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Guideline on the Application of the Banking (Disclosure) Rules

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This module should be read in conjunction with the [Introduction](#) and with the [Glossary](#), which contains an explanation of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

Purpose

To provide interpretative guidance to AIs on the application of the Banking (Disclosure) Rules.

Classification

A non-statutory guideline issued by the HKMA.

Previous guidelines superseded

This is a new guideline.

Application

To all locally and overseas incorporated AIs to which the Banking (Disclosure) Rules apply.

Structure

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- Table 6 – Terms applicable for disclosure on “Asset Securitization” ([Part 5 - section 60, Part 6 - section 69, Part 7 - section 82](#)) of the Banking (Disclosure) Rules
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- Annex B: Disclosure of Value of Collateral Held Against Overdue Loans and Advances
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- Annex K: Illustrative Disclosure required in respect of each separately disclosed class of exposures under the STC Approach
- Annex L: Mapping between pre-HKFRS and post-HKFRS accounting terms
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PART I - INTRODUCTION

1. Terminology

- 1.1 Abbreviations used in this module have the following meanings:
- “AI” means authorized institution, as defined in section 2 of the Banking Ordinance;
 - “Capital Rules” means the Banking (Capital) Rules (L.N. 228 of 2006);
 - “CAR” means capital adequacy ratio;
 - “Disclosure Rules” or “Rules” means the Banking (Disclosure) Rules (L.N. 229 of 2006);
 - “HKAS” means Hong Kong Accounting Standards;
 - “Hong Kong Financial Reporting Standards” or “HKFRSs”, mean standards of accounting issued by the Council of the Hong Kong Institute of Certified Public Accountants pursuant to section 18A of the Professional Accountants Ordinance (Cap. 50);
 - “IFRSs” means International Financial Reporting Standards;
 - “HKMA” means the Hong Kong Monetary Authority.
- 1.2 All references to parts and sections of the Disclosure Rules have been printed in *italics and underlined* in this module. Where references have been made to specific provisions in the Rules, they may be summarised to avoid unnecessary reproduction of a lengthy quotation.
- 1.3 Unless otherwise stated terminology used in this module follows that of the Disclosure Rules. By virtue of section 2(2) of the Rules, the definitions in section 2 of the Capital Rules apply equally to the Disclosure Rules. In addition, definitions which are specific to individual calculation approaches for credit risk¹ or

¹ For example, STC approach, BSC approach, IRB approach etc.



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market risk in the Capital Rules also apply equally to the relevant provisions of the Disclosure Rules where appropriate.

- 1.4 A glossary of the complete set of terms used in the Disclosure Rules is provided at **Annex A**.

2. Purpose

- 2.1 The purpose of this module is to assist AIs in understanding the approach being taken by the HKMA to the implementation of the certain sections of the Rules. The guidance given is general in its scope and does not take into account the particular circumstances of any individual AI. Certain sections of the Rules contain exceptions or qualifications which, although not covered by this module, may still apply to particular AIs. In the case of any conflict between this module and the Rules, the Rules prevail. As such, AIs must read this module in conjunction with the Rules and not in place of them.
- 2.2 This guidance should not be regarded as, or be considered a substitute for obtaining, legal advice. An AI should consider obtaining independent legal and other professional advice before taking any action on any matters covered by this guidance, particularly if it has any doubts as to how any aspect of the Rules might apply to it.
- 2.3 The HKMA will keep under review AIs' implementation of the Disclosure Rules in practice and, where necessary, consider the need to enhance this module as circumstances require.

3. Background

- 3.1 The Disclosure Rules have been made by the HKMA under section 60A of the Banking Ordinance (Cap. 155) as amended by the Banking (Amendment) Ordinance 2005 (19 of 2005) for the purpose of implementing the requirements of the new Capital Adequacy Framework (based on "Basel II"). The Rules set out the minimum standards for public disclosure which AIs must make in respect of their profit and loss, state of affairs and CAR and apply to both Hong Kong incorporated (including those



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that are subsidiaries of foreign banks) and overseas incorporated AIs, except for those AIs that fall within the exemption criteria as specified in *Part 1* of the Rules. The Rules replace the Financial Disclosure Guidelines previously issued by the HKMA² and will apply to an AI as from the beginning of its first financial year commencing on or after 1 January 2007 (i.e. the first set of disclosure statements to which the Disclosure Rules will be applied, in the case of an AI whose financial year commences on 1 January 2007, will be those relating to the position ending 30 June 2007).

3.2 As the disclosures required under the Disclosure Rules are minimum standards the HKMA encourages AIs to make more extensive voluntary disclosures where it is practical for them to do so.

3.2.1 AIs which have been exempted from making disclosures under the Disclosure Rules (see Part II, below) are encouraged to adopt the disclosure standards set out in the Rules to the greatest extent possible;

3.2.2 AIs which make their disclosures on a consolidated basis pursuant to *section 11(1)* of the Disclosure Rules, are encouraged to make additional disclosures on a solo or solo-consolidated basis if providing these additional disclosures will assist understanding of, and provide greater clarity concerning, their risk profile (see *section 11(3)* of the Rules);

3.2.3 AIs are encouraged to make more detailed or granular disclosures than are required under the Rules. For instance, AIs might break down their sector disclosures into more detailed sub-categories, while those using the STC approach to calculate their regulatory capital for credit risk in respect of their non-securitization

² Financial disclosure guidelines issued as modules of the HKMA's Supervisory Policy Manual, FD-1 ("Financial Disclosure by Locally Incorporated Authorized Institutions"), FD-2 ("Interim Financial Disclosure by Locally Incorporated Authorized Institutions") and FD-3 ("Financial Disclosure by Overseas Incorporated Authorized Institutions").



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exposures might disclose the composition of relevant portfolios with more granularity than required under the Rules;

- 3.2.4 AIs are also encouraged to make more comprehensive disclosures than the minimum required under the approach they use for calculation of their regulatory capital. For instance, an AI which uses the BSC approach to calculate its credit risk for non-securitization exposures is encouraged to provide supplementary disclosures about its equities activities if they become significant. Similarly, an AI which uses either the BSC or STC approach while transitioning to one of the IRB approaches is encouraged to make the more extensive disclosures that would apply to an AI using the IRB approach;
- 3.2.5 An AI is also encouraged to make more frequent disclosures than those required under the Rules providing these additional disclosures would improve the transparency of the AI's risk profile and risk management.
- 3.2.6 In addition to the requirements on comparative information (see paragraph 13.10), AIs are strongly encouraged to build up a data series that will permit trend analysis by users of their disclosures.

4. Penalties for non-Compliance

- 4.1 An AI which fails to comply with the Rules, unless explicitly exempted by the HKMA (see Part II, below) will face serious consequences. In particular:-
- 4.1.1 if an AI fails to comply with any requirement in the Rules every director, every chief executive and every manager of the AI commits an offence that may lead to conviction and the imposition of a financial penalty in accordance with subsection (4) of section 60A as



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amended by the Banking (Amendment) Ordinance 2005;

- 4.1.2 failure to comply with the requirements in the Rules may constitute a breach of the Seventh Schedule to the Banking Ordinance which requires an AI to make adequate disclosure of certain financial information as one of the criteria for continuing authorization; such breach could be a ground for revocation of authorization; and
- 4.1.3 failure to comply with the requirements in the Rules may result in other supervisory action being taken, 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 Banking Ordinance to rectify any errors or omissions in the AI's disclosure statement.

5. Scope

- 5.1 The Disclosure Rules are intended only to supplement, and not to replace, other disclosure requirements under relevant legislation or accounting and financial reporting standards. Where relevant, an AI should comply with such other disclosure requirements under the Companies Ordinance (Cap. 32), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and HKFRSs as applicable.

PART II - APPLICATION OF THE DISCLOSURE RULES

6. Overview (Section 3, Part 1)

- 6.1 The Disclosure Rules' framework is structured in accordance with the different approaches to the calculation of credit risk for non-securitization exposures contained in the Capital Rules. Unless otherwise specified therein, the Rules apply to AIs as follows: -



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Description	Applicable for Locally Incorporated AIs adopting			Overseas Incorporated AIs
	STC Approach	BSC Approach	IRB Approach	
Part 1 - Preliminary	√	√	√	√
Part 2 - General Requirements	√	√	√	N.A.
Part 3 - Interim financial disclosures	√	√	√	N.A.
Part 4 - Annual financial disclosures	√	√	√	N.A.
Part 5 - Additional disclosures for AIs adopting STC approach	√	N.A.	N.A.	N.A.
Part 6 - Additional disclosures for AIs adopting BSC approach	N.A.	√	N.A.	N.A.
Part 7 - Additional disclosures for AIs adopting IRB Approaches	N.A.	N.A.	√	N.A.
Part 8 - Disclosures for overseas-incorporated AIs	N.A.	N.A.	N.A.	√

N.A. – Not Applicable

7. Application of Parts 2 and 4

7.1 Unless explicitly exempted by the HKMA in accordance with section 3(7) of the Rules, all AIs incorporated in Hong Kong are required to make disclosures in accordance with Part 2 (general requirements) and Part 4 (annual financial disclosures) for their annual reporting periods.

7.2 An AI may be exempted from the application of Parts 2 and 4 if:

- (a) the AI is a deposit-taking company or restricted licence bank; and
- (b) the AI demonstrates to the satisfaction of the HKMA that it meets the following criteria (hereafter referred to as the “de minimis criteria”):-
 - (i) it has total assets less provisions of less than HK\$1 billion (or the equivalent amount in any foreign currency); and



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(ii) it has total deposits from customers of less than HK\$300 million (or the equivalent amount in any foreign currency).

7.3 For the purposes of determining whether an AI meets the de minimis criteria, the HKMA will make reference to the relevant average of the relevant figures reported by the AI for the relevant period where:

7.3.1 “relevant average” means the arithmetic mean (i.e. simple average) of the relevant figures as at the end of each calendar month for the last relevant period of the AI;

7.3.2 “relevant figures” means the figures as at the end of each calendar month reported by the AI in its “Return of Assets and Liabilities – MA(BS)1” item 25 “total assets less provisions” and item 6.4 “total deposits from customers”;

7.3.3 “relevant period” means each period of 12 calendar months ending on and including the 5th calendar month preceding the close of the AI’s financial year.

Illustrative example :

Assume the 2007 financial year of a locally-incorporated RLB or DTC ends on 31 December 2007. For the purpose of determining whether an AI falls within the de minimis criteria referred to in paragraph 7.2(b) above, the HKMA will aggregate the relevant figures reported by the AI to the HKMA during the relevant period (i.e. 12-month period covering calendar month-ends of September 2006 to August 2007 inclusive) and then divide the aggregate amount by twelve to arrive at a “relevant average”. The HKMA will make reference to this relevant average figure in assessing whether the RLB or DTC falls within the de minimis criteria referred to in paragraph 7.2(b) above.



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- 7.4 If an AI is exempted from making annual financial disclosures under Part 4 of the Disclosure Rules, additional disclosures prescribed in Parts 5, 6 and 7 of the Disclosure Rules do not apply to the AI for as long as it remains exempt.
- 7.5 Parts 2 and 4 (and thus also Parts 5, 6 or 7 as applicable) of the Rules will continue to apply to any non-exempt AI unless at a later date the HKMA makes a determination that the AI is exempt and notifies the AI of this decision in writing. The HKMA will not regard a temporary reduction in an AI's assets or deposits to within the de minimis criteria as grounds for exemption. The HKMA will only consider granting new exemptions where an AI can provide it with a business plan that demonstrates that the AI intends to reduce its business to levels that will permit it to be able to continue to meet the de minimis criteria for an "appropriate" period of time in the future (section 3(11)).
- 7.5.1 In practice, what constitutes "an appropriate period" will be subject to the particular circumstances of the AI and be determined on a case-by-case basis, having regard to the nature, size, complexity and structure of its business operations. However, in all circumstances the AI should demonstrate its intention to maintain a scale of operations which will place it below the de minimis criteria for a period of at least several years.
- 7.6 If in future the HKMA determines that an exempted AI ceases to meet the exemption criteria it will send the AI a notice in writing withdrawing its exemption. Parts 2 and 4 of the Disclosure Rules will apply to the AI in full from the date specified in the notice. Once an AI ceases to be exempt it will also have to comply with Parts 5, 6 or 7 of the Rules as applicable.
- 7.7 If an AI wishes to apply for an exemption from Parts, 2 and 4 (and Parts 5, 6 or 7 as the case may be) or to ensure that it continues to have the benefit of such exemption, it should request its case officer to conduct a review of its exemption status.



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8. Application of Part 3

- 8.1 Unless explicitly exempted by the HKMA all AIs incorporated in Hong Kong are required to make disclosures in accordance with Part 3 of the Rules which relates to interim financial disclosures.
- 8.2 The HKMA can exempt an AI from Part 3 on two grounds, being:
- (a) the AI is exempted from the application of Parts 2 and 4; or
 - (b) the AI is not listed on The Stock Exchange of Hong Kong Limited and is a wholly owned subsidiary of an AI incorporated in Hong Kong.

An AI cannot be exempted from Part 3 of the Rules by virtue of paragraph 8.2(a) above unless it has also been exempted from Parts 2 and 4 in accordance with the procedure set out in paragraphs 7.2 and 7.3 above. When the HKMA sends an AI written notification that it is exempt under Parts 2 and 4 of the Rules it will also notify it of its exemption under Part 3.

- 8.3 If the HKMA sends a written notice to an AI to withdraw its exemption from Parts 2 and 4 of the Rules, it will also notify the AI that it has ceased to be exempt from Part 3.
- 8.4 If an AI wishes to apply for an exemption from Part 3 or to ensure that it continues to have the benefit of such exemption, it should request its case officer to conduct a review of its exemption status.

9. Application of Part 5

- 9.1 Part 5 applies to any non-exempt AI incorporated in Hong Kong which uses the STC approach to calculate its credit risk for non-securitization exposures including any non-securitization exposures subject to an exemption under section 12(2)(a) of the Capital Rules.
- 9.2 For disclosures in relation to securitization exposures under Part 5, an AI should include any securitization exposure which is



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subject to the STC(S) approach in consequence of an exemption under section 12(2)(a) of the Capital Rules.

10. Application of Part 6

10.1 Part 6 applies to any non-exempt AI incorporated in Hong Kong which uses the BSC approach to calculate its credit risk for non-securitization exposures.

11. Application of Part 7

11.1 Part 7 applies to any non-exempt AI incorporated in Hong Kong which uses the IRB approach to calculate its credit risk for non-securitization exposures.

11.2 Part 7 does not cover non-securitization exposures which have been exempted under section 12(2)(a) of the Capital Rules, or any securitization exposures subject to the STC(S) approach in consequence of an exemption under section 12(2)(a) of the Capital Rules. These exposures are covered by Part 5 (see paragraphs 9.1 and 9.2 above).

12. Application of Part 8

12.1 Part 8 only applies to AIs incorporated outside Hong Kong.

12.2 An overseas incorporated AI may be exempted from Part 8 if it demonstrates to the satisfaction of the HKMA that it meets the following criteria (hereafter referred to as the “de minimis limits”):-

- (a) its local branches, together with its principal place of business in Hong Kong, have in aggregate total assets less provisions of less than HK\$10 billion (or the equivalent amount in any foreign currency); and
- (b) its local branches, together with its principal place of business in Hong Kong, have in aggregate total deposits from customers of less than HK\$2 billion (or the equivalent amount in any foreign currency).



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For the purposes of determining whether an AI meets the de minimis limits the HKMA will follow the same procedure laid out in paragraph 7.3 above.

- 12.3 Where the HKMA determines that an overseas incorporated AI meets the exemption criteria in paragraph 12.2 above it will send the AI written notification that it is exempt from Part 8. Unless an overseas incorporated AI has received such notification, it is required to make the annual and interim disclosures required under Part 8. The HKMA can withdraw any exemption that have been granted if an AI ceases to meet the exemption criteria in 12.2 above. In this event, the HKMA will send the AI written notification that it ceases to be exempt and Part 8 will apply to the AI in full from the date specified in the notification.
- 12.4 If an AI wishes to apply for an exemption from Part 8 or to ensure that it continues to have the benefit of such exemption, it should request its case officer to conduct a review of its exemption status.

PART III - GUIDANCE FOR AIs INCORPORATED IN HONG KONG

13. General Requirements (Part 2)

13.1 General

- 13.1.1 This section provides guidance for locally incorporated AIs on the interpretation and practical application of specific provisions in Part 2 of the Rules.

13.2 Disclosure policy (section 5)

- 13.2.1 An AI must establish a clearly defined disclosure policy not later than 6 months after the commencement of the Rules (i.e. on or before 30 June 2007) or after the date on which it became an AI, whichever is the later. The disclosure policy should:



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- (a) be documented in writing,
- (b) be approved by the board of directors
- (c) address the AI's approach to determining the content, appropriateness and frequency of public disclosures it makes relating to its state of affairs, profit and loss and CAR; and
- (d) state what internal controls it has over the disclosure process (including those internal controls it has for verifying / reviewing the accuracy of the disclosures).

13.3 Medium and location of disclosure and issue of press release (section 6)

13.3.1 Section 6 prescribes the manner in which the disclosures should be made, the timing of such disclosures, and the periods for which such information should remain disclosed. In particular, section 6(3) provides an AI with the flexibility of either publishing a disclosure statement that contains all the disclosures required under the Rules, or a prescribed summary of the required disclosures.

