

*In conducting the day-to-day supervision of authorised institutions, the Monetary Authority often receives questions on regulatory issues. This column publishes the supervisory response to questions which cover matters of general interest.*

**Q.** What are the main provisions of the Banking (Amendment) Ordinance 1997 and when will it become effective?

**A.** The Banking (Amendment) Ordinance 1997 was enacted by the Legislative Council on 8 January and published in the Gazette on 17 January 1997. The main objectives of the Ordinance are to introduce a legal framework for the regulation of the issue of multi-purpose stored value cards and money brokers, and update and improve on the working of some of the provisions of the Banking Ordinance. The majority of the Ordinance, including those provisions relating to multi-purpose stored value cards and money brokers, is scheduled for commencement in the second quarter of this year (the exact commencement date will be published in the Gazette in due course). This is because more time is required to update the Guide to Applicants. However, certain provisions, relating to the procedures for voluntary revocation of the authorization of authorized institutions and for exercising the Monetary Authority's powers under section 52, came into effect on 3 February 1997.

**Q.** How should banks report loans for refinancing residential mortgages purposes under the Return on Loans and Advances and Provisions?

**A.** As the scale of refinancing of residential mortgages has increased, a number of institutions have sought clarification about the appropriate treatment of the refinancing loans for prudential reporting purposes. The HKMA has taken the opportunity of its recent review of regulatory reporting to address this query.

In the revised completion instructions for the Return on Loans and Advances and Provisions issued in November 1996, authorized institutions are required to report under H5b - Purchase of residential properties by professional and private individuals - refinancing loans and residential mortgage loans which have been transferred from other banks or companies.

The rationale for the above treatment is that in most cases, the predominant part of the refinancing loans remains for the purpose of purchasing the property concerned (i.e. most of the new loan is used to repay the existing mortgage). Where additional funds are advanced, most refinancing institutions do not specifically establish with the borrower the usage of such funds. In any event, splitting of loans for reporting purpose is not allowed. Therefore, institutions are advised to base their reporting on the primary purpose of the refinancing loans, i.e. residential mortgages.