

Completion Instructions

Return of Large Exposures (Form MA(BS)1D)

Introduction

1. This return collects information on authorized institutions' large exposures to banks, non-bank entities and connected parties.
2. These completion instructions contain 2 sections. Section A gives instructions on the general reporting requirements. Section B explains the reporting requirements for each individual item in the return form.

Section A : General Instructions

3. The general reporting requirements for authorized institutions incorporated locally and overseas are as follows:-

	<u>Coverage</u>	<u>Submission deadline</u>
Institutions incorporated in HK	1 return on the combined position of the Hong Kong offices and all overseas branches	Not later than <u>6 weeks</u> after the end of each quarter
	1 return on the consolidated position of the institution *(Note)	Not later than <u>6 weeks</u> after the end of each quarter
Institutions incorporated overseas	1 return on the position of HK offices only	Not later than <u>6 weeks</u> after the end of each quarter

If the submission deadline falls on a public holiday, it will be deferred to the next working day.

*Note: Unless otherwise specified by the Monetary Authority, the subsidiaries to be included for reporting in this return should be the same as those included for calculating the reporting institution's consolidated ***position under Section 81 of the Banking Ordinance***. The Monetary Authority may, by notice in writing, require an institution to include also the exposures of its holding companies or any of the subsidiaries of such holding companies in this return.

4. Inter-branch transactions are not required to be reported under this Return.

5. For the purpose of this return:

- (i) "Exposure" means all potential losses which might result should a particular counterparty default. This generally includes claims, contingencies and commitments recorded both on and off the balance sheet of the reporting institution. It includes assets, such as equities, which do not represent a claim on the counterparty but whose value otherwise depends on that counterparty's financial soundness. Accrued interest, if any, on an exposure should also be reported. ***However, any accrued interest which has not been recognised in the profit & loss account but credited as interest in suspense should be netted off against the corresponding amount of interest in suspense whether or not it has been capitalised.***
- (ii) "Commitments and contingencies" refer to the items specified under Table B of the Third Schedule to the Banking Ordinance. But it does not include:
- foreign exchange and interest rate contracts which should be reported separately in column (4); and
 - credit limits which have not been formally advised to a customer.
- (iii) "Foreign exchange contracts" include cross-currency swaps, forward foreign exchange contracts, currency futures and foreign exchange options purchased.
- (iv) "Interest rate contracts" include interest rate swaps, forward rate agreements, interest rate futures and interest rate options purchased.
- (v) ***“direct exposures” refer to any exposures to a counterparty who is liable to the reporting institution as principal debtor.***
- (vi) ***“indirect exposures” refer to any exposures to a counterparty who is liable to the reporting institution as guarantor. Any indirect exposures should be categorized under the return as on-balance-sheet exposures, commitments and contingencies or foreign exchange and interest rate contracts in the same way as the relevant direct exposures recorded by the reporting institution.***
- (vii) "a group of related counterparties" means parties which are connected in such a way that the financial soundness of any of them may affect the financial soundness of the others, e.g.:
- (a) companies which are subsidiaries of the same holding company or which have the same controller;
 - (b) holding company and its subsidiaries; and
 - (c) counterparties linked by cross guarantees or whose liabilities are guaranteed by the same guarantor.
- (viii) "Capital base" of a locally incorporated institution is as defined in the Third Schedule to the Banking Ordinance. Institutions incorporated in overseas countries which have adopted the Basle capital framework should use the

capital base of their head offices. Other overseas incorporated institutions may use the capital and reserves (exclude provisions however described) of their head offices in place of capital base. For the purposes of this return, institutions should use the latest capital base figures for reporting: locally incorporated institutions should use the figures as at the end of the previous quarter and overseas incorporated institutions should use the latest figures obtained from their head offices.

