

[DRAFT FOR CONSULTATION]¹

Completion Instructions

Return on Liquidity Monitoring Tools

Form [MA(BS)23]²

INTRODUCTION

1. This document sets out the Completion Instructions (CIs) for authorized institutions (AIs) to compile the above Return. The Return contains a set of liquidity monitoring tools that are used by the HKMA to collect information from AIs to facilitate the on-going supervision and monitoring of liquidity risk both of individual AIs and the banking sector as a whole. This document should be read in conjunction with the Return of Liquidity Position of an Authorized Institution (MA(BS)1E).

SECTION A : GENERAL INSTRUCTIONS

Frequency and timeline of reporting

2. All AIs are required to submit this Return to the HKMA not later than one calendar month³ after the last day of each month (the month-end reporting date).⁴ If the submission date falls on a public holiday, it will be deferred to the next working day.

¹ Footnotes provided in this draft are mainly for explanatory purposes. Most of them will be deleted in the final version of this set of Completion Instructions.

² The code of this Return will be confirmed in due course.

³ Having regard to the reporting timeline for the Liquidity Coverage Ratio (LCR) set by the Basel Committee on Banking Supervision (BCBS), AIs are required to submit MA(BS)1E within a period of 14 calendar days after each month-end. To reduce the reporting burden, AIs will be allowed a longer timeline (i.e. one calendar month after each month-end) for submission of this Return.

⁴ The MA may in exceptional situations allow an AI to submit this Return within a longer period of lead time if this is justified by the institution's special circumstances.

Bases of reporting

3. A reporting institution should compile this Return on the same bases as for compiling MA(BS)1E.⁵ This means (where applicable to the institution):
- Hong Kong Office basis: for all AIs (whether incorporated in or outside Hong Kong);
 - Unconsolidated basis: for AIs incorporated in Hong Kong; and
 - Consolidated basis: for AIs incorporated in Hong Kong (with any specified associated entity).

Valuation of assets, liabilities or cash flows

4. Unless otherwise specified, any asset, liability or cash flow items reported in this Return should be measured on the basis of their “principal amount” as defined in the Banking (Liquidity) Rules (BLR). In general, the “principal amount” of any marketable asset should be measured at fair value. The principal amount of other on-balance-sheet assets and liabilities and associated cash flows should be the book value (including any accrued interest) as determined according to the applicable accounting standards. For off-balance-sheet items, the principal amount means the contracted amount or, in the case of an undrawn or partially drawn facility, the undrawn amount.

Reporting currencies

5. Unless specified otherwise, the figures to be reported in this Return should be rounded up to the nearest thousand in Hong Kong dollars (HKD), or HKD equivalent in the case of foreign currency items. The closing middle market T/T rates prevailing at the close of business on the position date should be used for conversion purposes.

⁵ Please refer to paragraph 4 of the CIs for MA(BS)1E for a description of reporting bases.

6. In certain parts of this Return, reporting institutions are required to provide a breakdown of the reported total amount of an item by currency. If a reporting institution has significant exposure to any specific currency within the “other currencies” category, it should put in place adequate systems and procedures to ensure its ability to provide the relevant breakdown of liquidity data in that currency upon request by the HKMA. A currency is considered to be significant to an AI if the AI’s liabilities denominated in that currency account for 5% or more of its total liabilities.⁶

SECTION B: SPECIFIC INSTRUCTIONS

(I) Concentration of funding sources⁷

7. A reporting institution should report, in Table (DA), information on the 10 largest bank counterparties, 10 largest non-bank counterparties, and any other bank or non-bank counterparty that has provided funding to the institution exceeding 1% of its total liabilities (excluding shareholders’ funds) at the month-end reporting date⁸. The institution should provide a breakdown of the total amount of funding from these significant counterparties in specific time buckets and currencies. Indicate in the Table whether any significant counterparty is a connected party⁹ of the institution.

⁶ The 5% benchmark should be measured on the basis of (i) the “total liabilities” figure reported in item 11 of the most recent “Return of Assets and Liabilities” submitted by the reporting institution to the HKMA (MA(BS)1A for Hong Kong office position or MA(BS)1B for unconsolidated position); or (ii) the latest available figure of consolidated total liabilities (before shareholders’ funds) published by the institution if it needs to submit this Return on a consolidated basis.