"Prescribed summary"

13.3.2 An AI has the option of issuing a "prescribed summary" instead of issuing all the disclosures required under the Rules in a single, comprehensive document. If an AI issues a prescribed summary it need only to specify in that summary how and where the general public may readily access the complete disclosures. For example:

- (a) the prescribed summary may inform the general public that the complete disclosures can be accessed on the AI's Hong Kong internet website, (the relevant website address (and specific link) for which should be stated); or



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- (b) the prescribed summary may inform the general public that the AI's financial disclosures can be found in the financial statements (or notes to the accounts) in the AI's annual report and accounts, (the prescribed summary must make clear the precise location in the annual report where the required disclosures are to be found); or
- (c) the prescribed summary may refer to a combination of the AI's website and its annual report, as long as it specifies which disclosures are to be found at which location.

13.3.3 Once an AI has issued its prescribed summary it should not change the place where the complete disclosures are to be found (for example by moving them to a location on its website that is different from the link stated in the prescribed summary) unless it also amends the information contained in the prescribed summary.

"Press release"

13.3.4 An AI should, at the same time as it publishes its disclosure statement, issue a press release to the press in Hong Kong either containing or consisting of the statement, in the Chinese and English languages:

- (a) the press release "contains" the disclosure statement if it also contains other information that is not subject to the disclosure requirements of the Rules (for example disclosures made under HKFRSs);
- (b) the press release "consists" of the disclosure statement if it consists only of the information that the AI is required to disclose under the Rules (i.e. it does not include disclosures made under other requirements such as HKFRSs).



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- 13.3.5 If, in practice, an AI chooses to issue a press release which contains the same summary financial information as it has been accustomed to publishing in past years but which also contains a prescribed summary of its disclosure statement, the HKMA would consider that this would discharge its obligations under this section of the Rules.

Period of disclosure and time available for inspection

- 13.3.6 Disclosures made by an AI under the Rules must remain available until at least the disclosure statement for the AI's next equivalent reporting period is published in accordance with the Rules. For example,
- (a) in the case of an annual reporting period, an AI is required to ensure that its disclosure statement (including its complete disclosures if it publishes a prescribed summary) should remain available for inspection until its next annual disclosure statement is published; and
 - (b) in the case of an interim reporting period, an AI is required to ensure that its disclosure statement remains available for inspection until it publishes its next interim disclosure statement.
- 13.3.7 An AI should keep one or more than one copy of the disclosure statement in its principal place of business in Hong Kong and, if practicable, in each local branch of the AI. The AI should make the copy (or copies) available for inspection by the general public during the business hours of the AI at the place where the copy is kept.
- 13.3.8 An AI should ensure that its annual disclosure statement is available for public inspection from the time that it is published at least until it publishes its next annual disclosure statement and similarly for its interim disclosure statement until it publishes its next interim disclosure statement. Where practicable, the HKMA



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strongly encourages AIs to build up a data series that will permit trend analysis by users of their disclosures.

Illustrative example :

<i>Description</i>	<i>Interim Disclosure</i>	<i>Annual Disclosure</i>
<i>Reporting Period</i>	<i>H1/2007</i>	<i>Full year of 2007</i>
<i>Due Date of Publication of Disclosure Statement</i>	<i>e.g. 30 Sep 2007</i>	<i>e.g. 30 Apr 2008</i>
<i>Immediately Succeeding Reporting Period</i>	<i>H1/2008</i>	<i>Full year of 2008</i>
<i>Due Date of Publication of Disclosure Statement for Immediately Succeeding Reporting Period</i>	<i>e.g. 30 Sep 2008</i>	<i>e.g. 30 Apr 2009</i>
<i>Minimum Period Disclosure Statement for Reporting Period Must Be Made Available for Inspection</i>	<i>From 30 Sep 2007 to 29 Sep 2008</i>	<i>From 30 Apr 2008 to 29 Apr 2009</i>

13.4 Interaction of other requirements ([section 7](#))

13.4.1 The HKMA recognises that AIs are subject to other disclosure requirements in addition to those in the Rules. These include disclosures required under the Companies Ordinance, HKFRSs, and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. To some extent the disclosures that AIs are required to make under [Parts 3 and 4](#) of the Rules overlap with these other disclosures (called “external” disclosures in the Rules). To avoid the need for an AI to make duplicative disclosures, [Section 7](#) is intended to provide an AI with sufficient flexibility to treat an external disclosure as complying with the requirements of the Rules provided that the criteria under [section 7\(d\) and \(e\)](#) are met.



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13.4.2 To the extent that disclosures required under the Rules overlap with those required by the accounting or financial reporting standards referred to in 13.4.1 above, and the criteria in section 7(d) and (e) are met, the HKMA will consider that an AI's disclosure obligations under the Rules have been discharged by its disclosures made under the relevant accounting or financial reporting standards.

13.4.3 The HKMA will endeavour to ensure that the disclosures required under the Rules continue to remain closely aligned with those required under relevant accounting or financial reporting standards, except where there is some overriding reason, based on its statutory duties, for the HKMA not to do so. To this end the HKMA will keep the Rules under review to consider whether any amendments are required in the light of future changes to accounting and financial reporting standards.

13.5 Verification (section 8)

13.5.1 Disclosures made under the Rules are not required to be audited unless otherwise required by accounting or other statutory requirements. However, the senior management of an AI should ensure that the information being disclosed is subject to scrutiny and internal review to ensure that the information is not false or misleading in any material respect.

13.5.2 The "internal review" should be conducted by personnel of the AI who are adequately qualified and are independent of the AI's staff or management responsible for preparing the disclosures. For instance, an AI's internal auditor could fulfil the requirement of conducting such an internal review.

13.6 Proprietary and confidential information (section 9)

13.6.1 The HKMA believes that the disclosure requirements in the Rules strike an appropriate balance between the



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need for meaningful disclosure and the protection of proprietary and confidential information. Accordingly, the HKMA believes that AIs will be able to provide all of the required disclosures without having to reveal proprietary and confidential information. However, in exceptional cases, disclosure of certain items of information required in the Rules may seriously prejudice an AI's competitive position. In such cases, an AI may, with the prior consent of the HKMA, decline to disclose such items (referred to in the Rules as "proprietary or confidential information") provided that the AI:

- (a) discloses general information relating to the subject matter of the relevant disclosure requirements in its disclosure statement; and
- (b) includes a statement in its disclosure statement stating what information it has declined to disclose.

13.6.2 "Proprietary or confidential information" means information which, if it became publicly available, would cause serious prejudice to the competitive position of the AI; or in respect of which the AI has legally binding obligations to its customers or other counterparties which prevent the AI from disclosing the information.

13.6.3 Proprietary information may include information on products or systems which, if shared with competitors, would render an AI's investment in such items less valuable.

13.6.4 The HKMA expects AIs to apply to use this exemption only in the most exceptional of circumstances and for them to support their applications with good reasons. Moreover, the exemption for proprietary and confidential information cannot be used to avoid any disclosure obligations an AI may have by virtue of requirements arising from accounting or financial reporting standards.



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13.7 Materiality (section 10)

13.7.1 The senior management of an AI should ensure that a disclosure made by the AI pursuant to the Rules contains all material information.

13.7.2 “Material information” means information –

- (a) which is required to be disclosed under the Disclosure Rules; and
- (b) which, if it were omitted or misstated, could change or influence the assessment or decision of a person relying on the disclosure concerned for the purposes of making investment or other economic decisions.

13.7.3 An AI should, at a minimum, also observe the following:

- (a) materiality as defined in both HKAS 1 paragraph 11 and HKAS 8 paragraph 5³, and the discussion of materiality in paragraphs 29 and 31 of HKAS 1; and
- (b) additional guidance in respect of interpreting materiality in the context of financial statements prepared under HKFRS as set out in HKAS 8 paragraph 41.

13.8 Consolidated group level disclosures (section 11)

13.8.1 As a general rule, an AI must make the disclosures required by the Rules on a “consolidated basis” as defined in the Capital Rules (i.e. on the basis of

³ 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 follows: “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.”



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consolidation for regulatory purposes) except in relation to the following disclosure requirements:

- (a) For financial disclosures required under sections 19 to 23; 25 to 27; 34 to 44; 46 to 48; and 52, an AI should use whichever basis of preparation it believes is most appropriate to provide users with clarity in understanding the AI's state of affairs, profit and loss or CAR. This might include, for example, the basis used by the AI for financial reporting purposes for the period concerned. Thus for disclosures made under these specific sections an AI may use accounting consolidation instead of regulatory consolidation as the basis on which to make the disclosures, provided that the basis of consolidation used is clearly stated in the disclosure statement.
- (b) For disclosures concerning its non-bank Mainland exposures (sections 28 and 49) and currency risk (sections 29 and 50), an AI should adopt the same basis of preparation as it uses to prepare the regulatory returns to the HKMA containing this information (i.e. the return for non-bank Mainland exposures and the return relating to foreign currency positions submitted by the AI to the HKMA pursuant to section 63 of the Banking Ordinance).
- (c) For disclosures concerning its liquidity position (sections 30 and 51), an AI should adopt the same basis (i.e. solo and/or consolidated basis) as it uses to prepare the regulatory return to the HKMA containing this information (i.e. the return relating to the liquidity position of the AI submitted by the AI to the HKMA pursuant to section 63 of the Banking Ordinance). If, pursuant to section 102(3B) of the Banking Ordinance, the AI computes its liquidity ratio on a consolidated basis but only in respect of such overseas branches and



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subsidiaries of the AI as specified by notice served by the HKMA pursuant to section 102(3A) of the Banking Ordinance, then the AI may compute its average liquidity ratio for disclosure pursuant to sections 30(1) and 51(1) of the Rules on the same basis of consolidation. In other words, the notice served by the HKMA pursuant to section 102(3A) of the Banking Ordinance shall be treated as the HKMA providing its prior consent for the AI to include the overseas branches and subsidiaries of the AI which are specified in that notice, in the calculation of its average liquidity ratio for the purposes of sections 30(2)(b) and 51(2)(b) of the Rules. Accordingly, in these circumstances information disclosed pursuant to section 30 and 51 of the Rules, which is calculated on the same basis as the information relating to liquidity in the AI's consolidated return (instead of its unconsolidated return), will be sufficient to discharge the AI's disclosure obligations under these two sections.

13.8.2 Although as a general rule AIs should use regulatory consolidation as the basis for their disclosures, nothing in the Rules precludes an AI from also making disclosures on a solo basis or solo-consolidated basis if providing these additional disclosures will assist understanding of and provide greater clarity concerning its risk profile.

13.8.3 By way of further exception to the general rule that an AI should use regulatory consolidation as the basis for its disclosure, if an AI is only required to calculate its CAR on a solo basis, then the AI should make its disclosures on a solo basis⁴.

⁴ However for disclosures required by sections 19 to 23, 25 to 27, 34 to 44, 46 to 48, 52, 28, 49, 29, 50, 30 and 51, such an AI should use the basis of preparation set out in 13.8.1(a), (b) and (c) above respectively.



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13.9 Basis of disclosure (section 12)

- 13.9.1 An AI's disclosures are governed by the approach it uses under the Capital Rules to calculate its regulatory capital for credit risk, and capital charges for market risk and operational risk. For example, an AI that uses the BSC approach to calculate its regulatory capital for credit risk should make disclosures in accordance with the sections of the Rules relevant to the BSC approach.
- 13.9.2 In some circumstances an AI might use different calculation approaches to calculate its regulatory capital/capital charge for exposures in different classes, business units, risk categories or parts of its business. In this situation, the disclosures the AI is required to make in respect of its exposures, follows the particular calculation approach the AI uses to calculate its capital charge for those exposures. For example, by reason of being granted an exemption under section 12(2)(a) of the Capital Rules, an AI may calculate its regulatory capital for credit exposures falling within a particular class using the STC approach, but use the Foundation IRB approach to calculate its regulatory capital for credit exposures in all the other classes. In this instance, the disclosure requirements in respect of the credit exposures in the class for which the AI uses the STC approach, are those in Part 5. The disclosure requirements in respect of the credit exposures in the classes for which it uses the Foundation IRB approach, are those in Part 7.
- 13.9.3 In rare circumstances an AI might change the approach it uses to calculate its regulatory capital for credit risk, or capital charge for market risk or operational risk in the course of a reporting period. For instance, an AI might migrate from the STC approach to the Foundation IRB approach to calculate its credit risk for its sovereign exposures during its 2007 financial year. In this case the AI should make disclosures on the basis of the approach it is using on the reporting date,



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i.e. it should make credit risk disclosures for sovereign exposures on the basis of the Foundation IRB approach under *Part 7*.

13.10 Comparative information (*section 13*)

13.10.1 As a general rule, an AI is required to provide comparative information to accompany its quantitative disclosures. Except in the case of profit and loss information and liquidity ratio, the comparative information to be provided is the like quantitative information from the AI's immediately preceding annual reporting period. For profit and loss information and liquidity ratio the comparative information should be as follows:

- (a) if the relevant disclosure relates to an annual reporting period, the comparative information required is the like quantitative information from the AI's immediately preceding annual reporting period;
- (b) if the relevant disclosure relates to an interim reporting period, the comparative information required is the like quantitative information from the AI's immediately preceding interim reporting period.



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Illustrative example :

<i>Locally Incorporated AI</i>	<i>P & L Information & Liquidity Ratio</i>		<i>Disclosure items other than P & L Information & Liquidity Ratio</i>	
	<i>Reporting Date</i>	<i>Comparative Information</i>	<i>Reporting Date</i>	<i>Comparative Information</i>
<i>Interim disclosure</i>	<i>30/9/2007</i>	<i>30/9/2006 (i.e. IPIRP)</i>	<i>30/9/2007</i>	<i>31/3/2007 (i.e. IPARP)</i>
<i>Annual disclosure</i>	<i>31/3/2008</i>	<i>31/3/2007 (i.e. IPARP)</i>	<i>31/3/2008</i>	<i>31/3/2007 (i.e. IPARP)</i>

Assumptions -

- *AI's financial year (FY) begins on 1 April.*
- *Interim disclosure for reporting period in respect of FY 2007 : 1/4/2007 – 30/9/2007*
- *Immediately preceding interim reporting period ("IPIRP") : 1/4/2006 – 30/9/2006*
- *Annual disclosure for reporting period in respect of FY 2007 : 1/4/2007 – 31/3/2008*
- *Immediately preceding annual reporting period ("IPARP") : 1/4/2006 – 31/3/2007*

13.10.2 There are some exceptions to the requirement to provide the comparative information referred to above. The first exception applies where the AI cannot provide the comparative information required because the Rules did not previously apply to the AI (and hence it made no like quantitative disclosures in previous reporting periods which can be used as comparative information). This will be the case, for example, for an AI with a financial year running from 1st January to 31st December, for its disclosure statements in respect of its first interim reporting period (1st January 2007 to 30th June 2007) and its first annual reporting period (1st January 2007 to 31st December 2007). In the case of both these disclosure statements, the AI is only required to ensure that a quantitative disclosure is accompanied by information which is equivalent to the comparative information referred to in 13.10.1 above, if it is practicable for the AI to provide such equivalent information.



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- 13.10.3 The second exception applies when, for its current annual reporting period, an AI uses a different calculation approach to calculate its regulatory capital for credit risk or capital charge for market or operational risk, from that used in its preceding annual reporting period. In this instance, an AI is not required to provide comparative information with the quantitative disclosures for which the calculation approach has changed. For example, if an AI uses the STC approach to calculate its credit risk for sovereign exposures in its 2007 financial year and then uses the Foundation IRB approach for such exposures in its 2008 financial year, then for the purposes of its disclosure statement covering the 2008 financial year, the AI is not required to disclose comparative information along with the quantitative disclosures it makes in respect of its sovereign credit risk exposures. In these circumstances, however, an AI is required to ensure that the quantitative disclosure is accompanied by a statement explaining why comparative information has not been disclosed.
- 13.10.4 An AI should notify its case officer if it falls within any of the exceptions described in the above paragraphs (13.10.2 and 13.10.3).
- 13.10.5 Where the comparative information provided contains a material restatement of information, the AI must ensure that the related quantitative disclosure is accompanied by a statement giving the nature of, and the reasons for, the restatement.

13.11 Frequency (section 14)

- 13.11.1 An AI should make financial disclosures in accordance with Part 4, and additional disclosures under Part 5, 6 or 7, as applicable, in respect of the AI's most recently completed financial year. An AI to which Part 3 applies should make financial disclosures in respect of the 6 month period immediately after the close of the AI's most recently completed financial year.



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13.11.2 As some risk factors can change quite rapidly, an AI is encouraged to make more frequent disclosures than those required under the Rules providing these additional disclosures would improve the transparency of the AI's risk profile and risk management.

13.12 Compliance (section 16)

13.12.1 An AI's disclosure statement should also contain such other information as is necessary to ensure that the information contained in the disclosure statement is not false or misleading in any material respect, and that the operations of the AI are clearly explained. For example, an AI may disclose additional qualitative information such as information on its liquidity / funding management or risk management practices, etc to enhance the understanding of the users of its disclosure statement.

13.12.2 In exceptional circumstances it may not be possible for an AI to make a disclosure required by the Rules due to circumstances beyond its control. Such circumstances might include a major computer failure or global internet disruption. In this case an AI should, after consultation with the HKMA, include in its disclosure statement:

13.12.2.1 a statement that it is unable to make the disclosure and the reasons why it is unable to do so; and

13.12.2.2 information which is the closest available alternative to that required to be disclosed under the Disclosure Rules.

In these circumstances the AI should also obtain the HKMA's prior consent before publishing its disclosure statement.



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14. Interim and Annual Financial Disclosures to be made by AIs Incorporated in Hong Kong

14.1 General

14.1.1 This section provides guidance for locally incorporated AIs in relation to the making of interim and annual financial disclosures pursuant to Parts 3 and 4 of the Rules.

