# DRAFT

# DISCLOSURE RULES

# HONG KONG MONETARY AUTHORITY

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# DISCLOSURE RULES

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# DISCLOSURE RULES

(Made by the HKMA under section 60A of the
Banking Ordinance (Cap. 155) as amended by the
Banking (Amendment) Ordinance 2005)

## PART 1
## PRELIMINARY

### 1.1    Commencement and Status

1.1.1    Provision should be made for the Rules to come into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

### 1.2    Interpretation[1]

1.2.1    Any term or expression used in the Disclosure Rules that is not defined in the Disclosure Rules:

(a) which is defined in the [Capital Rules] shall, unless the context otherwise requires, have the meaning given to it by the [Capital Rules];

(b) which is not defined in the [Capital Rules] and which is defined in the Banking Ordinance shall, unless the context otherwise requires, have the meaning given to it by the Banking Ordinance.

1.2.2    The DRs should include an interpretation section setting out definitions of technical terms along the following lines:

"Advanced IRB Approach" means that, where an AI is using the IRB for non-securitization exposures, the AI provides its own estimates of PD, LGD and EAD and measures the effective maturity of its corporate, sovereign and bank exposures;

"AIRB" means the Advanced IRB Approach;

"AI" means authorized institution, as defined in section 2 of the BO;

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[1] The definitions set out in this section are subject to further refinements as necessary and appropriate.

"alternative standardized approach", in relation to the calculation of an AI's operational risk, means the method of calculating that risk set out in Division 3 of Part 7 of the Capital Rules;

"ASA" means the alternative standardized approach;

"asset-backed commercial paper programme" means a programme under which a bankruptcy-remote SPE in a securitization transaction issues debt securities –

(a) with an original maturity of not more than one year; and

(b) the payments in respect of which are secured by a pool of underlying exposures acquired from third parties and held by, or to the order of, that SPE;

"asset sale with recourse", in relation to an AI, means an asset sale transaction where the credit risk of the asset sold remains with the institution because the holder of the asset is entitled to put the asset back to the institution within a period agreed, or under circumstances agreed, under the transaction;

"associate" means an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture;

"available-for-sale", in relation to a financial asset or financial instrument, has the meaning assigned to it by Hong Kong Accounting Standard 39;

"bank" means:

(a) an AI except an AI the authorization of which is for the time being suspended under section 24 or 25 of the BO; or

(b) a bank incorporated outside Hong Kong which is not an AI except -

    (i) such a bank which, in the opinion of the HKMA, is not adequately supervised by the relevant banking supervisory authority; or

    (ii) such a bank the licence or other authorization of which to carry on banking business is for the time being suspended;

"banking book", in relation to an AI, means all the institution's on-balance sheet assets and off-balance sheet

exposures except such assets and exposures which are required to be recorded in the institution's trading book;

"BAO" means Banking (Amendment) Ordinance 2005;

"Basel II" means The International Convergence of Capital Measurement and Capital Standards: A Revised Framework published by the Basel Committee on Banking Supervision in June 2004 and updated in November 2005;

"basic approach", in relation to the calculation of an AI's credit risk, means the method of calculating that risk for non-securitization exposures set out in Part [5] of the Capital Rules;

"basic indicator approach", in relation to the calculation of an AI's operational risk, means the method of calculating that risk set out in Division 1 of Part 7 of the Capital Rules;

"BIA" means the basic indicator approach;

"BO" means Banking Ordinance (Cap.155);

"BSA" means the basic approach;

"capital base", in relation to an AI, means the capital base of the institution as defined in section 2(1) of the BO, and should be read with reference to "capital base" in the definition of "capital adequacy ratio" in that section;

"Capital Rules" means the rules made by the HKMA under section 98A of the BO as amended by the BAO 2005;

"CAR" means capital adequacy ratio;

"cash flow hedge", means the hedging relationship defined in paragraph 86 of Hong Kong Accounting Standard 39;

"certificate of deposit" means all certificates of deposit regardless of maturity and includes those certificates of deposit that are held for trading purposes;

"collective provisions", in relation to the on-balance sheet assets of an AI, means an allowance for impairment loss arising from a collective assessment of the assets for impairment loss in accordance with Hong Kong Accounting Standard 39;

"commodities", in relation to the calculation of an AI's market risk, means any precious metals (other than gold), base metals, non-precious metals, energy or agricultural

assets, or any other physical products which are, or can be, traded on an exchange;

"confidence interval" means a statistical range within a specified probability that a given parameter lies within the range;

"consolidation group", in relation to an AI, means -

(a) the institution; and

(b) such subsidiaries of the institution as are specified in a section 98(2) requirement given to the institution;

"core capital", in relation to an AI, means the sum, calculated in Hong Kong dollars, of the book values of the institution's capital items specified in the Capital Rules;

"corporate" means:

- a partnership or limited company; or
- an unincorporated business owned by a single person;

which is neither -

- a public sector entity, bank or securities firm; nor
- an obligor to which the institution has an exposure falling within the definition of "regulatory retail exposure" or the IRB exposure class for retail exposures or IRB exposure class for other exposures in the Capital Rules;

"credit conversion factor", in relation to an off-balance sheet exposure of an AI, means a percentage by which the principal amount of the exposure is multiplied in obtaining the credit-equivalent amount of the exposure;

"credit default swap" means a credit derivative contract under which the [protection buyer] pays a fee to the [protection seller] in return for compensation in the event of a default (or similar credit event) by a reference entity;

"credit derivative contract" means a forward, swap, option or similar derivative contract entered into by 2 parties with the intention to transfer credit risk in relation to an underlying obligation from one party [("protection buyer")] to the other party [("protection seller")];

"credit-enhancing interest-only strip", in relation to a securitization transaction, means an on-balance sheet asset –

(a) recorded by the originator in the securitization transaction as representing the expected future excess spread to be derived from the underlying exposures; and

(b) that is subordinated to claims from other parties to the securitization transaction in terms of the priority of repayment;

"credit-enhancing I/O" means a credit-enhancing interest-only strip;

["credit equivalent amount", in relation to an off-balance sheet exposure of an AI, means the value obtained by –

(a) in the case of an exposure that is not an over-the-counter derivative transaction or credit derivative contract, multiplying the principal amount of the exposure, after deducting any specific provisions applicable to the exposure, by the applicable credit conversion factor;

(b) in the case of an exposure that is an over-the-counter derivative transaction or credit derivative contract, adding the current exposure of the over-the-counter derivative transaction or credit derivative contract, as the case may be, to the potential exposure of the over-the-counter derivative transaction or credit derivative contract, as the case may be;

In the case of IRB, the deduction of specific provisions is not required in respect of non-over-the-counter derivative transaction or credit derivative contract;]

"credit-linked note" means a form of structured note with an embedded credit default swap which allows the issuer of the note [("protection buyer")] to transfer credit risk to the buyer of the note [("protection seller")];

"credit risk", in relation to an AI, means the institution's credit risk as referred to in paragraph (a) of the definition of "capital adequacy ratio" in section 2(1) of the BO;

"credit risk components" means estimates of PD, LGD, EAD and effective maturity, which are inputs into the IRB risk-weight functions to determine the risk-weight to be allocated to corporate, sovereign, bank, retail, or, if the PD/LGD approach is used, equity exposures;

"credit risk weighted amount", in relation to the AI's calculation of credit risk, means the risk-weighted amount of credit exposures calculated in accordance with the

Capital Rules set out in Part 4, [5] and [6] relating to STC, BSA and IRB respectively; and the risk-weighted amount of securitization exposures calculated in accordance with the Capital Rules set out in Part [9] relating to IRBS and STS;

"current" -

(a) in relation to an ECAI issuer rating, means the credit assessment rating concerned has not been withdrawn, and is not currently suspended, by the ECAI which assigned that credit assessment rating;

(b) in relation to an ECAI issue specific rating, means -

    (i) the credit assessment rating concerned has not been withdrawn, and is not currently suspended, by the ECAI which assigned that credit assessment rating; and

    (ii) the debt obligation to which that credit assessment rating relates is still outstanding;

"current exposure", in relation to an off-balance sheet exposure of an AI which is an over-the-counter derivative transaction (referred to in this definition as "existing transaction") or credit derivative contract (referred to in this definition as "existing contract"), means the replacement cost:

(a) which would be incurred by the institution if it were required to enter into another over-the-counter derivative transaction or credit derivative contract, as the case may be, to replace the existing transaction or existing contract, as the case may be, with another counterparty with substantially the same economic consequences for the institution; and

(b) calculated by marking-to-market the existing transaction or existing contract, as the case may be, and –

    (i) if the resultant value is positive for the institution, taking the resultant value of the existing transaction or existing contract, as the case may be;

    (ii) if the resultant value is negative for the institution, taking the resultant value of the existing transaction or existing contract, as the case may be, as zero;

["debt securities" mean any securities other than shares, stocks or import or export trade bills;]

"Delta Equivalent Approach", means using the delta equivalent value of the option contracts for reporting, which is calculated by multiplying the principal value of the underlying by the delta;

"derivatives", has the meaning assigned to it by Hong Kong Accounting Standard 39;

"Designated AI", in relation to the DRs made under section 60A of BO, means an AI which is incorporated in Hong Kong or outside Hong Kong, as the case may be, and subject to the disclosure requirements applicable to Hong Kong incorporated AIs in accordance with 2.1.1 of Part 2, or overseas incorporated AIs in accordance with 2.1.3 of Part 2, as the case may be, as specified in these DRs;

"direct credit substitute", in relation to an AI -

▪ means an irrevocable off-balance sheet exposure of the institution which carries the same credit risk to the institution as a direct extension of credit by the institution; and

▪ includes:

– guarantees by the institution;

– standby letters of credit serving as financial guarantees for loans;

– acceptances; and

– financial liabilities arising from the selling of credit protection under credit derivative contracts in the form of total return swaps or credit default swaps booked in the institution's banking book;

"Disclosure Statement", in relation to an AI, means a document published by that AI under the Disclosure Rules;

"drawn balances", in relation to the calculation of investors' interest, means the amounts of revolving credit lines that have been drawn by the obligors of the credit lines, where –

(a) the credit lines have been sold into a securitization transaction; and

(b) the investors remain, in whole or in part, exposed to future drawings by the obligors under the credit lines available to the obligors;

"DRs" means Disclosure Rules;

"DTC" means a deposit-taking company;

"EAD" means exposure at default;

"early amortization provision", in relation to a securitization transaction of which the underlying exposures are revolving in nature, means a mechanism which, once triggered, allows investors in the securitization transaction to be paid out prior to the originally stated maturity of the securitization issues;

"ECA" means export credit agencies;

"ECAI" means an external credit assessment institution;

"ECAI issuer rating", in relation to any person (howsoever described), means a long-term credit assessment rating assigned to the person by an ECAI;

"ECAI issue specific rating", in relation to a debt obligation issued or undertaken by a person (howsoever described), means –

(a) in sections 4.3.1 and 4.3.3 of Part 4 of the Capital Rules, a long-term credit assessment rating assigned to the obligation by an ECAI; and

(b) in sections 4.3.4, 4.3.5 and 4.3.6 of Part 4 of the Capital Rules, a short-term or long-term credit assessment rating assigned to the obligation by an ECAI;

"effective interest method", has the meaning assigned to it by Hong Kong Accounting Standard 39;

"effective interest rate", has the meaning assigned to it by Hong Kong Accounting Standard 39;

"EL" means expected loss;

"EL amount" means expected loss amount;

"eligible provisions", in relation to an exposure of an AI which uses the IRB to calculate its credit risk for non-securitization exposures, means the sum of –

(a) the AI's regulatory reserves for general banking risks, specific provisions, partial write-offs and collective provisions that are attributed to exposures which are subject to the IRB; and

(b) any discounts on exposures referred to in paragraph (a) which are in default;

"EP" means eligible provisions;

"excess spread", in relation to a securitization transaction, means future interest and other income derived by the SPE in the securitization transaction from the underlying exposures of the securitization transaction in excess of the transaction costs specified in the securitization documentation;

"exchange rate contract" -

(a) means a forward foreign exchange, cross-currency interest rate swap, currency option or similar derivative contract; and

(b) includes a forward, swap, option or similar derivative contract the value of which is derived from the value of gold;

"expected loss", in relation to an exposure of an AI which uses the IRB to calculate its credit risk for non-securitization exposures, means the ratio of the expected loss on the exposure arising from the potential default of the obligor or dilution risk in respect of the exposure over a one year period relative to the EAD of the exposure;

"expected loss amount", in relation to an exposure of an AI which uses the IRB to calculate its credit risk for non-securitization exposures, means the expected loss amount of the exposure calculated by multiplying the EL of the exposure by the EAD of the exposure;

"exposure at default", in relation to an exposure of an AI which uses the IRB to calculate its credit risk for non-securitization exposures, means the expected amount of the exposure:

(a) upon the default of the obligor of the exposure; and

(b) measured without deduction of specific provisions and partial write-offs;

"external credit assessment institution" means:

(a) [Standard and Poor's Corporation];

(b) [Moody's Investors Service, Inc.]; or

(c) [Fitch Ratings Ltd.];

"fair value":

(a) in relation to an asset, means the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction;

(b) in relation to a liability, means the amount for which the liability could be settled between knowledgeable, willing parties in an arm's length transaction;

"fair value hedge", means a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss;

"financial assets or financial liabilities measured at fair value through profit or loss" has the meaning assigned to it by Hong Kong Accounting Standard 39;

"FIRB" means the Foundation IRB Approach;

"forecast transaction" has the meaning assigned to it by paragraph 9 of Hong Kong Accounting Standard 39;

"forward asset purchase", in relation to an AI -

(a) means a commitment by the institution to purchase at a specified future date, and on pre-arranged terms, a loan, security or other asset from another party; and

(b) includes a commitment under a put option written by the institution;

"forward forward deposit placed", in relation to an AI, means an agreement between the institution and another party whereby the institution will place a deposit at an agreed rate of interest with the party at a specified future date;

"Foundation IRB Approach" means that, where an AI is using the IRB for non-securitization exposures, the AI provides its own estimates of PD and uses supervisory estimates for the other credit risk components of its corporate, sovereign and bank exposures;

"gain-on-sale", in relation to a securitization transaction, means any increase in the core capital of the originating AI resulting from the sale of underlying exposures in the securitization transaction;

"geographical segment" is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Factors that shall be considered in identifying geographical segments include:

(a) similarity of economic and political conditions;

(b) relationships between operations in different geographical areas;

(c) proximity of operations;

(d) special risks associated with operations in a particular area;

(e) exchange control regulations; and

(f) the underlying currency risks.

"guarantee" includes an indemnity;

"haircut", in relation to an AI, means an adjustment to be applied to the credit protection held by the institution, or the institution's exposure, to take into account possible future price fluctuations or fluctuations in exchange rates;

"hedges of net investments in foreign operation" means the hedging relationship defined in Hong Kong Accounting Standard 39 where –

(a) Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity; and

(b) Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation;

"held-to-maturity investment" has the meaning assigned to it by Hong Kong Accounting Standard 39;

"highly probable forecast transaction", in relation to cash flow hedges, means a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;

"HKAS" means Hong Kong Accounting Standard;

"HKFRS" means Hong Kong Financial Reporting Standard;

"Hong Kong Financial Reporting Standards" mean standards of accounting issued by the Hong Kong Institute of Certified Public Accountants pursuant to section 18A of the Professional Accountants Ordinance (Cap. 50);

"IMA" means internal models approach;

"interest rate contract" means a single-currency forward rate, interest rate swap, interest rate option or similar derivative contract;

"internal model", in relation to the use by an AI of the IMA to calculate its market risk, means a statistical model used by the institution to measure the institution's market risk exposures;

"internal models approach", in relation to the calculation of an AI's market risk, means the method of calculating that risk set out in the Capital Rules;

"internal ratings-based approach", in relation to the calculation of an AI's credit risk for non-securitization exposures, means the method of calculating that risk set out in Part [6] of the Capital Rules;

"internal ratings-based securitization approach", in relation to the calculation of an AI's credit risk for securitization exposures, means the method of calculating that risk set out in Part [9] of the Capital Rules;

"investment property" means property (land or a building, or part of a building, or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business;

"investor", in relation to a securitization transaction, means a person, other than the originator, who assumes securitization exposures by –

(a) purchasing securitization issues;

(b) providing credit protection to other parties to the securitization transaction; or

(c) providing liquidity facilities in respect of the transaction;

"investors' interest", in relation to a securitization transaction of which the underlying exposures are revolving in nature and which has an early amortization provision, means the interest held by investors in the underlying exposures of the securitization transaction;

"I/Os" means interest-only strip;

"IRB" means the internal ratings-based approach;

"IRBS" means the internal ratings-based securitization approach;

"IRRBB", in relation to an AI, means interest rate risk in banking book;

"LGD" means loss given default;

"loan capital" means subordinated liabilities such as loans, debentures, floating rate notes etc;

"loans and receivables" has the meaning assigned to it by Hong Kong Accounting Standard 39;

"long lease", has the meaning assigned to it by the Tenth Schedule of the Companies Ordinance (Cap. 32);

"loss given default" in relation to an exposure of an AI which uses the IRB to calculate its credit risk for non-securitization exposures, means the ratio of the loss likely to be incurred by the AI upon default of the obligor of the exposure to the EAD of the exposure;

"market risk", in relation to an AI, means the institution's market risk as referred to in paragraph (b) of the definition of "capital adequacy ratio" in section 2(1) of the BO;

"medium-term lease" has the meaning assigned to it by the Tenth Schedule of the Companies Ordinance (Cap. 32);

"net credit exposure", in relation to an on-balance sheet asset or off-balance sheet exposure of an AI, means the institution's exposure to the counterparty after taking into account any recognized credit risk mitigation and deducting any specific provisions in respect of the on-balance sheet asset or off-balance sheet exposure, as the case may be;

"note issuance and revolving underwriting facilities" means any facility in respect of the issue of debt securities to the market where:

(a) a borrower may draw down funds, up to a prescribed limit, over a pre-defined period, should any issue of the debt securities prove unable to be placed in the market; and

(b) the unplaced amount is to be taken up, or funds made available, by the underwriter of the facility;

"notional amount", in relation to an off-balance sheet exposure of an AI, means the reference amount used to calculate payment streams between the parties to the exposure;

"obligor grade" means a risk category within the obligor rating scale of an AI's rating system (as measured by PD) representing an assessment of the risk of obligor default to which obligors are assigned on the basis of a specified and distinct set of internal rating criteria and from which estimates of PD are derived;

"operational risk", in relation to an AI, means the institution's operational risk as referred to in paragraph (c) of the definition of "capital adequacy ratio" in section 2(1) of the BO;

"originating AI", in relation to a securitization transaction, means the originator is an AI;

"originator", in relation to a securitization transaction, means a person who -

(a) directly or indirectly originates the underlying exposures included in the securitization transaction; or

(b) serves as a sponsor of an asset-backed commercial paper programme, or a programme with similar features;

"over-the-counter derivative transaction" –

(a) subject to paragraph (b), means an exchange rate contract, interest rate contract, equity contract or precious metal contract or other commodity contract;

(b) does not include a contract referred to in paragraph (a) -

(i) which is traded on an exchange; and

(ii) which is subject to daily re-margining requirements;

"parent bank", in respect of an AI, means the highest level of holding company of the AI, which is authorized as a bank in its home country, in the corporate structure of the group of companies of which the AI is a member;

"PD" means the probability of default;

"PD/LGD approach", in relation to an equity exposure of an AI, means the use of the IRB to calculate the institution's credit risk in respect of equity exposures as specified in the Capital Rules;

"pool" means a category of homogeneous exposures which have similar obligor and transaction characteristics, with identical PD, LGD and EAD estimates;

"potential exposure", in relation to an off-balance sheet exposure of an AI which is an over-the-counter derivative transaction or credit derivative contract, means the principal amount of the transaction or contract, as the case may be, multiplied by the applicable credit conversion factor;

"premises and equipment expense", in relation to an AI's operating expenses, includes rents and rates, insurance of premises and equipment, lighting, heating, maintenance costs and electronic data processing expenses;

"principal amount":