⁷ Table (DA) and Table (DB) combine together information to be collected in respect of the liquidity monitoring tool on “concentration of funding” introduced in the 2013 BCBS LCR Document (paragraphs 188 to 200) and information on the “10 largest deposits from non-bank customers” and “10 largest borrowings from banks” in the existing Return of Liquidity Position (MA(BS)1E).

⁸ The “1%” benchmark should be measured on the same basis as in Footnote 6.

⁹ For the purposes of this Return, a connected party can be a “connected bank counterparty” or a “connected non-bank counterparty” where,

- a “connected bank counterparty” of a reporting institution may include –
 - (i) if the institution is incorporated in Hong Kong, its parent bank, associated entity (which is an AI in Hong Kong or a bank operating outside Hong Kong), or “sister bank” whose parent is also the parent of the institution;

8. In Table (I)B, the institution should report information on the types of funding instruments contributing more than 1% of the institution's total liabilities (excluding shareholders' funds) at the month-end reporting date. As in the case of Table (I)A, the institution should provide a breakdown of the total amount of funding from these significant funding instruments in specific time buckets and currencies.

(II) Unencumbered assets available for secured borrowing¹⁰

9. Table (II) collects information on unencumbered assets that can be used by the reporting institution as collateral to secure borrowing from the Exchange Fund, an overseas central bank or secondary private markets. The institution should compile the required information taking into account the funding policies of the HKMA or relevant overseas central banks (if applicable), as well as private counterparties' likely behaviour amid prevailing market conditions. For example, if an asset does not fall within the list of eligible types of collateral for the purposes of accessing the Discount Window or other central bank standing facilities, or if an asset does not have a reasonable prospect of being accepted as collateral in the secondary markets under prevailing market conditions, that asset should not be reported in this Table.
10. All assets reported in this Table should be free from encumbrance. This means that the asset (i) is not pledged, either explicitly or implicitly, to secure, collateralise or provide credit enhancement to a transaction; or (ii) is designated by the institution to cover specific expenses.¹¹

(ii) if the institution is the Hong Kong branch of a bank incorporated outside Hong Kong, its Head Office, associated entity (which is an AI or a bank operating outside Hong Kong), or "sister" branch whose Head Office is also the Head Office of the institution;

- a "connected non-bank counterparty" of the reporting institution may include any non-bank counterparty that is –
 - (i) an associated entity of the institution;
 - (ii) a shareholder controller (as defined in section 2 of the BO) of the institution and any relative (as defined in section 79 of the BO) of such controller in the case of a natural person; or
 - (iii) a director of the institution and any relative of such director.

¹⁰ Table (II) is to implement the liquidity monitoring tool on "available unencumbered assets" introduced in the 2013 BCBS LCR Document (paragraphs 201 to 207).

¹¹ The BLR will provide a definition of "free from encumbrance" similar to the description used in this paragraph.

11. Assets reported in this Table should not be double counted. If an asset is eligible to be reported in more than one item, it should be reported in accordance with the order of items presented in this Table. (For example, if the institution has reported its unencumbered Exchange Fund Bills and Notes in item A1, it cannot report such debt securities in any other item.)
12. In addition to the information reported under this Table, the institution should, to the extent practicable, maintain adequate records of other information associated with the unencumbered assets, including the location of, estimated haircut required by the relevant central bank or secondary market for, expected monetized value of, and the business unit(s) having access to, each of these assets, as well as a breakdown of the aggregated information by “significant currency” (other than those major currencies already reported in this Table). The HKMA may, where necessary, require the institution to provide such information on request.

A Assets which are eligible for rediscount at the Discount Window

13. Report the relevant information in respect of those assets which are eligible for rediscount at the HKMA’s Discount Window. Essentially, these assets are Exchange Fund Bills and Notes, which should be reported under item A1. Item A2 is to cater for any future possibility that other assets may become eligible for rediscount at the Discount Window.

B Other assets which may be acceptable as collateral under the HKMA’s contingency funding mechanisms

14. Report other assets that may be accepted as collateral under other contingency funding mechanisms operated by the HKMA, including the Term Repo facility and the Lender of Last Resort (LOLR) framework¹². It should be noted that the HKMA’s liquidity funding

¹² The mechanisms of the Term Repo (introduced since 2008) and the LOLR arrangement have been set out in circulars issued by the HKMA. For example, please refer to the circular entitled “Provision of Liquidity Assistance to Banks” issued by the HKMA on 31 March 2009, which is available at: <http://www.hkma.gov.hk/eng/key-information/guidelines-and-circulars/circulars/2009/20090331-1.shtml>

arrangements may in practice not be accessible by all institutions on an equal footing.¹³ Notwithstanding this, the reporting institution should still complete both items A and B primarily based on whether the type of asset held falls within the list of eligible collateral, or may have a reasonable prospect of being accepted as eligible collateral, to provide the HKMA with information on the composition of the institution's unencumbered assets.