14.1.2 To the extent that interim or annual financial disclosures required under the Rules overlap with those required under the applicable accounting or financial reporting standards, and the criteria in section 7(d) and (e) are met, the HKMA will consider that an AI's disclosure obligations under the Rules have been discharged by disclosures made under the relevant accounting or financial reporting standards. The HKMA encourages AIs to include disclosure items relating to interim or annual financial disclosures required under the Rules in their financial statements or in the notes to the accounts, as appropriate.

14.1.3 The interim and annual financial disclosures required under the Rules represent minimum disclosure requirements. They do not preclude an AI from providing additional disclosure or further analytical breakdown in addition to that required under the Rules, if the AI reasonably believes that providing such would give a user greater clarity and understanding of the AI's risk profile.

14.2 Income statement and equity information (Part 3 – section 19, Part 4 – section 35); Balance sheet information (Part 3 - sections 20 to 22, Part 4 - sections 36 to 38)

14.2.1 An AI should follow the applicable accounting standards in preparing the income statement, equity and balance sheet information required to be disclosed pursuant to sections 19 to 22 (for interim financial



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disclosures) or sections 35 to 38 (for annual financial disclosures) of the Rules.

14.2.2 In preparing its disclosure in relation to these sections, an AI should observe the HKMA's guidance given next to the respective section references listed in the table below:

Item	Section Reference in <u>Part 3</u>	Section Reference in <u>Part 4</u>	HKMA's Guidance
(a)	<u>19(1)(a)(i)</u>	<u>35(1)(a)(i)</u>	An AI should disclose net gains or net losses on financial assets or financial liabilities showing separately those that are: (A) designated at fair value through profit or loss upon initial recognition; and (B) classified as held for trading, in accordance with HKAS 39 ⁵ .
(b)	<u>19(1)(d)</u>	<u>35(1)(d)</u>	An AI should disclose interest income on impaired financial assets accrued in accordance with HKAS 39.
(c)	<u>20(a)(iii)</u>	<u>36(1)(a)(iii)</u>	An AI should disclose the carrying value of financial assets showing separately those that are: (A) designated at fair value through profit or loss upon initial recognition; and (B) classified as held for trading, in accordance with HKAS 39.
(d)	<u>20(a)(v)</u>	<u>36(1)(a)(v)</u>	An AI should disclose the provisions for impaired loans and receivables, including collective provisions and specific provisions, in accordance with HKAS 39.

⁵ HKAS 39 *Financial Instruments: Recognition and Measurement*



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Item	Section Reference in <u>Part 3</u>	Section Reference in <u>Part 4</u>	HKMA's Guidance
(e)	<u>20(b)(iii)</u>	<u>36(1)(b)(iii)</u>	An AI should disclose the carrying value of certificates of deposit issued showing separately those that are: (A) designated at fair value through profit or loss upon initial recognition; and (B) classified as held for trading, in accordance with HKAS 39.
(f)	<u>20(b)(iv)</u>	<u>36(1)(b)(iv)</u>	An AI should disclose the carrying value of issued debt securities showing separately those that are: (A) designated at fair value through profit or loss upon initial recognition; and (B) classified as held for trading, in accordance with HKAS 39.
(g)	<u>20(b)(v)</u>	<u>36(1)(b)(v)</u>	An AI should disclose deferred taxation in accordance with HKAS 12 ⁶ .

"Financial assets or financial liabilities measured at fair value through profit or loss"

14.2.3 The term "financial assets or financial liabilities measured at fair value through profit or loss" as defined in the Disclosure Rules is intended to carry the same meaning as that contained in HKAS 39. Derivatives are included in this term by virtue of sub-paragraph (a) of the definition which includes any financial assets that are classified by the institution as held for trading.

⁶ HKAS 12 *Income Taxes*



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“Investment property”

14.2.4 The definition of “investment property” in the Disclosure Rules is intended to carry the same meaning as that contained in HKAS 40⁷. Under paragraph 6 of HKAS 40, a property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model for the asset recognized. Accordingly, if an AI can demonstrate that a property interest held under an operating lease has met the accounting definition of an investment property in line with HKAS 40, the AI may treat such property interest as complying with the definition of “investment property” for the purposes of the Disclosure Rules.

“Specific provisions” and “collective provisions”

14.2.5 The definitions of “specific provisions” and “collective provisions” in the Capital Rules and which also apply to the Disclosure Rules, are intended to carry the same respective meanings as the definitions in HKAS 39 for “individual impairment allowance” (in the case of specific provisions) and “collective impairment allowance” (in the case of collective provisions). Accordingly, an AI should use the concepts criteria and methodology for assessing impairment loss as set out in HKAS 39 for the purpose of determining the disclosures it has to make for “specific provisions” and “collective provisions” for the purpose of the Disclosure Rules.

“Placements with banks”

14.2.6 The term “bank” as defined in section 2(1) of the Capital Rules does not include a central bank which now falls within the definition of “sovereign”. Hence, if

⁷ HKAS 40 *Investment Property*



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an AI has any placements with central banks or other non-bank financial institutions, the AI should make separate disclosures in respect of those placements (instead of including them in “placements with banks”) if the AI reasonably believes that providing such separate disclosures would provide greater clarity and understanding of its risk profile.

“Value of collateral”

14.2.7 An AI should make reference to the illustration at **Annex B** for the determination of the value of collateral for disclosure purposes.

14.3 General disclosures (Part 3 - section 25, Part 4 - section 46)

“Cross-border claims”

14.3.1 An AI is required to disclose a breakdown of its cross-border claims by major countries or geographical segments in accordance with:

- (a) the location of the counterparties; and
- (b) the types of counterparties,

broken down into banks, public sector entities and others (section 25(1) or 46(7)).

14.3.2 “Cross-border claim” –

- (a) includes -
 - (i) receivables and loans and advances;
 - (ii) cash and balances and placements with banks (including loans and advances to banks);
 - (iii) holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments; and



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(iv) accrued interest and overdue interest on the assets referred to in subparagraphs (i), (ii) and (iii);

(b) does not include –

(i) claims arising between the institution and its branches or subsidiaries;

(ii) claims on a counterparty in Hong Kong, except to the extent that such claims are guaranteed by a person outside Hong Kong;

(iii) claims on a counterparty outside Hong Kong, to the extent that such claims are guaranteed by a person in Hong Kong;

(iv) claims on a branch of a bank located in Hong Kong, except where the head office of the bank is located outside Hong Kong; or

(v) claims on a branch of a bank located outside Hong Kong, where the head office of the bank is located in Hong Kong.

14.3.3 “Major country or geographical segment”, in relation to an AI’s cross-border claims, means a country or geographical segment (defined by internal management classifications for internal reporting purposes – for example, Asia Pacific Region excluding Hong Kong), to which not less than 10% of the AI’s total cross-border claims are attributable after taking into account any recognized risk transfer. “Recognized risk transfer” in relation to a cross-border claim of an AI, means that –

(a) the claim is guaranteed by a person in a country which is different from that of the counterparty; or

(b) the claim is on an overseas branch of a bank and the head office of the bank is located in a country



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which is different from that of the overseas branch.

- 14.3.4 An AI should disclose the basis of the country or geographical segment classification used for the disclosure of its cross-border claims.
- 14.3.5 An AI should make reference to the Completion Instructions for the “Return of External Positions – MA(BS)9” in the determination of cross-border claims.
- 14.3.6 An illustration of the disclosure required in respect of cross-border claims is provided at **Annex C**.

14.4 Sector information (***Part 3 - section 26, Part 4 - section 47***)

- 14.4.1 An AI should disclose the gross amount of loans and advances to customers, broken down into various sectors as set out in section 26(1) or 47(1).
- 14.4.2 Further guidance on how the various types of loans and advances should be included in the respective sectors as well as how the disclosures should be made is provided at **Annex D**. An AI should make reference to the Completion Instructions for the “Return of Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A”.
- 14.4.3 The HKMA encourages AIs to disclose additional credit risk information for the various sectors set out in section 26(1) or 47(1). For example, an AI could further breakdown the various sectors into more detailed sub-categories if it reasonably believes that providing these additional disclosures will give a user of the disclosure greater understanding and clarity in relation to the AI’s risk profile. However, the AI has to ensure that the aggregate of such further breakdown is consistent with the relevant figure disclosed in the AI’s balance sheet.
- 14.4.4 An AI should disclose the extent to which the loans and advances to customers referred to in paragraph 14.4.1



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above are covered by collateral or other security (*section 26(2) or 47(2)*). For this purpose, the AI should disclose either the percentage that the value of collateral or other security represents of those loans and advances, or the absolute amounts of the loans and advances to customers which are covered by collateral or other security.

- 14.4.5 For the required disclosures by “counterparty type” or “industry sector” under *section 26(3) or 47(3)*, an AI should make the disclosures based on its internal management classifications rather than based on the sectors referred to in *section 26(1) or 47(1)* or any other supervisory definition of counterparty type or industry sector. The AI should make disclosures in respect of that counterparty type or industry sector if loans and advances to customers to it constitute not less than 10% of the AI’s total amount of loans and advances to customers.

14.5 **Overdue or rescheduled assets (*Part 3 - section 27, Part 4 - section 48*)**

- 14.5.1 An AI should make disclosures on overdue and rescheduled assets pursuant to the requirements in *section 27 or 48*.

- 14.5.2 Further guidance on the (i) classification and definition of overdue and rescheduled assets; and (ii) disclosure of the value of collateral held against overdue loans and advances, is provided at **Annex E** and **Annex B** respectively.

14.6 **Non-bank Mainland exposures (*Part 3 - section 28, Part 4 - section 49*)**

- 14.6.1 An AI should disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material. An AI should make reference to the Completion Instructions for the “Return of Quarterly Analysis of Loans and Advances and Provisions –



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MA(BS)2A” for the categories of non-bank counterparties and the type of direct exposures to be reported.

14.6.2 An illustration of the disclosure required for non-bank Mainland exposures is provided at **Annex F**.

14.7 Currency risk (**Part 3 - section 29, Part 4 - section 50**)

14.7.1 An AI should disclose its foreign currency exposures which arise from trading, non-trading and structural positions pursuant to the requirements in **section 29 or 50**. An AI should make reference to the Completion Instructions for the “Return of Foreign Currency Position – MA(BS)6” for the types of foreign currency positions and the amounts to be reported.

14.7.2 An illustration of the disclosure required in respect of currency risk is provided at **Annex G**.

15. Additional Guidance for Annual Financial Disclosures

15.1 General

15.1.1 This section provides guidance for locally incorporated AIs in making annual financial disclosures pursuant to **Part 4** of the Rules.

15.2 Principal accounting policies (**section 34**)

15.2.1 An AI should disclose the principal accounting policies it uses in the preparation of its financial statements. These disclosures should include the accounting treatment of fees and expenses relating to loans and advances (including whether any incentives relating to residential mortgage loans or other loans and advances have been written off or amortized) where such fees and expenses are material pursuant to **section 34(2)(c)**. “Incentives” in this context would include the monetary



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value of rebates, both cash and non-cash, in respect of mortgage loans.

Examples of non-cash rebates include, but are not limited to, the following:-

- *waiver of legal assignment fee;*
- *waiver of fire insurance policy premium in the initial year; and*
- *waiver of monthly instalment repayments in the initial month.*

Examples of cash rebates include, but are not limited to, the following:-

- *other forms of monetary incentives or benefits (e.g. mortgage interest subsidies or reimbursement/subsidies of legal fees, stamp duty, or commission for property agents).*

15.3 Income statement and equity information (**section 35**)

15.3.1 An AI should disclose any material amount –

- (a) set aside for provisions with the exception of provisions that relate to depreciation, renewals or diminution in the value of assets; or
- (b) withdrawn from such provisions and not applied for the purposes thereof.

15.3.2 For the purposes of paragraph 15.3.1 above, an AI –

- (a) is not required to break down the movements in provisions into asset classes but is required to break down the movements into collective provisions and specific provisions; and
- (b) should disclose particulars of –



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- (i) the amount of new provisions charged to the profit and loss in the annual reporting period for losses on impaired loans and receivables;
- (ii) the amount of provisions released back to the profit and loss in the annual reporting period;
- (iii) the amount of loans and receivables which were written off in the annual reporting period;
- (iv) the amount of receivables in the annual reporting period in respect of loans and receivables which were written off in previous years; and
- (v) the amount of foreign exchange adjustments, if any, in the annual reporting period.

15.3.3 This disclosure requirement (*section 35(3)*) is intended to have the same scope as the disclosure previously required by paragraph 2.1.3 of SPM Module FD-1. Hence an AI which continues to make disclosures on the same basis as it has made in the past under this paragraph of the SPM Module should comply with this disclosure requirement under the Rules.

15.4 Provisions supplementary to balance sheet information (*section 37*)

15.4.1 An AI should disclose a breakdown of the residual contractual maturity of its assets and liabilities (*section 37(6) to (8)*). Such breakdown should be based on the remaining period to the contractual maturity date of the asset or liability concerned.



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15.4.2 The term “within an indefinite period” under section 37(6)(g) is intended to have the same scope as the term “undated” previously used in SPM Module FD-1.

15.4.3 Further guidance on maturity classification is provided at Annex H.

15.5 Fair value⁸ (section 41)

15.5.1 Except for the exceptions specified in section 41(2), an AI should disclose the fair value of each class of its financial assets and financial liabilities in a way which permits such fair value to be compared with the carrying value of each such class. An AI is expected to make disclosures in accordance with HKFRS 7⁹ for the purposes of complying with section 41.

15.6 Cash flow statement (section 42)

15.6.1 An AI should disclose a cash flow statement in accordance with HKAS 7¹⁰. The cash flow statement should be the same as that included in the AI’s audited annual accounts as lodged with the HKMA pursuant to section 60 of the Banking Ordinance.

15.7 Related party transactions (section 43)

15.7.1 “Related party” as defined in Part 4 of the Disclosure Rules is intended to have the same meaning as the same term contained in HKAS 24¹¹. In particular, an AI may apply the definition of “key management

⁸ Disclosure requirements related to fair value may be enhanced in the light of future development of the fair value measurements standard.

⁹ HKFRS 7 *Financial Instruments: Disclosures*

¹⁰ HKAS 7 *Cash Flow Statements*

¹¹ HKAS 24 *Related Party Disclosures*. Possible amendment to the related party definition may be required in the light of future amendments to IAS 24 *Related Party Disclosures*.



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personnel”¹² in HKAS 24 for the purposes of interpreting sub-paragraph (d) of the “related party” definition in the Rules which refers to “a member of the key management personnel” of the institution. Sub-paragraph (e) of the definition in the Rules also incorporates the substance of the definition “close members of the family of an individual”¹³ as contained in HKAS 24.

- 15.7.2 For the reasons referred to in paragraph 15.7.1, the HKMA is generally likely to consider that an AI’s disclosure obligations under the Rules will have been discharged by disclosures in respect of related party transactions made by the AI in accordance with HKAS 24.

15.8 General disclosures (section 46)

Segmental reporting

- 15.8.1 An AI should make disclosures in respect of its major business activities pursuant to the requirements of section 46(1) to (5). “Major business activity”, in relation to an AI, means the business activity constitutes not less than 10% of the total amount of the AI’s -

- (a) total operating income (net of interest expense);
- (b) profit or loss before impairment losses and specific provisions and collective provisions for impaired assets;

¹² “Key management personnel” is defined in HKAS 24 as “those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity”.

¹³ “Close members of the family of an individual” is defined in HKAS 24 as “those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity”.



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(c) profit or loss after impairment losses and specific provisions and collective provisions for impaired assets; or

(d) profit or loss before taxation.

15.8.2 Further guidance on the general basis of segmental reporting is provided at **Annex I**.

15.8.3 According to section 46(4), where not less than 10% of an AI's:

(a) total operating income (net of interest expense);

(b) profit or loss before taxation;

(c) total assets;

(d) total liabilities; or

(e) contingent liabilities and commitments

is booked in a single country or geographical segment (defined by internal management classifications for internal reporting purposes – for example, Asia Pacific Region excluding Hong Kong) the AI should disclose, for the item specified in each of sub-paragraphs (a) to (e) above, the absolute amount in respect of the country or geographical segment, as the case requires. An illustration of the disclosure required is provided at **Annex J**.

15.8.4 An AI should disclose the fees and commission income attributable to a product line if that product line constitutes not less than 10% of the total amount of fees and commission income of the AI (section 46(6)). The AI is expected to provide a breakdown of its product lines on a basis which is consistent with the one used for internal management purposes and which meets the applicable accounting disclosure requirements.



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Examples of product lines include, but are not limited to, the following:-

- *credit lines;*
- *corporate advisory;*
- *investment management and trustee services; and*
- *guarantees and indemnities.*

16. Additional Annual Disclosures to be made by AIs using STC Approach

16.1 General

16.1.1 This section provides guidance to locally incorporated AIs which use the STC Approach to calculate their credit risk for non-securitization exposures and which are required to make additional annual disclosures pursuant to Part 5 of the Disclosure Rules.

16.2 Capital adequacy (section 55)

16.2.1 An AI should disclose its capital requirements separately for each class of exposures in respect of which it uses the STC approach, as well as its capital requirements for securitization exposures (section 55(b) and (c)). An AI should make disclosures for section 55(b) and (c) by multiplying the risk-weighted amount derived from the relevant calculation approach **by 8%**. An AI is **NOT** expected to disclose its actual “*regulatory capital*” (i.e. risk-weighted amount multiplied by the AI’s minimum CAR imposed by the HKMA) for this purpose.

16.2.2 An AI may refer to paragraphs 16.4.2 and 16.4.3 below for further guidance on disclosures in relation to “each class of exposures”.



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16.3 General qualitative disclosures (section 56)

16.3.1 An AI should disclose a description of the main types of risk which arise from its business, including credit, market, operational, liquidity, interest rate and foreign exchange risk (called “principal risks” in the Rules). The description should cover the policies, procedures and controls the AI uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to these principal risks.