(a) in relation to an on-balance sheet asset of an AI, means the current book value (including accrued interest or revaluations) of the asset;

(b) in relation to an off-balance sheet exposure of an AI, means:

(i) subject to subparagraph (ii), in the case of an exposure listed in Table 4.4.1 of Part 4 of the Capital Rules, the contracted amount of the exposure;

(ii) in the case of an exposure listed in Table 4.4.1 of Part 4 of the Capital Rules which is an undrawn or partially drawn facility, the amount of the undrawn commitment;

(iii) subject to subparagraph (iv), in the case of an exposure listed in Table 4.4.2 of Part 4 of the Capital Rules, the notional amount of the exposure;

(iv) in the case of an exposure listed in Table 4.4.2 of Part 4 of the Capital Rules where the stated notional amount of the exposure is leveraged or enhanced by the structure of the exposure, the effective notional amount of the exposure taking into account that the stated notional amount is so leveraged or enhanced, as the case may be;

"probability of default", in relation to an exposure of an AI which uses IRB to calculate its credit risk for non-securitization exposures, means the probability of default of the obligor of the exposure over a one-year period;

"property, plant and equipment" are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period;

"public sector entity" means –

[(a) an entity specified in Part 4 of Schedule 1.1 of the Capital Rules; or]

(b) an entity specified by a relevant banking supervisory authority (whether by means of legislation or a public notice or otherwise) to be a public sector entity for the purpose of applying preferential risk-weighting treatment under capital adequacy standards formulated in accordance with –

(i) the International Convergence of Capital Measurement and Capital Standards published, by the Basel Committee on Banking Supervision, in July 1988; or

(ii) the International Convergence of Capital Measurement and Capital Standards - A revised Framework published, by the Basel Committee on Banking Supervision, in June 2004;

"publish" includes distribute, make available and disseminate;

"rating system" means all of the methods, models, processes, controls, and data collection and information technology systems used by an AI that enable the assessment of credit risk, the assignment of internal risk ratings, and the quantification of default and loss estimates by the AI;

["recognized collateral", where the AI -

(A) uses the STC to calculate its credit risk for non-securitization exposures, means –

(a) collateral falling within section 4.5.3 of Part 4 of the Capital Rules in relation to the simple approach to the treatment of collateral;

(b) collateral falling within section 4.5.4 of Part 4 of the Capital Rules in relation to the comprehensive approach to the treatment of collateral;

(B) uses the IRB to calculate its credit risk for non-securitization exposures, means the collateral which meets the requirements set out in Part [6] of the Capital Rules and the relevant minimum requirements set out in section 4.5.1 of Part 4 of the Capital Rules;]

["recognized credit derivative contract", where the AI –

(A) uses the STC to calculate its credit risk for non-securitization exposures, means -

    (a) a credit derivative contract falling within section 4.9.3(1) of Part 4 of the Capital Rules;

    (b) a credit derivative contract falling within section 4.9.3(2) or (3) of Part 4 of the Capital Rules to the extent that it is deemed under that section to be a recognized credit derivative contract;

(B) uses the IRB to calculate its credit risk for non-securitization exposures, means –

    (a) a credit derivative contract falling within Part [6] of the Capital Rules in the case of corporate, sovereign and bank exposures under FIRB and for equity exposures;

    (b) a credit derivative contract falling within Part [6] of the Capital Rules in the case of corporate, sovereign and bank exposures under AIRB and for retail exposures;]

"recognized credit risk mitigation", in relation to the on-balance sheet assets or off-balance sheet exposures of an AI, means the use by the institution of recognized collateral, recognized netting, recognized guarantees or recognized credit derivative contracts, for the purpose of reducing the risk-weighted amount of the on-balance sheet assets or off-balance sheet exposures, as the case may be, pursuant to the Capital Rules;

["recognized guarantee", where the AI –

(A) uses the STC to calculate its credit risk for non-securitization exposures, means a guarantee falling within section 4.9.2 of Part 4 of the Capital Rules;

(B) uses the IRB to calculate its credit risk for non-securitization exposures, means –

    (a) a guarantee falling within Part [6] of the Capital Rules in the case of corporate, sovereign and

bank exposures under FIRB and for equity exposures;

(b) a guarantee falling within Part [6] of the Capital Rules in the case of corporate, sovereign and bank exposures under AIRB and for retail exposures;]

"recognized netting" means any netting done pursuant to a valid bilateral netting arrangement;

"regulatory capital [requirements]" in respect of an AI, means the amount of capital the AI is required to hold in respect of its risk-weighted assets and risk-weighted exposures;

"relevant risk", in relation to an AI, means the credit risk, operational risk or market risk of the institution;

"repossessed assets" means assets in respect of which an AI has acquired access or control (e.g. through court proceedings or voluntary actions by the obligors concerned) for release in full or in part of the obligations of the obligors. Repossessed assets include properties and securities.  In case of properties, voluntary surrender of keys by mortgagors is deemed to render the relevant properties repossessed;

"repo-style transaction", in relation to an AI, means a transaction entered into by the institution whereby the institution –

(a) agrees to sell securities to a third party for a sum of money with a commitment to repurchase the securities at an agreed price on an agreed future date from the third party;

(b) lends securities to a third party and receives a sum of money or other securities from the third party in exchange as collateral;

(c) agrees to acquire securities from a third party for a sum of money with a commitment to resell the securities at an agreed price on an agreed future date to the third party; or

(d) borrows securities from a third party and provides a sum of money or other securities to the third party in exchange as collateral;

"restricted securities regulator" means a securities regulator specified in Part 8 of Schedule 1.1 of the Capital Rules;

"risk-weight function" means a formula used to determine the risk-weight to be allocated to an AI's corporate, sovereign, bank and retail exposures and, if the PD/LGD approach is used, equity exposures;

["risk-weighted", in relation to the calculation of a relevant risk of an AI:

(a) in the case of an on-balance sheet asset of the institution, means the measure of the institution's exposure to the relevant risk in respect of the asset as calculated in accordance with Division 3 of Part 4 of the Capital Rules in the case of credit risk;

(b) in the case of an off-balance sheet exposure of the institution, means the measure of the institution's exposure to the relevant risk in respect of the exposure as calculated in accordance with Division 4 of Part 4 of the Capital Rules in the case of credit risk;]

"RLB" means restricted licence bank;

"section 98(2) requirement", in relation to an AI, means a requirement in a notice under section 98(2) of the BO whereby the capital adequacy ratio of the institution is to be calculated on –

(a) a consolidated basis in respect of all the subsidiaries of the institution;

(b) a consolidated basis in respect of such subsidiaries of the institution as are specified in the notice;

(c) the consolidated basis referred to in paragraph (a) and an unconsolidated basis; or

(d) the consolidated basis referred to in paragraph (b) and an unconsolidated basis unless otherwise specified in the notice;

"securities firm" -

(a) means an entity –

   (i) authorized and supervised by a relevant securities regulator pursuant to the law of a country other than Hong Kong; and

   (ii) which is subject to supervisory arrangements regarding the maintenance of adequate capital to support its business activities comparable to those

prescribed for AIs under the BO and the Capital Rules; and

(b) includes a licensed corporation that has been granted a licence to carry on a regulated activity by the Securities and Futures Commission of Hong Kong;

"securities not held for trading purposes", in relation to an AI, means securities:

(a) held by the institution other than those which are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and

(b) designated by the institution as securities not held for trading purposes;

"securities regulator" does not include a restricted securities regulator;

"securitization exposure", in relation to an AI, means the institution's exposure to a securitization transaction in its banking book; and includes such an exposure arising from -

(a) the purchase or acquisition of securitization issues for investment purposes;

(b) the provision of credit protection or credit enhancement to any of the parties to the securitization transaction;

(c) the retention of one or more than one securitization position;

(d) the provision of a liquidity facility or similar facility for the securitization transaction;

(e) the repurchase of securitization issues; and

(f) the obligation to acquire any investors' interest in the securitization transaction with an early amortization provision;

"securitization issues", in relation to a securitization transaction, means the securities issued by an issuer in the securitization transaction;

"securitization position", in relation to an AI, means an exposure of the institution to one of the different tranches in a securitization transaction;

"securitization transaction", means a transaction involving the tranching of credit risk associated with a pool of underlying exposures and in respect of which –

(a) there are not less than 2 different tranches;

(b) payments to investors or other parties under the transaction depend on the performance of the underlying exposures; and

(c) the subordination of tranches determines the distribution of losses during the life of the transaction;

"senior management", in relation to an AI, includes the chief executives and managers of the institution;

"short lease", has the meaning assigned to it by the Tenth Schedule of the Company Ordinance (Cap. 32);

"short-term ECAI issue specific rating", in relation to a debt obligation issued or undertaken by a bank, securities firm or corporate, means a short-term credit assessment rating assigned to the obligation by an ECAI;

"sovereign" means:

- the Government;

- the central government of a country;

- the central bank of a country;

- an authority of a country which performs in the country functions similar to the functions performed by the HKMA in Hong Kong; or

- a relevant international organisation;

"SPE" means a special purpose entity;

"special purpose entity" means a company, trust, or other entity –

(a) created for a specific purpose;

(b) the activities of which are limited to those appropriate to accomplish that purpose; and

(c) the structure of which is intended to isolate the company, trust or other entity, as the case may be, from the credit risk of an originator or seller of underlying exposures;

"specialized lending" means an AI's exposure to a corporate (often a special purpose vehicle) which has been established specifically to finance or operate a specific asset and has little or no material assets or activities other than owning or operating the specific asset, and therefore has little or no independent capacity to

repay the exposure. Such an exposure should also have the following characteristics, either in legal form or economic substance -

(a) the terms of the exposure give the AI a substantial degree of control over the specific asset and the income which the specific asset generates; and

(b) the primary source of repayment of the exposure is the income generated by the specific asset;

Exposures possessing all the above characteristic should be categorized by the AI as one of the four sub-classes of specialized lending referred to in the Capital Rules;

"specific provisions", in relation to on-balance sheet assets or off-balance sheet exposure of an AI, means –

(a) an allowance for impairment loss of financial assets that are individually assessed for impairment in accordance with Hong Kong Accounting Standard 39; and

(b) provisions made in accordance with Hong Kong Accounting Standard 37;

"SPM" means the HKMA's Supervisory Policy Manual;

"sponsor", in relation to an asset-backed commercial paper programme or a similar programme with similar features, means a person who establishes the programme and manages, or participates in the management of, the programme by performing one or more than one of the following activities -

(a) approving the sellers to be permitted to participate in the programme;

(b) approving the pool of underlying exposures to be purchased under the programme;

(c) administering the programme, including arranging for the placement into the market of securities issued under the programme; or

(d) providing any credit enhancement or liquidity facility in respect of the programme;

"standardized approach" -

(a) in relation to the calculation of an AI's credit risk for non-securitization exposures, means the method of calculating that risk set out in Part 4 of the Capital Rules;

(b) in relation to the calculation of an AI's operational risk, means the method of calculating that risk set out in Division 2 of Part 7 of the Capital Rules

(c) in relation to the calculation of an AI's market risk, means the method of calculating that risk set out in Part [8] of the Capital Rules;

"standardized approach for securitization", in relation to the calculation of an AI's credit risk for securitization exposures, means the method of calculating that risk set out in Part [9] of the Capital Rules;

"standardized business line" means a business line specified in section 7.2.2(a), (b), (c), (d), (e), (f), (g) or (h) as read with Schedule 7.2.1 of the Capital Rules;

"STC", in relation to the calculation of an AI's credit risk for non-securitization exposures, means the standardized approach;

"STM", in relation to the calculation of an AI's market risk, means the standardized approach;

"STO", in relation to the calculation of an AI's operational risk, means the standardized approach;

"STS" means the standardized approach for securitization;

"supervisory estimate" means the risk-weight in respect of an exposure specified in the Capital Rules or the value of any credit risk component specified in the Capital Rules as an input into a risk-weight function in order to calculate the risk-weight to be allocated to an exposure under IRB;

"supervisory slotting criteria approach" means the IRB calculation approach set out in the Capital Rules which is required by the Rules to be adopted by an AI in respect of its specialized lending for which the AI does not meet the criteria set out in the Rules to enable it to use FIRB or AIRB;

"supplementary capital", in relation to an AI, means the sum, calculated in Hong Kong dollars, of the book value of the institution's capital items specified in the Capital Rules;

"surplus provisions", in relation to an AI, means that part of the excess of the AI's total EP over the AI's total EL amount in respect of its sovereign, bank, corporate and retail exposures which are subject to the IRB Approach that is eligible for inclusion by the AI in its supplementary capital for calculating CAR;

"swap deposit arrangement" means an arrangement entered into by the AI with a counterparty whereby the institution sells foreign currency at spot rate to the counterparty against another currency, and at the same time, the counterparty deposits the foreign currency so purchased with the institution and enters into a forward exchange rate contract with the institution to sell the foreign currency so purchased back to the institution against another currency at a specified exchange rate on a future date;

"synthetic securitization" means a securitization transaction where the credit risk of a pool of underlying exposures is transferred, in whole or in part, through the use of funded or unfunded credit protection that serves to hedge the credit risk of the underlying exposures which remain on the balance sheet of the originator;

"total EL amount" means total expected loss amount;

"total eligible provisions", in relation to an AI which uses the IRB to calculate its credit risk for non-securitization exposures, mean the sum of the AI's eligible provisions attributed to corporate, sovereign, bank and retail exposures which are –

(a) subject to the IRB; and

(b) not treated as hedged exposures under the double default framework for recognition of the [credit] risk mitigating effect of guarantees and credit derivative contracts;

"total EP" means total eligible provisions;

"total expected loss amount", in relation to an AI which uses the IRB to calculate its credit risk for non-securitization exposures, means the sum of the AI's EL amount attributed to corporate, sovereign, bank and retail exposures which are –

(a) subject to the IRB; and

(b) not treated as hedged exposures under the double default framework for recognition of the [credit] risk mitigating effect of guarantees and credit derivative contracts;

"total return swap" means an agreement under which one party ("total return payer") transfers the total economic performance of a reference obligation to the other party ("total return receiver");

"trade bills" means all purchased bills of exchange by the AI in relation to trade transactions;

"trade-related contingency"[, in relation to an AI] –

(a) means a contingent liability [of the institution] which relates to trade-related obligations; and

(b) includes liabilities [of the institution] arising from issuing and confirming letters of credit, acceptances on trade bills and shipping guarantees;

"trading book", in relation to an AI, means the institution's positions in financial instruments and commodities which are held either with the intention of trading in the financial instruments and commodities, or for the purpose of hedging one or more than one of the positions, where

(a) the [positions] are free of any restrictive covenants or are able to be completely hedged; and

(b) the positions are frequently and accurately valued and actively managed;

"traditional securitization" means a securitization transaction where –

(a) a pool of underlying exposures is sold by the originator to a bankruptcy-remote SPE; and

(b) the cash flows from the pool of underlying exposures are used to service payments to investors or other parties under the transaction;

"tranche" means a contractually established segment ("relevant segment"] of the credit risk associated with a pool of underlying exposures in a securitization transaction where –

(a) a position in the relevant segment entails a risk of credit loss greater than, or less than, that of a position of the same amount in each other contractually established segment; and

(b) no account is taken of credit protection provided by third parties directly to the holders of positions in the relevant segment or in other contractually established segments;

"transaction-related contingency", in relation to an AI -

(a) means a contingent liability which involves an irrevocable obligation of the institution to pay a

beneficiary when a customer fails to perform a contractual and non-financial obligation; and

(b) includes a performance bond, bid bond, warranty and standby letter of credit related to a particular transaction;

"underlying exposures", in relation to a securitization transaction, means one or more than one on-balance sheet or off-balance sheet exposure in respect of which the credit risk is transferred to one or more than one person by the originator in the securitization transaction;

"undrawn balances" in relation to the calculation of investors' interest, means the amounts of revolving credit lines that have not been drawn by the obligors of the credit lines, where –

(a) the credit lines have been sold into a securitization transaction; and

(b) the investors remain, in whole or in part, exposed to future drawings by the obligors under the credit lines available to the obligors;

["unrated", in relation to an exposure (howsoever described) of an AI, means –

(a) the exposure has never been assigned an ECAI issue specific rating; or

(b) there is no current ECAI issue specific rating (including a current short-term ECAI issue specific rating) assigned to the exposure;]

["valid bilateral netting agreement", in relation to an AI, means an agreement in respect of which the following conditions are satisfied -

(a) the agreement is in writing;

(b) the agreement creates a single legal obligation for all individual contracts covered by the agreement, and provides, in effect, that the institution would have a single claim or obligation to receive or pay only the net amount of the sum of the positive and negative mark-to-market values of the individual contracts covered by the agreement in the event that a counterparty to the agreement, or a counterparty to whom the agreement has been validly assigned, fails to comply with any obligation under the agreement due to default, insolvency, bankruptcy, or similar circumstance;

(c)  the institution has been given legal advice in writing to the effect that in the event of a challenge in a court of law, including a challenge resulting from default, insolvency, bankruptcy, or similar circumstance, the relevant court or administrative authority would find the institution's exposure to be the net amount under -

    (i)  the law of Hong Kong or, in the case of a subsidiary of the institution which is incorporated outside Hong Kong and which is included in the calculation of the capital adequacy ratio of the institution on a consolidated basis, the law of the jurisdiction in which the subsidiary is incorporated;

    (ii)  the law of the jurisdiction in which the counterparty is incorporated or the equivalent location in the case of non-corporate entities, and if a branch of the counterparty is involved, then also under the law of the jurisdiction in which the branch is located;

    (iii)  the law that governs the individual contracts covered by the agreement; and

    (iv)  the law that governs the agreement;

(d)  the institution establishes and maintains procedures to monitor developments in any law relevant to the agreement and to ensure that the agreement continues to satisfy this definition;

(e)  the institution manages the transactions covered by the agreement on a net basis;

(f)  the institution maintains in its files documentation adequate to support the netting of the contracts covered by the agreement; and

(g)  the agreement is not subject to a provision that permits the non-defaulting counterparty to make only limited payment, or no payment at all, to the defaulter or the estate of the defaulter, regardless of whether or not the defaulter is a net creditor under the agreement;]

"value-at-risk", in relation to a portfolio of exposures, means a measure of the worst expected loss on the portfolio resulting from market movements over a period of time within a given confidence interval;

"VaR" means value-at-risk;

"wrong-way risk" consists of general wrong-way risk and specific wrong-way risk.  General wrong-way risk arises when the probability of default of counterparties is positively correlated with general market risk factors.

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Specific wrong-way risk arises when the exposure to a particular counterpart is positively correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty.

1.2.3   Where under these DRs the prior consent of the HKMA is required by an AI in respect of any matter, the institution shall seek the prior consent by making an application in the specified form, if any, to the HKMA.

# Part 2

## GENERAL REQUIREMENTS

**2.1    Application**

2.1.1    Subject to the specific exemption for non-listed AIs as prescribed in paragraph 2.1.2, Parts 1 to 3 of these Rules and Parts 4, 5 or 6, as applicable, shall apply to all AIs incorporated in Hong Kong, except in the case of an AI that is a RLB or DTC, where it has:

- total assets of less than HKD1 billion; and

- total customer deposits of less than HKD300 million.

All locally incorporated AIs to which these rules apply shall be known as "Designated Local AIs" for the purposes of these rules.

2.1.2    Rule 3B shall not apply to non-listed Designated Local AIs which are wholly owned subsidiaries of AIs incorporated in Hong Kong.

2.1.3    Subject to the exceptions set out in section 7A.1 of Part 7 of these rules, Parts 1 to 2 and Part 7 shall apply to all overseas incorporated AIs, except those which have a branch or branches in Hong Kong which in total have:

- total assets of less than HKD 10 billion; and

- total customer deposits of less than HKD 2 billion.

All overseas incorporated AIs to which these rules apply shall be known as "Designated Foreign AIs" for the purposes of these rules.

2.1.4    For the purposes of assessing whether a RLB or DTC or an overseas incorporated AI meets the relevant threshold criteria as specified in 2.1.1 and 2.1.3 above, the HKMA will make reference to the figures reported to it under "*Total assets less specific and collective provisions*" and "*Total deposits from customers*" in the "Return of Assets and Liabilities – MA(BS)1" submitted by the Designated AI to the HKMA in respect of each calendar month-end.  The average of the relevant figures reported in the twelve months up to and including the fifth month preceding each financial year-end will be adopted for this purpose.