C Assets which may be used as collateral for borrowing from overseas central banks / authorities

15. If the reporting institution is incorporated in Hong Kong and its overseas operations (e.g. an overseas branch or specified associated entity) have access to any liquidity support that may be provided by the central bank (or any other authority) in their host jurisdiction, the institution should report in item C1 such assets held by the relevant overseas operations that can be used as collateral to borrow from the central bank (or any other authority) in that host jurisdiction.
16. If the reporting institution is the Hong Kong branch of an overseas incorporated bank which has access to any liquidity facility offered by the central bank (or any other authority) in its home jurisdiction, its Hong Kong branch should report in item C2 any assets held by the branch which, if up-streamed to its Head Office, would be eligible as collateral to obtain funding from the central bank (or any other authority) in its home jurisdiction.

D¹⁴ Other assets not included elsewhere, but may be used as collateral for secured borrowing in secondary markets

¹³ For example, the Discount Window may not be accessible by restricted licence banks and deposit-taking companies directly. Moreover, it would not normally be the policy of the HKMA to provide LOLR support to branches of foreign banks operating in Hong Kong, except under some special circumstances as set out in the HKMA's LOLR policy statement, which is available at: <http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2009/loir.doc>.

¹⁴ AIs are expected to assess from time to time the composition of their unencumbered assets in respect of the capacity of using specific pools of these assets as collateral to secure borrowing from secondary markets. In general, assets that are entitled to relatively low risk-weights under the BCR or have good external credit ratings are more likely to have a reasonable prospect of being accepted by private sector counterparties as collateral for secured funding transactions. Therefore, there are three sub-items under item D, distinguishing between (i) debt securities with a 0% risk-weight under the STC approach; (ii) debt securities with a non-0% risk-weight that is not more than 20% under the STC approach; and (iii) any other assets.

17. This item captures any other asset that is not reported in item A, B or C, but is considered by the reporting institution (on reasonable grounds) as having a reasonable prospect of being used as collateral for secured borrowing from secondary markets (either in Hong Kong or elsewhere). To enable the HKMA's assessment of the institution's funding capacity, the institution is required to provide a breakdown of the reported assets in terms of the risk-weights that will be assigned to these assets under the standardized (credit risk) approach (STC approach) in the BCR.

E¹⁵ Memorandum item

18. The reporting institution should identify any assets reported in items A to D above which are posted by its customers or counterparties, for example, as collateral to secure transactions, whereby the institution has a contractual right to re-hypothecate such assets for secured borrowing. Relevant information in respect of such assets should be reported in this memorandum item.

(III) Committed facilities¹⁶

19. Report in Table (III)A information relating to committed facilities received from central banks (or other authorities), relevant banks, and any Forward Commitment Facility (FCF) received from The HKMC and approved by the MA. Information relating to committed facilities granted by the reporting institution to relevant banks should be reported in Table (III)B.
20. In respect of each reported facility, report the currency of the facility, total facility limit (whether used or not), expiry date as specified in the relevant facility agreement, and the amount drawn as of the month-end reporting date. In the case of a callable facility, the earliest callable date should be reported as the "expiry date".

¹⁵ This item is to implement the requirement set out in paragraph 204 of the 2013 BCBS LCR Document.

¹⁶ Table (III)A and Table (III)B represent a modified version of the Table "Irrevocable standby facilities and large deposits" set out in the existing Return. Table (III)A, in particular, will enable the HKMA to monitor whether an AI has access to committed liquidity facilities that may be granted by overseas central banks (or any other authorities), noting that some jurisdictions may allow such facilities to be recognized as HQLA for LCR purposes.

(IV) **Maturity mismatch profile**

[Details to be issued for consultation separately in due course.]

(V) **LCR by significant currency**

[The industry will be consulted on this metric when the HKMA rolls out the detailed methodology for the calculation of the LCR for consultation separately in due course.]

Hong Kong Monetary Authority

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