16.3.2 The following must also be included in the description:

16.3.2.1 The titles or positions of the members of the board of directors or the senior management members who:-

- (a) oversee risk management;
- (b) set the strategy and policy for managing each type of principal risk; and
- (c) set the means for ensuring that such strategy and policy is implemented.

An AI should include the role of specialized board committees in reviewing the adequacy of risk management policies and systems; and the extent to which these are operating effectively.

16.3.2.2 The methods an AI uses to identify and measure the various types of principal risk. Using credit risk as an example, an AI should provide descriptions of the analytical techniques used for assessing the risk profile and structure of the credit portfolio and in identifying credit risk concentrations. It should also include the use it makes of any



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internal credit risk measurement and management processes.

16.3.2.3 The particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities.

16.3.2.4 The methods an AI uses to monitor and control its principal risks. Using credit risk as an example, an AI should describe the structure of its 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.

16.3.2.5 The use of limits for controlling its principal risks. For example, limits on large exposures and credit risk concentrations.

16.3.2.6 The particulars of its operational controls.

16.3.2.7 The role of internal audit.

16.4 Credit risk: specific disclosures (section 57)

16.4.1 An AI should make quantitative disclosures for each separately disclosed class of exposures covered by the STC approach, including the total amount of such exposures in each class, the total amount of outstanding exposures in each class after the effect of recognized credit risk mitigation (distinguishing between exposures which have an ECAI issue specific rating and those which do not), the respective risk-weighted amounts of such exposures in each class, and the total amount of credit exposures deducted from the AI's core capital and supplementary capital (Section 57(d) to (f)). For these purposes, the total amount of



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exposures mean the principal amount for on-balance sheet exposures, or the credit equivalent amount for off-balance sheet exposures, as applicable, net of specific provisions.

16.4.2 An example of the disclosure requirements described in paragraph 16.4.1 is provided at **Annex K**.

16.4.3 It is not mandatory for an AI to follow the specimen disclosure template at **Annex K** in making its disclosures. However, if the disclosure template is not used, the AI should ensure that it consistently applies the same reporting methodology in complying the requirements in *Part 5*. For example, if an AI discloses the total exposures for each class of exposures without segregating on- and off-sheet exposures, the AI should apply the same reporting methodology consistently for each reporting period to facilitate period-to-period comparison.

16.5 General disclosures for counterparty credit risk-related exposures (**section 58**)

16.5.1 An AI should disclose the methodology it uses to assign internal capital and credit limits for counterparty credit exposures in respect of its counterparty credit risk arising from OTC derivative transactions, repo-style transactions and credit derivative contracts (other than recognized credit derivative contracts) booked in its trading book or banking book (**section 58(1)(a)**). An AI is expected to comply with the supervisory standards as set out in SPM Module CA-G-5 for assessing and managing internal capital needs.

16.6 Credit risk mitigation (**section 59**)

16.6.1 An AI should disclose the main types of guarantor and credit derivative counterparty and their creditworthiness for the recognized guarantees and recognized credit derivative contracts which constitute the AI's credit risk mitigation (**section 59(1)(d)**). For this purpose,



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“creditworthiness” means any credit quality information relating to the type of guarantor or counterparty disclosed such as ratings by international recognized rating agencies etc. that the AI considers useful in showing the quality of the credit risk mitigation it uses.

- 16.6.2 Under Section 59(2) an AI should disclose its total exposure (taking into account on- or off-balance sheet netting) covered by recognized collateral, recognized guarantees or recognized credit derivative contracts. The relevant amounts should be net of any haircuts required under the Capital Rules. The total exposure means the principal amount for on-balance sheet exposures, or the credit equivalent amount for off-balance sheet exposures net of specific provisions. The disclosures should be made separately for each class of exposures; for guidance on exposure classes an AI should also refer to paragraphs 16.4.2 and 16.4.3 above.

17. Additional Annual Disclosures to be made by AIs using BSC Approach

17.1 General

- 17.1.1 This section provides guidance to locally incorporated AIs which use the BSC Approach to calculate their credit risk for non-securitization exposures and which are required to make additional annual disclosures pursuant to Part 6 of the Disclosure Rules.

17.2 Capital adequacy (section 67)

- 17.2.1 An AI should disclose its capital requirements for exposures in respect of which it uses the BSC approach, as well as its capital requirements for securitization exposures (section 67(a) and (b)). An AI should make disclosures for section 67(a) and (b) by multiplying the risk-weighted amount derived from the relevant calculation approach **by 8%**. An AI is **NOT**



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expected to disclose its actual “*regulatory capital*” (i.e. risk-weighted amount multiplied by the AI’s minimum CAR imposed by the HKMA) for this purpose.

17.3 General qualitative disclosures (*section 68*)

17.3.1 An AI should disclose a description of the main types of risk which arise from its business, including credit, market, operational, liquidity, interest rate and foreign exchange risk (called “principal risks” in the Rules). The description should cover the policies, procedures and controls the AI uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to these principal risks.

17.3.2 The following must also be included in the description:

17.3.2.1 The titles or positions of the members of the board of directors or the senior management members who:

- (a) oversee risk management;
- (b) set the strategy and policy for managing each type of principal risk; and
- (c) set the means for ensuring that such strategy and policy is implemented.

An AI should include the role of specialized board committees in reviewing the adequacy of risk management policies and systems; and the extent to which these are operating effectively.

17.3.2.2 The methods an AI uses to identify and measure the various types of principal risk. Using credit risk as an example, an AI should provide descriptions of the analytical techniques used for assessing the risk profile



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and structure of the credit portfolio and in identifying credit risk concentrations. It should also include the use it makes of any internal credit risk measurement and management processes.

17.3.2.3 The particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities.

17.3.2.4 The methods an AI uses to monitor and control its principal risks. Using credit risk as an example, an AI should describe the structure of its 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.

17.3.2.5 The use of limits for controlling its principal risks. For example, limits on large exposures and credit risk concentrations.

17.3.2.6 The particulars of its operational controls.

17.3.2.7 The role of internal audit.

17.4 Interest rate exposures in banking book (section 71)

17.4.1 An AI should, in respect of its interest rate exposures which arise from its banking book positions, disclose:

- (a) the nature of the risk;
- (b) the key assumptions it uses in its measurement of the risk (including assumptions regarding loan repayments and the behaviour of deposits without a fixed maturity);



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- (c) the frequency of its measurement of the risk; and
- (d) the variations in earnings or economic value for significant upward and downward interest rate movements broken down, if relevant, by currency.

17.4.2 For the purpose of sub-paragraph (d) above, an AI is required to follow the methodology set out in the Completion Instructions for the “Return of Interest Rate Risk Exposures – MA(BS)12” for the disclosure of the impact of interest rate movements on its earnings or economic value.

18. Additional Annual Disclosures to be made by AIs using IRB Approach

18.1 General

18.1.1 This section provides guidance to locally incorporated AIs which use the IRB Approach to calculate their credit risk for non-securitization exposures and which are required to make additional annual disclosures pursuant to Part 7 of the Disclosure Rules.

18.2 Capital adequacy (section 74)

18.2.1 An AI should disclose its capital requirements separately for each IRB class or IRB subclass, as well as its capital requirements for securitization exposures (section 74(1)(b) and (3)). An AI should make disclosures for section 74(1)(b) and (3) by multiplying the risk-weighted amount derived from the relevant calculation approach **by 8%**. An AI is **NOT** expected to disclose its actual “*regulatory capital*” (i.e. risk-weighted amount multiplied by the AI’s minimum CAR imposed by the HKMA) for this purpose.



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18.3 General qualitative disclosures (section 75)

18.3.1 An AI should disclose a description of the main types of risk which arise from its business, including credit, market, operational, liquidity, interest rate and foreign exchange risk (called “principal risks” in the Rules). The description should cover the policies, procedures and controls the AI uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to these principal risks.

18.3.2 The following must also be included in the description:

18.3.2.1 The titles or positions of the members of the board of directors or the senior management members who:-

- (a) oversee risk management;
- (b) set the strategy and policy for managing each type of principal risk; and
- (c) set the means for ensuring that such strategy and policy is implemented.

An AI should include the role of specialized board committees in reviewing the adequacy of risk management policies and systems; and the extent to which these are operating effectively.

18.3.2.2 The methods an AI uses to identify and measure the various types of principal risk. Using credit risk as an example, an AI should provide descriptions of the analytical techniques used for assessing the risk profile and structure of the credit portfolio and in identifying credit risk concentrations. It should also include the use it makes of any



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internal credit risk measurement and management processes.

18.3.2.3 The particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities.

18.3.2.4 The methods an AI uses to monitor and control its principal risks. Using credit risk as an example, an AI should describe the structure of its 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.

18.3.2.5 The use of limits for controlling its principal risks. For example, limits on large exposures and credit risk concentrations.

18.3.2.6 The particulars of its operational controls.

18.3.2.7 The role of internal audit.

18.4 General disclosures for counterparty credit risk-related exposures (section 80)

18.4.1 An AI should disclose the methodology it uses to assign internal capital and credit limits for counterparty credit exposures in respect of its counterparty credit risk arising from OTC derivative transactions, repo-style transactions and credit derivative contracts (other than recognized credit derivative contracts) booked in its trading book or banking book (section 80(1)(a)). An AI is expected to comply with the supervisory standards as set out in SPM Module CA-G-5 for assessing and managing internal capital needs.



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18.5 Credit risk mitigation (section 81)

18.5.1 An AI should disclose the main types of guarantor and credit derivative counterparty and their creditworthiness for the recognized guarantees and recognized credit derivative contracts which constitute the AI's credit risk mitigation (section 81(1)(d)). For this purpose, "creditworthiness" means any credit quality information relating to the type of guarantor or counterparty disclosed such as ratings by international recognized rating agencies etc. that the AI considers useful in showing the quality of the credit risk mitigation it uses.

18.5.2 Under Section 81(2) an AI should disclose its total exposure (taking into account on- or off-balance sheet netting) covered by recognized collateral, recognized guarantees or recognized credit derivative contracts. The relevant amounts should be net of any haircuts required under the Capital Rules. The total exposure means the principal amount for on-balance sheet exposures, or the credit equivalent amount for off-balance sheet exposures net of specific provisions. The disclosures should be made separately for each IRB class of exposures.

PART IV - GUIDANCE FOR AIs INCORPORATED OUTSIDE HONG KONG

19. Disclosures to be made by AIs Incorporated Outside Hong Kong

19.1 General

19.1.1 This section provides guidance for overseas incorporated AIs on the interpretation and practical application of specific provisions in Part 8 of the Rules. It also provides guidance for overseas incorporated AIs



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in relation to the making of interim and annual financial disclosures pursuant to Part 8 of the Rules.

19.2 Medium and location of disclosure and issue of press release (section 88)

19.2.1 Section 88 prescribes the manner in which the disclosures should be made, the timing of such disclosures, and the periods for which such information should remain disclosed. In particular, section 88(2) provides an AI with the flexibility of either publishing a disclosure statement that contains all the disclosures required under the Rules, or a prescribed summary of the required disclosures.

“Prescribed summary”

19.2.2 An AI has the option of issuing a “prescribed summary” instead of issuing all the disclosures required under the Rules in a single, comprehensive document. If an AI issues a prescribed summary it need only to specify in that summary how and where the general public may readily access the complete disclosures. For example:

- (a) the prescribed summary may inform the general public that the complete disclosures can be accessed on the AI’s internet website (the relevant website address (and specific link) for which should be stated); or
- (b) the prescribed summary may inform the general public that the AI’s consolidated group level disclosures can be found in its consolidated accounts (the prescribed summary must make clear the precise location in the consolidated accounts where the required disclosures are to be found); or
- (c) the prescribed summary may refer to a combination of the AI’s website and its consolidated accounts, as long as it specifies



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which disclosures are to be found at which location.

- 19.2.3 Once an AI has issued its prescribed summary it should not change the place where the complete disclosures are to be found (for example by moving them to a location on its website that is different from the link stated in the prescribed summary) unless it also amends the information contained in the prescribed summary.

“Press release”

- 19.2.4 An AI should, at the same time as it publishes its disclosure statement, issue a press release to the press in Hong Kong either containing or consisting of the statement, in the Chinese and English languages:
- (a) the press release “contains” the disclosure statement if it also contains other information that is not subject to the disclosure requirements of the Rules (for example disclosures made under the relevant accounting standards);
 - (b) the press release “consists” of the disclosure statement if it consists only of the information that the AI is required to disclose under the Rules (i.e. it does not include disclosures made under other requirements such as the relevant accounting standards).
- 19.2.5 If, in practice, an AI chooses to issue a press release which contains the same summary financial information as it has been accustomed to publishing in past years but which also contains a prescribed summary of its disclosure statement, the HKMA would consider that this would discharge its obligations under this section of the Rules.



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Period of disclosure and time available for inspection

- 19.2.6 Disclosures made by an AI under the Rules must remain available until at least the disclosure statement for the AI's next equivalent reporting period is published in accordance with the Rules. For example,
- (a) In the case of an annual reporting period, an AI is required to ensure that its disclosure statement (including its complete disclosures if it publishes a prescribed summary) should remain available for inspection until its next annual disclosure statement is published.
 - (b) In the case of an interim reporting period, an AI is required to ensure that its disclosure statement remains available for inspection until it publishes its next interim disclosure statement.
- 19.2.7 An AI should keep one or more than one copy of the disclosure statement in its principal place of business in Hong Kong and, if practicable, in each local branch of the AI. The AI should make the copy (or copies) available for inspection by the general public during the business hours of the AI at the place where the copy is kept.
- 19.2.8 An AI should ensure that its annual disclosure statement is available for public inspection from the time that it is published at least until it publishes its next annual disclosure statement and similarly for its interim disclosure statement until it publishes its next interim disclosure statement. Where practicable, the HKMA strongly encourages AIs to build up a data series that will permit trend analysis by users of their disclosures.



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Illustrative example :

<i>Description</i>	<i>Interim Disclosure</i>	<i>Annual Disclosure</i>
<i>Reporting Period</i>	<i>H1/2007</i>	<i>Full year of 2007</i>
<i>Due Date of Publication of Disclosure Statement</i>	<i>e.g. 30 Sep 2007</i>	<i>e.g. 31 Mar 2008</i>
<i>Immediately Succeeding Reporting Period</i>	<i>H1/2008</i>	<i>Full year of 2008</i>
<i>Due Date of Publication of Disclosure Statement for Immediately Succeeding Reporting Period</i>	<i>e.g. 30 Sep 2008</i>	<i>e.g. 31 Mar 2009</i>
<i>Minimum Period Disclosure Statement for Reporting Period Must be Made Available for Inspection</i>	<i>From 30 Sep 2007 to 29 Sep 2008</i>	<i>From 31 Mar 2008 to 30 Mar 2009</i>

19.3 Materiality (section 89)

19.3.1 The senior management of an AI should ensure that a disclosure made by the AI pursuant to the Rules contains all material information.

19.3.2 "Material information" means information –

- (a) which is required to be disclosed under the Disclosure Rules; and
- (b) which, if it were omitted or misstated, could change or influence the assessment or decision of a person relying on the disclosure concerned for the purposes of making investment or other economic decisions.



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19.3.3 An AI which adopts IFRSs or equivalent accounting standards in preparing its financial accounts should, at a minimum, also observe the materiality concept as set out in the IFRSs or equivalent accounting and financial reporting standards.

19.4 Comparative information (section 90)

19.4.1 As a general rule, an AI is required to provide comparative information to accompany its quantitative disclosures. Except in the case of profit and loss information and liquidity ratio, the comparative information to be provided is the like quantitative information from the AI's immediately preceding reporting period. For profit and loss information related to branch information disclosures under Division 3 (or pre-tax profit disclosures related to consolidated group level disclosures under Division 4) and liquidity ratio disclosure, the comparative information should be as follows:

- (a) if the relevant disclosure relates to an annual reporting period, the comparative information required is the like quantitative information from the AI's immediately preceding annual reporting period;
- (b) if the relevant disclosure relates to an interim reporting period, the comparative information required is the like quantitative information from the AI's immediately preceding interim reporting period.



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Illustrative example :

Overseas Incorporated AI	P & L Information & Liquidity Ratio		Disclosure items other than P & L Information & Liquidity Ratio	
	Reporting Date	Comparative Information	Reporting Date	Comparative Information
Interim disclosure	30/9/2007	30/9/2006 (i.e. IPIRP)	30/9/2007	31/3/2007 (i.e. IPRP* = last reporting figures)
Annual disclosure	31/3/2008	31/3/2007 (i.e. IPARP)	31/3/2008	30/9/2007 (i.e. IPRP* = last reporting figures)

*IPRP – immediately preceding reporting period

Assumptions -

- AI's financial year (FY) begins on 1 April.
- Interim disclosure for reporting period in respect of FY 2007 : 1/4/2007 – 30/9/2007
 - Immediately preceding interim reporting period ("IPIRP") : 1/4/2006 – 30/9/2006
- Annual disclosure for reporting period in respect of FY 2007 : 1/4/2007 – 31/3/2008
 - Immediately preceding annual reporting period ("IPARP") : 1/4/2006 – 31/3/2007

19.4.2 There are some exceptions to the requirement to provide the comparative information referred to above. The first exception applies where interim consolidated information is not provided by the corporate group of which the AI is a part. In this case, the AI should disclose the annual figures as comparators in place of interim figures.

19.4.3 The second exception applies where the AI cannot provide the comparative information required because the Rules did not previously apply to the AI (and hence it made no like quantitative disclosures in previous reporting periods which can be used as comparative information). This will be the case, for example, for an AI with a financial year running from 1st January to 31st December, for its disclosure statements in respect of its first interim reporting period (1st January 2007 to 30



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June 2007) and its first annual reporting period (1st January 2007 to 31st December 2007). In these circumstances, the AI is only required to ensure that a quantitative disclosure it makes is accompanied by information which is equivalent to the comparative information referred to in 19.4.1 above, if it is practicable for the AI to provide such equivalent information.