2.1.5    In the event that a Designated Local AI meets the threshold criteria in subsequent financial years it must

nevertheless continue to report in accordance with the standards in these DRs, unless it can demonstrate to the HKMA that it has been substantially and permanently downsized and thus shall no longer be regarded as a Designated Local AI. However, Designated Foreign AIs are not subject to the reporting requirements in these DRs if they satisfy the thresholds set out in 2.1.3 in accordance with the calculation methodology specified in 2.1.4.

## 2.2 Disclosure Policy

2.2.1 A Designated AI must have a clearly defined disclosure policy in writing approved by the board of directors that addresses the Designated AI's approach to determining the content (including the appropriateness) and frequency of public disclosures and the internal controls over the disclosure process. These internal controls must include a process for verifying/reviewing the accuracy of the disclosures.

## 2.3 Medium and Location of Disclosure and Issue of Press Release

2.3.1 All Designated AIs are required to publish Disclosure Statements containing the disclosures required under these DRs. A Disclosure Statement can be published either as a stand-alone document or, for Designated Local AIs that are listed in Hong Kong, as an Annex to the AI's annual and interim reports, provided that a clear distinction is made between unaudited and audited information.

2.3.2 A Disclosure Statement must either contain all the disclosures required under these DRs, or provide a summary of the disclosures with complete information being made available on the Designated AI's publicly accessible internet website. A Designated AI must ensure the information included in the summary of the Disclosure Statement is not misleading in any material aspect for the public understanding of the Designated AI's position.

*[Additional Guidance - For internet-based disclosures, a Designated AI should make reference to the specimen disclosure templates (Attachments 1 to 3) enclosed with the Guideline on Operation of the Disclosure Rules (at Annex).]*

2.3.3 Where, in accordance with paragraph 2.12 below, a Designated Local AI relies on disclosures made by an overseas incorporated parent bank for the purposes of meeting disclosures required under these DRs, its summary of the Disclosure Statement must contain a statement concerning the location of these disclosures and

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its Hong Kong website must contain links to the relevant information on its parent bank's website.

2.3.4    A Designated Local AI is also required to issue a Press Release containing either the full Disclosure Statement or a summary of its Disclosure Statement.  In the case of a Designated Local AI which is listed in Hong Kong, disclosure requirements under these DRs can be met by the inclusion of either the full Disclosure Statement or a summary of the Disclosure Statement in its annual and interim preliminary results Press Release in both English and Chinese no later than 4 months after the end of each financial year, and 3 months after the end of the interim financial period of that Designated Local AI respectively. The Press Release must indicate the location/website address of the complete Disclosure Statement if it only contains a summary of the Disclosure Statement.

2.3.5    Subject to paragraph 2.3.4 above, a Designated Local AI that is not listed in Hong Kong must issue a Press Release with either the full Disclosure Statement or a summary of the Disclosure Statement in both English and Chinese no later than 4 months after the end of each financial year, and 3 months after the end of each interim financial period of that Designated Local AI respectively.  The Press Release must indicate the location/website address of the complete Disclosure Statement if it only contains a summary of the Disclosure Statement.

2.3.6    A Designated Foreign AI must issue a Press Release in both English and Chinese containing either the full Disclosure Statement or a summary of its Disclosure Statement no later than 3 months after the end of each financial period including interim financial period of that Designated Foreign AI.  The Press Release must indicate the location/website address of the complete Disclosure Statement if it only contains a summary of the Disclosure Statement.

2.3.7    For the avoidance of doubt, it is not sufficient to issue a press release or advertisement which informs members of the public that a full set of accounts is available at the principal place of business or local branches of the Designated AI without disclosing any of the information specified in these DRs.

2.3.8    A Designated AI must lodge a copy of the Disclosure Statement with a summary of the Disclosure Statement, if applicable, with the HKMA prior to publication of such Statement either on the Designated AI's internet website or via the issue of Press Release.  The HKMA will keep

these Disclosure Statements (or summary thereof, as applicable), or Press Release containing such Disclosure Statements (or summary thereof, as applicable), in its public registry maintained under section 20 of the BO.

2.3.9    A copy of either the full Disclosure Statement or summary of the Disclosure Statement, as applicable, must also be made available by the Designated AI for public inspection in the principal place of business of the AI in Hong Kong and, if practicable, in each local branch. The Disclosure Statement (or summary thereof as applicable) must also be made readily available to members of the public on request.

## 2.4    Interaction with Other Requirements

2.4.1    If a Designated AI makes disclosures under accounting requirements or to satisfy listing requirements promulgated by The Stock Exchange of Hong Kong Limited or information is disclosed through another method (or combination of methods such as a Designated AI's annual report) that is widely available to the public, the Designated AI may rely on that disclosure to fulfil the applicable requirements of these DRs, subject to:

2.4.1.1    the HKMA being satisfied that compliance with the requirements in the DRs is substantially achieved through compliance with the relevant accounting and/or listing requirements or through the other method of disclosure, as the case may be;

2.4.1.2    sufficient explanation is provided on any material differences between the accounting or other disclosure and the ones mandated under the DRs. Such explanation does not have to take the form of a line by line reconciliation; and

2.4.1.3    the inclusion of a statement in the summary of the Disclosure Statement, or the Disclosure Statement, as applicable, concerning the location where all the required information can be found.

*[Additional Guidance - These DRs are intended only to supplement, and not to replace or replicate, any of the disclosure requirements under relevant legislation or accounting standards or which are necessary to show a true and fair view of the financial statement of an AI. Where relevant, an AI should comply with such other*

*disclosure requirements under the Companies Ordinance (Cap. 32), the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited, and the Hong Kong Financial Reporting Standards as applicable.]*

## 2.5 Verification

2.5.1 Senior management of a Designated AI must ensure the information that is disclosed is subject to sufficient scrutiny and independent internal review, especially that is not published together with audited financial statements.

*[Additional Guidance – No audit of disclosures made under the DRs is required unless otherwise required by accounting or other statutory requirements.]*

## 2.6 Proprietary and Confidential Information

2.6.1 Subject to 2.6.2 and the HKMA's prior consent, a Designated Local AI may be permitted not to disclose certain proprietary or confidential information provided that:

2.6.1.1 general information relating to the subject matter of the disclosure requirements is disclosed; and

2.6.1.2 a statement is included in the AI's Disclosure Statements stating what has been omitted and the reasons for non-disclosure.

2.6.2 In this rule, proprietary or confidential information referred to in 2.6.1 means any information which, if publicly available, would cause serious prejudice to the competitive position of a Designated Local AI.

*[Additional Guidance - Proprietary information may include information on products or systems which, if shared with competitors, would render an AI's investments therein less valuable.]*

2.6.3 A Designated Local AI must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Designated Local AI to confidentiality.

## 2.7 Materiality

2.7.1 Subject to 2.7.2 below, the senior management of a Designated AI must ensure disclosures are relevant and all material information is disclosed when complying with the requirements laid down in these DRs.

2.7.2    In this rule, information must be regarded as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making investment or other economic decisions.

> *[Additional Guidance - AIs should, at a minimum, also observe:*
>
> ▪ *Materiality as defined in both HKAS 1 paragraph 11 and HKAS 8 paragraph 5[2], and a discussion of materiality in paragraphs 29 and 31 of HKAS 1; and*
>
> ▪ *Additional guidance in respect of interpreting materiality in the context of financial statements prepared under HKFRS is set out in HKAS 8 paragraph 41.]*

## 2.8    Consolidated Group Level Disclosures

2.8.1    Subject to the exceptions set out in 2.8.2 below, the DRs will apply at the top consolidation group level of a Designated Local AI on the basis of consolidation for capital adequacy purposes. Where a Designated Local AI, under section 98(2) of the BO, is required to calculate its CAR on both a solo and a consolidated basis, the Designated Local AI must make disclosures in respect of the consolidation group, unless otherwise required by the DRs or by the HKMA in writing. Disclosures on a solo basis are not required. However, a Designated Local AI may include disclosures on a solo basis along with consolidation group disclosures to enhance users' understanding of the AI's state of affairs.

2.8.2    Exceptions to paragraph 2.8.1 above –

2.8.2.1    Annual financial disclosures set out in 3A.2 to 3A.10, Part 3; and

2.8.2.2    Interim financial disclosures set out in 3B.2 to 3B.4, Part 3;

under which disclosures shall be made based on the separate financial statements presented by the Designated Local AI for accounting purposes;

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[2] Both HKAS 1 *Presentation of Financial Statements*, paragraph 11 and HKAS 8 *Accounting Policies, Change in Accounting Estimates and Errors,* paragraph 5 defined "Material" as: Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

2.8.2.3      Annual supplementary disclosures set out in 3A.11(B) to 3A.11(D), Part 3; and

2.8.2.4      Supplementary disclosures under interim financial disclosures set out in 3B.5(B) to 3B.5(D), Part 3;

under which disclosures need only be presented on the basis of consolidated financial statements where consolidated financial statements are presented by the Designated Local AI for accounting purposes; and

2.8.2.5      Liquidity disclosures referred to in 3A.11(E) and 3B.5(E), and corporate governance disclosure referred to in 3A.11(F).

## 2.9    Basis of Disclosure

2.9.1      A Designated Local AI must make its disclosures on the basis of the specific approach in use for the calculation of regulatory capital requirements for credit risk, market risk and operational risk. Where a Designated Local AI uses a combination of approaches to calculate regulatory capital requirements for the relevant credit risk, market risk or operational risk, as the case may be, the Designated Local AI must make disclosures based on the respective approach in use for each of the exposure classes, and make separate disclosures as applicable.

2.9.2      In the event that a Designated Local AI has employed different approaches for the calculation of regulatory capital requirements referred to in the above paragraph during a single reporting period, the Designated Local AI must make its disclosures on the basis of the approach in use for each of the exposure classes, or portfolio of exposures, as applicable, on the relevant reporting date.

## 2.10    Comparative Information

2.10.1      Subject to 2.10.2 and the exemptions referred to in 2.10.3 and 2.10.4 below, the corresponding amounts for the immediate preceding financial year must be given for all quantitative disclosures by a Designated Local AI.

2.10.2      For the profit and loss information and liquidity ratio required under Part 3B, the amounts for the corresponding period of the preceding financial year must be given by a Designated Local AI.

2.10.3      Where the DRs were not in effect in respect of the preceding financial year of a Designated Local AI, and it is

impracticable for the AI to apply the disclosure standards set out in these DRs retrospectively, the comparative disclosure referred to in 2.10.1 will not apply for the first year (i.e. no comparative is required).

2.10.4 Where a Designated Local AI adopts different credit risk, market risk or operational risk approaches for the same asset class or portfolio of exposures for two consecutive financial years, the comparative disclosure referred to in 2.10.1 will not apply for the year of change (i.e. no comparative is required). However, the Designated Local AI must state this fact in the Disclosure Statement.

2.10.5 Where there has been a material restatement of prior period amounts, the nature of, and the reason for, the restatement must be disclosed by a Designated Local AI.

## 2.11 Frequency

2.11.1 For Designated Local AIs, disclosures must be made on an annual basis as prescribed in Part 3, and Part 4, 5 or 6, as applicable, of the DRs, except for Part 3B concerning interim financial disclosures applicable to Designated Local AIs. Subject to the exemption for non-listed Designated Local AIs referred to in paragraph 3.2 in Part 3, Designated Local AIs must make interim financial disclosures for each interim financial period.

*[Additional Guidance - The HKMA encourages AIs to disclose risk exposures or any other items that would be prone to rapid changes on a more frequent basis to ensure public understanding of the AI's position.]*

2.11.2 Disclosures, in relation to Designated Foreign AIs, must be made on a semi-annual basis.

## 2.12 Group-Wide Disclosures by Overseas Parent of Designated Local Authorized Institution

2.12.1 If a Designated Local AI is a subsidiary of a bank incorporated overseas, the AI may rely on the disclosures made by the overseas parent in meeting the requirements of the DRs, subject to the Designated Local AI being able to satisfy the HKMA that:

2.12.1.1 the disclosures made by the Designated Local AI's parent bank are not materially different from the disclosures required under the DRs;

2.12.1.2 the disclosures referred to in 2.12.1.1 above are prepared in accordance with the relevant

Basel II principles adopted by the relevant banking supervisory authority of the Designated Local AI's parent bank;

2.12.1.3    the characteristics of the Designated Local AI's risk exposures subject to disclosure requirements under the DRs are not materially different from the risk exposures of the Designated Local AI's parent bank;

2.12.1.4    disclosures by the Designated Local AI's parent bank provide a sufficient level of detail on the range of risks incurred by the Designated AI incorporated in Hong Kong and on how those risks are managed to permit third parties to form a view of the relevant aspects of the Designated Local AI's operations; and

2.12.1.5    the summary of the Disclosure Statement contains a statement of the location where all the required information can be found, and the Designated Local AI's Hong Kong website contains links to the relevant information on the parent bank's website.

## 2.13    Compliance

2.13.1    All Disclosure Statements issued by a Designated AI covering a semi-annual or annual reporting period beginning on or after the DRs take effect must meet the requirements in these DRs.

*[Additional Guidance - For the transitional reporting period which begins prior to but ends after these DRs take effect, AIs should follow the HKMA's SPM on FD-1, FD-2 or FD-3, as applicable, in preparing the Disclosure Statement.]*

2.13.2    These DRs are intended as minimum standards. In addition to the disclosures prescribed in these DRs, a Designated AI must also include in its Disclosure Statement:

2.13.2.1    such other information as is necessary to ensure that any information contained in the Disclosure Statement is not misleading in any material aspect; and

2.13.2.2    such other information as is necessary to enable third parties to understand the operations of the AI.

2.13.3    In exceptional circumstances, where a Designated AI is unable to make any of the disclosures required under these DRs, either due to system limitations or due to circumstances beyond its control or due to special circumstances other than for proprietary and confidential reasons, the Disclosure Statement shall:

2.13.3.1    state that fact, and include an explanation of the circumstances which have led to the Designated AI's inability to comply with these DRs; and

2.13.3.2    contain information which is the closest available alternative to that required to be disclosed pursuant to these DRs.

2.13.4    In all such circumstances as described in 2.13.3 the AI must obtain the HKMA's approval in writing before issuing the Disclosure Statement.

*[Additional Guidance - The Seventh Schedule of the BO includes adequate disclosure of financial information as one of the criteria for continuing authorization (i.e. criteria that apply to AIs not only at the time of authorization but thereafter) under the Ordinance. Paragraph 11 of that Schedule provides that in relation to an AI incorporated in Hong Kong, the HKMA must be satisfied that it presently discloses, and will continue to disclose, adequate information about the state of its affairs and its income statement in its audited annual accounts and in other parts of its annual report.*

*Failure to observe the requirements under the DRs may lead to:*

▪ *a breach of the authorization criteria in the Seventh Schedule which would be a ground for revocation of authorization (although the HKMA has the discretion to decide whether to revoke);*

▪ *other supervisory action that the HKMA considers appropriate according to the circumstances of each case, including but not limited to, requiring the AI by notice in writing under section 52(1)(A) of the BO to rectify any errors or omissions in the AI's Disclosure Statement; and*

▪ *imposition of a financial penalty in accordance with subsection (4) of section 60A of the BAO.]*

## 2.14 Statement of Compliance

2.14.1 For annual disclosure, a Designated Local AI must include a statement in its directors' report to the Annual Accounts on the extent of compliance with the DRs and set out in the DRs the reason for any non-compliance.

2.14.2 For interim or half yearly disclosure, a Designated AI must include in its Disclosure Statement a declaration on the extent of compliance with the DRs and the reason for any non-compliance. In the case of Designated Foreign AIs, the declaration must be made by the chief executive of the branch of the Designated Foreign AI in Hong Kong.

2.14.3 In case of full compliance, a general statement in the directors' report or in the Disclosure Statement, as applicable, that a Designated AI complies fully with the disclosure standards set out in these DRs must be made.

2.14.4 In case of partial compliance, the statement in the directors' report or in the Disclosure Statement, as applicable, must specify the areas of, and reasons for, non-compliance.

# PART 3

## ANNUAL AND INTERIM FINANCIAL DISCLOSURES APPLICABLE TO DESIGNATED LOCAL AIs

### 3. Application

3.1 Subject to paragraph 3.2 below, this part shall apply to Designated Local AIs as defined in paragraph 2.1.1, Part 2 of the DRs.

3.2 3B of this Part shall not apply to a Designated Local AI which is:

- non-listed; and

- is wholly owned by an AI incorporated in Hong Kong.

3.3 Unless the context requires otherwise, a reference to an AI in this Part is a reference to a Designated Local AI as defined in paragraph 2.1.1, Part 2 of the DRs.

### 3A ANNUAL FINANCIAL DISCLOSURES

#### 3A.1 Scope of Consolidation

3A.1.1 An AI must disclose the basis of consolidation, including an outline of differences in the basis of consolidation for accounting and regulatory purposes, with a description of the subsidiaries within the group:

3A.1.1.1 That are fully consolidated;

3A.1.1.2 That are deducted from the AI's Capital Base.

3A.1.2 Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group after taking into account any relevant regulatory, legal or taxation constraints on the transfer of capital.

#### 3A.2 Principal Accounting Policies

3A.2.1 An AI must disclose the principal accounting policies adopted in the preparation of and presentation of its financial statements by way of notes to the accounts. Disclosure of accounting policies must include, but is not limited to the following:

- Accounting policies, practices and methods adopted for credit risk exposures, in particular for loans and advances, which shall include, inter alia, the basis of

measurement at the time of origination and at subsequent periods, recognition of interest income, and the determination of specific provisions, collective provisions and write-offs/charge-offs;

▪ Accounting treatment of loans and advances upon the repossession of assets where these are material;

▪ Accounting treatment of related fees and expenses, including whether any incentives relating to residential mortgage loans or other loans and advances have been written off or amortized, where these are material;

▪ Principal accounting policies adopted for derivatives and off-balance sheet transactions, including an explanation of the accounting practices adopted and major assumptions used for valuation and income recognition. An AI must also specify the policies adopted for offsetting assets and liabilities arising from derivative transactions.

## 3A.3   Income statement and Equity

3A.3.1   An AI must include the following items of income, expense, gains or losses either in its financial statements or in the notes to the accounts:

▪ Net gains or net losses on:

− Financial assets or financial liabilities at fair value through profit or loss, showing separately the amount of net gains or net losses arising from financial assets or financial liabilities: (i) that are designated as such upon initial recognition; and (ii) that are classified as held for trading in accordance with HKAS 39;

− Available-for-sale financial assets, showing separately the amount of net gains or net losses recognized directly in equity during the financial period and the amount of net gains or net losses removed from equity and recognized in profit or loss for the financial period;

− Held-to-maturity investments;

− Loans and receivables; and

− Financial liabilities measured at amortized cost;

- Net gains or net losses from disposal or revaluation of investment properties;

- Total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through profit or loss;

- Fee income and expense (other than amounts included in determining the effective interest rate) arising from:

  - Financial assets or financial liabilities that are not measured at fair value through profit or loss; and

  - Trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefits plans, and other institutions;

- Interest income on impaired financial assets accrued in accordance with HKAS 39;

- Dividend income (analysed into receipts from listed and unlisted companies);

- Operating expenses:

  - Staff costs;

  - Premises and equipment expenses, excluding depreciation (analysed where material);

  - Depreciation charges; and

  - Other operating expenses (analysed where material);

- Gains less losses from disposal of property, plant and equipment;

- Impairment losses and specific and collective provisions for impaired assets:

  - Available-for-sale financial assets;

  - Held-to-maturity investments; and

  - Loans and receivables;

- Tax expense (or tax income):

- Hong Kong tax;

- Overseas tax; and

- Deferred tax, if any;

- As an appropriation:

- Transfers to or from reserves.

3A.3.2　In relation to tax expense or tax income, the basis on which the Hong Kong profits tax is computed shall be disclosed.