(ix) "Connected parties" refer to counterparties connected to the reporting institution. These include:

- intra-group companies: include holding, subsidiary and associated companies of the reporting institution, and other subsidiary and associated companies of the holding company of the reporting institution;
- the reporting institution's directors, controllers, *minority shareholder controllers*, and any 'relative' of these directors, controllers and *minority shareholder controllers*;
- the reporting institution's employees who are responsible for *approving* loan applications and any 'relative' of these employees; and
- any firm or company in which the reporting institution or any of its controllers, *minority shareholder controllers* or directors or any 'relative' of any of its controllers, *minority shareholder controllers* or directors is interested as director, partner, manager, agent *or is the guarantor of the exposure*.

'relative' is defined in S.79 of the Banking Ordinance.

6. Report the full value of all exposures except foreign exchange and interest rate contracts. The value of foreign exchange and interest rate contracts to be reported in this return is subject to the method of calculation to be determined by the Monetary Authority in due course. Institutions *may* leave blank column 4 until they are advised of the method of calculation by the Monetary Authority *or report figures based on their own internal credit weighting criteria*.
7. Exposures arising from items 4, 5 and 6 (i.e. sale and repurchase agreements; assets sales or other transactions with recourse; and forward assets purchases) specified in Table B of the Third Schedule of the Banking Ordinance should be reported as exposures to the issuer of the underlying assets instead of exposures to the counterparty with whom the transaction has been entered into. *However, this treatment does not apply to securities transactions*.
8. *Transactions under sale and repurchase agreements ("repos") and reverse repos should be reported on the "economic substance" approach (i.e. they are treated as collateralised loans and deposits). Securities transactions should be reported on the "trade date" basis. For both repos and spot and forward purchases of securities, the reporting institution is exposed to the issuer of the securities. For both reverse repos*

and spot and forward sales of securities, the reporting institution is, in the first instance, exposed to the counterparty. Only in the event of the failure of the counterparty would the reporting institution be exposed to the issuer of the securities acquired. Where cash is not involved in these transactions (e.g. securities repos), the reporting institution is only exposed to the issuer of the securities delivered to the counterparty.

9. Exposures should be reported in gross before provisions *but after netting off the accrued interest against the corresponding interest in suspense as mentioned in paragraph 5(i) above*. Each reported item should be the aggregate of exposures to an individual counterparty or a group of related counterparties. In the latter case, the aggregate should be reported as one exposure and shown in the name(s) of the principal counterparty(ies).
10. An exposure under the guarantee of a third party should for the purposes of this return, be regarded as an exposure to the borrower as well as the guarantor unless they both belong to the same group as mentioned in 5(vii) (a) and (b) above. For instance, if an institution has granted the following loans to 3 borrowers who have no connection with it:

<u>Borrower</u>	<u>Amount of loans expressed as % of capital base</u>
A	10%
B	10%
C	5%

Assuming that A is the guarantor of the exposures to both **B** and C, these exposures should be reported as follows:

- (a) If A, B and C belong to different groups - report
- (i) aggregate exposures to A - 25%, being direct exposures of 10% to A plus guarantees on exposures of 10% to B and 5% to C; and
 - (ii) exposures to B - 10%
- Since exposures to C is less than 10% of the institution's capital base, there is no need to report this exposure in this return unless the exposure is within the ten largest exposures.
- (b) If A and B belong to the same group - report aggregate exposures to Group A+B - 25%, being direct exposures of 10% to A plus its guarantee on exposures of 5% to C and direct exposures of 10% to B.
- (C) If A and C belong to the same group - report
- (i) aggregate exposures to Group A+C - 25% being direct exposures of 10% to A plus -its guarantee on exposures of 10% to B, and direct exposures of 5% to C.

(ii) exposures to B - 10%

- 11.** *A reporting institution is required to indicate in the return whether its exposures to a counterparty or a group of related counterparties as at the reporting date are direct exposures, indirect exposures, or both direct and indirect exposures by making a tick in the appropriate columns. Exposures to a member of a group of related counterparties where such exposures are guaranteed by another member of the same group should be regarded as direct exposures to the whole group.*
- 12.** When a reporting institution is exposed to a group of related counterparties containing bank and non-bank entities, the exposures to the group could be reported in either Part I or Part II of the return depending on how the counterparties could be best grouped.