- 19.4.4 An AI should notify its case officer if it falls within any of the exceptions described in the above paragraphs (19.4.2 and 19.4.3).

19.5 Frequency (section 91)

- 19.5.1 An AI should make disclosures in accordance with Part 8 in respect of the AI's most recently completed financial year for annual reporting periods; and in respect of the 6 month period immediately after the close of the AI's most recently completed financial year for interim reporting periods.

19.6 Compliance (section 92)

- 19.6.1 An AI's disclosure statement should also contain such other information as is necessary to ensure that the information contained in the disclosure statement is not false or misleading in any material respect, and that the operations of the AI are clearly explained.
- 19.6.2 In exceptional circumstances it may not be possible for an AI to make a disclosure required by the Rules due to circumstances beyond its control. Such circumstances might include a major computer failure or global internet disruption. In this case an AI should, after consultation with the HKMA, include in its disclosure statement:
- (a) a statement that it is unable to make the disclosure and the reasons why it is unable to do so; and



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- (b) information which is the closest available alternative to that required to be disclosed under the Disclosure Rules.

In these circumstances the AI should also obtain the HKMA's prior consent before publishing its disclosure statement.

19.7 Income statement information (section 93); Balance sheet information (section 94)

19.7.1 An overseas incorporated AI which uses the HKFRSs or IFRSs for the purpose of preparing its report and accounts, is expected to use those same accounting standards for the purpose of complying with the disclosure requirements set out in the Rules. However, the Rules are not intended to force an overseas incorporated AI to make disclosures in accordance with HKFRS or IFRSs if it uses accounting standards other than the HKFRSs or IFRSs for preparing its report and accounts (for example, if the AI is not yet on the IFRSs financial reporting platform). If an AI uses accounting standards other than the HKFRSs or IFRSs for preparing its report and accounts, then it can use the accounting concepts in those other accounting standards for the purpose of preparing its disclosure. The AI should, for this purpose, use concepts in the accounting standards it uses that are directly equivalent to the items in the Rules it is required to disclose¹⁴.

19.7.2 For this purpose AIs which are not on the IFRSs financial reporting platform should continue to refer to the guidance notes relating to the mapping between pre-HKFRS and post-HKFRS accounting terms that were issued by the HKMA in April and July 2005 for the

¹⁴ By way of example, section 94(a)(vii)(D) requires an overseas incorporated AI to disclose provisions for impaired loans and receivables. If the accounting standards used by the AI have no concept of impaired loans and receivables, but instead has the concept of provisions for bad and doubtful debts, then the AI should disclose its provisions for bad and doubtful debts for the purpose of section 94(a)(vii)(D).



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application of SPM Module FD-3. A copy of the mapping table is reproduced at **Annex L** for reference.

- 19.7.3 For the disclosure of income statement information under *section 93*, an AI may refer to the mapping of the income statement information to the “Return of Current Year’s Profit and Loss Account – MA(BS)1C” set out at **Annex M**.

“Placements with banks”

- 19.7.4 The term “bank” as defined in section 2(1) of the Capital Rules does not include a central bank which now falls within the definition of “sovereign”¹⁵. Hence, if an AI has any placements with central banks or other non-bank financial institutions, the AI should make separate disclosures in respect of those placements (instead of including them in “placements with banks”) if the AI reasonably believes that providing such separate disclosures would provide greater clarity and understanding of its risk profile.

“Value of collateral”

- 19.7.5 An AI should make reference to the illustration at **Annex B** for the determination of the value of collateral for disclosure purposes.

19.8 General disclosures (*section 98*)

“Cross-border claims”

- 19.8.1 An AI is required to disclose a breakdown of its cross-border claims by major countries or geographical segments in accordance with:

- (a) the location of the counterparties; and

¹⁵ Although overseas incorporated AIs are not subject to the Capital Rules, the defined terms in section 2 of the Capital Rules apply to the Disclosure Rules by reason of section 2(2) of the latter.



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(b) the types of counterparties,

broken down into banks, public sector entities and others (*section 98(1)*).

19.8.2 “Cross-border claim” –

(a) includes -

- (i) receivables and loans and advances;
- (ii) cash and balances and placements with banks (including loans and advances to banks);
- (iii) holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments; and
- (iv) accrued interest and overdue interest on the assets referred to in subparagraphs (i), (ii) and (iii);

(b) does not include –

- (i) claims arising between the institution and its head office, branches or subsidiaries;
- (ii) claims on a counterparty in Hong Kong, except to the extent that such claims are guaranteed by a person outside Hong Kong;
- (iii) claims on a counterparty outside Hong Kong, to the extent that such claims are guaranteed by a person in Hong Kong;
- (iv) claims on a branch of a bank located in Hong Kong, except where the head office of the bank is located outside Hong Kong; or



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- (v) claims on a branch of a bank located outside Hong Kong, where the head office of the bank is located in Hong Kong.

19.8.3 “Major country or geographical segment”, in relation to an AI’s cross-border claims, means a country or geographical segment (defined by internal management classifications for internal reporting purposes – for example, Asia Pacific Region excluding Hong Kong) to which not less than 10% of the AI’s total cross-border claims are attributable after taking into account any recognized risk transfer. “Recognized risk transfer” in relation to a cross-border claim of an AI, means that –

- (a) the claim is guaranteed by a person in a country which is different from that of the counterparty; or
- (b) the claim is on an overseas branch of a bank and the head office of the bank is located in a country which is different from that of the overseas branch.

19.8.4 An AI should disclose the basis of the country or geographical segment classification used for the disclosure of its cross-border claims.

19.8.5 An AI should make reference to the Completion Instructions for the “Return of External Positions – MA(BS)9” in the determination of cross-border claims.

19.8.6 An illustration of the disclosure required in respect of cross-border claims is provided at **Annex C**.

19.9 Sector information (**section 99**)

19.9.1 An AI should disclose the gross amount of loans and advances to customers, broken down into various sectors as set out in **section 99(1)**.



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- 19.9.2 Further guidance on how the various types of loans and advances should be included in the respective sectors as well as how the disclosures should be made is provided at **Annex D**. An AI should make reference to the Completion Instructions for the “Return of Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A”.
- 19.9.3 The HKMA encourages AIs to disclose additional credit risk information for the various sectors set out in section 99(1). For example, an AI could further breakdown the various sectors into more detailed sub-categories if it reasonably believes that providing these additional disclosures will give a user of the disclosure greater understanding and clarity in relation to the AI’s risk profile. However, the AI has to ensure that the aggregate of such further breakdown is consistent with the relevant figure disclosed in the AI’s balance sheet.
- 19.9.4 An AI should disclose the extent to which the loans and advances to customers referred to in paragraph 19.9.1 above are covered by collateral or other security (section 99(2)). For this purpose, the AI should disclose either the percentage that the value of collateral or other security represents of those loans and advances, or the absolute amounts of the loans and advances to customers which are covered by collateral or other security.

19.10 Overdue or rescheduled assets (section 100)

- 19.10.1 An AI should make disclosures on overdue and rescheduled assets pursuant to the requirements in section 100.
- 19.10.2 Further guidance on the (i) classification and definition of overdue and rescheduled assets; and (ii) disclosure of the value of collateral held against overdue loans and advances, is provided at **Annex E** and **Annex B** respectively.



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19.11 Non-bank Mainland exposures (section 101)

19.11.1 An AI should disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material. An AI should make reference to the Completion Instructions for the “Return of Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A” for the categories of non-bank counterparties and the type of direct exposures to be reported.

19.11.2 An illustration of the disclosure required for non-bank Mainland exposures is provided at **Annex F**.

19.12 Currency risk (section 102)

19.12.1 An AI should disclose its foreign currency exposures which arise from trading, non-trading and structural positions pursuant to the requirements in section 102. An AI should make reference to the Completion Instructions for the “Return of Foreign Currency Position – MA(BS)6” for the types of foreign currency positions and the amounts to be reported.

19.12.2 An illustration of the disclosure required in respect of currency risk is provided at **Annex G**.



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Annex A : Glossary

General notes -

1. This Glossary lists all terms which have been defined for the purpose of the Disclosure Rules. It includes terms which are expressly defined in the Disclosure Rules themselves and terms which are expressly defined in the Capital Rules and applicable to the Disclosure Rules by reason of sections 2(2), 54, 66 and 73 of the Disclosure Rules.
2. Terms marked with “#” next to them are terms which are only used in the Disclosure Rules in the context of a definition of another defined term.
3. Under the “Source” column, DR means Banking (Disclosure) Rules while CR means Banking (Capital) Rules.

Table 1 - Terms applicable to all Parts of the Banking (Disclosure) Rules

Term	Definition	Source
active market	in relation to any financial assets, means a market at which the quoted price of the assets - (a) is readily obtainable and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and (b) reflects actual and regularly occurring transactions involving the assets, which take place on an arm's length basis;	DR (s.2(1))
annual reporting period	in relation to an authorized institution, means the institution's last financial year;	DR (s.2(1))
asset sale with recourse	in relation to an authorized institution, means an asset sale transaction where the credit risk of the asset sold remains with the institution because the purchaser of the asset is entitled to sell the asset back to the institution within a specified period, or under specified circumstances, under the terms of the transaction;	CR (s.2(1))
associate	in relation to an authorized institution, means a person (including a company, a partnership and any other unincorporated body but excluding an individual) – (a) over which the institution has significant influence; and	DR (s.2(1))



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Term	Definition	Source
	(b) which is neither a subsidiary nor a joint venture in which the institution has an interest;	
available-for-sale	<p>(a) in relation to financial assets other than derivative contracts, means that the financial assets -</p> <ul style="list-style-type: none"> (i) are designated by an authorized institution as available for sale; (ii) are not classified by an authorized institution as - <ul style="list-style-type: none"> (A) loans and receivables; or (B) financial assets at fair value through profit or loss; or (iii) are not classified by an authorized institution as held to maturity investments; <p>(b) in relation to financial instruments other than derivative contracts, means that the financial instruments -</p> <ul style="list-style-type: none"> (i) are designated by an authorized institution as available for sale; (ii) are not classified by an authorized institution as - <ul style="list-style-type: none"> (A) loans and receivables; or (B) financial instruments at fair value through profit or loss; or (iii) are not classified by an authorized institution as held to maturity investments; <p>(c) in relation to loans, means that the loans are designated by an authorized institution upon initial recognition as available for sale;</p>	DR (s.2(1))
back-testing	in relation to the use of an internal model by an authorized institution, means a process whereby the daily changes in the value of a portfolio of exposures of the institution are compared with the daily VaR generated from the institution's internal model applicable to that portfolio;	CR (s.2(1))



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Term	Definition	Source
bank	means - (a) an authorized institution except an authorized institution the authorization of which is for the time being suspended under section 24 or 25 of the Banking Ordinance; or (b) a bank incorporated outside Hong Kong which is not an authorized institution except such a bank - (i) which, in the opinion of the Monetary Authority, is not adequately supervised by the relevant banking supervisory authority; or (ii) the licence or other authorization of which to carry on banking business is for the time being suspended;	CR (s.2(1))
banking book	in relation to an authorized institution, means all the institution's on-balance sheet exposures and off-balance sheet exposures except such exposures which fall within the definition of "trading book";	CR (s.2(1))
# basic approach	means the method of calculating an authorized institution's credit risk for non-securitization exposures set out in Part 5 of the Capital Rules;	CR (s.2(1))
# bond	means an interest-bearing or zero-coupon debt security - (a) which is an acknowledgment of a debt promising payment of a specified sum to the holder of the debt security; and (b) which describes a time to maturity which is, or will become, definite;	CR (s.2(1))
BSC approach	means the basic approach;	CR (s.2(1))
# business day	in relation to a country, means any day other than - (a) a public holiday in that country; or (b) a day on which the financial markets are not generally open for business in that country;	CR (s.2(1))
capital charge	in relation to an authorized institution, means an amount of regulatory capital which the institution is required to hold for an exposure to a relevant risk which, if multiplied by 12.5, becomes the risk-weighted amount of that exposure for that risk;	CR (s.2(1))



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Term	Definition	Source
capital requirements	<p>in relation to -</p> <p>(a) the measure of an authorized institution's non-securitization exposures to credit risk calculated in accordance with Part 4, 5 or 6, as the case requires, of the Capital Rules; and</p> <p>(b) the measure of an authorized institution's securitization exposures to credit risk calculated in accordance with Part 7 of the Capital Rules;</p> <p>means the amount of capital required to be held by the institution for that risk based on the risk-weighted amount for that risk multiplied by 8%;</p>	DR (s.2(1))
Capital Rules	means the Banking (Capital) Rules (L.N. 228 of 2006);	DR (s.2(1))
cash and balances with banks	<p>means -</p> <p>(a) cash in the till;</p> <p>(b) demand deposits with banks; and</p> <p>(c) deposits with banks which have a residual contractual maturity of not more than one month;</p>	DR (s.2(1))
# CCF	means a credit conversion factor;	CR (s.2(1))
certificate of deposit	means any certificate of deposit (including a certificate of deposit held for trading purposes) regardless of maturity;	DR (s.2(1))
# collective investment scheme	<p>(a) subject to paragraph (b), has the meaning assigned to it by Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);</p> <p>(b) does not include a restricted collective investment scheme;</p>	CR (s.2(1))
collective provisions	in relation to the exposures of an authorized institution, means an allowance for impairment loss in respect of a group of exposures considered by the institution as having similar credit risk characteristics which are indicative of the debtors' ability to pay all amounts due according to the contractual terms of the group of exposures, where the impairment loss has been assessed by the institution on a collective basis in respect of the group of exposures by reference to	CR (s.2(1))



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Term	Definition	Source
	historical loss experience in respect of exposures with similar credit risk characteristics, relevant observable data reflecting current market conditions and other relevant factors;	
commodity	means any precious metal (other than gold), base metal, non-precious metal, energy, agricultural asset or any other physical product which is traded on an exchange;	CR (s.2(1))
# confidence interval	means a statistical range with a specified probability that a given parameter lies within the range;	CR (s.2(1))
consolidated basis	in relation to the calculation of an authorized institution's capital adequacy ratio, means the basis set out in section 31 of the Capital Rules on which the institution calculates that ratio;	CR (s.2(1))
consolidation group	in relation to an authorized institution, means - (a) the institution; and (b) such subsidiaries of the institution as specified in a section 98(2) requirement given to the institution;	CR (s.2(1))
consolidation requirement	in relation to a subsidiary of an authorized institution, means - (a) a section 79A(1) requirement whereby a provision of Part XV of the Banking Ordinance is to apply to the institution on a consolidated basis in respect of that subsidiary; or (b) a section 98(2) requirement whereby the capital adequacy ratio of the institution is to be calculated on a consolidated basis in respect of that subsidiary;	DR (s.2(1))
core capital	in relation to an authorized institution, means the sum, calculated in Hong Kong dollars, of the net book values of the institution's capital items specified in section 38 of the Capital Rules;	CR (s.2(1))
country	includes – (a) subject to paragraph (b), any part of a country; and (b) any jurisdiction except a restricted jurisdiction;	CR (s.2(1))



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Term	Definition	Source
# credit conversion factor	in relation to an off-balance sheet exposure of an authorized institution, means a percentage by which the principal amount (within the meaning of section 51, 105, 139(1) or 227(1) of the Capital Rules, as the case requires) of the exposure is multiplied as a part of the process for determining the credit equivalent amount (within the meaning of section 51, 105, 139(1) or 227(1) of the Capital Rules, as the case requires) of the exposure;	CR (s.2(1))
# credit default swap	means a credit derivative contract under which the protection buyer pays a fee to the protection seller in return for a payment by the protection seller in the event of a default (or similar credit event) by a reference entity;	CR (s.2(1))
credit derivative contract	means a forward contract, swap contract, option contract or similar derivative contract entered into by 2 parties with the intention to transfer credit risk in relation to a reference obligation from one party ("protection buyer") to the other party ("protection seller");	CR (s.2(1))
# credit enhancement	in relation to a securitization exposure under a securitization transaction, means a contractual arrangement whereby a person – (a) retains or assumes credit risk in respect of the exposure; and (b) provides, in substance, some degree of credit protection to one or more than one other party to the transaction;	CR (s.2(1))
# credit event	in relation to a credit derivative contract, means an event specified in the contract which, if it occurs, obliges the protection seller to make a payment to the protection buyer;	CR (s.2(1))
credit protection	in relation to an exposure of an authorized institution, means the protection afforded to the exposure by recognized credit risk mitigation;	CR (s.2(1))
credit risk	in relation to an authorized institution, 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 Banking Ordinance;	CR (s.2(1))



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Term	Definition	Source
# credit risk components	means the estimates of PD, LGD, EAD, EL and M which constitute inputs into the IRB risk-weight functions to determine the risk-weight to be allocated to – (a) corporate, sovereign, bank or retail exposures; or (b) if the PD/LGD approach is used, equity exposures;	CR (s.2(1))
# current exposure	in relation to an off-balance sheet exposure of an authorized institution which is an OTC 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 OTC 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) which is 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;	CR (s.2(1))
debt securities	means any securities other than shares, stocks or import or export trade bills;	DR (s.2(1))
# delivery-versus-payment basis	in relation to a transaction, means the delivery of a thing under the transaction and the payment for the thing occur simultaneously;	CR (s.2(1))
delta-weighted position	in relation to an option contract, means the value of the underlying exposure of the option contract multiplied by the corresponding delta;	DR (s.2(1))