3A.3.3　An AI must disclose any material amount set aside for provisions other than those for depreciation, renewals or diminution in value of assets or any material amount withdrawn from such provisions and not applied for the purposes thereof.

3A.3.4　An AI must disclose in the notes to the accounts the nature and amount of items of income and expense within profit or loss from ordinary activities which are of such size, nature or incidence that their disclosure is necessary for the understanding of the performance of the AI for the financial period concerned.

## 3A.4　Balance Sheet

3A.4.1　An AI must disclose the carrying amounts of each of the following items, as defined in accordance with HKAS 39, either on the AI's balance sheet or in the notes to the accounts:

**(A) Assets**

- Placements with banks maturing between one and twelve months;

- Financial assets measured at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition; and (ii) those classified as held for trading in accordance with HKAS 39;

- Held-to-maturity investments;

- Loans and receivables:

- Loans and advances to customers;

- Loans and advances to banks;

- Accrued interest and other accounts (analysed where material);

- Provisions for impaired loans and receivables (analysed between those against loans and advances to customers, loans and advances to banks, accrued interest and other accounts if material):

  ❑ collective provisions; and

  ❑ specific provisions;

- Available-for-sale financial assets;

- Investments in associates;

- Property, plant and equipment; and investment properties (for each major class of assets, the information set out below must be disclosed):

  - Cost or valuation;

  - Additions, revaluations and disposals made during the financial period;

  - Amount provided or written off for depreciation or diminution in value of these assets during the financial period;

  - Accumulated depreciation; and

  - Net book value.

**(B) Equity and Liabilities**

- Deposits and balances of banks;

- Deposits from customers:

  - Demand deposits and current accounts;

  - Savings deposits; and

  - Time, call and notice deposits;

- Certificates of deposit issued:

  - Measured at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with HKAS 39; and

- Measured at amortized cost;

  - Issued debt securities:

    - Measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with HKAS 39; and

    - Measured at amortized cost;

  - Deferred taxation, if any (disclosure must be made in accordance with HKAS 12);

  - Other liabilities;

  - Provisions;

  - Loan capital (types, coupon rates and maturities must be disclosed);

  - Minority interests;

  - Share capital;

  - Reserves (analysed into the various material types of reserves, regulatory reserve and other revaluation reserves where maintained).

3A.4.2 An AI must disclose details of the movements in provisions for impaired loans and receivables (including provisions against trade bills where material) during the financial period. The movements in provisions need not be analysed by categories of assets but must be analysed into those in respect of collective and specific provisions. Details of such movements to be disclosed include:

3A.4.2.1 the amount of new provisions charged to the profit and loss in the financial period for losses on impaired loans and advances etc.;

3A.4.2.2 the amount of provisions released back to the profit and loss in the financial period;

3A.4.2.3 the amount of loans and advances etc. written off in the financial period;

3A.4.2.4 amounts recovered in respect of loans and advances etc. written off in previous years;

3A.4.2.5 foreign exchange adjustments in the financial period, if any.

For the purpose of 3A.4.2.1 and 3A.4.2.2, irrespective of the accounting practices of the AI (whether recoveries and write-offs are recorded through the provision for impaired loans and receivables or not), the amount of new provisions must include any amount of loans and advances directly write-off in the financial period and the amount of provisions released back must include any amount of loans and advances recovered directly through the profit or loss in the financial period. The net amount of these two items must be consistent with the amount of provisions reported in the profit and loss statement as shown in 3A.3.1.

3A.4.3    An AI must disclose:

- The amount of impaired loans and advances to customers which are subject to individual assessment for impairment loss;

- The amount of specific provisions made for such loans and advances;

- The percentage of such loans and advances to total loans and advances to customers.

3A.4.4    Similar information as stated in 3A.4.3 above on impaired loans and advances to banks that are subject to individual assessment for impairment loss must be disclosed.

3A.4.5    Where the specific provisions were made after taking into account the value of collateral in respect of such loans and advances, the AI must disclose this fact in order to put the level of provisioning into perspective.

3A.4.6    An AI must analyse investments in securities including treasury bills into equity and debt securities and listed and unlisted securities. The analysis must be provided separately for held-to-maturity securities, available-for-sale securities and securities designated at fair value through profit or loss. The fair value of listed securities must also be disclosed.

3A.4.7    The issuers of held-to-maturity securities, available-for-sale securities and securities designated at fair value through profit or loss must be separately analysed into:

- Sovereign;

- Public sector entities;

- Banks;

- Corporate entities;

- Others.

3A.4.8 An AI must provide the residual contractual maturity breakdown of its assets and liabilities into those that are repayable:

- on demand;

- up to and including 1 month (except those repayable on demand);

- 3 months or less but over 1 month;

- 1 year or less but over 3 months;

- 5 years or less but over 1 year;

- over 5 years; and

- undated.

with an analysis by major types of credit exposure, as set out below:

**Assets**

- Loans and advances to customers;

- Placements with banks (including loans and advances to banks);

- Certificates of deposit held;

- Debt securities included in:

  − Securities measured at fair value through profit or loss:

    ❑ Trading; and

    ❑ Securities designated at fair value through profit or loss.

  − Available-for-sale securities; and

  − Held-to-maturity securities.

**Liabilities**

- Deposits and balances of banks;

- Deposits from customers;

- Certificates of deposit issued;

- Issued debt securities;

3A.4.9    The analysis into the relevant maturity groupings must be based on the remaining period to the contractual maturity date as at the balance sheet date.

*[Additional Guidance - AIs should refer to the further guidance on maturity classification set out in the Guideline on Operation of the Disclosure Rules (at Annex)].*

3A.4.10   For the purpose of 3A.4.1, 3A.4.4 and 3A.4.8, "loans and advances to banks" means placements with banks of greater than one year maturity. "Deposits and balances of banks" means all amounts arising out of banking transactions owned by the AI to other banks; and excludes those balances taking the form of debt securities and certificates of deposits. "Issued debt securities" means all negotiable securities other than loan capital, stocks, shares, import or export trade bills, or certificate of deposits.

3A.4.11   An AI must analyse the gross amount (before accumulated depreciation) of property, plant and equipment, and investment properties included in the financial statements between those included at cost and those included at valuation, if any. For those fixed assets that have been included at valuation, the years in which those assets were valued and the values must be disclosed and in the case of assets that have been valued during the current financial period, the following must be disclosed:

- The names of the persons who valued them and particulars of their qualifications for doing so;

- Bases of valuation used by such persons.

3A.4.12   An AI must disclose how much of the premises which are included in property, plant and equipment, and investment properties are ascribable to those held freehold and those held on a lease (categorized into long lease, medium-term lease and short lease). A distinction must also be made between those held on lease in Hong Kong and those held outside Hong Kong.

3A.4.13   An AI must disclose details of the movements in reserves during the financial period, including the surplus or deficit on revaluation of properties.

**(C) Derivatives**

3A.4.14 An AI must give a description of its objectives, policies and strategies for the use of derivatives, e.g. the derivative types used for trading and hedging purposes and whether they are exchange-traded or over-the-counter derivatives.

3A.4.15 An AI must disclose the aggregate contractual or notional amounts, credit risk weighted amounts and fair value of derivatives as defined in HKAS 39 analysed by:

- Exchange rate contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements);

- Interest rate contracts; and

- Others.

3A.4.16 In relation to derivatives, the AI must provide an analysis of the aggregate notional amounts, credit risk weighted amounts and fair value of each material class of derivatives instruments. These must include the following, where material:

**Exchange rate contracts**

- Forwards and futures;

- Swaps;

- Options purchased; and

- Options written.

**Interest rate contracts**

- Forwards and futures;

- Swaps;

- Options purchased; and

- Options written.

**Others** – analysed where material.

3A.4.17 An AI must analyse the aggregate notional amounts of each material class of derivatives instruments into those entered into for trading or hedging purposes.

### 3A.5 Off-Balance Sheet Exposures

3A.5.1    An AI must disclose the contractual or notional amounts of each material class of off-balance sheet financial instruments and analysed where material. At a minimum, these must include the following items:

**Contingent liabilities and commitments**

▪ Direct credit substitutes;

▪ Transaction-related contingencies;

▪ Trade-related contingencies;

▪ Note issuance and revolving underwriting facilities;

▪ Forward asset purchases, amounts owing on partly paid-up shares and securities, forward forward deposits placed, asset sales with recourse;

▪ Other commitments under which the AI is obliged to provide funds in the future not falling within any of the other categories of off-balance sheet exposures listed above:

  − Commitments with an original maturity of up to and including one year;

  − Commitments with an original maturity of over one year;

  − Commitments which may be cancelled at any time unconditionally by the AI or which provide for automatic cancellation due to a deterioration in a counterparty's creditworthiness;

where "original maturity", in relation to off-balance sheet exposure of an AI, means the period between the date on which the exposure is entered into by the AI and the earliest date on which the AI can, at its option, unconditionally cancel the exposure.

3A.5.2    An AI must also provide such risk exposure information as is necessary for the understanding of the underlying risks of the off-balance sheet exposures incurred by the AI. In particular, the AI must report aggregate credit risk weighted amounts of its contingent liabilities and commitments, if any. The AI must also indicate whether these amounts take into account the effects of valid bilateral netting arrangements.

## 3A.6 Hedge Accounting

3A.6.1 An AI must disclose the following separately for each type of hedge described in HKAS 39 (i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign operation):

- A description of each type of hedge;

- A description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and

- The nature of the risks being hedged.

3A.6.2 For cash flow hedges, the AI must disclose:

- the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

- a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;

- the amount that was recognized in equity during the financial period;

- the amount that was removed from equity and included in profit or loss for the financial period, showing the amount included in each line item in the income statement; and

- the amount that was removed from equity during the financial period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

3A.6.3 An AI must disclose separately:

- In fair value hedges, gains or losses:

  – on the hedging instrument; and

  – on the hedged item attributable to the hedged risk;

- the ineffectiveness recognized in profit or loss that arises from cash flow hedges; and

- the ineffectiveness recognized in profit or loss that arises from hedges of net investments in foreign operations.

**3A.7 Fair Value**

    3A.7.1    An AI must disclose the fair value of each class of financial assets and financial liabilities in a way that permits it to be compared with its carrying value in accordance with the requirements of HKFRS 7.

**3A.8 Cash Flow Statement**

    3A.8.1    An AI must disclose a cash flow statement in accordance with HKAS 7.

**3A.9 Related Party Transactions**

    3A.9.1    Where an AI has entered into transactions with related parties, it must disclose the nature of the related party relationship as well as such information about the transactions and outstanding balances as is necessary for an understanding of the potential effects of the relationships on the financial statements of the AI. Such disclosures must be made in accordance with HKAS 24 and include disclosures relating to the AI's policy for lending to related parties.

**3A.10 Assets Pledged as Security**

    3A.10.1    An AI must disclose the aggregate amount of secured liabilities and the nature and carrying values of assets pledged as security.

**3A.11 Supplementary Disclosures**

    3A.11.1    An AI must disclose the following information either as part of the accompanying information to its financial statements or as part of the financial statements themselves.

**(A) Capital Structure and Adequacy**

Qualitative

    3A.11.2    An AI must provide summary information on the terms and conditions of the main features of all capital instruments issued by the AI, especially in the case of innovative, complex or hybrid capital instruments.

Quantitative

    3A.11.3    An AI must disclose the components of its total Capital Base as reported under Part II of the Capital Adequacy Return to the HKMA pursuant to the BO. The disclosures must at least include the following items:

        3A.11.3.1    Core Capital:

- The AI's paid-up ordinary share capital;

- The AI's paid-up irredeemable non-cumulative preference shares;

- The amount standing to the credit of the AI's share premium account;

- The AI's published reserves;

- The amount of the AI's profit and loss account;

- Minority interests in the equity of the AI's subsidiaries which are included in Core Capital;

- Total deductions from Core Capital.

3A.11.3.2 Supplementary Capital:

- The AI's reserves/fair value gains on revaluation of holdings of land and buildings;

- The AI's reserves/fair value gains on revaluation of holdings of securities not held for trading purposes;

- The AI's fair value gains arising from securities designated at fair value through profit or loss included in Supplementary Capital;

- The amount of the AI's regulatory reserve for general banking risks;

- The amount of the AI's collective provisions;

- The amount of the AI's surplus provisions;

- The AI's perpetual subordinated debt;

- The AI's paid-up irredeemable cumulative preference shares;

- The AI's term subordinated debt;

- The AI's paid-up term preference shares;

- Minority interests in the equity of the AI's subsidiaries which are not included in Core Capital and minority interests in the paid-up irredeemable cumulative preference shares and paid-up term preference shares of the AI's subsidiaries, which are included in Supplementary Capital.

3A.11.3.3 Deductions from Core Capital and Supplementary Capital.

3A.11.3.4 Total Core Capital after deductions.

3A.11.3.5 Total Supplementary Capital after deductions.

3A.11.3.6 Total Capital Base.

3A.11.4 The aggregate amount of relevant capital shortfall in all subsidiaries not included in the consolidation for regulatory purposes, including the name(s) of such subsidiaries that are excluded. For this purpose, relevant capital shortfall, in relation to a subsidiary of an AI, represents the amount by which that subsidiary is deficient in meeting its minimum capital requirements, and is deducted from the AI's Capital Base in accordance with Part 3 of the Capital Rules.

3A.11.5 An AI must disclose its CAR ratio at balance sheet date, computed in accordance with the Capital Rules. As a supplementary information, the AI must also disclose its "Core Capital Ratio" which is defined as the amount of the AI's Core Capital after making the deductions therefrom required by the Capital Rules to be divided by the AI's total risk-weighted amounts for credit risk, market risk and operational risk as determined in accordance with the Capital Rules. Where an AI is required to compute a consolidated CAR ratio by the HKMA, that consolidated CAR ratio and hence the "Core Capital Ratio" are to be disclosed. Otherwise, the required disclosure must be made on a solo basis.

3A.11.6 Where the AI has earmarked part of its retained earnings for maintaining regulatory reserve to satisfy the provisions of the BO for prudential supervision purposes, the AI must state this fact, including the amount of retained earnings being earmarked for this purpose.

**(B) Credit Risk: General Disclosures by Designated Local AIs**

<u>Qualitative</u>

3A.11.7   An AI must provide a description of each major business activity that is consistent with its internal management classification.   The AI must provide a breakdown of activities expressed in either absolute or percentage terms. If the breakdown is disclosed in absolute terms, the aggregate of such breakdown must be consistent with the figures in the AI's audited income statement.   A class of business activities must be reported if it constitutes 10% or more of the total amount in any of the following categories of information:

    3A.11.7.1   Total operating income (net of interest expense);

    3A.11.7.2   Profit or loss before impairment losses and specific and collective provisions for impaired assets;

    3A.11.7.3   Profit or loss after impairment losses and specific and collective provisions for impaired assets;

    3A.11.7.4   Profit or loss before taxation.

<u>Quantitative</u>

3A.11.8   For each reported class of business activities referred to in 3A.11.7 above, the AI must report the amount of operating assets as well as provide a breakdown of at least one of the following:

    3A.11.8.1   Total operating income (net of interest expense);

    3A.11.8.2   Profit or loss before impairment losses and specific and collective provisions for impaired assets;

    3A.11.8.3   Profit or loss after impairment losses and specific and collective provisions for impaired assets;

    3A.11.8.4   Profit or loss before taxation.

3A.11.9   For the purpose of 3A.11.8, the operating assets of a class of business are those assets that are employed in the course of the operating activities of the business class and

that either are directly attributable to that business class or can be reasonably allocated to that business class.

3A.11.10 An AI must report concentrations of the following items arising from or booked in major countries or geographical segments. A country or geographical segment must be reported where it contributes 10% or more of the relevant disclosure item. The information to be disclosed must include:

3A.11.10.1 Total operating income (net of interest expense);

3A.11.10.2 Profit or loss before taxation;

3A.11.10.3 Total assets;

3A.11.10.4 Total liabilities;

3A.11.10.5 Contingent liabilities and commitments.

3A.11.11 An AI must report the above information based on the location of the principal operations of the subsidiary or, in the case of the AI itself, on the location of the branch responsible for reporting the results or booking the assets. The AI must state clearly the basis adopted for such reporting.

*[Additional Guidance – the AI should refer to the Guideline on Operation of the Disclosure Rules (at Annex) on segment reporting.]*

3A.11.12 An AI must disclose a breakdown of its fees and commission income by such major product lines as credit lines, corporate advisory, investment management and trustee services, guarantees and indemnities. The AI must report a product line if it constitutes 10% or more of the total fees and commission income of the AI.

3A.11.13 An AI must disclose the breakdown of its cross-border claims by major countries or geographical segments according to the location of the counterparties and by the types of counterparties (analysed into banks, public sector entities and others). The basis of the country or geographical classification must be stated, including the fact that transfer of risk has been taken into account. Any country or geographical segment that constitutes 10% or more of an AI's aggregate cross-border claims after taking into account any risk transfers must be reported. Risk transfer may only be recognized if the claims are guaranteed by a party in a country which is different from

that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

3A.11.14 Cross-border claims must include the following types of financial claims:

3A.11.14.1 receivables and loans and advances;

3A.11.14.2 balances due from banks;

3A.11.14.3 holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments;

3A.11.14.4 accrued interest and overdue interest on the above assets.

For the avoidance of doubt, claims arising between branches and subsidiaries of the AI must be excluded.

*[Additional Guidance – the AI should refer to the Guideline on Operation of the Disclosure Rules (at Annex) for further guidance on the disclosure of cross-border claims.]*

3A.11.15 An AI must disclose the breakdown of the gross amount of loans and advances to customers by major countries or geographical segments according to the location of the counterparties. Any country or geographical segment that constitutes 10% or more of the aggregate amount of loans and advances to customers after taking into account any risk transfer must be reported.

3A.11.16 An AI must disclose the breakdown of the gross amount of loans and advances to customers by major industry sectors. To achieve consistency of reporting among AIs, the information must be disclosed in accordance with the industry categories set out in this paragraph.

*[Additional Guidance – the AI should refer to the Guideline on Operation of the Disclosure Rules (at Annex) for further guidance on the types of loans and advances that should be included in the respective categories as well as how the disclosures should be reported.]*

- **Loans and advances for use in Hong Kong**

    (a) Industrial, commercial and financial:

      – Property development;

      – Property investment;

- Financial concerns;

- Stockbrokers;

- Wholesale and retail trade;

- Manufacturing;

- Transport and transport equipment;

- Recreational activities;

- Information technology; and

- Others.

(b) Individuals:

- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme;

- Loans for the purchase of other residential properties;

- Credit card advances; and

- Others.

- **Trade finance**

- **Loans and advances for use outside Hong Kong**

3A.11.17 Additional credit risk information for the items referred to in 3A.11.16 above such as the extent to which these loans and advances are backed by collateral or other security must also be disclosed.

*[Additional Guidance – the items referred to in 3A.11.16 above should be broken down into more detailed sub-categories, as applicable. The aggregate of the breakdown should be consistent with the relevant figures in the AI's balance sheet.]*

3A.11.18 An AI must disclose the following by major industry or counterparty type. The AI must report the industry or counterparty if it constitutes 10% of more of the aggregate amount of loans and advances.

- Amount of impaired loans and advances which are subject to individual assessment for impairment loss

and if available, overdue loans and advances, provided separately;

- Specific provisions and collective provisions; and

- Amount of new provisions charged to the profit and loss, and the amount of impaired loans and advances charge-offs during the financial period.

*[Additional Guidance – For the purpose of 3A.11.18, the AI should follow the accounting disclosure requirements in determining the industry or counterparty type for disclosure.]*

3A.11.19 An AI must disclose the amount of impaired loans and advances which are subject to individual assessment for impairment loss and, if available, overdue loans and advances provided separately broken down by major countries or geographical segments including, if practical, the amounts of specific provisions and collective provisions related to each geographical area where the portion of collective provision that is not allocated to a geographical segment must be disclosed separately. A major country or geographical segment is one that constitutes 10% or more of the aggregate amount of loans and advances to customers after taking into account any risk transfer.

3A.11.20 An AI must disclose the gross amount of loans and advances (to customers and banks) which have been overdue for:

- 6 months or less but over 3 months;

- 1 year or less but over 6 months; and

- over 1 year.

