breakdown of important exceptions in back-test results.

(4) Where pursuant to section 20(2)(a) of the Capital Rules an authorized institution uses an approach (referred to in this subsection as the “relevant approach”) other than the STM approach or IMM approach to calculate its market risk, then subsection (3), with all necessary modifications, applies to and in relation to the institution and the relevant approach as that subsection applies to and in relation to an authorized institution which uses the IMM approach to calculate its market risk.

(5) The Monetary Authority may, by notice in writing given to an authorized institution which falls within subsection (4), require the institution to make such disclosures, in addition to any other disclosures required under this section to be made by the institution, as the Monetary Authority considers necessary to understand the institution's market risk positions.

(6) An authorized institution shall comply with the requirements of a notice given to it under subsection (5).

(7) Section 281 of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 8 of the Capital Rules.

## **62. Operational risk**

An authorized institution shall disclose each approach for operational risk capital assessment it uses to calculate its exposure to operational risk.

## **63. Equity exposures: disclosures for banking book positions**

An authorized institution shall, in respect of its equity exposures booked in its banking book—

- (a) disclose how it differentiates between its equity holdings taken for relationship and strategic reasons and its equity holdings taken for other reasons (including the reason of capital gains);
- (b) disclose a description of its main policies covering the valuation and accounting of equity holdings, including—

- (i) the accounting techniques and valuation methodologies the institution uses;
  - (ii) the key assumptions and practices affecting such valuation; and
  - (iii) any significant changes in those practices during the annual reporting period; and
- (c) disclose—
  - (i) the cumulative realized gains or losses arising from sales and liquidations of its equity holdings in the annual reporting period; and
  - (ii) the total unrealized gains or losses recognized in the institution's reserves but not through the profit and loss account, and any amount of unrealized gains included in, or unrealized losses deducted from, the institution's supplementary capital for capital adequacy ratio purposes.

#### **64. Interest rate exposures in banking book**

An authorized institution shall, in respect of its interest rate exposures which arise from its banking book positions, disclose—

- (a) the nature of the risk;
- (b) the key assumptions the institution uses in its measurement of the risk (including assumptions regarding loan prepayments and the behaviour of deposits without a fixed maturity);
- (c) the frequency of its measurement of the risk; and
- (d) the variations in earnings or economic value (or other relevant measures used by the institution) for significant upward and downward interest rate movements in accordance with the method the institution uses for stress-testing, broken down by currency, if relevant.

### **PART 6**

#### **ADDITIONAL ANNUAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTION USING BSC APPROACH TO CALCULATE ITS CREDIT RISK FOR NON-SECURITIZATION EXPOSURES**

#### **65. References to authorized institution in Part 6**

Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(4).

## **66. Interpretation of Part 6**

Section 105 of the Capital Rules applies to the interpretation of this Part as that section applies to the interpretation of Part 5 of the Capital Rules.

## **67. Capital adequacy**

An authorized institution shall disclose—

- (a) its capital requirements for exposures in respect of which it uses the BSC approach;
- (b) its capital requirements for securitization exposures;
- (c) subject to section 70(1), its capital charge for market risk calculated in accordance with—
  - (i) the approach it uses under the Capital Rules to calculate its market risk; or
  - (ii) the approach it has approval under section 20(2)(a) of the Capital Rules to use to calculate its market risk, as the case requires; and
- (d) its capital charge for operational risk calculated in accordance with the approach it uses under the Capital Rules to calculate its operational risk.

## **68. General qualitative disclosures**

(1) Subject to subsection (2), an authorized institution shall disclose a description of the main types of risk which arise from its business.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall ensure that the description it discloses pursuant to that subsection—

- (a) includes its credit, market, operational, liquidity, interest rate and foreign exchange risks (referred to in this subsection as “principal risks”);
- (b) covers the policies, procedures and controls it uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to the principal risks; and
- (c) includes a description of—
  - (i) the title or position of the board and senior management members who—
    - (A) oversee risk management;
    - (B) set the strategy and policy for each type of principal risk; and

- (C) set the means for ensuring that the strategy and policy referred to in sub-subparagraph (B) is implemented;
- (ii) the methods it uses to identify and measure the various types of principal risk;
- (iii) the particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities;
- (iv) the methods it uses to monitor and control the principal risks;
- (v) the use of limits for controlling the principal risks;
- (vi) the particulars of operational controls; and
- (vii) the role of internal audit.