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Term	Definition	Source
deposits and balances from banks	<p>in relation to an authorized institution -</p> <p>(a) subject to paragraph (b), means all amounts which arise out of banking transactions owed by the institution to other banks;</p> <p>(b) does not include such amounts taking the form of debt securities or certificates of deposit issued by the institution;</p>	DR (s.2(1))
derivative contract	<p>(a) means a financial instrument (other than a bond, loan, share, note or structured financial instrument) the value of which is determined by reference to the value of, or any fluctuation in the value of, one or more than one underlying asset, index, financial instrument, rate or thing as designated in the financial instrument;</p> <p>(b) where a financial instrument which falls within paragraph (a) is embedded in or combined with, or forms part of, a bond, loan, share, note or structured financial instrument, means only the financial instrument which falls within paragraph (a);</p>	CR (s.2(1))
# dilution risk	<p>in relation to a receivable purchased by an authorized institution, means the possibility that the amount of the receivable is reduced through cash or non-cash credits to the obligor in respect of the receivable;</p>	CR (s.2(1))
direct credit substitute	<p>in relation to an authorized institution -</p> <p>(a) 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</p> <p>(b) includes -</p> <p>(i) guarantees given by the institution;</p> <p>(ii) standby letters of credit serving as financial guarantees for loans;</p> <p>(iii) acceptances; and</p> <p>(iv) 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;</p>	CR (s.2(1))



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Term	Definition	Source
disclosure statement	in relation to an authorized institution - (a) means, except in Part 8 of the Disclosure Rules, a disclosure statement prepared by the institution pursuant to section 6(1) of the Disclosure Rules; (b) means, in Part 8 of the Disclosure Rules, a disclosure statement prepared by the institution pursuant to section 88(1) of the Disclosure Rules;	DR (s.2(1))
# domestic public sector entity	means an entity specified in Part 1 of Schedule 1 to the Capital Rules;	CR (s.2(1))
EAD	means exposure at default;	CR (s.2(1))
early amortization provision	in relation to a securitization transaction in which the underlying exposures are revolving in nature, means a mechanism which, once triggered, allows investors in the securitization issues to be paid out prior to the originally stated maturity of the securitization issues held by the investors;	CR (s.2(1))
ECAI	means an external credit assessment institution;	CR (s.2(1))
ECAI issue specific rating	in relation to an exposure, subject to section 2(7) of the Capital Rules, means - (a) in section 55 of the Capital Rules, a long-term credit assessment rating - (i) which is assigned to the exposure by an ECAI; and (ii) which is for the time being neither withdrawn nor suspended by that ECAI; (b) in sections 59, 60 and 61 and Parts 7 and 8 of the Capital Rules, a short-term credit assessment rating or long-term credit assessment rating – (i) which is assigned to the exposure by an ECAI; and (ii) which is for the time being neither withdrawn nor suspended by that ECAI; or (c) in the case of a holding of units or shares in a collective investment scheme which only holds cash or fixed income assets, a credit assessment rating -	CR (s.2(1))



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Term	Definition	Source
	<ul style="list-style-type: none"> (i) which is assigned to the scheme by an ECAI based on the credit quality of the cash held or the fixed income assets held, as the case may be; and (ii) which is for the time being neither withdrawn nor suspended by that ECAI; 	
ECAI issuer rating	<p>in relation to any person (however described), means a long-term credit assessment rating –</p> <ul style="list-style-type: none"> (a) which is assigned to the person by an ECAI; and (b) which is for the time being neither withdrawn nor suspended by that ECAI; 	CR (s.2(1))
effective interest method	<p>In relation to a financial asset (including a group of financial assets) or financial liability (including a group of financial liabilities), means a method of –</p> <ul style="list-style-type: none"> (a) calculating the amortized cost of the asset or liability, as the case may be; and (b) allocating the interest income and interest expense of the asset or the interest income and interest expense of the liability, as the case may be, <p>over the expected life of the asset or liability, as the case may be;</p>	DR (s.2(1))
effective interest rate	<p>in relation to a financial asset or financial liability, means an interest rate which is calculated by –</p> <ul style="list-style-type: none"> (a) exactly discounting – <ul style="list-style-type: none"> (i) the estimated future cash receipts and cash payments through the expected life (or, where appropriate, a shorter period) of the financial asset; or (ii) the estimated future cash receipts and cash payments through the expected life (or, where appropriate, a shorter period) of the financial liability, <p>as the case may be, to the net carrying amount of the asset or liability, as the case may be; and</p>	DR (s.2(1))



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Term	Definition	Source
	(b) including all amounts received and paid in respect of the asset or received and paid in respect of the liability, as the case may be, which are an integral part of the interest rate (including transaction costs and all other premiums or discounts);	
# EL amount	means expected loss amount;	CR (s.2(1))
exception	in relation to back-testing by an authorized institution, means an instance in which the daily losses in the value of a portfolio of exposures of the institution are above the daily VaR generated from the institution's internal model applicable to that portfolio;	CR (s.2(1))
# excess spread	in relation to a securitization transaction, means future interest and other income derived by the SPE in the transaction from the underlying exposures in the transaction in excess of the transaction costs specified in the documentation for the transaction, expressed as a percentage of the underlying exposures;	CR (s.2(1))
exchange controls	means controls or restrictions imposed by the government of a country on the exchange of the currency of that country for the currency of another country;	CR (s.2(1))
exchange rate-related derivative contract	means a futures contract, forward contract, swap contract, option contract or similar derivative contract the value of which is determined by reference to the value of, or any fluctuation in the value of, an underlying currency (including gold) or an underlying currency index (being an index calculated by reference to a basket of currencies);	DR (s.2(1))
# external credit assessment institution	means - (a) Standard & Poor's Ratings Services; (b) Moody's Investors Service; (c) Fitch Ratings; or (d) Rating and Investment Information, Inc.;	CR (s.2(1))



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Term	Definition	Source
fair value ¹⁶	<p>(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; or</p> <p>(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;</p>	CR (s.2(1))
financial assets or financial liabilities measured at fair value through profit or loss	<p>in relation to an authorized institution, means financial assets or financial liabilities -</p> <p>(a) which are classified by the institution as held for trading; or</p> <p>(b) which are designated by the institution upon initial recognition as at fair value through profit or loss;</p>	DR (s.2(1))
financial concerns	<p>means -</p> <p>(a) investment companies including -</p> <p>(i) companies in the business of investment in commodity futures, foreign currencies, gold bullion, shares, funds and securities;</p> <p>(ii) unit trusts;</p> <p>(iii) retirement funds; and</p> <p>(iv) investment holding companies;</p> <p>(b) insurance companies;</p> <p>(c) futures brokers; and</p> <p>(d) finance companies and other persons engaged in the financial sector which are not authorized institutions or banks, including companies in the business of leasing, factoring, bills discounting, hire purchase, mortgage finance, commercial and industrial finance, gold bullion brokers, money lenders, pawnshops and credit card companies;</p>	DR (s.2(1))

¹⁶ Possible amendment to the fair value definition may be required in the light of future development of the fair value measurement standard.



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Term	Definition	Source
financial instrument	includes a financial instrument in the form of – (a) a written document; (b) information which is recorded in the form of any entry in a book of account; (c) information which is recorded (whether by means of a computer or otherwise) in a non-legible form but is capable of being reproduced in a legible form; and (d) any combination of the document and information referred to in paragraphs (a), (b) and (c);	CR (s.2(1))
# Fitch Ratings	means that organization the membership of which - (a) consists of – (i) members of the group of companies of which Fitch, Inc. is the ultimate holding company; (ii) Fitch Ratings Lanka Limited; and (iii) Fitch Ratings (Thailand) Limited; (b) adheres to a common set of core methodologies, practices and procedures for issuing credit assessment ratings; and (c) issues credit assessment ratings under the name of Fitch Ratings;	CR (s.2(1))
foreign currency	means any currency other than the Hong Kong dollar;	DR (s.2(1))
# foreign public sector entity	means an entity specified by a relevant banking supervisory authority outside Hong Kong (whether by means of legislation or a public notice or otherwise) to be a public sector entity for the purposes of applying preferential risk-weighting treatment under capital adequacy standards formulated in accordance with - (a) the document entitled "International Convergence of Capital Measurement and Capital Standards" published by the Basel Committee on Banking Supervision in July 1988; or (b) the document entitled "International Convergence of Capital Measurement and Capital Standards - A Revised Framework (Comprehensive Version)" published by the Basel Committee on Banking Supervision in June 2006;	CR (s.2(1))



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Term	Definition	Source
forward asset purchase	<p>in relation to an authorized institution -</p> <p>(a) subject to paragraph (b), means a contractually binding commitment by the institution to purchase on a specified future date, and according to specified terms, a loan, security or other asset from another party, and includes a contractually binding commitment under a put option written by the institution;</p> <p>(b) does not include a contractually binding commitment arising from a forward foreign exchange contract;</p>	CR (s.2(1))
forward contract	<p>(a) subject to paragraph (b), means a contract between two parties for the purchase or sale of a specified quantity of a specified commodity, currency, financial instrument or thing at a specified price on a specified future date;</p> <p>(b) does not include a futures contract;</p>	CR (s.2(1))
forward forward deposits placed	<p>in relation to an authorized institution, means an agreement between the institution and another party whereby the institution will place a deposit at a specified rate of interest with the party on a specified future date;</p>	CR (s.2(1))
foundation IRB approach	<p>means an approach under which an authorized institution calculates its credit risk for corporate, sovereign or bank exposures by -</p> <p>(a) providing its own estimates of the PD of those exposures; and</p> <p>(b) using supervisory estimates for the other credit risk components of those exposures,</p> <p>in accordance with Divisions 4, 5, 9, 10 and 11 of Part 6 of the Capital Rules;</p>	CR (s.2(1))
futures contract	<p>means a contract which is made under the rules or conventions of a futures exchange and traded on the exchange;</p>	CR (s.2(1))
gain-on-sale	<p>in relation to a securitization transaction, means any increase in the core capital of the originating institution resulting from the sale of underlying exposures in the transaction;</p>	CR (s.2(1))



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Term	Definition	Source
geographical segment	<p>in relation to an authorized institution, means a business unit of the institution -</p> <p>(a) which is engaged in providing products or services within a particular economic environment;</p> <p>(b) which is subject to risks and returns which are different from those of business units of the institution operating in other economic environments; and</p> <p>(c) which is distinct from other business units of the institution due to factors relating to -</p> <p>(i) similarity of economic and political conditions;</p> <p>(ii) relationships between operations in different geographical areas;</p> <p>(iii) proximity of operations;</p> <p>(iv) special risks associated with operations in a particular area;</p> <p>(v) exchange control regulations;</p> <p>(vi) underlying currency risks; or</p> <p>(vii) any combination of the matters referred to in subparagraphs (i), (ii), (iii), (iv), (v) and (vi);</p>	DR (s.2(1))
group of companies	<p>has the meaning assigned to it by section 2(1) of the Companies Ordinance (Cap. 32);</p> <p><i>[Section 2(1) of the Companies Ordinance (Cap. 32):</i></p> <p><i>“group of companies” means any 2 or more companies or bodies corporate one of which is the holding company of the other or others;]</i></p>	CR (s.2(1))
# guarantee	includes an indemnity;	CR (s.2(1))
haircut	in relation to an authorized institution, 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;	CR (s.2(1))



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Term	Definition	Source
held-to-maturity investments	<p>in relation to an authorized institution -</p> <p>(a) subject to paragraph (b), means financial assets of the institution (other than derivative contracts) with fixed or determinable payments and fixed maturity which the institution has the positive intention and ability to hold to maturity;</p> <p>(b) does not include financial assets -</p> <p>(i) which the institution designates upon initial recognition as at fair value through profit or loss;</p> <p>(ii) which are available-for-sale; or</p> <p>(iii) which fall within the definition of "loans and receivables";</p>	DR (s.2(1))
Hong Kong Internet website	in relation to an authorized institution, means a website (or section of a website) of the institution which is specifically intended to be accessible by the general public in Hong Kong;	DR (s.2(1))
IMM approach	means the internal models approach;	CR (s.2(1))
impairment loss	in relation to an exposure of an authorized institution, means the amount by which the carrying amount of the exposure exceeds the exposure's recoverable amount;	CR (s.2(1))
incorporated	includes established;	CR (s.2(1))
insurance firm	<p>(a) means an entity -</p> <p>(i) which is authorized and supervised by an insurance regulator pursuant to the law of a country other than Hong Kong; and</p> <p>(ii) which is subject to supervisory arrangements regarding the maintenance of adequate capital to support its business activities comparable to those prescribed for authorized institutions under the Banking Ordinance and the Capital Rules; and</p> <p>(b) includes an authorized insurer within the meaning of the Insurance Companies Ordinance (Cap. 41);</p>	CR (s.2(1))
# insurance regulator	does not include a restricted insurance regulator;	CR (s.2(1))



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Term	Definition	Source
interest rate derivative contract	means a futures contract, forward contract, swap contract, option contract or similar derivative contract – (a) the value of which changes in response to changes in interest rates; but (b) the underlying exposure of which is neither a debt security nor an index calculated by reference to a basket of debt securities;	DR (s.2(1))
interim reporting period	in relation to an authorized institution, means the 6 months period immediately after the close of the institution's last financial year;	DR (s.2(1))
internal capital	in relation to an authorized institution, means the amount of capital which the institution holds and allocates internally as a result of the institution's assessment of the risks faced by the institution;	CR (s.2(1))
internal model	means a model used by an authorized institution to measure the institution's credit risk, market risk or operational risk;	CR (s.2(1))
# internal models approach	means the method of calculating an authorized institution's market risk set out in Divisions 11 and 12 of Part 8 of the Capital Rules;	CR (s.2(1))
# internal ratings-based approach	means the method of calculating an authorized institution's credit risk for non-securitization exposures set out in Part 6 of the Capital Rules;	CR (s.2(1))
# internal ratings-based (securitization) approach	means the method of calculating an authorized institution's credit risk for securitization exposures set out in Division 4, 5 and 6 of Part 7 of the Capital Rules;	CR (s.2(1))
investment property	in relation to an authorized institution, means any immovable property – (a) which is owned by the institution, or held by the institution as a lessee under a finance lease, to earn rentals or for capital appreciation, or both; and (b) which is not held by the institution – (i) for use in the production or supply of goods or services or for administrative purposes; or (ii) for sale in the ordinary course of business;	DR (s.2(1))



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Term	Definition	Source
IRB approach	means the internal ratings-based approach;	CR (s.2(1))
IRB class	means a class of non-securitization exposures specified in Table 16 of the Capital Rules (including the IRB subclasses which fall within that class);	CR (s.2(1))
IRB(S) approach	means the internal ratings-based (securitization) approach;	CR (s.2(1))
IRB subclass	means a subclass of non-securitization exposures specified in Table 16 of the Capital Rules;	CR (s.2(1))
issued debt securities	means all negotiable securities other than loan capital, stocks, shares, import or export trade bills, or certificates of deposit;	DR (s.2(1))
LGD	means loss given default;	CR (s.2(1))
# liquidity facility	in relation to an authorized institution, means an off-balance sheet securitization exposure of the institution arising from a contractual agreement pursuant to which the institution provides funding in respect of a securitization transaction to ensure the timeliness of cash flows to investors in the securitization issues in the transaction;	CR (s.2(1))
loan capital	means subordinated liabilities (including loans, debentures and floating rate notes);	DR (s.2(1))
loans and advances to banks	means placements with banks which have a residual contractual maturity of more than one year;	DR (s.2(1))
loans and receivables	in relation to an authorized institution – (a) subject to paragraph (b), means financial assets of the institution (other than derivative contracts) with fixed or determinable payments which are not quoted in an active market; (b) does not include – (i) financial assets which the institution – (A) intends to sell immediately or in the near term; or (B) designates upon initial recognition as at fair value through profit or loss;	DR (s.2(1))



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Term	Definition	Source
	<p>(ii) financial assets which the institution designates upon initial recognition as available for sale; or</p> <p>(iii) financial assets purchased by the institution, for which the institution may not recover substantially all of its initial investment for reasons not related to credit deterioration;</p>	
market risk	in relation to an authorized institution, 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 Banking Ordinance;	CR (s.2(1))
# mark-to-market	in relation to any transaction, position, exposure or contract, means to revalue the transaction, position, exposure or contract, as the case may be, at current market price;	CR (s.2(1))
# Moody's Investors Service	means that organization the membership of which – <ul style="list-style-type: none"> (a) consists of members of the group of companies of which Moody's Corporation is the ultimate holding company; (b) adheres to a common set of core methodologies, practices and procedures for issuing credit assessment ratings; and (c) issues credit assessment ratings under the name of Moody's Investors Service; 	CR (s.2(1))
net book value	in relation to any thing, means the thing's book value after deducting the amount of any allowance for impairment loss arising from an individual assessment of the thing for impairment loss;	CR (s.2(1))
non-securitization exposure	in relation to an authorized institution, means an exposure of the institution which is not a securitization exposure;	CR (s.2(1))
note issuance and revolving underwriting facilities	means any facility in respect of the issue of debt securities to the market where – <ul style="list-style-type: none"> (a) an issuer may draw down funds, up to a specified limit, over a specified period, should any issue of the debt securities prove unable to be placed in the market; and 	CR (s.2(1))