Both the absolute amount of overdue loans and advances to customers and the percentage of such loans and advances to total loans and advances to customers must be given for each maturity bucket. Total loans and advances to customers must correspond to the total of loans and advances for use in Hong Kong, trade finance, and loans and advances for use outside Hong Kong as disclosed in 3A.11.16 above. Similar information on overdue loans and advances to banks must also be disclosed.

3A.11.21 An AI must provide a description of collateral held against the overdue loans and advances as security and other

credit enhancements and, unless impracticable, an estimate of their fair value. It must also disclose the amount of specific provisions made on such overdue loans and advances.

3A.11.22 An AI must disclose the amount of rescheduled loans and advances to customers, net of those that have been overdue for over 3 months and reported in paragraph 3A.11.20, and the percentage of such loans and advances to total loans and advances to customers. Similar information on rescheduled loans and advances to banks must be given.

3A.11.23 An AI must disclose the amount of other assets, analysed by major categories of assets such as trade bills and debt securities, which have been overdue for:

- 6 months or less but over 3 months;

- 1 year or less but over 6 months; and

- over 1 year.

*[Additional Guidance – For the purpose of 3A.11.18 to 3A.11.23 above, the AI should refer to the Guideline on Operation of the Disclosure Rules (at Annex) for further guidance on the classification and definition of overdue and rescheduled assets and how to disclose the value of collateral held against overdue loans and advances.]*

3A.11.24 An AI must disclose the amount of repossessed assets held, irrespective of the accounting treatment of the related loans and advances, upon the repossession of the assets.

**(C) Non-bank Mainland Exposures**

3A.11.25 An AI must analyse the aggregate non-bank Mainland exposures to non-bank counterparties where such exposures are material.

*[Additional Guidance – the AI should refer to the counterparties categories and the type of exposures as provided in the Guideline on Operation of the Disclosure Rules (at Annex) for the disclosure of non-bank Mainland exposures.]*

**(D) Currency Risk**

3A.11.26 An AI must disclose foreign currency exposures arising from trading, non-trading and structural positions. The position in a particular foreign currency must be reported if the net position (in absolute terms) constitutes 10% or more of the AI's total net position in all foreign currencies. The financial information to be disclosed in respect of each such currency must include:

- Spot assets;

- Spot liabilities;

- Forward purchases;

- Forward sales;

- Net options position; and

- Net long (short) position.

An AI may calculate its net options position using either the Delta Equivalent Approach set out in the return "Foreign Currency Position" or the AI's internal reporting method provided that the basis of calculation is clearly stated.

3A.11.27 An AI must also report its net structural position (assets less liabilities) in a particular foreign currency (in absolute terms) if it constitutes 10% or more of the AI's total net structural position in all foreign currencies.

*[Additional Guidance – the AI should refer to the Guideline on Operation of the Disclosure Rules (at Annex) for further guidance on the disclosure of currency risk.]*

**(E) Liquidity**

3A.11.28 An AI must disclose its average liquidity ratio for the financial period (i.e. normally 12 months). The average ratio must be the simple average of each calendar month's average liquidity ratio as reported by the AI to the HKMA pursuant to the BO. Subject to the HKMA's prior agreement, an AI may include overseas branches and / or subsidiaries in the calculation of its liquidity ratio.

## (F) Corporate Governance

3A.11.29 An AI must disclose the roles, functions and composition of any key specialised committees established under its Board of Directors. Typical specialised committees include the Executive Committee, Credit Committee, Asset and Liability Committee and Audit Committee.

3A.11.30 An AI must include a statement on the extent of its compliance with the guideline in SPM CG-1 "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the HKMA and the reason and details of any non-compliance.

## 3B    INTERIM FINANCIAL DISCLOSURES

### 3B.1   Scope of Consolidation

3B.1.1    An AI must disclose the basis of consolidation including an outline of differences in the basis of consolidation for accounting and regulatory purposes, with a description of the subsidiaries within the group:

3B.1.1.1    That are fully consolidated;

3B.1.1.2    That are deducted from the AI's Capital Base.

3B.1.2    Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group after taking into account any relevant regulatory, legal or taxation constraints on the transfer of capital.

### 3B.2  Income Statement and Equity

3B.2.1    An AI must include the following items of income, expense, gains or losses either in its financial statements or in the notes to the accounts:

▪ Net gains or net losses on:

− Financial assets or financial liabilities at fair value through profit or loss, showing separately the amount of net gains or net losses arising from financial assets or financial liabilities: (i) that are designated as such upon initial recognition; and (ii) that are classified as held for trading in accordance with HKAS 39;

- Available-for-sale financial assets, showing separately the amount of net gains or losses recognized directly in equity during the interim financial period and the amount removed from equity and recognized in profit or loss for the interim financial period;

- Held-to-maturity investments;

- Loans and receivables; and

- Financial liabilities measured at amortized cost;

- Net gains or net losses from disposal or revaluation of investment properties;

- Total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;

- Fee income and expense (other than amounts included in determining the effective interest rate) arising from:

  - Financial assets or financial liabilities that are not measured at fair value through profit or loss; and

  - Trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefits plans, and other institutions;

- Interest income on impaired financial assets accrued in accordance with HKAS 39;

- Dividend income (analysed into receipts from listed and unlisted companies);

- Operating expenses:

  - Staff costs;

  - Premises and equipment expenses, excluding depreciation (analysed where material);

  - Depreciation charges; and

  - Other operating expenses (analysed where material);

- Gains less losses from disposal of property, plant and equipment;

- Impairment losses and specific and collective provisions for impaired assets:

  - Available-for-sale financial assets;

  - Held-to-maturity investments; and

  - Loans and receivables;

- Tax expense (or tax income):

  - Hong Kong tax;

  - Overseas tax; and

  - Deferred tax, if any;

- As an appropriation:

  - Transfers to or from reserves.

3B.2.2     An AI must provide an explanatory statement relating to the activities of the AI and profit (or loss) during the interim financial period which must include any significant information that their disclosure is necessary for an informed assessment of the trend of the activities and profit (or loss) of the AI together with an indication of any special factor which has influenced those activities and the profit (or loss) during the interim financial period concerned. The statement must enable a comparison to be made with the corresponding period of the preceding financial year.

3B.2.3     An AI must disclose in the notes to the accounts the nature and amount of items of income and expense within profit or loss from ordinary activities which are of such size, nature or incidence that their disclosure is necessary for the understanding of the performance of the AI for the interim financial period concerned.

## 3B.3   Balance Sheet

3B.3.1     An AI must disclose the carrying amounts of each of the following items, as defined in accordance with HKAS 39, either on the AI's balance sheet or in the notes to the accounts:

**(A) Assets**

- Placements with banks maturing between one and twelve months;

- Financial assets measured at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition; and (ii) those classified as held for trading in accordance with HKAS 39;

- Held-to-maturity investments;

- Loans and receivables:

    - Loans and advances to customers;

    - Loans and advances to banks;

    - Accrued interest and other accounts (analysed where material);

    - Provisions for impaired loans and receivables (analysed between those against loans and advances to customers, loans and advances to banks, accrued interest and other accounts if material):

        - collective provisions; and

        - specific provisions;

- Available-for-sale financial assets;

- Investments in associates;

- Property, plant and equipment; and investment properties (for each major class of assets, the information set out below must be disclosed):

    - Cost or valuation;

    - Additions, revaluations and disposals made during the interim financial period;

    - Amount provided or written off for depreciation or diminution in value of these assets during the interim financial period;

    - Accumulated depreciation; and

    - Net book value.

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**(B) Equity and Liabilities**

- Deposits and balances of banks;

- Deposits from customers:

    − Demand deposits and current accounts;

    − Savings deposits; and

    − Time, call and notice deposits;

- Certificates of deposit issued:

    − Measured at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with HKAS 39; and

    − Measured at amortized cost;

- Issued debt securities:

    − Measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with HKAS 39; and

    − Measured at amortized cost;

- Deferred taxation, if any (disclosed in accordance with HKAS 12);

- Other liabilities;

- Provisions;

- Loan capital (types, coupon rates and maturities must be disclosed);

- Minority interests;

- Share capital;

- Reserves (analysed into the various material types of reserves, regulatory reserve and other revaluation reserves where maintained).

3B.3.2    An AI must disclose:

- The amount of impaired loans and advances to customers which are subject to individual assessment for impairment loss;

- The amount of specific provisions made for such loans and advances;

- The percentage of such loans and advances to total loans and advances to customers.

3B.3.3    Similar information as stated in 3B.3.2 above on impaired loans and advances to banks that are subject to individual assessment for impairment loss must be disclosed.

3B.3.4    For the purpose of 3B.3.1 and 3B.3.3, "loans and advances to banks" means placements with banks of greater than one year maturity.  "Deposits and balances of banks" means all amounts arising out of banking transactions owned by the AI to other banks; and excludes those balances taking the form of debt securities and certificates of deposits.  "Issued debt securities" means all negotiable securities other than loan capital, stocks, shares, import or export trade bills, or certificate of deposits.

3B.3.5    Where the specific provisions were made after taking into account the value of collateral in respect of such loans and advances, the AI must disclose this fact in order to put the level of provisioning into perspective.

**(C) Derivatives**

3B.3.6    An AI must disclose the aggregate contractual or notional amounts of derivatives as defined in HKAS 39 analysed by:

- Exchange rate contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements);

- Interest rate contracts; and

- Others.

3B.3.7    An AI must also provide such risk exposure information as is necessary for the understanding of the underlying risks of the exposures incurred by the AI through the use of derivative instruments.  In particular, the AI must report aggregate credit risk weighted amounts and aggregate fair value of its exchange rate contracts, interest rate contracts

and other derivatives, if any. The AI must also indicate whether these amounts take into account the effects of valid bilateral netting arrangements.

**3B.4    Off-Balance Sheet Exposures**

3B.4.1    An AI must disclose the contractual or notional amounts of each material class of off-balance sheet financial instruments and analysed where material. At a minimum, these must include the following items:

**Contingent liabilities and commitments**

▪ Direct credit substitutes;

▪ Transaction-related contingencies;

▪ Trade-related contingencies;

▪ Note issuance and revolving underwriting facilities;

▪ Forward asset purchases, amounts owing on partly paid-up shares and securities, forward forward deposits placed, asset sales with recourse;

▪ Other commitments under which the AI is obliged to provide funds in the future not falling within any of the other categories of off-balance sheet exposures listed above:

− Commitments with an original maturity of up to and including one year;

− Commitments with an original maturity of over one year;

− Commitments which may be cancelled at any time unconditionally by the AI or which provide for automatic cancellation due to a deterioration in a counterparty's creditworthiness;

where "original maturity", in relation to off-balance sheet exposure of an AI, means the period between the date on which the exposure is entered into by the AI and the earliest date on which the AI can, at its option, unconditionally cancel the exposure.

3B.4.2    An AI must also provide such risk exposure information as is necessary for the understanding of the underlying risks of the off-balance sheet exposures incurred by the AI. In particular, the AI must report aggregate credit risk weighted amounts of its contingent liabilities and

commitments, if any. The AI must also indicate whether these amounts take into account the effects of valid bilateral netting arrangements.

### 3B.5 Supplementary Disclosures

3B.5.1 An AI must disclose the following information either as part of the accompanying information to their financial statements or as part of the financial statements themselves.

### (A) Capital Structure and Adequacy

3B.5.2 An AI must disclose the components of its total Capital Base as reported under Part II of the Capital Adequacy Return to the HKMA pursuant to the BO. The disclosures must at least include the following items:

3B.5.2.1 Core Capital:

- The AI's paid-up ordinary share capital;

- The AI's paid-up irredeemable non-cumulative preference shares;

- The amount standing to the credit of the AI's share premium account;

- The AI's published reserves;

- The amount of the AI's profit and loss account;

- Minority interests in the equity of the AI's subsidiaries which are included in Core Capital;

- Total deductions from Core Capital.

3B.5.2.2 Supplementary Capital:

- The AI's reserves/fair value gains on revaluation of holdings of land and buildings;

- The AI's reserves/fair value gains on revaluation of holdings of securities not held for trading purposes;

- The AI's fair value gains arising from securities designated at fair value through

profit or loss included in Supplementary Capital;

- The amount of the AI's regulatory reserve for general banking risks;

- The amount of the AI's collective provisions;

- The amount of the AI's surplus provisions;

- The AI's perpetual subordinated debt;

- The AI's paid-up irredeemable cumulative preference shares;

- The AI's term subordinated debt;

- The AI's paid-up term preference shares;

- Minority interests in the equity of the AI's subsidiaries which are not included in Core Capital and minority interests in the paid-up irredeemable cumulative preference shares and paid-up term preference shares of the AI's subsidiaries, which are included in Supplementary Capital.

3B.5.2.3 Deductions from Core Capital and Supplementary Capital.

3B.5.2.4 Total Core Capital after deductions.

3B.5.2.5 Total Supplementary Capital after deductions.

3B.5.2.6 Total Capital Base.

3B.5.3 The aggregate amount of relevant capital shortfall in all subsidiaries not included in the consolidation for regulatory purposes, including the name(s) of such subsidiaries that are excluded. For this purpose, relevant capital shortfall, in relation to a subsidiary of an AI, represents the amount by which that subsidiary is deficient in meeting its minimum capital requirements, and is deducted from the AI's Capital Base in accordance with Part 3 of the Capital Rules.

3B.5.4 The AI must disclose its CAR ratio at balance sheet date, computed in accordance with the Capital Rules. As a supplementary information, the AI must also disclose its "Core Capital Ratio" which is defined as the amount of the

AI's Core Capital after making the deductions therefrom required by the Capital Rules to be divided by the AI's total risk-weighted amounts for credit risk, market risk and operational risk as determined in accordance with the Capital Rules. Where an AI is required to compute a consolidated CAR ratio by the HKMA, that consolidated CAR ratio and hence the "Core Capital Ratio" are to be disclosed. Otherwise, the required disclosure must be made on a solo ratio.

3B.5.5     Where the AI has earmarked part of its retained earnings for maintaining regulatory reserve to satisfy the provisions of the BO for prudential supervision purposes, the AI must state this fact, including the amount of retained earnings being earmarked for this purpose.

**(B) Credit Risk: General Disclosures by Designated Local AIs**

3B.5.6     An AI must disclose the breakdown of its cross-border claims by major countries or geographical segments according to the location of the counterparties and by the types of counterparties (analysed into banks, public sector entities and others). The basis of the country or geographical classification must be stated, including the fact that transfer of risk has been taken into account. Any country or geographical segment that constitutes 10% or more of an AI's aggregate cross-border claims after taking into account any risk transfer must be reported. Risk transfer may only be recognized if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

3B.5.7     Cross-border claims must include the following types of financial claims:

3B.5.7.1     receivables and loans and advances;

3B.5.7.2     balances due from banks;

3B.5.7.3     holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments;

3B.5.7.4     accrued interest and overdue interest on the above assets.

For the avoidance of doubt, claims arising between branches and subsidiaries of the AI must be excluded.

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3B.5.8    An AI must disclose the breakdown of the gross amount of loans and advances to customers by major countries or geographical segments according to the location of the counterparties.  Any country or geographical segment that constitutes 10% or more of the aggregate amount of loans and advances to customers after taking into account any risk transfer must be reported.

3B.5.9    An AI must disclose the breakdown of the gross amount of loans and advances to customers by major industry sectors.  To achieve consistency of reporting among AIs, the information must be disclosed in accordance with the industry categories set out in this paragraph.

- **Loans and advances for use in Hong Kong**

    (a) Industrial, commercial and financial:

    – Property development;

    – Property investment;

    – Financial concerns;

    – Stockbrokers;

    – Wholesale and retail trade;

    – Manufacturing;

    – Transport and transport equipment;

    – Recreational activities;

    – Information technology; and

    – Others.

    (b) Individuals:

    – Loans for the purchase of flats in the Home Ownership Scheme, Private Sector

> > > Participation Scheme and Tenants Purchase Scheme;

> > – Loans for the purchase of other residential properties;

> > – Credit card advances; and

> > – Others.

> ▪ **Trade finance**

> ▪ **Loans and advances for use outside Hong Kong**

3B.5.10 Additional credit risk information for the items referred to in 3B.5.9 above such as the extent to which these loans and advances are backed by collateral or other security must also be disclosed.

> *[Additional Guidance – the items referred to in 3B.5.9 above should be broken down into more detailed sub-categories, as applicable. The aggregate of the breakdown should be consistent with the relevant figures in the AI's balance sheet.]*

3B.5.11 An AI must disclose the following by major industry or counterparty type. The AI must report the industry or counterparty if it constitutes 10% of more of the aggregate amount of loans and advances.

> ▪ Amount of impaired loans and advances which are subject to individual assessment of impairment loss and if available, overdue loans and advances, provided separately;

> ▪ Specific provisions and collective provisions; and

> ▪ Amount of new provisions charged to the profit and loss, and the amount of impaired loans and advances charge-offs during the interim financial period.

> *[Additional Guidance – For the purpose of 3B.5.11, the AI should follow the accounting disclosure requirements in determining the industry or counterparty type for disclosure.]*

3B.5.12 An AI must disclose the amount of impaired loans and advances which are subject to individual assessment for impairment loss and, if available, overdue loans and advances provided separately broken down by major countries or geographical segments including, if practical, the amounts of specific provisions and collective

provisions related to each geographical segment where the portion of collective provision that is not allocated to a geographical segment must be disclosed separately. A major country or geographical segment is one that constitutes 10% or more of the aggregate amount of loans and advances to customers after taking into account any risk transfer.

3B.5.13 An AI must disclose the gross amount of loans and advances (to customers and banks) which have been overdue for:

- 6 months or less but over 3 months;

- 1 year or less but over 6 months; and

- over 1 year.

Both the absolute amount of overdue loans and advances to customers and the percentage of such loans and advances to total loans and advances to customers must be given for each maturity bucket. Total loans and advances to customers must correspond to the total of loans and advances for use in Hong Kong, trade finance and loans and advances for use outside Hong Kong as disclosed in 3B.5.9 above. Similar information on overdue loans and advances to banks must also be disclosed.

3B.5.14 An AI must provide a description of collateral held against the overdue loans and advances as security and other credit enhancements and, unless impracticable, an estimate of their fair value. It must also disclose the amount of specific provisions made on such overdue loans and advances.

3B.5.15 An AI must disclose the amount of rescheduled loans and advances to customers, net of those that have been overdue for over 3 months and reported in paragraph 3B.5.13 and the percentage of such loans and advances to total loans and advances to customers. Similar information on rescheduled loans and advances to banks must be given.

3B.5.16 An AI must disclose the amount of other assets, analysed by major categories of assets such as trade bills and debt securities, which have been overdue for:

- 6 months or less but over 3 months;

- 1 year or less but over 6 months; and

- over 1 year.

3B.5.17 An AI must disclose the amount of repossessed assets held, irrespective of the accounting treatment of the related loans and advances, upon the repossession of the assets.

## (C) Non-bank Mainland Exposures

3B.5.18 An AI must analyse the aggregate non-bank Mainland exposures to non-bank counterparties where such exposures are material.

## (D) Currency Risk

3B.5.19 An AI must disclose foreign currency exposures arising from trading, non-trading and structural positions. The position in a particular foreign currency must be reported if the net position (in absolute terms) constitutes 10% or more of the AI's total net position in all foreign currencies. The financial information to be disclosed in respect of each such currency must include:

- Spot assets;

- Spot liabilities;

- Forward purchases;

- Forward sales;

- Net options position; and

- Net long (short) position.

An AI may calculate its net options position using either the Delta Equivalent Approach set out in the return "Foreign Currency Position" or the AI's internal reporting method provided that the basis of calculation is clearly stated.

3B.5.20    An AI must also report its net structural position (assets less liabilities) in a particular foreign currency (in absolute terms) if it constitutes 10% or more of the AI's total net structural position in all foreign currencies.

