

Following consultation with authorized institutions and the two industry associations, the HKMA updated its disclosure guideline entitled “Financial Disclosure by Locally Incorporated Authorized Institutions” on 8 December 2000. The updated guideline requires authorized institutions incorporated in Hong Kong to disclose more information on concentration risks, in particular geographical concentrations and foreign currency exposures, and standardises the terminology for non-performing loans. At the same time, the HKMA has introduced the disclosure of profit and loss information and incorporated similar concentration risk information into the disclosure recommendations for overseas incorporated institutions.

Introduction

The implementation of the recommendations embodied in the Best Practice Guide first issued in 1994 has resulted in a significant improvement in the level of disclosure by authorized institutions incorporated in Hong Kong. Since 1994, the HKMA has been updating the recommendations in accordance with international best practices on financial disclosure and developments in accounting standards on an ongoing basis. In late 1999, the HKMA converted the Best Practice Guide into a more formal set of minimum standards in the form of a guideline entitled “Financial Disclosure by Locally Incorporated Authorized Institutions” (Guideline) issued under section 16(10) of the Banking Ordinance.

Following consultation with authorized institutions and the two industry associations, the latest updated Guideline was gazetted on 8 December 2000. This exercise represented a further move by the HKMA to enhance the transparency of financial information on the banking sector and to bring the financial disclosure standards in line with international best practices, in particular International Accounting Standard number 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions”. The updates mainly include information about: (1) geographical concentrations of income, profit or loss, assets, liabilities and contingent liabilities and commitments; (2) geographical information on loans and advances (previously disclosed on a voluntary

basis); (3) foreign currency exposures; and (4) standardisation of terminology for non-performing loans. Similar updates, where relevant, together with disclosure of profit and loss information were incorporated into the disclosure recommendations for overseas incorporated authorized institutions.

Financial Disclosure for Locally Incorporated Authorized Institutions

The salient features of the updates incorporated into the Guideline are as follows:

Geographical Concentrations of Income, Profit or Loss, Assets, Liabilities and Off-Balance Sheet Items

Locally incorporated institutions are required to disclose the following concentrations of income, profit or loss, assets, liabilities and off-balance sheet items arising from or booked in countries or geographical areas which are considered to be significant to the institution:

- Total operating income (net of interest expense);
- Profit/loss before taxation;
- Total assets;
- Total liabilities; and
- Contingent liabilities and commitments.

More specific guidance is provided on determination of significant countries or geographical areas for disclosure purposes - a country or geographical

area should generally be reported where it contributes 10% or more of the relevant disclosure item.

Previously, locally incorporated authorized institutions were already required to disclose geographical information on income, profit or loss and total assets. The additional disclosure items have built upon the previous requirements.

Geographical Information on Advances

Analysis of the gross amount of customer advances by countries or geographical areas that are considered to be significant to an institution is made a requirement in the Guideline. Previously, such disclosure had been voluntary. The analysis should be made according to the location of the counterparties and take into account possible transfers of risk, i.e. where the claims are guaranteed by a party in a country which is different from that of the counterparty or where the claims are on an overseas branch of a bank whose head office is located in another country.

In addition, authorized institutions are required to provide geographical breakdowns of overdue and non-performing loans (see definition below). This will further increase the transparency of asset quality of authorized institutions in line with the recommendations contained in the report of the Basel Committee on Banking Supervision entitled “Sound Practices for Loan Accounting and Disclosure”. Authorized institutions are also encouraged to disclose other types of credit exposures, including those arising from off-balance sheet transactions, according to the location of the counterparty, therefore giving a fuller picture of concentration of risks.

Foreign Currency Exposures

The Guideline requires authorized institutions to disclose foreign currency exposures arising from trading, non-trading and structural positions consistent with the definitions used in the HKMA’s “Foreign Currency Position” return (MA(BS)6). The position in a particular foreign currency should be reported if its net position in absolute terms constitutes 10% or more of the total net position in all foreign currencies. The financial information

to be disclosed in respect of each such currency should include:

- Spot assets;
- Spot liabilities;
- Forward purchases;
- Forward sales;
- Net options position; and
- Net long (short) position.

Similarly the net structural position (assets less liabilities) in a particular foreign currency should be reported if it constitutes 10% or more of the total net structural position in all foreign currencies in absolute terms.


The disclosure of significant net foreign currency exposures is a useful indication of the risk of losses arising from changes in exchange rates. Authorized institutions are already required to disclose certain risk related information including qualitative information on management of risks and quantitative information on market risk. The additional information on foreign currency exposures complements the existing disclosure requirements.

Standardisation of Terminology for Non-performing Loans

There are a number of possible indicators of loan quality, a key one of which is non-accrual loans, i.e. loans for which interest is being placed in suspense or on which interest accrual has ceased. In order to standardise the use of terminology, the HKMA has taken this opportunity to hereafter refer non-accrual loans as “non-performing loans”. Such standardisation of terminology should facilitate ease of comparison of like items between banks.

Disclosure Guidelines for Overseas Incorporated Authorized Institutions

Similar updates, where relevant, have been incorporated into the disclosure recommendations for overseas incorporated authorized institutions. These include geographical information on advances (previously disclosed on a voluntary basis), foreign currency exposures, and standardisation of terminology for non-performing loans. In addition, disclosure of profit and loss information has been included. This is in recognition of the fact that a number of foreign banks have a substantial retail

and commercial presence in Hong Kong. It is therefore appropriate that foreign institutions disclose similar information to their locally incorporated counterparts to further enhance transparency and to achieve a more level playing field for all institutions in the banking sector. 

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