The reporting institution is required to indicate under Part I that the group contains banking entities or, under Part II that the group contains non-banking entities by making a tick in the appropriate columns.

Section B: Specific Instructions

Columns (1) to (5)

Where an exposure has exceeded the relevant reporting threshold during the reporting period, complete columns (1) to (5) *of each table in Parts I & II* notwithstanding a reduction of the exposure to below the relevant threshold at reporting date. ***The relevant reporting threshold is set at 5% of capital base for Part I(a) and 10% of capital base for Part I(b) and Part II.***

Report in column (1) the maximum exposures to each counterparty during the reporting period, in descending order of the size of exposures. Report in columns (2) to (4) the exposures at the last calendar day of the current quarter. Column (5) is the sum total of columns (2) to (4). It should be expressed as a percentage of the institution's capital base in the next column. (Please refer to point 5(viii) in Section A for definition of capital base.)

Information on *security cover*

“Security” refers to tangible assets (eg. cash deposits, interests in land and buildings and interest in share capital of a company) held by the reporting institution as security. It also refers to guarantees given by a bank or a central government/bank.

Where the total market value of the securities given is equal to or in excess of the total exposures reported in column (5), put a “**F**” in the column to indicate that the exposures are fully secured. The column should be **reported as “P” (or “U”)** if an exposure is only partially secured (or unsecured, as the case may be). **Where possible a percentage should also be given indicating the proportion of an exposure which is secured.**

Part I - Large exposures to non-bank entities

"Non-bank entities" refers to parties other than banks and authorized institutions. This includes international organizations, central and local governments, and any other state-owned enterprises (**except state-owned banks**) and agencies.

For the purposes of this return, the central and local governments of a country should be regarded as a group of related counterparties. Other enterprises and agencies established or owned by the central or local governments should however be regarded as separate entities. If the exposures to the enterprises or agencies in question are guaranteed by the central or local governments, they should be reported as guaranteed exposures as illustrated in paragraph 10 of Section A.

For avoidance of doubt, the Exchange Fund should be regarded as part of the Hong Kong Government. Market Makers of Exchange Fund ***Bills/Notes and other Specified Instruments*** should report their aggregate long positions in ***each issue of*** these instruments as exposures to the Government ***or the other issuers, as the case may be.***

(a) Exposures to any connected party exceeding 5% of capital base during the reporting period

Report in the table aggregate exposures, both secured and unsecured ones, to non-bank connected counterparties which exceed 5% of the institution's capital base.

Report in the "memorandum items" the aggregate secured and unsecured exposures to non-bank connected parties outstanding as at the last day of the current quarter. These include exposures which are themselves not exceeding 5% of the institution's capital base.

(b) Ten largest other exposures and all those exceeding 10% of capital base during the reporting period

Locally incorporated institutions should report the 10 largest exposures and any exposures which exceed 10% of the reporting institution's capital base.

Overseas incorporated institutions are required to report the 10 largest exposures only.

Part II - Ten Largest exposures (and all those exceeding 10% of capital base) to banks during the reporting period

"Banks" mean institutions authorized under the Banking Ordinance, and institutions which are regarded as banks by the appropriate supervisory authorities in their place of incorporation, and include central banks. Include here also large exposures to banks which are connected to the reporting institution.

Locally incorporated institutions should report the 10 largest exposures and any exposures which exceed 10% of the reporting institution's capital base.

Overseas incorporated institutions are required to report the 10 largest exposures only.

Institutions which provide finance to brokers and customers to subscribe for new shares are exposed indirectly to the credit risk of the receiving bank. Such indirect exposures should be reported under this Part if the total of these exposures and other exposures to the receiving bank has exceeded the reporting threshold.

Hong Kong Monetary Authority
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