## **69. Asset securitization**

(1) An authorized institution which is an investing institution in securitization transactions shall disclose, in respect of the securitization transactions and the securitization exposures assumed by it—

- (a) the roles played by the institution in the securitization transactions (including a description of its involvement in each class of exposures into which the underlying exposures in the securitization transactions would fall);
- (b) the names of the ECAIs the institution used in relation to the securitization exposures during the annual reporting period and the class of securitization exposure for which each such ECAI was so used;
- (c) the total amount of the securitization exposures, broken down by class of exposure;
- (d) the total amount of the securitization exposures, the risk-weighted amount of the securitization exposures, and the capital requirements for the securitization exposures, in respect of which the institution uses the STC(S) approach; and
- (e) the securitization exposures which the institution has deducted from its core capital and supplementary capital, broken down by class of exposure.

(2) Section 227(1) of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 7 of the Capital Rules.

## **70. Market risk**

(1) An authorized institution which has an exemption under section 22(1) of the Capital Rules shall disclose that fact.

(2) An authorized institution which uses the STM approach to calculate its market risk shall disclose—

- (a) its positions covered by the approach; and
- (b) its market risk capital charge for its—
  - (i) interest rate exposures (including options exposures if applicable);
  - (ii) equity exposures (including options exposures if applicable);
  - (iii) foreign exchange (including gold) exposures (including options exposures if applicable); and
  - (iv) commodity exposures (including options exposures if applicable).

(3) An authorized institution which uses the IMM approach to calculate its market risk capital charge shall—

- (a) disclose the positions covered by the approach;
- (b) subject to paragraph (c), disclose a description of—
  - (i) the methodologies it uses to ensure it complies with section 316(3) of the Capital Rules in respect of its valuation of market risk positions; and
  - (ii) the extent to which the methodologies referred to in subparagraph (i) are so used;
- (c) ensure that the description referred to in paragraph (b) includes—
  - (i) an articulation of the soundness standards on which the institution's internal capital adequacy assessment is based; and
  - (ii) a description of the methodologies the institution uses to achieve a capital adequacy assessment which is consistent with the soundness standards;
- (d) for each position covered by the approach, disclose—
  - (i) the characteristics of the internal models it uses;
  - (ii) a description of the stress-testing the institution applies to the position; and
  - (iii) a description of the approach the institution uses to back-test or validate the accuracy and consistency of the internal models it uses and the modelling processes; and
- (e) for each position covered by the approach and for each internal model used by the institution for the position, separately disclose—
  - (i) the institution's average, high and low VaR for the annual reporting period and the VaR as at the last trading day of the annual reporting period; and



- (ii) a comparison of VaR estimates with actual gains or losses experienced by the institution and a breakdown of important exceptions in back-test results.

(4) Where pursuant to section 20(2)(a) of the Capital Rules an authorized institution uses an approach (referred to in this subsection as the “relevant approach”) other than the STM approach or IMM approach to calculate its market risk, then subsection (3), with all necessary modifications, applies to and in relation to the institution and the relevant approach as that subsection applies to and in relation to an authorized institution which uses the IMM approach to calculate its market risk.

(5) The Monetary Authority may, by notice in writing given to an authorized institution which falls within subsection (4), require the institution to make such disclosures, in addition to any other disclosures required under this section to be made by the institution, as the Monetary Authority considers necessary to understand the institution’s market risk positions.

(6) An authorized institution shall comply with the requirements of a notice given to it under subsection (5).

(7) Section 281 of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 8 of the Capital Rules.

## **71. Interest rate exposures in banking book**

An authorized institution shall, in respect of its interest rate exposures which arise from its banking book positions, disclose—

- (a) the nature of the risk;
- (b) the key assumptions the institution uses in its measurement of the risk (including assumptions regarding loan prepayments and the behaviour of deposits without a fixed maturity);
- (c) the frequency of its measurement of the risk; and
- (d) the variations in earnings or economic value for significant upward and downward interest rate movements broken down, if relevant, by currency in accordance with the method used in the returns relating to interest rate risk exposures submitted by it to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period.