*[Additional Guidance – the AI should refer to the Guideline on Operation of the Disclosure Rules (at Annex) for further guidance on the disclosure of currency risk.]*

**(E) Liquidity**

3B.5.21    An AI must disclose its average liquidity ratio for the interim financial period. The average ratio must be the simple average of each calendar month's average liquidity ratio as reported by the AI to the HKMA pursuant to the BO. Subject to the HKMA's prior agreement, an AI may include overseas branches and / or subsidiaries in the calculation of its liquidity ratio.

# PART 4

## ADDITIONAL ANNUAL DISCLOSURES SPECIFIC TO DESIGNATED LOCAL AIs USING THE BASIC APPROACH TO CALCULATION OF CREDIT RISK

### 4.1 Application

4.1.1 This part shall apply to an AI that:

- is a "Designated Local AI" as defined in paragraph 2.1.1, Part 2 of the DRs; and

- has been approved by the HKMA to adopt the BSA Approach to calculate its regulatory capital requirements for credit risk.

4.1.2 Unless the context requires otherwise, a reference to an AI in this Part is a reference to a Designated Local AI which uses the BSA Approach to calculate its regulatory capital requirements for credit risk and is subject to Part 4.

### 4.2 Capital Adequacy

4.2.1 An AI subject to Part 4 must make the following disclosures:

Qualitative

4.2.2 Summary discussion of the AI's approach to assessing the adequacy of its capital to support current and future activities.

Quantitative

4.2.3 The AI's regulatory capital requirements for credit risk.

4.2.4 Subject to 4.4.2 below, the AI's regulatory capital requirements for market risk calculated according to the specific approach in use by the AI:

4.2.4.1 The STM Approach;

4.2.4.2 The IMA - trading book;

4.2.4.3 Any other approach that has the prior consent of the HKMA.

4.2.5 The AI's regulatory capital requirements for operational risk calculated according to the specific approach in use by the AI:

4.2.5.1 The BIA Approach;

4.2.5.2 The ASA Approach;

4.2.5.3 The STO Approach.

## 4.3 General Qualitative Disclosures

4.3.1 An AI subject to Part 4 must provide a description of the main types of risk arising from its business, including but not limited to credit, liquidity, interest rate, foreign exchange and market risks arising from its trading book. The description must cover the policies, procedures and controls used for identifying, measuring, monitoring and controlling those risks and for managing the capital required to support them. At a minimum, this must include a discussion of:

4.3.1.1 Title or position of the board and senior management members that oversee risk management, set strategy and policy for each type of risk, and the means of ensuring it is implemented;

*[Additional Guidance – the AI should include the role of the specialized board committees in reviewing the adequacy of risk management policies and systems; and the extent to which these are effectively operating.]*

4.3.1.2 Method(s) used to identify and measure the various forms of risk;

*[Additional Guidance – Taking credit risk as an example, the AI should provide descriptions of the analytical techniques for assessing the risk profile and structure of the credit portfolio and identifying credit risk concentrations, and the use of internal credit risk rating systems.]*

4.3.1.3 Details relating to the approval of transactions including the delegation of credit authority, and the approval process for new products and activities;

4.3.1.4 Method(s) used to monitor and control risks;

4.3.1.5     Method(s) of using limits for controlling risks;

4.3.1.6     Details of operational controls;

4.3.1.7     The role of internal audit.

## 4.4    Market Risk

4.4.1     An AI subject to Part 4 must make the following disclosures:

4.4.2     Where an AI makes use of the de minimis exemption for market risk as specified in the Capital Rules, the AI must state the fact that it has relied on this exemption, and no further disclosures are required.

4.4.3     Except for those cases falling within rule 4.4.2, an AI must make both qualitative and quantitative disclosures in accordance with the specific approach to the calculation of market risk adopted by the AI.

4.4.4     Disclosures required from an AI using the STM Approach:

Qualitative

4.4.4.1     Disclose portfolios of exposures covered by the STM Approach.

Quantitative

4.4.4.2     The AI's regulatory capital requirements for:

- Interest rate exposures;

- Equity position exposures;

- Foreign exchange exposures;

- Commodities exposures.

4.4.5    Disclosures required from an AI using the IMA to calculate its exposure to market risk in respect of its trading book:

Qualitative

4.4.5.1    Disclose portfolios of exposures covered by the IMA, and provide a discussion of the extent of and methodologies for the AI's compliance with the "Prudent valuation guidance" for positions held in the trading book in accordance with the HKMA's Guidance on [Market Risk Management]. The discussion must include an articulation of the soundness standards on which the AI's internal capital adequacy assessment is based. It must also include a description of the methodologies used to achieve a capital adequacy assessment that is consistent with the soundness standards.

*[Additional Guidance – the HKMA's Guidance on [Market Risk Management] is to be forthcoming.]*

4.4.5.2    For each portfolio of exposures covered by the IMA, the AI must disclose:

- The characteristics of the model(s) used;

- A description of the stress testing applied by the AI to the portfolio;

- A description of the approach used for backtesting / validating the accuracy and consistency of the internal models and modelling processes.

Quantitative

4.4.5.3    For exposures in the AI's trading book under the IMA, the AI must disclose:

- The high, mean, and low VaR values over the reporting period and the VaR at period-end;

- A comparison of VaR estimates with actual gains / losses experienced by the AI, with an analysis of important "outliers" in backtest results.

4.4.6    Disclosures required from an AI using any other approach that has the prior consent of the HKMA for calculation of market risk in respect of its trading book:

Qualitative

4.4.6.1    The AI must provide similar information as required in 4.4.5.1 to 4.4.5.2 above.

4.4.6.2    Where applicable, the HKMA may specify other disclosures which the HKMA considers necessary for the understanding of the AI's underlying market risk exposures.

Quantitative

4.4.6.3    The AI must provide similar information as required in 4.4.5.3 above.

4.4.6.4    Where applicable, the HKMA may specify other disclosures which the HKMA considers necessary for the understanding of the AI's underlying market risk exposures.

# PART 5

## ADDITIONAL ANNUAL DISCLOSURES SPECIFIC TO DESIGNATED LOCAL AIs USING THE STANDARDIZED APPROACH TO CALCULATION OF CREDIT RISK

### 5.1 Application

5.1.1      This part shall apply to an AI that:

- is a "Designated Local AI" as defined in paragraph 2.1.1, Part 2 of the DRs; and

- uses the STC Approach to calculate its regulatory capital requirements for credit risk.

5.1.2      This part shall also apply to exempted non-securitization exposures under the IRB Approaches and exempted securitization exposure under the IRBS Approach to the calculation of regulatory capital requirements for credit risk as detailed in paragraph 6.1.2, Part 6 of the DRs.

5.1.3      Unless the context requires otherwise, a reference to an AI in this Part is a reference to a Designated Local AI which:

- uses the STC Approach to the calculation of regulatory capital requirements for credit risk; or

- uses the STC Approach to the calculation of regulatory capital requirements for credit risk for exempted non-securitization exposures under the IRB Approaches and exempted securitization exposures under the IRBS Approach;

and is subject to Part 5.

### 5.2 Capital Adequacy

5.2.1      An AI subject to Part 5 must make the following disclosures:

Qualitative

5.2.2      Summary discussion of the AI's approach to assessing the adequacy of its capital to support current and future activities.

5.2.3    The AI's regulatory capital requirements for credit risk disclosed separately for each portfolio of exposures.

5.2.4    The AI's regulatory capital requirements for securitization exposures.

5.2.5    Subject to 5.8.2, the AI's regulatory capital requirements for market risk calculated according to the specific approach in use by the AI:

    5.2.5.1    The STM Approach;

    5.2.5.2    The IMA – trading book;

    5.2.5.3    Any other approach that has the prior consent of the HKMA.

5.2.6    The AI's regulatory capital requirements for operational risk calculated according to the specific approach in use by the AI:

    5.2.6.1    The BIA Approach;

    5.2.6.2    The ASA Approach;

    5.2.6.3    The STO Approach.

## 5.3    General Qualitative Disclosures

5.3.1    An AI subject to Part 5 must provide a description of the main types of risk arising from its business, including the risks referred to under sections 5.4 to 5.11 below. The description must cover the policies, procedures and controls used for identifying, measuring, monitoring and controlling those risks and for managing the capital required to support them. At a minimum, this must include a discussion of:

    5.3.1.1    Title or position of the board and senior management members that oversee risk management, set strategy and policy for each type of risk, and the means of ensuring it is implemented;

        *[Additional Guidance – the AI should include the role of the specialized board committees in reviewing the adequacy of risk management policies and systems; and the extent to which these are effectively operating.]*

5.3.1.2 Method(s) used to identify and measure the various forms of risk;

*[Additional Guidance – Taking credit risk as an example, the AI should provide descriptions of the analytical techniques for assessing the risk profile and structure of the credit portfolio and identifying credit risk concentrations, and the use of internal credit risk rating systems.]*

5.3.1.3 Details relating to the approval of transactions including the delegation of credit authority, and the approval process for new products and activities;

5.3.1.4 Method(s) used to monitor and control risks;

*[Additional Guidance – Taking credit risk as an example, the AI should describe the structure of the AI's credit risk management function, the segregation of duties in key credit functions, the use of independent risk control units and the use of credit risk mitigation techniques such as collateral, netting, guarantees and credit derivative contracts.]*

5.3.1.5 Method(s) of using limits for controlling risks;

*[Additional Guidance - For example e.g. limits on large exposures and credit risk concentrations.]*

5.3.1.6 Details of operational controls;

5.3.1.7 The role of internal audit.

## 5.4 Credit Risk: Specific Disclosures

5.4.1 An AI subject to Part 5 must make the following disclosures:

Qualitative

5.4.2 Names of ECAIs and ECAs used, plus reasons for any changes since the last reporting period;

5.4.3 Types of exposure for which each agency is used;

5.4.4 A description of the process used to map EACI issuer rating or EACI issue specific rating, as the case may be, to on-balance sheet assets and off-balance sheet exposures in the AI's banking book.

5.4.5      For each separately disclosed portfolio of exposures, the aggregate amount of exposures (i.e. principal amount or credit equivalent amount, as applicable, net of specific provisions) covered by the STC Approach.

5.4.6      For each separately disclosed portfolio of exposures after recognized credit risk mitigation covered by the STC Approach, the AI must disclose the aggregate amount of outstanding exposures after recognized credit risk mitigation, distinguishing between rated and unrated exposures, and the respective risk-weighted amounts.

5.4.7      The amount of exposures that are deducted from the AI's Capital Base.

*[Additional Guidance – For the purpose of 5.4.5 to 5.4.7 above, the AI should make reference to the specimen disclosure template (Attachment 4) enclosed with the Guideline on Operation of the Disclosure Rules (at Annex).]*

## 5.5      General Disclosures for Counterparty Credit Risk-related Exposures

5.5.1      An AI subject to Part 5 must make the following disclosures:

Qualitative

5.5.2      The general qualitative disclosures with respect to counterparty credit risk arising from over-the-counter derivative transactions, repo-style transactions and credit derivative contracts other than recognized credit derivative contracts, booked in banking book or trading book, including a discussion of:

         5.5.2.1      Methodology used to assign internal capital and credit limits for counterparty credit exposures;

                 *[Additional Guidance – the AI should follow the HKMA's framework of the supervisory review process ("SRP") under Pillar 2, including internal capital adequacy assessment process ("CAAP") in assessing and managing capital needs. The framework and supervisory standards of SRP are to be forthcoming.]*

         5.5.2.2      Policies for securing collateral and establishing credit reserves;

5.5.2.3   Policies with respect to wrong-way risk exposures;

5.5.2.4   The impact of the amount of collateral the AI would have to provide given a credit rating downgrade of the AI.

<u>Quantitative</u>

5.5.3   For the over-the-counter derivative transactions, repo-style transactions and credit derivative contracts other than recognized credit derivative contracts as covered in 5.5.2 above, the AI must disclose the respective gross aggregate positive fair value of contracts, credit equivalent amounts or counterparty exposure for the case of repo-style transactions, after taking into account the effect of valid bilateral netting arrangement, recognized collateral held by the AI (including type, e.g. cash, government securities, etc.), net credit exposures and the respective risk-weighted amounts.  The disclosure must also include the notional amounts of credit derivative hedges, and the distribution of the AI's net credit exposures and risk-weighted amounts by types of credit exposure (e.g. exchange rate contracts, interest rate contracts).

5.5.4   The notional amounts of credit derivative contracts that create exposures to counterparty credit risk, segregated between use for the AI's own credit portfolio, and use in the AI's intermediation activities, including the distribution of the credit derivative contracts used (e.g. credit default swaps, total return swaps), broken down further by protection bought and sold within each type of contract.

5.5.5   For the purpose of 5.5.2 and 5.5.3, repo-style transactions refer to those transactions falling within section [4.4.6(3) or 4.4.6(4)(a)] of Part 4 of the Capital Rules.

**5.6   Credit Risk Mitigation**

5.6.1   An AI subject to Part 5 must make the following disclosures for credit risk mitigation other than those in relation to over-the-counter derivative transactions, repo-style transactions and credit derivatives contracts other than recognized credit derivatives contracts, booked in banking book or trading book, which are already covered in 5.5 above:

<u>Qualitative</u>

5.6.2   The general qualitative disclosures with respect to credit risk mitigation including:

5.6.2.1    Policies and processes for, and an indication of the extent to which the AI makes use of, on- and off-balance sheet recognized netting;

5.6.2.2    Policies and processes for collateral valuation and management;

5.6.2.3    A description of the main types of recognized collateral taken by the AI;

5.6.2.4    The main types of guarantor / credit derivative counterparty and their creditworthiness for the recognized guarantees and credit derivative contracts;

5.6.2.5    Information about (market or credit) risk concentrations within the credit risk mitigation taken.

Quantitative

5.6.3    For each separately disclosed portfolio of exposures under the STC Approach, the total exposure (after, where applicable, on- or off-balance sheet recognized netting) that is covered by recognized collateral after the application of haircuts required by the Capital Rules.

5.6.4    For each separately disclosed portfolio of exposures under the STC Approach, the total exposure (after, where applicable, on- or off-balance sheet recognized netting) that is covered by recognized guarantees / credit derivative contracts after the application of haircuts required by the Capital Rules.

5.6.5    For the purpose of 5.6, credit derivative contracts that are treated as part of synthetic securitization transactions must be excluded from disclosures in this section and included in the disclosures under 5.7 below.

**5.7    Asset Securitization**

5.7.1    An AI subject to Part 5 must make the following disclosures:

Qualitative

5.7.2    The general qualitative disclosures with respect to securitization (including synthetic securitization transactions) including a discussion of:

5.7.2.1    The AI's objectives in relation to securitization activities, including the extent to which these

activities transfer credit risk in respect of the underlying exposures of the securitization transaction away from the AI to other entities;

5.7.2.2    The roles played by the AI in the securitization process and an indication of the extent of the AI's involvement in each of them;

5.7.2.3    The regulatory capital approaches that the AI follows for its securitization activities.

5.7.3    Summary of the AI's accounting policies for securitization activities, including:

5.7.3.1    Whether the transactions are treated as sales or financings;

5.7.3.2    Recognition of gain-on-sale;

5.7.3.3    Key assumptions for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes;

5.7.3.4    Treatment of synthetic securitizations if this is not covered by other accounting policies (e.g. on derivatives);

5.7.3.5    Names of ECAIs used for securitizations and the types of securitization exposure for which each agency is used.

<u>Quantitative</u>

5.7.4    The total outstanding exposures securitized by the AI and subject to the securitization framework set out in Part [9] of the Capital Rules (broken down into traditional securitization and synthetic securitization), by exposure type. Securitization transactions in which the originating AI does not retain any securitization exposure must be shown separately but need only be reported for the year of inception. An AI must differentiate between exposures resulting from activities in which it acts only as sponsor, and exposures that result from all other securitization activities of the AI that are subject to the securitization framework set out in Part [9] of the Capital Rules.

5.7.5    For exposures securitized by the AI and subject to the securitization framework set out in Part [9] of the Capital Rules:

5.7.5.1 Amount of impaired / overdue assets securitized;

5.7.5.2 Losses recognized by the AI during the current reporting period;

broken down by exposure type.

5.7.6 Aggregate amount of securitization exposures retained or purchased broken down by exposure type.

5.7.7 Aggregate amount of securitization exposures retained or purchased, the risk-weighted amounts and the associated regulatory capital requirements by STS Approach for these exposures. Exposures that have been deducted entirely from Core Capital, credit-enhancing I/Os and other exposures deducted from Core Capital and Supplementary Capital, as the case may be, must be disclosed separately by type of underlying asset.

5.7.8 For securitizations subject to early amortization provisions, the following items by underlying asset type for securitized facilities:

5.7.8.1 The aggregate drawn exposures attributed to the originator's and investors' interests;

5.7.8.2 The aggregate regulatory capital requirements by STS Approach, incurred by the AI against its retained (i.e. the originator's) shares of the drawn balances and undrawn balances;

5.7.8.3 The aggregate regulatory capital requirements by STS Approach, incurred by the AI against the investors' interest in shares of drawn balances and undrawn balances.

5.7.9 Summary of AI's current year's securitization activity, including the amount of exposures securitized (by exposure type), and recognized gain or loss on sale by exposure type.

**5.8 Market Risk**

5.8.1 An AI subject to Part 5 must make the following disclosures:

5.8.2 Where the AI makes use of the de minimis exemption for market risk as specified in the Capital Rules, the AI must state the fact that it has relied on this exemption, and no further disclosures are required.

5.8.3    Except for those cases falling within section 5.8.2, the AI must make both qualitative and quantitative disclosures in accordance with the specific approach to the calculation of market risk adopted by the AI.

5.8.4    Disclosures required from an AI using the STM Approach:

Qualitative

5.8.4.1    Disclose portfolios of exposures covered by the STM Approach.

Quantitative

5.8.4.2    The AI's regulatory capital requirements for:

- Interest rate exposures;

- Equity position exposures;

- Foreign exchange exposures;

- Commodities exposures.

5.8.5    Disclosures required from an AI using the IMA to calculate its exposure to market risk in respect of its trading book:

Qualitative

5.8.5.1    Disclose portfolios of exposures covered by the IMA, and provide a discussion of the extent of and methodologies for the AI's compliance with the "Prudent valuation guidance" for positions held in the trading book in accordance with the HKMA's Guidance on [Market Risk Management]. The discussion must include an articulation of the soundness standards on which the AI's internal capital adequacy assessment is based. It must also include a description of the methodologies used to achieve a capital adequacy assessment that is consistent with the soundness standards.

[Additional Guidance – the HKMA's Guidance on [Market Risk Management] is to be forthcoming.]

5.8.5.2    For each portfolio of exposures covered by the IMA, the AI must disclose:

- The characteristics of the model(s) used;

- A description of the stress testing applied by the AI to the portfolio;

- A description of the approach used for backtesting / validating the accuracy and consistency of the internal models and modelling processes.

<u>Quantitative</u>

5.8.5.3　For exposures in the AI's trading book under the IMA, the AI must disclose:

- The high, mean, and low VaR values over the reporting period and the VaR at period-end;

- A comparison of VaR estimates with actual gains / losses experienced by the AI, with an analysis of important "outliers" in backtest results.

5.8.6　Disclosures required from an AI using any other approach that has the prior consent of the HKMA for calculation of market risk in respect of its trading book:

<u>Qualitative</u>

5.8.6.1　The AI must provide similar information as required in 5.8.5.1 to 5.8.5.2 above.

5.8.6.2　Where applicable, the HKMA may specify other disclosures which the HKMA considers necessary for the understanding of the AI's underlying market risk exposures.

<u>Quantitative</u>

5.8.6.3　The AI must provide similar information as required in 5.8.5.3 above.

5.8.6.4　Where applicable, the HKMA may specify other disclosures which the HKMA considers necessary for the understanding of the AI's underlying market risk exposures.

**5.9　Operational Risk**

5.9.1　An AI subject to Part 5 must make the following disclosures:

5.9.2    Disclose the approach(es) for operational risk capital assessment for which the AI uses to calculate its exposure to operational risk for each standardized business line.  AI using the BIA Approach must disclose the fact.