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Term	Definition	Source
	(b) the unplaced amount is to be taken up, or funds are to be made available, by the underwriter of the facility;	
notional amount	in relation to an off-balance sheet exposure of an authorized institution, means the reference amount used to calculate payment obligation between the parties to the exposure;	CR (s.2(1))
obligor	(a) in relation to an exposure of an authorized institution in respect of a guarantee, means the guarantor under the guarantee; (b) in relation to an exposure of an authorized institution in respect of a credit derivative contract, means the protection seller under the contract; or (c) in relation to any other exposure of an authorized institution, means a person – (i) to whom the institution has an exposure; and (ii) who has the primary obligation to repay, pay or otherwise settle the exposure;	CR (s.2(1))
obligor grade	in relation to an authorized institution, means a rating within the obligor rating scale of the institution's rating system representing an assessment of the risk of default to which exposures to obligors are assigned on the basis of a specified and distinct set of internal rating criteria and from which estimates of PD are derived;	CR (s.2(1))
operational risk	in relation to an authorized institution, 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 Banking Ordinance;	CR (s.2(1))
option contract	means a contract which gives the holder of the contract the option or right, exercisable at or before a specified time, to purchase or sell a specified quantity of a specified commodity, currency, financial instrument or thing at a specified price;	CR (s.2(1))
originating institution	in relation to a securitization transaction, means an authorized institution which is the originator in the transaction;	CR (s.2(1))



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Term	Definition	Source
OTC derivative transaction	means an over-the-counter derivative transaction;	CR (s.2(1))
# over-the-counter derivative transaction	(a) subject to paragraph (b), means a derivative contract other than a credit derivative 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;	CR (s.2(1))
parent bank	in relation to an authorized institution, means any holding company of the institution which is authorized as a bank in the overseas country in which the holding company is incorporated;	CR (s.2(1))
partly paid-up shares and securities	in relation to an authorized institution, means shares or securities the unpaid portion of which the institution may be called upon by the issuer to pay on a specified or unspecified date in the future;	CR (s.2(1))
PD	means probability of default;	CR (s.2(1))
PD/LGD approach	means an approach under which an authorized institution calculates its credit risk for equity exposures as set out in sections 187, 188, 189, 190, 191, 192, 193 and 194 of the Capital Rules;	CR (s.2(1))
pool	in relation to an authorized institution which uses the IRB approach, means a category of exposures which have – (a) similar obligor and transaction characteristics; and (b) identical estimates of PD, LGD and EAD;	CR (s.2(1))
position	in relation to an authorized institution's calculation of market risk, means the holding or disposal by the institution of an exposure, or a portfolio of exposures, resulting in risk being taken by the institution on market price movements in respect of the exposure, or portfolio of exposures, as the case may be;	CR (s.2(1))
# positive current exposure	in relation to a transaction of an authorized institution referred to in paragraph (i) or (j) of the definition of "cash	CR (s.2(1))



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Term	Definition	Source
	<p>items” in section 51 or 105 of the Capital Rules or referred to in paragraph (h) or (i) of the definition of “cash items” in section 139(1) of the Capital Rules, means the risk of loss to the institution on the difference between –</p> <p>(a) the transaction valued at the agreed settlement price; and</p> <p>(b) the transaction valued at the current market price;</p>	
# potential exposure	in relation to an off-balance sheet exposure of an authorized institution which is an OTC derivative transaction or a credit derivative contract, means the principal amount (within the meaning of section 51, 105, 139(1) or 227(1) of the Capital Rules, as the case requires) of the transaction or contract, as the case may be, multiplied by the applicable CCF;	CR (s.2(1))
premises and equipment expense	in relation to an authorized institution’s operating expenses, includes rents and rates, insurance of premises and equipment, lighting, heating, maintenance costs and electronic data processing expenses;	DR (s.2(1))
prior consent	means prior consent in writing;	CR (s.2(1))
property-holding shell company	means a company which does not engage in any business activity except for the sole purpose of the buying, holding and selling of residential properties;	CR (s.2(1))
public sector entity	means – (a) a domestic public sector entity; or (b) a foreign public sector entity;	CR (s.2(1))
publish	includes distribute, make available and disseminate;	DR (s.2(1))
rating system	means all the methods, models, processes, controls, and data collection and information technology systems, used by an authorized institution which enable the assessment of credit risk, the assignment of internal credit risk ratings, and the quantification of default and loss estimates, by the institution;	CR (s.2(1))
recognized credit risk mitigation	in relation to an exposure of an authorized institution, means the use by the institution of – (a) recognized netting;	CR (s.2(1))



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Term	Definition	Source
	<p>(b) recognized collateral (within the meaning of section 51, 105 or 139(1) of the Capital Rules, as the case requires);</p> <p>(c) a recognized guarantee (within the meaning of section 51, 105 or 139(1) of the Capital Rules, as the case requires); or</p> <p>(d) a recognized credit derivative contract (within the meaning of section 51, 105 or 139(1) of the Capital Rules, as the case requires),</p> <p>for the purposes of reducing the risk-weighted amount of the exposure pursuant to the Capital Rules;</p>	
recognized netting	means any netting done pursuant to a valid bilateral netting agreement;	CR (s.2(1))
# reference entity	in relation to a credit derivative contract, means the entity on whose credit status that contract is based;	CR (s.2(1))
# reference obligation	in relation to a credit derivative contract, means the specified obligation of a specified reference entity in the contract, pursuant to which the basis for the settlement of the contract is determined;	CR (s.2(1))
regulatory capital	in relation to an authorized institution, means the amount of capital the institution is required to hold in accordance with the Banking Ordinance and the Capital Rules in respect of its risk-weighted amount for each relevant risk;	CR (s.2(1))
regulatory reserve	in relation to an authorized institution, means that portion of the institution's retained earnings which, for the purposes of paragraph 9 of the Seventh Schedule to the Banking Ordinance, is earmarked or appropriated to maintain adequate provision for losses which the institution will or may incur;	CR (s.2(1))
# relevant international organization	means an international organization specified in Part 10 of Schedule 1 to the Capital Rules;	CR (s.2(1))
relevant risk	in relation to an authorized institution, means the credit risk, market risk or operational risk of the institution;	CR (s.2(1))



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Term	Definition	Source
reporting date	in relation to a disclosure required under the Disclosure Rules, means the last day of the reporting period to which the disclosure relates;	DR (s.2(1))
reporting period	means – (a) an annual reporting period; or (b) an interim reporting period;	DR (s.2(1))
repossessed asset	in relation to an authorized institution, means an asset in respect of which the institution has acquired control (whether through court proceedings or otherwise) for the discharge in whole or in part of the obligations of an obligor;	DR (s.2(1))
repo-style transaction	in relation to an authorized institution, means a transaction entered into by the institution whereby the institution – (a) agrees to sell securities to a counterparty for a sum of money with a commitment to repurchase the securities at a specified price on a specified future date from the counterparty; (b) lends securities to a counterparty and receives a sum of money or other securities from the counterparty in exchange as collateral; (c) agrees to acquire securities from a counterparty for a sum of money with a commitment to resell the securities at a specified price on a specified future date to the counterparty; or (d) borrows securities from a counterparty and provides a sum of money or other securities to the counterparty in exchange as collateral;	CR (s.2(1))
residential mortgage loan	in relation to an authorized institution, means a credit facility provided by the institution to a borrower – (a) which is secured on a residential property or residential properties; and (b) which is required by the facility agreement between the institution and the borrower to be secured on the residential property or residential properties referred to in paragraph (a);	CR (s.2(1))



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Term	Definition	Source
# restricted collective investment scheme	means a collective investment scheme specified in Part 3 of Schedule 1 to the Capital Rules;	CR (s.2(1))
# restricted foreign public sector entity	means a foreign public sector entity specified in Part 5 of Schedule 1 to the Capital Rules;	CR (s.2(1))
# restricted insurance regulator	means an insurance regulator specified in Part 6 of Schedule 1 to the Capital Rules;	CR (s.2(1))
# restricted jurisdiction	means a jurisdiction specified in Part 7 of Schedule 1 to the Capital Rules;	CR (s.2(1))
# restricted securities regulator	means a securities regulator specified in Part 8 of Schedule 1 to the Capital Rules;	CR (s.2(1))
risk category	in relation to an authorized institution's calculation of market risk, means the class of the institution's market risk exposures which are at risk from - (a) changes in debt security prices or interest rates; (b) changes in exchange rates; (c) changes in equity prices; or (d) changes in commodity prices;	CR (s.2(1))
risk-weighted amount	(a) in relation to the calculation of the credit risk of a non-securitization exposure of an authorized institution, means the amount of the institution's exposure to credit risk calculated in accordance with Part 4, 5 or 6 of the Capital Rules, as the case requires; (b) in relation to the calculation of the credit risk of a securitization exposure of an authorized institution, means the amount of the institution's exposure to credit risk calculated in accordance with Part 7 of the Capital Rules; (c) in relation to the calculation of the market risk of an authorized institution, means the amount of the institution's exposure to market risk calculated in accordance with Part 8 of the Capital Rules;	CR (s.2(1))



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Term	Definition	Source
	(d) in relation to the calculation of the operational risk of an authorized institution, means the amount of the institution's exposure to operational risk calculated in accordance with Part 9 of the Capital Rules;	
risk-weighted amount for credit risk	in relation to an authorized institution, means the total risk-weighted amount of - (a) the institution's non-securitization exposures to credit risk calculated in accordance with Part 4, 5 or 6 of the Capital Rules, as the case requires; and (b) the institution's securitization exposures to credit risk calculated in accordance with Part 7 of the Capital Rules;	CR (s.2(1))
risk-weighted amount for market risk	in relation to an authorized institution, means the total risk-weighted amount of the institution's exposures to market risk calculated in accordance with Part 8 of the Capital Rules;	CR (s.2(1))
risk-weighted amount for operational risk	in relation to an authorized institution, means the risk-weighted amount of the institution's exposure to operational risk calculated in accordance with Part 9 of the Capital Rules;	CR (s.2(1))
# section 79A(1) requirement	in relation to an authorized institution, means a requirement in a notice under section 79A(1) of the Banking Ordinance whereby a provision of Part XV of the Banking Ordinance is to apply to the institution 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 specified in the notice; (c) the consolidated basis referred to in paragraph (a) and an unconsolidated basis unless otherwise specified in the notice; or (d) the consolidated basis referred to in paragraph (b) and an unconsolidated basis unless otherwise specified in the notice;	CR (s.2(1))
# section 98(2) requirement	in relation to an authorized institution, means a requirement in a notice under section 98(2) of the	CR (s.2(1))



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Term	Definition	Source
	Banking Ordinance whereby the capital adequacy ratio of the institution is to be calculated on - <ul style="list-style-type: none"> (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 specified in the notice; (c) the consolidated basis referred to in paragraph (a) and an unconsolidated basis unless otherwise specified in the notice; or (d) the consolidated basis referred to in paragraph (b) and an unconsolidated basis unless otherwise specified in the notice; 	
securities firm	<ul style="list-style-type: none"> (a) means an entity (other than a bank) - <ul style="list-style-type: none"> (i) which is authorized and supervised by a 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 authorized institutions under the Banking Ordinance and the Capital Rules; and (b) includes a licensed corporation which has been granted a licence to carry on a regulated activity by the Securities and Futures Commission of Hong Kong; 	CR (s.2(1))
# securities regulator	does not include a restricted securities regulator;	CR (s.2(1))
securitization exposure	in relation to an authorized institution, means the institution's credit exposure to a securitization transaction booked in its banking book, and includes such an exposure arising from – <ul style="list-style-type: none"> (a) the purchase or repurchase of securitization issues; (b) the provision of credit protection or credit enhancement to any of the parties to the transaction; 	CR (s.2(1))



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Term	Definition	Source
	<p>(c) the retention of one or more than one securitization position;</p> <p>(d) the provision of a liquidity facility or servicer cash advance facility for the transaction; and</p> <p>(e) the obligation to acquire any investors' interest in the transaction if the transaction is subject to an early amortization provision;</p>	
# securitization issues	in relation to a securitization transaction, means the securities issued by the issuer in the transaction;	CR (s.2(1))
securitization transaction	<p>means a transaction involving the tranching of credit risk associated with a pool of underlying exposures and in respect of which -</p> <p>(a) there are not less than 2 different tranches;</p> <p>(b) payments to investors or other parties to the transaction depend on the performance of the underlying exposures; and</p> <p>(c) the subordination of tranches determines the distribution of losses during the life of the transaction;</p>	CR (s.2(1))
senior management	in relation to an authorized institution, includes the chief executives and managers of the institution;	CR (s.2(1))
# servicer cash advance facility	in relation to an authorized institution which provides credit administration services in respect of the underlying exposures in a securitization transaction, means an off-balance sheet securitization exposure of the institution arising from a contractual agreement pursuant to which the institution advances cash in respect of the transaction to ensure an uninterrupted flow of payments to investors in the securitization issues in the transaction;	CR (s.2(1))
solo basis	in relation to the calculation of an authorized institution's capital adequacy ratio, means the basis set out in section 29 of the Capital Rules on which the institution calculates that ratio;	CR (s.2(1))
solo-consolidated basis	in relation to the calculation of an authorized institution's capital adequacy ratio, means the basis set out in section 30 of the Capital Rules on which the institution calculates that ratio;	CR (s.2(1))



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Term	Definition	Source
sovereign	means - (a) the Government; (b) the central government of a country; (c) the central bank of a country; (d) an authority of a country which performs in the country functions similar to the functions performed by the Monetary Authority; or (e) a relevant international organization;	CR (s.2(1))
# sovereign foreign public sector entity	(a) subject to paragraph (b), means a foreign public sector entity which is regarded as a sovereign for the purposes of calculating the capital adequacy ratio of a bank by the relevant banking supervisory authority of the jurisdiction in which the entity and the bank are incorporated; (b) does not include a restricted foreign public sector entity;	CR (s.2(1))
# SPE	means a special purpose entity;	CR (s.2(1))
specific provisions	in relation to an exposure of an authorized institution, means an allowance for impairment loss in respect of that exposure where – (a) the institution reasonably considers that an event has occurred causing the impairment loss; (b) the event occurs after the exposure is originated or acquired by the institution; and (c) the allowance is assessed by the institution by reference to the impact that the event has on the cash flows in respect of the exposure insofar as that impact can be reliably estimated;	CR (s.2(1))
# Standard & Poor's Ratings Services	means that organization the membership of which - (a) consists of business units within members of the group of companies of which The McGraw-Hill Companies, Inc. is the ultimate holding company; (b) adheres to a common set of core methodologies, practices and procedures for issuing credit assessment ratings; and	CR (s.2(1))



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Term	Definition	Source
	(c) issues credit assessment ratings under the name of Standard & Poor's Ratings Services;	
# standardized (credit risk) approach	means the method of calculating an authorized institution's credit risk for non-securitization exposures set out in Part 4 of the Capital Rules;	CR (s.2(1))
# standardized (market risk) approach	means the method of calculating an authorized institution's market risk set out in Divisions 2 to 10 of Part 8 of the Capital Rules;	CR (s.2(1))
# standardized (securitization) approach	means the method of calculating an authorized institution's credit risk for securitization exposures set out in Division 3 of Part 7 of the Capital Rules;	CR (s.2(1))
STC approach	means the standardized (credit risk) approach;	CR (s.2(1))
STC(S) approach	means the standardized (securitization) approach;	CR (s.2(1))
STM approach	means the standardized (market risk) approach;	CR (s.2(1))
stress-testing	in relation to an authorized institution, means the use by the institution of a risk management technique to evaluate the potential impact on the institution of a specific event, or movements in a set of financial variables, or both, under market conditions depicting various levels of market movement and financial distress;	CR (s.2(1))
supplementary capital	in relation to an authorized institution, means the sum, calculated in Hong Kong dollars, of the net book values of the institution's capital items specified in section 42 of the Capital Rules;	CR (s.2(1))
surplus provisions	in relation to an authorized institution which uses the IRB approach to calculate its credit risk for non-securitization exposures, means that part of the excess of the institution's total eligible provisions over the institution's total EL amount which is included in the institution's supplementary capital in the determination of the institution's capital base;	DR (s.2(1))
swap contract	means a contract under which two parties agree to exchange assets, liabilities or cash flows according to specified terms over a specified period;	CR (s.2(1))



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Term	Definition	Source
swap deposit arrangement	<p>in relation to an authorized institution, means an arrangement entered into by the institution with an obligor whereby -</p> <p>(a) the institution sells a specified currency at spot rate to the obligor against another currency; and</p> <p>(b) at the same time, the obligor deposits the specified currency so purchased with the institution and enters into a forward exchange rate contract with the institution to sell the specified currency so purchased back to the institution against another currency at a specified exchange rate on a future date;</p>	DR (s.2(1))
synthetic securitization transaction	<p>means a securitization transaction where the credit risk of a reference pool of underlying exposures is transferred, in whole or in part, through the use of credit protection afforded to the underlying exposures which remain on the balance sheet of the originator in the transaction;</p>	CR (s.2(1))
total EL amount	<p>in relation to an authorized institution, means the sum of the institution's EL amounts attributed to corporate, sovereign, bank and retail exposures of the institution which -</p> <p>(a) are subject to the IRB approach; and</p> <p>(b) are not treated as hedged exposures under the double default framework;</p>	CR (s.2(1))
total eligible provisions	<p>in relation to an authorized institution, means the sum of the institution's eligible provisions attributed to corporate, sovereign, bank and retail exposures of the institution which -</p> <p>(a) are subject to the IRB approach; and</p> <p>(b) are not treated as hedged exposures under the double default framework;</p>	CR (s.2(1))
# total return swap	<p>means a credit derivative contract under which the protection buyer -</p> <p>(a) agrees to pay the protection seller all cash flows which arise from a reference obligation together with any appreciation in the market value of the reference obligation; and</p>	CR (s.2(1))