## PART 7

### ADDITIONAL ANNUAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTION USING IRB APPROACH TO CALCULATE ITS CREDIT RISK FOR NON-SECURITIZATION EXPOSURES

#### **72. References to authorized institution, etc. in Part 7**

(1) Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(5).

(2) For the avoidance of doubt, it is hereby declared that—

- (a) a reference to a non-securitization exposure in this Part does not include a non-securitization exposure the subject of an exemption under section 12(2)(a) of the Capital Rules;
- (b) a reference to a securitization exposure in this Part does not include a securitization exposure which is subject to the STC(S) approach in consequence of an exemption under section 12(2)(a) of the Capital Rules.

#### **73. Interpretation of Part 7**

Section 139(1) of the Capital Rules applies to the interpretation of this Part as that section applies to the interpretation of Part 6 of the Capital Rules.

#### **74. Capital adequacy**

(1) Subject to subsection (2), an authorized institution shall disclose—

- (a) a summary of the approach it uses to assess the adequacy of its capital to support current and future activities; and
- (b) its capital requirements separately for each IRB class or IRB subclass, as the case may be, under the separately disclosed IRB calculation approach as specified in section 147 of the Capital Rules used by the institution, covering—
  - (i) corporate (including small-and-medium sized corporates, specialized lending and purchased corporate receivables), sovereign and bank exposures;
  - (ii) residential mortgages to individuals and property-holding shell companies (including purchased retail receivables if applicable);
  - (iii) qualifying revolving retail exposures (including purchased retail receivables if applicable);

- (iv) other retail exposures to individuals and small business retail exposures (including purchased retail receivables if applicable); and
- (v) other exposures including cash items, and other exposures which do not fall within the IRB class of corporate, sovereign, bank, retail or equity exposures or the IRB subclass of cash items.

(2) For the purposes of a disclosure under subsection (1) by an authorized institution, the institution shall distinguish between qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures unless—

- (a) those IRB subclasses are insignificant in size relative to the overall credit exposures of the institution; and
- (b) the risk profiles of those IRB subclasses are so similar that to make that distinction would not assist in understanding the risk profile of the institution's retail businesses.

(3) An authorized institution shall disclose its capital requirements for its securitization exposures.

(4) An authorized institution shall disclose—

- (a) subject to paragraph (b), its capital requirements for the IRB class of equity exposures booked in its banking book; and
- (b) a breakdown of such equity exposures into—
  - (i) equity exposures subject to the market-based approach further broken down into—
    - (A) equity exposures subject to the simple risk-weight method; and
    - (B) equity exposures subject to the internal models method; and
  - (ii) equity exposures subject to the PD/LGD approach.

(5) An authorized institution shall disclose—

- (a) its capital charge for market risk calculated in accordance with—
  - (i) the approach it uses under the Capital Rules to calculate its market risk; or
  - (ii) the approach it has approval under section 20(2)(a) of the Capital Rules to use to calculate its market risk, as the case requires; and
- (b) its capital charge for operational risk calculated in accordance with the approach it uses under the Capital Rules to calculate its operational risk.

**75. General qualitative disclosures**

(1) Subject to subsection (2), an authorized institution shall disclose a description of the main types of risk which arise from its business.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall ensure that the description it discloses pursuant to that subsection—

- (a) includes its credit, market, operational, liquidity, interest rate and foreign exchange risks (referred to in this subsection as “principal risks”);
- (b) covers the policies, procedures and controls it uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to the principal risks; and
- (c) includes a description of—
  - (i) the title or position of the board and senior management members who—
    - (A) oversee risk management;
    - (B) set the strategy and policy for each type of principal risk; and
    - (C) set the means for ensuring that the strategy and policy referred to in sub-subparagraph (B) is implemented;
  - (ii) the methods it uses to identify and measure the various types of principal risk;
  - (iii) the particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities;
  - (iv) the methods it uses to monitor and control the principal risks;
  - (v) the use of limits for controlling the principal risks;
  - (vi) the particulars of operational controls; and
  - (vii) the role of internal audit.