## 5.10    Equities: Disclosures for Banking Book Positions

5.10.1    An AI subject to Part 5 must make the following disclosures:

Qualitative

5.10.2    The general qualitative disclosures with respect to equity risk including:

5.10.2.1    Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons;

5.10.2.2    Discussion of important policies covering the valuation and accounting of equity holdings in the AI's banking book.  This includes the accounting techniques and valuation methodologies used by the AI, including key assumptions and practices affecting valuation as well as significant changes in these practices in the reporting period.

Quantitative

5.10.3    The cumulative realized gains or losses arising from sales and liquidations of the equity holdings in the reporting period.

5.10.4    Total unrealized gains or losses recognized in the AI's reserves but not through the profit and loss account, and any of these amounts included in the AI's Supplementary Capital for CAR purposes.

5.10.5    The AI's regulatory capital requirements broken down by equity groupings which is consistent with the AI's internal methodology, and the aggregate amounts and the type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements.

### 5.11    Interest Rate Risk in the Banking Book

5.11.1    An AI subject to Part 5 must make the following disclosures:

<u>Qualitative</u>

5.11.2    The general qualitative disclosures with respect to IRRBB, including the nature of IRRBB and key assumptions used by the AI in its measurement of IRRBB, including assumptions regarding loan prepayments and behaviour of non-maturity deposits where non-maturity deposit is a deposit without a fixed maturity, and frequency of IRRBB measurement.

<u>Quantitative</u>

5.11.3    The variations in earnings or economic value (or relevant measure used by the AI) for upward and downward interest rate shocks according to the AI's method for measuring IRRBB, broken down by currency (as relevant).

# PART 6

## ADDITIONAL ANNUAL DISCLOSURES SPECIFIC TO
## DESIGNATED LOCAL AIs
## USING THE FOUNDATION OR ADVANCED INTERNAL RATINGS-BASED
## APPROACH TO CALCULATION OF CREDIT RISK

### 6.1 Application

6.1.1 Subject to the exception prescribed in paragraph 6.1.2, this part shall apply to an AI that

- is a "Designated Local AI" as defined in paragraph 2.1.1, Part 2 of the DRs; and

- has been approved by the HKMA to adopt either the FIRB or AIRB Approach to calculate its regulatory capital requirements for credit risk.

6.1.2 This part does not apply to exposures or portfolios of exposures that have been exempted from the IRB Approaches for non-securitization exposures and the IRBS Approach for securitization exposures under the Capital Rules. Disclosures relating to these exposures or portfolios must be made according to the rules set out in Part 5 of the DRs.

6.1.3 Unless the context requires otherwise, a reference to an AI in this Part is a reference to a Designated Local AI which uses either the FIRB or AIRB Approach to the calculation of regulatory capital requirements for credit risk and is subject to Part 6.

### 6.2 Capital Adequacy

6.2.1 An AI subject to Part 6 must make the following disclosures:

<u>Qualitative</u>

6.2.2 Summary discussion of the AI's approach to assessing the adequacy of its capital to support current and future activities.

<u>Quantitative</u>

6.2.3 The AI's regulatory capital requirements disclosed separately for each portfolio under the FIRB Approach and for each portfolio under the AIRB Approach covering:

- Corporate (including SME Corporates, specialized lending exposures, and purchased corporate receivables), sovereign and bank;

- Residential mortgages;

- Qualifying revolving retail exposures;

- Other retail exposures to individuals and small business retail exposures; and

- Other exposures including cash items and other on-balance sheet assets that are not categorized as corporate, sovereign, bank, retail and equity exposures and cash items.

The AI must distinguish between qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures unless these portfolios are insignificant in size relative to overall credit exposures and the risk profile is sufficiently similar that separate disclosure would not help understanding of the risk profile of the AI's retail businesses.

6.2.4      The AI's regulatory capital requirements for securitization exposures.

6.2.5      The AI's regulatory capital requirements for equity exposures held in the banking book under the IRB:

     6.2.5.1      Equity portfolios subject to the market-based approach:

         - Equity portfolios subject to the simple risk weight method;

         - Equity portfolios in the banking book subject to the internal models method.

     6.2.5.2      Equity portfolios subject to the PD / LGD approach.

6.2.6      The AI's regulatory capital requirements for market risk calculated according to the specific approach in use by the AI:

     6.2.6.1      The STM Approach;

     6.2.6.2      The IMA – trading book;

     6.2.6.3      Any other approach that has the prior consent of the HKMA.

6.2.7 The AI's regulatory capital requirements for operational risk calculated according to the specific approach in use by the AI:

    6.2.7.1 The BIA Approach;

    6.2.7.2 The ASA Approach;

    6.2.7.3 The STO Approach.

## 6.3 General Qualitative Disclosures

6.3.1 An AI subject to Part 6 must provide a description of the main types of risk arising from their business, including the risks referred to under sections 6.4 to 6.12 below. The description must cover the policies, procedures and controls used for identifying, measuring, monitoring and controlling those risks and for managing the capital required to support them. At a minimum, this must include a discussion of:

    6.3.1.1 Title or position of the board and senior management members that oversee risk management, set strategy and policy for each type of risk, and the means of ensuring it is implemented;

        *[Additional Guidance – the AI should include the role of the specialized board committees in reviewing the adequacy of risk management policies and systems; and the extent to which these are effectively operating.]*

    6.3.1.2 Method(s) used to identify and measure the various forms of risk;

        *[Additional Guidance – Taking credit risk as an example, the AI should provide descriptions of the analytical techniques for assessing the risk profile and structure of the credit portfolio and identifying credit risk concentrations, and the use of internal credit risk rating systems.]*

    6.3.1.3 Details relating to the approval of transactions including the delegation of credit authority, and the approval process for new products and activities;

    6.3.1.4 Method(s) used to monitor and control risks;

        *[Additional Guidance – Taking credit risk as an example, the AI should describe the structure*

> *of the AI's credit risk management function, the segregation of duties in key credit functions, the use of independent risk control units and the use of credit risk mitigation techniques such as collateral, netting, guarantees and credit derivative contracts.]*

6.3.1.5 Method(s) of using limits for controlling risks;

> *[Additional Guidance - For example e.g. limits on large exposures and credit risk concentrations.]*

6.3.1.6 Details of operational controls;

6.3.1.7 The role of internal audit.

## 6.4 Credit Risk: Disclosures for Portfolios subject to Supervisory Estimates in the IRB

6.4.1 An AI subject to Part 6 must make the following disclosures:

Quantitative

6.4.2 For exposures subject to the supervisory estimates under IRB (including any specialized lending products subject to the supervisory slotting criteria approach and equities under the simple risk weight method), the AI must disclose the aggregate outstanding amounts in each risk-weight.

## 6.5 Credit Risk: Specific Disclosures

6.5.1 An AI subject to Part 6 must make the following disclosures:

Qualitative

6.5.2 If the AI has not fully adopted either the FIRB Approach or the AIRB Approach and subject to section 6.1.2 above, a description of the nature of exposures within each portfolio of exposures that are subject to the following requirements:

6.5.2.1 The FIRB Approach;

6.5.2.2 The AIRB Approach.

6.5.3 The AI must give an explanation and review of the:

6.5.3.1 Structure of its internal rating systems and the relationship between internal and external ratings;

6.5.3.2 Use of internal estimates by the AI other than for calculation of the AI's regulatory capital requirement under the IRB;

6.5.3.3 Process for managing and recognizing credit risk mitigation;

6.5.3.4 Control mechanisms for the rating system including discussion of independence and accountability of the rating process, and rating systems review.

6.5.4 The AI must give a description of its internal ratings process, provided separately for the following five distinct portfolios:

6.5.4.1 Corporate (including SME Corporates, specialized lending exposures, and purchased corporate receivables), sovereign and bank;

6.5.4.2 Equities where the AI uses the PD/LGD approach for equities held in its banking book;

6.5.4.3 Residential mortgages;

6.5.4.4 Qualifying revolving retail exposures;

6.5.4.5 Other retail exposures to individuals and small business retail exposures.

The AI must distinguish between qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures unless these portfolios are insignificant in size relative to overall credit exposures and the risk profile is sufficiently similar that separate disclosure would not help understanding of the risk profile of the AI's retail businesses.

For each portfolio, the description must include:

6.5.4.6 The types of exposure included in the portfolio;

6.5.4.7 For corporate, sovereign, bank and equities exposures referred to in 6.5.4.1 and 6.5.4.2, a description of the definitions of the variables, methods and data for estimation and validation of PD, LGD and EAD, including assumptions employed in the derivation of these variables except for LGD and EAD related disclosures that do not apply to AIs adopting the FIRB Approach and equities exposures;

6.5.4.8 For retail exposures referred to in 6.5.4.3 to 6.5.4.5, the AI must report the definitions of the variables, methods and data for estimation and validation of PD, LGD and EAD, including assumptions employed in the derivation of these variables. The AI must also distinguish between the qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures unless these portfolios are insignificant in size relative to overall credit exposures and the risk profile of each portfolio is sufficiently similar that no separate disclosure would not jeopardize the understanding of the risk profile of the AI's retail businesses;

6.5.4.9 A description of permitted deviations from the IRB reference definition of default as specified in Part [6] of the Capital Rules where determined by the AI to be material, including the broad segments of the portfolio(s) affected by such deviations[3].

6.5.5 The AI must provide a description of the approaches it has followed for determining specific provisions and collective provisions and the statistical methods it has used.

Quantitative: Risk Assessment

6.5.6 For each portfolio, the AI must disclose the amount of exposures (including both the amount drawn down and EAD on undrawn commitments) subject to:

6.5.6.1 The FIRB Approach;

6.5.6.2 The AIRB Approach.

6.5.7 For each portfolio except retail exposures referred to in 6.5.4.3 to 6.5.4.5, the AI must present the following information across a sufficient number of obligor grades (including defaulted obligor grade) as the AI considers necessary for a consistent, logical and cogent differentiation of the underlying credit risk for:

6.5.7.1 Total exposures (for corporate, sovereign and bank counterparties: amount of outstanding

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[3] An AI only needs to describe the main areas where there has been material divergence from the reference definition of default such that it would affect the readers' ability to compare and understand the disclosure of exposures by obligor grade.

loans and EAD on undrawn commitments either on a stand-alone basis or on a combined basis; for equities: outstanding amount of equities exposures);

6.5.7.2 For AI adopting the AIRB Approach: exposure-weighted average LGD in percentage;

6.5.7.3 Exposure weighted-average risk-weight.

The PD, LGD and EAD disclosures must take into account the effects of recognized collateral, netting and guarantees/credit derivatives. Disclosure of each obligor grade must include the exposure weighted-average PD for each grade. Where an AI is aggregating obligor grades for the purposes of disclosure, this must represent such a breakdown of the distribution of obligor grades used in the IRB Approach that provides for a consistent, logical and cogent differentiation of the underlying credit risk.

6.5.8 The AI adopting the AIRB Approach must disclose the amount of undrawn commitments and exposure-weighted average EAD for each portfolio of exposures. The AI only needs to provide one estimate of EAD for each portfolio. However, the AI may also disclose EAD estimates across a number of EAD categories, against the related amount of undrawn commitments;

6.5.9 For each retail portfolio referred to in 6.5.4.3 to 6.5.4.5, the AI must either disclose[4]:

6.5.9.1 On a pool basis in accordance with rule 6.5.7 (i.e. the same approach as for non-retail portfolios); or

6.5.9.2 An analysis of exposures (outstanding loans and EAD on commitments) on a pool basis against a sufficient number of EL grades that provides for a consistent, logical and cogent differentiation of the underlying credit risk.

Quantitative: Historical Results

6.5.10 The AI must disclose the actual losses (e.g. charge-offs and specific provisions) in the reporting period for each

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[4] An AI would normally be expected to follow the disclosures provided for the non-retail portfolios. However, the AI may choose to adopt EL grades as the basis of disclosure to permit understanding and differentiation of the underlying credit risk. Where the AI is aggregating internal grades (either PD / LGD or EL) for the purposes of disclosure, this must represent such a breakdown of the distribution of those grades used in the IRB Approach that provides for a consistent, logical and cogent differentiation of the underlying credit risk.

portfolio (as defined in 6.5.4.1 to 6.5.4.5 above) and how this differs from past experience, together with an explanation for the factors that affected the loss experienced in the preceding period.

6.5.11 The AI must disclose the estimates against actual outcomes over a sufficiently long period to permit understanding of the reliability of the information provided by the AI in the quantitative risk assessment disclosures in 6.5.6 to 6.5.9 above over the long run. At a minimum, this must include information on estimates of losses against actual losses in each portfolio over a period as long run as possible to allow for the assessment of the AI's performance of the internal rating processes for each portfolio. Where appropriate, the AI must further decompose this to provide analysis of PD and, for the AI on the AIRB Approach, LGD and EAD outcomes against estimates provided in the quantitative risk assessment disclosures in 6.5.6 to 6.5.9 above. The AI must provide this information where there are material differences between the PD, LGD or EAD estimates given by the AI compared to actual outcomes over the long run. The AI must also provide explanations for such differences. For the purpose of this section, "long run" means a time period that captures a reasonable mix of high-default and low-default years of an economic cycle.

## 6.6 General Disclosures for Counterparty Credit Risk-related Exposures

6.6.1 An AI subject to Part 6 must make the following disclosures:

Qualitative

6.6.2 The general qualitative disclosures with respect to counterparty credit risk arising from over-the-counter derivative transactions, repo-style transactions and credit derivative contracts other than recognized credit derivative contracts, booked in banking book or trading book, including a discussion of:

6.6.2.1 Methodology used to assign internal capital and credit limits for counterparty credit exposures;

*[Additional Guidance – the AI should follow the HKMA's framework of the supervisory review process ("SRP") under Pillar 2, including internal capital adequacy assessment process ("CAAP") in assessing and managing capital*

6.6.2.2 Policies for securing collateral and establishing credit reserves;

6.6.2.3 Policies with respect to wrong-way risk exposures;

6.6.2.4 The impact of the amount of collateral the AI would have to provide given a credit rating downgrade of the AI.

Quantitative

6.6.3 The AI must provide the distribution of major types of credit exposures by counterparty type.

6.6.4 For the over-the-counter derivative transactions, repo-style transactions and credit derivative contracts other than recognized credit derivative contracts as covered in 6.6.2 above, the AI must disclose the respective gross aggregate positive fair value of contracts, credit equivalent amounts or counterparty exposure for the case of repo-style transactions, after taking into account the effect of valid bilateral netting arrangement, recognized collateral held by the AI (including type, e.g. cash, government securities, etc.), and the respective risk-weighted amounts. The disclosure must also include the notional amounts of credit derivative hedges, and the distribution of the AI's EAD and risk-weighted amounts by types of credit exposure (e.g. exchange rate contracts, interest rate contracts).

6.6.5 The notional amounts of credit derivative contracts that create exposures to counterparty credit risk, segregated between use for the AI's own credit portfolio, and use in the AI's intermediation activities, including the distribution of the credit derivative contracts used (e.g. credit default swaps, total return swaps), broken down further by protection bought and sold within each type of contract.

6.6.6 For the purpose of 6.6.2 to 6.6.4, repo-style transactions refer to those transactions falling within section [4.4.6(3) or 4.4.6(4)(a)] of Part 4 of the Capital Rules.

## 6.7 Credit Risk Mitigation

6.7.1 An AI subject to Part 6 must make the following disclosures for credit risk mitigation other than those in

relation to over-the-counter derivative transactions, repo-style transactions and credit derivative contracts other than recognized credit derivative contracts, booked in banking book or trading book, which are already covered in 6.6 above:

<u>Qualitative</u>

6.7.2  The general qualitative disclosures with respect to credit risk mitigation including:

6.7.2.1  Policies and processes for, and an indication of the extent to which the AI makes use of, on- and off-balance sheet recognized netting;

6.7.2.2  Policies and processes for collateral valuation and management;

6.7.2.3  A description of the main types of recognized collateral taken by the AI;

6.7.2.4  The main types of guarantor / credit derivative counterparty and their creditworthiness for the recognized guarantees and credit derivative contracts;

6.7.2.5  Information about (market or credit) risk concentrations within the credit risk mitigation taken.

<u>Quantitative</u>

6.7.3  For each separately disclosed credit risk portfolio under the FIRB Approach, the total exposure (after, where applicable, on- or off-balance sheet recognized netting) that is covered by recognized collateral after the application of haircuts required by the Capital Rules.

6.7.4  For each separately disclosed credit risk portfolio under the FIRB or AIRB Approach, the total exposure (after, where applicable, on- or off-balance sheet recognized netting) that is covered by recognized guarantees / credit derivative contracts after the application of haircuts required by the Capital Rules.

6.7.5  For the purpose of 6.7, credit derivative contracts that are treated as part of synthetic securitization transactions must be excluded from disclosures in this section but included in the disclosures under 6.8 below.

## 6.8 Asset Securitization

6.8.1    An AI subject to Part 6 must make the following disclosures:

<u>Qualitative</u>

6.8.2    The general qualitative disclosures with respect to securitization (including synthetics securitization transactions) including a discussion of:

6.8.2.1    The AI's objectives in relation to securitization activities, including the extent to which these activities transfer credit risk in respect of the underlying exposures of the securitization transaction away from the AI to other entities;

6.8.2.2    The roles played by the AI in the securitization process and an indication of the extent of AI's involvement in each of them;

6.8.2.3    The regulatory capital approaches that the AI follows for its securitization activities.

6.8.3    Summary of the AI's accounting policies for securitization activities, including:

6.8.3.1    Whether the transactions are treated as sales or financings;

6.8.3.2    Recognition of gain-on-sale;

6.8.3.3    Key assumptions for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes;

6.8.3.4    Treatment of synthetic securitizations if this is not covered by other accounting policies (e.g. on derivatives);

6.8.3.5    Name of ECAIs used for securitizations and the types of securitization exposure for which each agency is used.

6.8.4    The total outstanding exposures securitized by the AI and subject to the securitization framework set out in Part [9] of the Capital Rules (broken down into traditional securitization and synthetic securitization), by exposure type. Securitization transactions in which the originating AI does not retain any securitization exposure must be shown separately but need only be reported for the year of inception. An AI must differentiate between exposures resulting from activities in which it acts only as sponsor, and exposures that result from all other securitization activities of the AI that are subject to the securitization framework set out in Part [9] of the Capital Rules.

6.8.5    For exposures securitized by the AI and subject to the securitization framework set out in Part [9] of the Capital Rules:

6.8.5.1    Amount of impaired / overdue assets securitized;

6.8.5.2    Losses recognized by the AI during the current reporting period

broken down by exposure type.

6.8.6    Aggregate amount of securitization exposures retained or purchased broken down by exposure type.

6.8.7    Aggregate amount of securitization exposures retained or purchased and the associated regulatory capital requirements by STS and/or IRBS, as the case may be, for these exposures broken down into risk-weight buckets. Exposures that have been deducted entirely from Core Capital, credit-enhancing I/Os and other exposures deducted from Core Capital and Supplementary Capital, as the case may be, must be disclosed separately by type of underlying asset.

6.8.8    For securitisations subject to early amortization provisions, the following items by underlying asset type for securitized facilities:

6.8.8.1    The aggregate drawn exposures attributed to the originator's and investors' interests;

6.8.8.2    The aggregate regulatory capital requirements by STS and/or IRBS Approach, as the case may be, incurred by the AI against its retained

>>> (i.e. the originator's) shares of the drawn
>>> balances and undrawn balances;

>> 6.8.8.3    The aggregate regulatory capital requirements
>> by STS and/or IRBS Approach, as the case
>> may be, incurred by the AI against the
>> investors' interest in shares of drawn balances
>> and undrawn balances.

> 6.8.9    Summary of AI's current year's securitization activity,
> including the amount of exposures securitized (by
> exposure type), and recognized gain or loss on sale by
> exposure type.

## 6.9    Market Risk

> 6.9.1    An AI subject to Part 6 must make the following
> disclosures:

> 6.9.2    Disclosures required from an AI using the STM Approach:

> Qualitative

>> 6.9.2.1    Disclose portfolios of exposures covered by
>> the STM Approach.

> Quantitative

>> 6.9.2.2    The AI's regulatory capital requirements for:

>>> ▪ Interest rate exposures;

>>> ▪ Equity position exposures;

>>> ▪ Foreign exchange exposures;

>>> ▪ Commodities exposures.

