Return of Large Exposures
MA(BS)1D

<u>Summary of Changes</u>

1. To restructure the existing return from "Part I(a) & (b) and Part II" into "Parts I, II and III" for "connected parties", "non-bank entities" and "bank entities"

(Return – Parts I, II and III; Completion instructions – Section A item 13 and Section B Parts I, II and III)

The change is to better describe the nature of information collected and remove ambiguity as to how to report aggregate exposures to a group containing both bank and non-bank entities. Under the current regime, AIs have a choice in reporting such exposures either in Part I (non-bank entities) or Part II (bank entities) of the existing return depending on how the counterparties could be best grouped. The reporting of group exposures under Part II or III now depends on the relative significance of the bank or non-bank exposures within the group except where the portion of non-bank exposures is equal to or exceeds 10% of the AI's capital base, in which case the group exposure is to be reported under Part II.

To avoid ambiguity in the reporting of Part I, the column "Including exposures to bank" is removed. It is now clear that only exposures to non-bank connected parties are required to be reported.

Any non-bank connected exposures reported in Part I equal to or exceeding 10% of capital base should also be reported in Part II to facilitate the monitoring of the internal clustering limit (i.e. a limit to control the aggregate of large exposures not exempted from section 81 of the Banking Ordinance).

To bring the definition of "large exposures" used in the return into line with that in the Supervisory Policy Manual, Parts II and III of the revised return are changed from capturing "exposures <u>exceeding 10%</u> of capital base during the reporting period" to "exposures <u>equal to or exceeding 10%</u> of capital base during the reporting period". To ensure consistent presentation, a similar change is also made in Part I to require AIs to report their exposures to any non-bank connected party <u>equal to or exceeding 5%</u> of capital base during the reporting period.

2. Direct exposures in percentage terms

(Return – Parts I, II and III; Completion instructions – Section A item 12)

To quantify and facilitate better evaluation of the nature of exposures.

3. **"Exposures not exempted under Section 81"**
(Return - Part II; Completion instructions - Section B Part II)

A new column is introduced to capture such exposures in order to facilitate the monitoring of an AI's compliance with its internal clustering limit.

4. **"Connected parties"**
(Completion instructions – Section A item 5(v))

The definition of "connected parties" is brought into line with section 83 of the Banking Ordinance.

5. **Credit derivatives**
(Completion instructions - Section A items 5(vi) and 9)

The reporting of credit derivatives (see CR-G-12 "Credit Derivatives" of Supervisory Policy Manual) for purposes of this return is now explained.

6. **Foreign exchange and interest rate contracts**
(Completion instructions – Section A item 6)

AIs are required to report their exposures arising from outstanding foreign exchange and interest rate contracts to individual counterparties based on the calculation of their internal models where they use an internal system to measure such exposures.

7. **Repo transactions where all the risks and rewards of the ownership of the securities are transferred substantially to the buyer**
(Completion instructions – Section A item 8)

Guidance is now provided for the reporting of repos, the terms of which transfer substantially all the risks and rewards of the ownership of the securities to the buyer. This is to give recognition to such repo transactions, in line with the accounting treatment of SSAP24.

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