**76. Credit risk: disclosures for exposures  
subject to supervisory estimates  
in use of IRB approach**

Where any exposures of an authorized institution are subject to the supervisory estimates under the use of the IRB approach (including any specialized lending subject to the supervisory slotting criteria approach and equity exposures under the simple risk-weight method), the institution shall disclose the total EAD of the exposures falling within each IRB class.

**77. Credit risk: specific disclosures**

(1) Where an authorized institution does not exclusively use the IRB approach to calculate its credit risk for non-securitization exposures (and has any of its non-securitization exposures the subject of an exemption under section 12(2)(a) of the Capital Rules), the institution shall disclose a description of the nature of the exposures within each IRB class which are subject to the separately disclosed IRB calculation approach, as specified in section 147 of the Capital Rules, used by the institution.

(2) An authorized institution shall disclose an explanation and review of—

- (a) the structure of its rating systems and the relationship between internal ratings and external ratings;
- (b) the use of internal estimates by the institution other than for the calculation of the institution's regulatory capital under the use of the IRB approach;
- (c) the process it uses for managing and recognizing credit risk mitigation; and
- (d) the control mechanisms it uses for its rating systems (including a description of the independence and accountability of the rating process, and the ratings system reviews).

(3) Subject to subsections (4) and (5), an authorized institution shall disclose a description of its internal ratings process separately for each IRB class or IRB subclass comprising—

- (a) corporate (including small-and-medium sized corporates, specialized lending, and purchased corporate receivables), sovereign and bank exposures;
- (b) equity exposures if the institution uses the PD/LGD approach for equity exposures booked in its banking book;
- (c) residential mortgages to individuals and property-holding shell companies (including purchased retail receivables if applicable);
- (d) qualifying revolving retail exposures (including purchased retail receivables if applicable); and
- (e) other retail exposures to individuals and small business retail exposures (including purchased retail receivables if applicable).

(4) An authorized institution shall ensure that the description required to be disclosed by it pursuant to subsection (3) of an IRB class or IRB subclass referred to in that subsection includes—

- (a) the type of exposure which falls within the IRB class or IRB subclass, as the case may be;
- (b) for exposures which fall within subsection (3)(a) or (b)—

- (i) a description of the definitions of the variables, methods and data for estimation and validation of the PD, LGD and EAD; and
  - (ii) a description of the assumptions employed in the derivation of the variables referred to in subparagraph (i) except for—
    - (A) the LGD and EAD related disclosures which do not apply in the case of an authorized institution which uses the foundation IRB approach; and
    - (B) the LGD and EAD related disclosures which do not apply to equity exposures; and
- (c) for exposures which fall within subsection (3)(c), (d) or (e)—
  - (i) a description of the definitions of the variables, methods and data for the estimation and validation of the PD, LGD and EAD; and
  - (ii) a description of the assumptions employed in the derivation of the variables referred to in subparagraph (i).
- (5) For the purposes of subsections (3) and (4), an authorized institution shall distinguish between qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures unless—
  - (a) those IRB subclasses are insignificant in size relative to the overall credit exposures of the institution; and
  - (b) the risk profiles of those IRB subclasses are so similar that to make that distinction would not assist in understanding the risk profile of the institution's retail businesses.
- (6) An authorized institution shall disclose a description of—
  - (a) the approaches it uses for determining specific provisions and collective provisions; and
  - (b) the statistical methods it uses for the purposes of those approaches.

## **78. Credit risk: disclosures on risk assessment**

- (1) An authorized institution shall, for each IRB class or IRB subclass referred to in section 77(3), disclose the amount of exposures (including the EAD of on-balance sheet exposures and off-balance sheet exposures) separately for each IRB calculation approach used by the institution to which the exposures concerned are subject.
- (2) Subject to subsection (3), an authorized institution shall disclose—
  - (a) for the IRB classes referred to in section 77(3)(a), the EAD of on-balance sheet exposures and off-balance sheet exposures, on a stand-alone or combined basis, in respect of the counterparties to the exposures;