> 6.9.3    Disclosures required from an AI using the IMA to calculate
> its exposure to market risk in respect of its trading book:

> Qualitative

>> 6.9.3.1    Disclose the portfolios of exposures covered
>> by the IMA, and provide a discussion of the
>> extent of and methodologies for the AI's
>> compliance with the "Prudent valuation
>> guidance" for positions held in the trading book
>> in accordance with the HKMA's Guidance on
>> [Market Risk Management]. The discussion
>> must include an articulation of the soundness
>> standards on which the AI's internal capital

adequacy assessment is based. It must also include a description of the methodologies used to achieve a capital adequacy assessment that is consistent with the soundness standards.

*[Additional Guidance – the HKMA's Guidance on [Market Risk Management] is to be forthcoming.]*

6.9.3.2    For each portfolio of exposures covered by the IMA:

- The characteristics of the model(s) used;

- A description of the stress testing applied by the AI to the portfolio;

- A description of the approach used for backtesting / validating the accuracy and consistency of the internal models and modelling processes.

Quantitative

6.9.3.3    For exposures in the AI's trading book under the IMA, the AI must disclose:

- The high, mean, and low VaR values over the reporting period and the VaR at period-end;

- A comparison of VaR estimates with actual gains / losses experienced by the AI, with an analysis of important "outliers" in backtest results.

6.9.4    Disclosures required from an AI using any other approach that has the prior consent of the HKMA for calculation of market risk in respect of its trading book:

Qualitative

6.9.4.1    The AI must provide information similar to that required in 6.9.3.1 to 6.9.3.2 above.

6.9.4.2    Where applicable, the HKMA may specify other disclosures which the HKMA considers necessary for the understanding of the AI's underlying market risk exposures.

6.9.4.3    The AI must provide information similar to that required in 6.9.3.3 above.

6.9.4.4    Where applicable, the HKMA may specify other disclosures which the HKMA considers necessary for the understanding of the AI's underlying market risk exposures.

## 6.10    Operational Risk

6.10.1    An AI subject to Part 6 must make the following disclosures:

Qualitative

6.10.2    Disclose the approach(es) for operational risk capital assessment for which the AI uses to calculate its exposure to operational risk for each standardized business line.  AI using the BIA Approach must disclose the fact.

## 6.11    Equities : Disclosures for Banking Book Positions

6.11.1    An AI subject to Part 6 must make the following disclosures:

Qualitative

6.11.2    The general qualitative disclosures with respect to equity risk including:

6.11.2.1    Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons;

6.11.2.2    Discussion of important policies covering the valuation and accounting of equity holdings in the AI's banking book.  This includes the accounting techniques and valuation methodologies used by the AI, including key assumptions and practices affecting valuation as well as significant changes in these practices.

Quantitative

6.11.3    The cumulative realized gains or losses arising from sales and liquidations of equity holdings in the reporting period.

6.11.4    Total unrealized gains or losses recognized in the AI's reserves but not through the profit and loss account, and any of these amounts included in the AI's Supplementary Capital for CAR purpose.

6.11.5    The AI's regulatory capital requirements broken down by equity groupings which is consistent with the AI's internal methodology, and the aggregate amounts and the type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements.

## 6.12    Interest Rate Risk in the Banking Book

6.12.1    An AI subject to Part 6 must make the following disclosures:

Qualitative

6.12.2    The general qualitative disclosures with respect to IRRBB, including the nature of IRRBB and key assumptions used by the AI in its measurement of IRRBB, including assumptions regarding loan prepayments and behaviour of non-maturity deposits where non-maturity deposit is a deposit without a fixed maturity, and frequency of IRRBB measurement.

Quantitative

6.12.3    The variations in earnings or economic value (or relevant measure used by the AI) for upward and downward interest rate shocks according to the AI's method for measuring IRRBB, broken down by currency (as relevant).

# PART 7

## HALF YEARLY DISCLOSURES BY
## DESIGNATED FOREIGN AIs

**7.      Application**

7.1      This part applies to Designated Foreign AIs as defined in paragraph 2.1.3, Part 2 of the DRs.

7.2      Unless the context requires otherwise, a reference to an AI in this Part is a reference to a Designated Foreign AI as defined in paragraph 2.1.3, Part 2 of the DRs.

**7A.     GENERAL REQUIREMENTS**

**7A.1    Exceptions**

7A.1.1   An AI must comply with the General Requirements set out in Part 2 of these DRs except:

- Paragraphs 2.1.1, 2.1.2, 2.2; 2.3.3; 2.3.4; 2.3.5; 2.4; 2.5; 2.6; 2.8; 2.9; 2.10; 2.11.1; 2.12 and 2.14.1.  If the AI or its parent does not follow International Accounting Standards, it is also not required to comply with paragraph 2.7.

**7A.2    Comparative Information**

7A.2.1   For disclosures under section 7B, except the profit and loss information and liquidity ratio under subsections 7B.2 and 7B.5.14 respectively, the corresponding amounts for the immediately preceding financial period must be given (i.e. for the year-end Disclosure Statement, the interim figures must be disclosed as comparative figures and, for the interim Disclosure Statement, the immediately preceding year-end figures).

7A.2.2   For the profit and loss information and liquidity ratio under subsections 7B.2 and 7B.5.14 respectively, the amounts for the corresponding period of the preceding financial year must be given (i.e. for the year-end Disclosure Statement, the figures for the preceding financial year must be disclosed as comparative figures and, for the interim Disclosure Statement, the figures for the interim financial period of the preceding financial year).

7A.2.3　For disclosures under section 7C, except the pre-tax profit under subsection 7C.3.1, the corresponding amounts for the immediately preceding financial period must be given (i.e. for the year-end Disclosure Statement, the interim figures must be disclosed as comparative figures and, for the interim Disclosure Statement, the preceding year-end figures).

7A.2.4　For the pre-tax profit under subsection 7C.3.1, the amounts for the corresponding period of the preceding financial year must be disclosed (i.e. for the year-end Disclosure Statement, the figures for the preceding financial year must be disclosed as comparative figures and, for the interim Disclosure Statement, the figures for the interim financial period of the preceding financial year).

7A.2.5　Where interim consolidated information is not provided by the AI as a whole, annual figures must be provided as comparatives.

7A.2.6　Where the disclosures are published for the first time and it is impractical to provide the comparative figures required in 7A.2.1 to 7A.2.5 above, as the case may be, the disclosure in respect of the comparatives need not be provided for the first reporting period (i.e. no comparative is required).

## 7B.　BRANCH INFORMATION DISCLOSURE

### 7B.1　General

7B.1.1　Part 7B shall apply to disclosures concerning the operations of the local branch (i.e. Hong Kong office) of the AI.

### 7B.2　Income Statement

7B.2.1　An AI must include the following profit and loss information in its Disclosure Statements:

- interest income;

- interest expense;

- other operating income:

    − gains less losses arising from dealing in foreign currencies;

- gains less losses on securities held for dealing purposes;

- gains less losses from other dealing activities;

- net fees and commission income (separate disclosure of gross fees and commission income and expenses must be given); and

- others;

- operating expenses (analysed where material);

- impairment losses and provisions for impaired loans and receivables;

- gains less losses from disposal of property, plant and equipment; and investment properties;

- profit before taxation;

- tax expense or tax income; and

- profit after taxation.

*(Additional Guidance – the AI should refer to the mapping of the profit and loss information to the "Return of Current Year's Profit and Loss Account – MA(BS)1C" set out in the Guideline on Operation of the Disclosure Rules (at Annex).)*

7B.2.2 Where the profit and loss information relating to the Hong Kong branch(es) does not give a full picture of the underlying performance of the AI's business in Hong Kong, the AI must provide such further explanation as is necessary for the understanding of the performance of the Hong Kong branch(es).

## 7B.3 Balance Sheet

7B.3.1 An AI must disclose the following balance sheet information in its Disclosure Statements:

### (A) Assets

- cash and short-term funds (except those included in amount due from overseas offices);

- placements with banks maturing between one and twelve months (except those included in amount due from overseas offices);

- amount due from overseas offices of the AI;

- trade bills;

- certificates of deposit held;

- securities held for dealing purposes;

- loans and receivables:

  – loans and advances to customers;

  – loans and advances to banks;

  – accrued interest and other accounts (analysed where material);

  – provisions for impaired loans and receivables (analysed between those against loans and advances to customers, loans and advances to banks, other accounts if material):

    ❑ collective provisions; and

    ❑ specific provisions;

- investment securities;

- other investments;

- property, plant and equipment; and investment properties; and

- total assets.

**(B) Liabilities**

- deposits and balances of banks (except those included in amount due to overseas offices);

- deposits from customers:

  – demand deposits and current accounts;

  – savings deposits; and

  – time, call and notice deposits;

- amount due to overseas offices of the AI;

- certificates of deposit issued;

- issued debt securities;

- other liabilities

- provisions; and

- total liabilities.

7B.3.2    Where provisions for loans and advances or other exposures have been set aside and are maintained at overseas head offices, the AI must disclose the provisioning policy of its head offices including the amount of specific provisions allocated for exposures maintained in the Hong Kong offices of the AI.

7B.3.3    An AI must disclose:

- the amount of impaired loans and advances to customers which are subject to individual assessment for impairment loss;

- the amount of specific provisions made for such loans and advances; and

- the percentage of such loans and advances to total loans and advances to customers.

7B.3.4    An AI must also disclose information similar to that stated in 7B.3.3 above on loans and advances to banks that are subject to individual assessment for impairment loss.

7B.3.5    For the purpose of 7B.3.1 and 7B.3.4, "loans and advances to banks" means placements with banks of greater than one year maturity. "Deposits and balances of banks" means all amounts arising out of banking transactions owned by the AI to other banks; and excludes those balances taking the form of debt securities and certificates of deposits. "Issued debt securities" means all negotiable securities other than stocks, shares, import or export trade bills, or certificate of deposits.

7B.3.6    Where the specific provisions were made after taking into account the value of collateral in respect of such loans and advances, the AI must disclose this fact in order to put the level of provisioning into perspective.

**(C) Derivatives**

7B.3.7    An AI must disclose the contractual or notional amounts of each material class of derivative instruments, including:

- Exchange rate contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements);

- Interest rate contracts; and

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- Others.

7B.3.8     An AI must also provide such risk exposure information as is necessary for the understanding of the underlying risks of the exposures incurred by the AI through its use of derivative instruments. In particular, the AI must report aggregate fair value of their exchange rate contracts, interest rate contracts and other derivatives, if any. The AI must also indicate whether these amounts take into account the effects of valid bilateral netting arrangements.

## 7B.4    Off-Balance Sheet Exposures

7B.4.1     An AI must disclose the contractual or notional amounts of each material class of off-balance sheet financial instruments and analysed where material. At a minimum, these must include the following items:

### Contingent liabilities and commitments

- Direct credit substitutes;

- Transaction-related contingencies;

- Trade-related contingencies;

- Note issuance and revolving underwriting facilities;

- Other commitments; and

- Others (including forward asset purchases, amounts owing on partly paid-up shares and securities, forward forward deposits placed, asset sales or other transactions with recourse).

7B.4.2     An AI must also provide such risk exposure information as is necessary for the understanding of the underlying risks of the off-balance sheet exposures incurred by the AI. In particular, the AI must report aggregate fair value of their contingent liabilities and commitments, if any. The AI must also indicate whether these amounts take into account the effects of valid bilateral netting arrangements.

## 7B.5    Supplementary Disclosures

### (A) Credit Risk: General Disclosures by Designated Foreign AIs

7B.5.1     An AI must disclose the breakdown of its cross-border claims by major countries or geographical segments according to the location of the counterparties and by the types of counterparties (analysed into banks, public sector entities and others). The basis of the country or

geographical classification must be stated, including the fact that transfer of risk has been taken into account. Any country or geographical segment that constitutes 10% or more of the AI's aggregate cross-border claims after taking into account any risk transfers must be reported. Risk transfer may only be recognized if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

7B.5.2   Cross-border claims must include the following types of financial claims:

- receivables and loans and advances;

- balance due from banks;

- holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments; and

- accrued interest and overdue interest on the above assets.

For the avoidance of doubt, claims arising between branches and subsidiaries of the AI must be excluded.

*(Additional Guidance – the AI should refer to the Guideline on Operation of the Disclosure Rules (at Annex) for further guidance on the disclosure of cross-border claims.)*

7B.5.3   An AI must disclose the breakdown of the gross amount of loans and advances to customers by major countries or geographical segments according to the location of the counterparties. A breakdown of overdue loans and advances, and impaired loans and advances which are subject to individual assessment for impairment loss by these identified countries or geographical segments must also be given. Any country or geographical segment that constitutes 10% or more of the aggregate amount of loans and advances to customers after taking into account any risk transfer must be disclosed.

7B.5.4   An AI must disclose the breakdown of the gross amount of loans and advances to customers by major industry sectors. To achieve consistency of reporting among AIs, the information must be disclosed in accordance with the industry categories set out in this paragraph.

*(Additional Guidance – the AI should refer to the Guideline on Operation of the Disclosure Rules (at Annex) for further guidance on the types of loans and advances that should*

*be included in the respective categories as well as how the disclosure should be reported.)*

- ***Loans and advances for use in Hong Kong***

    (a) Industrial, commercial and financial:

    - Property development;

    - Property investment;

    - Financial concerns;

    - Stockbrokers;

    - Wholesale and retail trade;

    - Manufacturing;

    - Transport and transport equipment;

    - Recreational activities;

    - Information technology; and

    - Others;

    (b) Individuals:

    - Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme;

    - Loans for the purchase of other residential properties;

    - Credit card advances; and

    - Others.

- ***Trade finance***

- ***Loans and advances for use outside Hong Kong***

7B.5.5     Additional credit risk information for the items referred to in 7B.5.4 such as the extent to which these loans and advances are backed by collateral or other security must also be disclosed.

*[Additional Guidance – the items referred to in 7B.5.4 above should be broken down into more detailed sub-*

*categories, as applicable. The aggregate of the breakdown should be consistent with the relevant figures in the AI's balance sheet.]*

7B.5.6  An AI must disclose the gross amount of loans and advances (to customers and banks) which have been overdue for:

- 6 months or less but over 3 months;

- 1 year or less but over 6 months; and

- over 1 year.

Both the absolute amount of overdue loans and advances to customers and the percentage of such loans and advances to total loans and advances to customers must be given for each maturity bucket. Total loans and advances to customers must correspond to the total of loans and advances for use in Hong Kong, trade finance, and loans and advances for use outside Hong Kong as disclosed in 7B.5.4 above. Similar information on overdue loans and advances to banks must also be disclosed.

7B.5.7  An AI must provide a description of collateral held against the overdue loans and advances as security and other credit enhancements and, unless impracticable, an estimate of their fair value. It must also disclose the amount of specific provisions made on such overdue loans and advances.

7B.5.8  An AI must disclose the amount of rescheduled loans and advances to customers, net of those that have been overdue for over 3 months and reported in 7B.5.6 above, and the percentage of such loans and advances to total loans and advances to customers. Similar information on rescheduled loans and advances to banks must also be given.

7B.5.9  An AI must disclose the amount of other assets, analysed by major categories of assets such as trade bills and debt securities, which have been overdue for:

- 6 months or less but over 3 months;

- 1 year or less but over 6 months; and

- over 1 year.

*(Additional Guidance – For the purpose of 7B.5.6 to 7B.5.9 above, the AI should refer to the Guideline on Operation of the Disclosure Rules (at <u>Annex</u>) for further guidance on*

7B.5.10 An AI must disclose the amount of repossessed assets held and the accounting treatment of the related loans and advances, upon the repossession of the assets.

## (B) Non-bank Mainland Exposures

7B.5.11 An AI must analyse the aggregate non-bank Mainland exposures to non-bank counterparties where such exposures are material.

*(Additional Guidance – the AI should refer to the counterparty categories and the type of exposures as provided in the Guideline on Operation of the Disclosure Rules (at Annex) for the disclosure of non-bank Mainland exposures.)*

## (C) Currency Risk

7B.5.12 An AI must disclose foreign currency exposures arising from trading, non-trading and structural positions. The position in a particular foreign currency must be reported if the net position (in absolute terms) constitutes 10% or more of the AI's total net position in all foreign currencies. The financial information to be disclosed in respect of each such currency must include:

- Spot assets;

- Spot liabilities;

- Forward purchases;

- Forward sales;

- Net options position; and

- Net long (short) position.

An AI may calculate its net options position using either the Delta Equivalent Approach set out in the return "Foreign Currency Position" or the AI's internal reporting method provided that the basis of calculation is clearly stated.

7B.5.13 An AI must also report its net structural position (assets less liabilities) in a particular foreign currency (in absolute terms) if it constitutes 10% or more of the AI's total net structural position in all foreign currencies.

## (D) Liquidity

7B.5.14    An AI must disclose its average liquidity ratio for the relevant financial period (i.e. 12 months for the year-end Disclosure Statement or 6 months for the half-year Disclosure Statement).  The average liquidity ratio must be the simple average of each calendar month's average liquidity ratio reported by the AI to the HKMA pursuant to the BO.

# 7C.   CONSOLIDATED GROUP LEVEL DISCLOSURES

## 7C.1   General

7C.1.1    Consolidated group level disclosures by an AI must be based on the most recent consolidated accounts of the AI as at the publication date of the Disclosure Statement, i.e. either the most recent annual accounts or interim accounts, whichever is available.  Where the AI is owned by a holding company and does not itself publish consolidated accounts, the corresponding consolidated information for the group of which it is a part must be disclosed.

7C.1.2    An AI which does not publish interim accounts or publishes only unconsolidated information in its interim accounts must disclose the consolidated information in the most recent annual accounts.

7C.1.3    An AI must publish information on the location, for example the internet website, where the full annual accounts or interim accounts published by them (or the group of which they are a part) can be found.

## 7C.2   Capital and Capital Adequacy

7C.2.1    An AI must disclose its consolidated capital adequacy ratio, computed in accordance with the Basel II or the Capital Requirements Directive ("CRD"), whichever is applicable, as at the end of the date of the most recent annual accounts or interim accounts, whichever is available.  The AI which does not observe the Basel II or the CRD must disclose this fact.

7C.2.2    An AI must disclose the aggregate amount of shareholders' funds (i.e. capital and reserves).

**7C.3　Other Financial Information**

　　　7C.3.1　Subject to 7C.3.2, an AI must disclose the following consolidated financial information as at the date of its most recent annual or interim accounts:

- total assets;

- total liabilities;

- total loans and advances;

- total customer deposits (or total deposits); and

- pre-tax profit.

　　　7C.3.2　Where total customer deposits are not separately disclosed in the annual accounts or interim accounts, the amount of total deposits (including those from banks and other financial institutions) of the AI may be disclosed instead.  The basis of reporting must be clearly stated.

# PART 8

## IMPLEMENTATION AND TRANSITIONAL PROVISIONS

### 8.1 General

8.1.1 The purpose of this part is to provide guidance on transitional and implementation issues arising out of the contents of other parts of the DRs. In particular, this part sets out the transitional provisions applicable to Designated Local AIs which use or intend to use the FIRB Approach to calculate regulatory capital requirements for credit risk.

8.1.2 For the purpose of the provision of Part 8, "Transitional Period" is deemed to refer to and have the meaning of:

8.1.2.1 the relevant period leading to the rollout by the AI of the FIRB approach to the calculation of credit risk to measure its regulatory capital requirement;

8.1.2.2 the relevant period referred to in 8.1.2.1 shall not be more than three years, unless otherwise approved by the HKMA; and

8.1.2.3 includes the period within which the Designated Local AI is required to provide parallel run calculations of credit risk.

### 8.2 Transitional Provisions

8.2.1 During the Transitional Period, subject to the approval of the HKMA, where a Designated Local AI chooses to calculate the regulatory capital requirements of some of its portfolios of exposures; or designated asset classes; or business units, as the case may be, using an approach or combination of approaches, in addition to the portfolios for which it adopts FIRB Approach, then the Designated Local AI must comply with the disclosure requirements on the basis of the capital calculation approach in use for each such portfolio of exposures; or designated asset class; or business unit, as the case may be, as prescribed in these DRs.