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Term	Definition	Source
	(b) receives, in return for that agreement, a spread over a specified index together with any depreciation in the value of the reference obligation during the term of the contract;	
trade bills	in relation to an authorized institution, means all bills of exchange purchased by the institution in relation to trade transactions;	DR (s.2(1))
trade-related contingency	(a) means a contingent liability which relates to trade-related obligations; and (b) includes liabilities arising from issuing and confirming letters of credit, acceptances on trade bills, and shipping guarantees;	CR (s.2(1))
trading book	in relation to an authorized institution, means the institution's exposures in financial instruments and commodities where - (a) the financial instruments and commodities are held - (i) with the intention of trading; or (ii) for the purposes of hedging one or more of the exposures in other financial instruments and commodities which are held with the intention of trading; (b) the financial instruments are free of any restrictive covenants on tradability, or the exposures in the financial instruments and commodities are able to be completely hedged; and (c) the exposures are frequently and accurately valued and actively managed;	CR (s.2(1))
trading day	means a day on which a financial market is open for trading;	CR (s.2(1))
traditional securitization transaction	means a securitization transaction where – (a) a pool of underlying exposures is sold by the originator in the transaction to an SPE; and (b) the cash flows from the pool of underlying exposures are used to service payments to investors or other parties to the transaction;	CR (s.2(1))



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Term	Definition	Source
transaction-related contingency	<p>in relation to an authorized institution -</p> <p>(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</p> <p>(b) includes a performance bond, bid bond, warranty and standby letter of credit related to a particular transaction;</p>	CR (s.2(1))
underlying exposures	<p>in relation to a securitization transaction, means one or more than one on-balance sheet or off-balance sheet exposure in respect of which credit risk is transferred to one or more than one person by the originator in the transaction;</p>	CR (s.2(1))
valid bilateral netting agreement	<p>in relation to an authorized institution, means an agreement in respect of which the following conditions are satisfied -</p> <p>(a) the agreement is in writing;</p> <p>(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;</p> <p>(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 -</p> <p>(i) 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</p>	CR (s.2(1))



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Term	Definition	Source
	<p>involved, then also under the law of the jurisdiction in which the branch is located;</p> <p>(ii) the law which governs the individual contracts covered by the agreement; and</p> <p>(iii) the law which governs the agreement;</p> <p>(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;</p> <p>(e) the institution manages the transactions covered by the agreement on a net basis;</p> <p>(f) the institution maintains in its files documentation adequate to support the netting of the contracts covered by the agreement; and</p> <p>(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;</p>	
# value-at-risk	in relation to a portfolio of exposures, means a measure of the worst expected loss on the portfolio resulting from market movement over a period of time within a given confidence interval;	CR (s.2(1))
VaR	means value-at-risk;	CR (s.2(1))



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Glossary (cont'd)

Table 2 - Terms applicable for Part 4 only of the Banking (Disclosure) Rules

Term	Definition	Source
cash flow hedge	in relation to a hedging relationship of an authorized institution, means a hedge of an exposure of the institution to variability in cash flows which - (a) is attributable to - (i) a particular risk associated with an asset or liability recognized on the institution's balance sheet; or (ii) a highly probable forecast transaction; and (b) could affect the institution's profit or loss;	DR (s.32)
corporate	means – (a) a company; or (b) a partnership or any other unincorporated body, which is not a public sector entity, bank or securities firm;	DR (s.32)
fair value hedge	in relation to a hedging relationship of an authorized institution, means a hedge of the exposure to changes in the fair value of - (a) a financial asset or financial liability which is recognized on the institution's balance sheet; (b) a firm commitment which is not recognized on the institution's balance sheet; or (c) an identified portion of such an asset, liability or firm commitment, which is attributable to a particular risk and which could affect profit or loss;	DR (s.32)
forecast transaction	means an uncommitted but anticipated future transaction;	DR (s.32)
hedges of net investments in foreign operation	in relation to a hedging relationship of an authorized institution, means a hedge of the institution's net investments in a foreign operation where -	DR (s.32)



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Term	Definition	Source
	<p>(a) a foreign operation is a subsidiary, associate, joint venture or branch of the institution -</p> <p>(i) the activities of which are based or conducted in a country other than that of the institution; or</p> <p>(ii) the products, services and costs of which are principally denominated in a currency other than that in which the products, services and costs of the institution are principally denominated; and</p> <p>(b) net investment in a foreign operation is the amount of the institution's interest in the net assets of that operation;</p>	
highly probable forecast transaction	in relation to the forecast transaction which is the subject of a cash flow hedge, means the forecast transaction is highly probable and presents an exposure to variations in cash flows which could ultimately affect profit or loss;	DR (s.32)
long lease	<p>has the meaning assigned to it by the Tenth Schedule to the Companies Ordinance (Cap. 32);</p> <p><i>[Tenth Schedule to the Companies Ordinance (Cap. 32):</i></p> <p><i>“long lease” means a lease in the case of which either –</i></p> <p>(A) <i>the portion of the term for which it was granted remaining unexpired at the end of the financial year is not less than 50 years, or</i></p> <p>(B) <i>if the lease is a renewable Government lease, the portion of the said term remaining unexpired at the said date when added to the term for which the lessee is entitled to renew the lease amounts to a period of not less than 50 years from the said date;]</i></p>	DR (s.32)
medium-term lease	<p>has the meaning assigned to it by the Tenth Schedule to the Companies Ordinance (Cap. 32);</p> <p><i>[Tenth Schedule to the Companies Ordinance (Cap. 32):</i></p> <p><i>“medium-term lease” means a lease in the case of which either –</i></p> <p>(A) <i>the portion of the term for which it was granted remaining unexpired at the end of the financial</i></p>	DR (s.32)



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Term	Definition	Source
	<p><i>year is less than 50 years but not less than 10 years, or</i></p> <p>(B) <i>if the lease is a renewable Government lease, the portion of the said term remaining unexpired at the said date when added to the term for which the lessee is entitled to renew the lease amounts to a period of less than 50 years but not less than 10 years from the said date;]</i></p>	
related party ¹⁷	<p>in relation to an authorized institution, means a person -</p> <p>(a) who directly, or indirectly through one or more intermediaries -</p> <p>(i) controls, is controlled by, or is under common control with, the institution;</p> <p>(ii) has an interest in the institution which gives the person significant influence over the institution; or</p> <p>(iii) has joint control over the institution;</p> <p>(b) who is an associate of the institution;</p> <p>(c) who is a joint venture in which the institution has joint control;</p> <p>(d) who is a member of the key management personnel of the institution or of any holding company of the institution;</p> <p>(e) who is a relative, within the meaning of section 79(1) of the Banking Ordinance, of any individual falling within paragraph (a) or (d), and who, in his dealings with the institution, may be expected to influence or be influenced by that individual;</p> <p>(f) who is controlled, jointly controlled or significantly influenced by any person falling within paragraph (d) or (e);</p> <p>(g) significant voting power in which resides with, directly or indirectly, any person falling within paragraph (d) or (e); or</p>	DR (s.32)

¹⁷ Possible amendment to this definition may be required in the light of future amendments to IAS 24 *Related Party Disclosures*



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Term	Definition	Source
	(h) which is an entity which constitutes a post-employment benefit plan for the benefit of - (i) the employees of the institution; or (ii) the employees of any person falling within any of paragraphs (a), (b), (c), (d), (e), (f) and (g) in relation to the institution;	
related party transaction	means a transfer of resources, services or obligations between related parties, regardless of whether a price is charged;	DR (s.32)
short lease	has the meaning assigned to it by the Tenth Schedule to the Companies Ordinance (Cap. 32); <i>[Tenth Schedule to the Companies Ordinance (Cap. 32): "short lease" means a lease which is not a long or a medium-term lease;]</i>	DR (s.32)



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Glossary (cont'd)

Table 3 - Terms applicable for Part 5 only of the Banking (Disclosure) Rules

Term	Definition	Source
credit equivalent amount	in relation to an off-balance sheet exposure, means the credit equivalent amount of the exposure calculated under section 71 or 73 of the Capital Rules, as the case requires;	CR (s.51)
exposure	in relation to an authorized institution, means a credit exposure (including an asset) of the institution;	CR (s.51)
principal amount	<p>(a) in relation to an on-balance sheet exposure of an authorized institution, means the book value (including accrued interest and revaluations) of the exposure;</p> <p>(b) in relation to an off-balance sheet exposure of an authorized institution, means -</p> <p>(i) subject to subparagraph (ii), in the case of an exposure listed in Table 10 of the Capital Rules, the contracted amount of the exposure;</p> <p>(ii) in the case of an exposure listed in Table 10 of the Capital Rules, which is an undrawn facility or the undrawn portion of a partially drawn facility, the amount of the undrawn commitment;</p> <p>(iii) subject to subparagraph (iv), in the case of an exposure listed in Table 11 of the Capital Rules, the notional amount of the exposure;</p> <p>(iv) in the case of an exposure listed in Table 11 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;</p>	CR (s.51)



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Term	Definition	Source
recognized collateral	means collateral recognized under section 77 of the Capital Rules;	CR (s.51)
recognized credit derivative contract	means – (a) a credit derivative contract recognized under section 99(1) of the Capital Rules; or (b) a credit derivative contract which falls within section 99(2) or (3) of the Capital Rules to the extent that it is deemed under that section to be a recognized credit derivative contract;	CR (s.51)
recognized guarantee	means a guarantee recognized under section 98 of the Capital Rules;	CR (s.51)



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Glossary (cont'd)

Table 4 - Terms applicable for Part 6 only of the Banking (Disclosure) Rules

Term	Definition	Source
exposure	in relation to an authorized institution, means a credit exposure (including an asset) of the institution;	CR (s.105)



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Glossary (cont'd)

Table 5 - Terms applicable for Part 7 only of the Banking (Disclosure) Rules

Term	Definition	Source
advanced IRB approach	<p>means an approach under which an authorized institution calculates its credit risk for corporate, sovereign or bank exposures by –</p> <p>(a) providing its own estimates of the PD, LGD and EAD of those exposures; and</p> <p>(b) measuring the M of those exposures,</p> <p>in accordance with Divisions 4, 5, 9, 10 and 11 of Part 6 of the Capital Rules;</p>	CR (s.139(1))
cash items	<p>in relation to an authorized institution, means all or any of the following -</p> <p>(a) legal tender notes or other notes, and coins, representing the lawful currency of a country and held by the institution;</p> <p>(b) the institution's holdings of certificates of indebtedness issued by the Government for the issue of legal tender notes;</p> <p>(c) gold bullion held by the institution, or gold bullion held on an allocated basis for the institution by another person, which is backed by gold bullion liabilities;</p> <p>(d) gold bullion held by the institution, or gold bullion held for the institution by another person, which is not backed by gold bullion liabilities;</p> <p>(e) cheques, drafts and other items drawn on other banks -</p> <p>(i) which are payable to the account of the institution immediately upon presentation; and</p> <p>(ii) which are in the process of collection;</p> <p>(f) unsettled clearing items of the institution which are being processed through any interbank clearing system in Hong Kong;</p>	CR (s.139(1))



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Term	Definition	Source
	<p>(g) receivables from transactions in securities (other than repo-style transactions), foreign exchange, and commodities which are not yet due for settlement;</p> <p>(h) positive current exposure incurred by the institution under transactions in securities (other than repo-style transactions), foreign exchange, and commodities –</p> <p>(i) which are entered into on a delivery-versus-payment basis; and</p> <p>(ii) which are outstanding after the settlement date for the transaction; or</p> <p>(i) the amounts of payment made or the current market value of the thing delivered, and the positive current exposure incurred, by the institution under transactions in securities (other than repo-style transactions), foreign exchange, and commodities -</p> <p>(i) which are entered into on a non-delivery-versus-payment basis; and</p> <p>(ii) which are outstanding up to and including the fourth business day after the settlement date for the transaction,</p> <p>where the sum of the amounts of payment made (or the current market value of the thing delivered) and the positive current exposure incurred is less than \$10 million in respect of each such transaction;</p>	
corporate	<p>means –</p> <p>(a) a company; or</p> <p>(b) a partnership or any other unincorporated body, which is not a public sector entity, bank or securities firm;</p>	CR (s.139(1))
credit equivalent amount	<p>in relation to an off-balance sheet exposure of an authorized institution, means the value obtained by –</p> <p>(a) in the case of an exposure which is not an OTC derivative transaction or credit derivative contract, multiplying the principal amount of the exposure by the applicable CCF;</p>	CR (s.139(1))



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Term	Definition	Source
	(b) in the case of an exposure which is an OTC derivative transaction or credit derivative contract, adding the current exposure of the OTC derivative transaction or credit derivative contract, as the case may be, to the potential exposure of the OTC derivative transaction or credit derivative contract, as the case may be;	
# dilution risk	in relation to a receivable purchased by an authorized institution, means the possibility that the amount of the receivable is reduced through cash or non-cash credits to the obligor in respect of the receivable;	CR (s.139(1))
# double default framework	in relation to a corporate exposure (excluding specialized lending under supervisory slotting criteria approach) or public sector entity exposure (excluding exposure to a sovereign foreign public sector entity) of an authorized institution, means the method set out in section 218 of the Capital Rules for taking into account the credit risk mitigating effect of a recognized guarantee or recognized credit derivative contract in respect of the exposure;	CR (s.139(1))
EL	means expected loss;	CR (s.139(1))
# eligible provisions	in relation to an authorized institution, means the sum of – (a) the institution's specific provisions, partial write-offs, regulatory reserve for general banking risks and collective provisions attributed to non-securitization exposures which are subject to the IRB approach; and (b) any discounts falling within section 163(3) or 164(5) of the Capital Rules on exposures referred to in paragraph (a) which are in default;	CR (s.139(1))
# expected loss	in relation to an exposure of an authorized institution, means the estimated loss likely to be incurred by the institution on the exposure arising from the potential default of the obligor or dilution risk in respect of the exposure over a one-year period, expressed as a ratio, relative to the EAD of the exposure;	CR (s.139(1))
# expected loss amount	in relation to an exposure of an authorized institution, means the expected loss amount of the exposure calculated by multiplying the EL of the exposure by the EAD of the exposure;	CR (s.139(1))



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Term	Definition	Source
exposure	in relation to an authorized institution, means a credit exposure (including an asset) of the institution;	CR (s.139(1))
# exposure at default	in relation to an exposure of an authorized institution, means the expected amount (being, in the case of an off-balance sheet exposure, the credit equivalent amount) of the exposure upon the default of the obligor in respect of the exposure, which is measured without deduction of specific provisions and partial write-offs;	CR (s.139(1))
# hedged exposure	means a corporate exposure (excluding specialized lending under supervisory slotting criteria approach) or public sector entity exposure (excluding exposure to a sovereign foreign public sector entity) of an authorized institution which is covered by a recognized guarantee or recognized credit derivative contract under the double default framework;	CR (s.139(1))
internal models method	means a method under which an authorized institution calculates its credit risk for equity exposures as set out in section 186 of the Capital Rules;	CR (s.139(1))
# loss given default	in relation to an exposure of an authorized institution, means the loss likely to be incurred by the institution upon the default of the obligor in respect of the exposure, expressed as a ratio, relative to the EAD of the exposure;	CR (s.139(1))
# M	means maturity;	CR (s.139(1))
market-based approach	means – (a) the internal models method; or (b) the simple risk-weight method;	CR (s.139(1))
# maturity	(a) in relation to a corporate, sovereign or bank exposure of an authorized institution which uses the foundation IRB approach or advanced IRB approach, means the effective maturity of the exposure as determined or calculated in accordance with section 167, 168 or 169 of the Capital Rules, as the case requires; (b) in relation to an equity exposure of an authorized institution which uses the PD/LGD approach, means the effective maturity of the exposure as specified in section 194(1)(d) of the Capital Rules;	CR (s.139(1))



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Term	Definition	Source
# principal amount	<p>(a) in relation to an on-balance sheet exposure of an authorized institution, means the book value (including accrued interest) of the exposure;</p> <p>(b) in relation to an off-balance sheet exposure of an authorized institution, means -</p> <p>(i) subject to subparagraph (ii), in the case of an exposure listed in Table 11 of the Capital Rules, the notional amount of the exposure;</p> <p>(ii) in the case of an exposure listed in Table 11 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;</p> <p>(iii) subject to subparagraph (iv), in the case of an exposure listed in Table 20 of the Capital Rules, the contracted amount of the exposure;</p> <p>(iv) in the case of an exposure listed in Table 20 of the Capital Rules which is an undrawn facility or the undrawn portion of a partially drawn facility, the amount of the undrawn commitment;</p>	CR (s.139(1))
# probability of default	in relation to an exposure of an authorized institution, means the probability of default of the obligor in respect of the exposure over a one-year period;	CR (s.139(1))
recognized collateral	<p>(a) in relation to an authorized institution which uses the foundation IRB approach to calculate its credit risk for corporate, sovereign or bank exposures, means -</p> <p>(i) recognized financial collateral;</p> <p>(ii) recognized IRB collateral;</p> <p>(b) in relation to an authorized institution which uses the advanced IRB approach to calculate its credit risk for corporate, sovereign or bank exposures or the retail IRB approach to calculate its credit risk for retail exposures, means any collateral –</p>	CR (s.139(1))



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Term	Definition	Source
	<ul style="list-style-type: none"> (i) which is recognized by the institution for credit risk mitigation in accordance with its policies and procedures; and (ii) which satisfy the requirements under section 77(a), (b), (c), (d), (e) and (f) of the Capital Rules; 	
recognized credit derivative contract	<ul style="list-style-type: none"> (a) in relation to an authorized institution which uses the substitution framework to take into account the credit risk mitigating effect of credit derivative contracts for its corporate, sovereign, bank, retail or equity exposures, means a credit derivative contract which falls within section 211 or 212 of the Capital Rules, as the case requires; (b) in relation to an authorized institution which uses the double default framework to take into account the credit risk mitigating effect of credit derivative contracts for its corporate exposures (excluding specialized lending under supervisory slotting criteria approach) or public sector entity exposures (excluding exposures to sovereign foreign public sector entities), means a credit derivative contract which falls within section 213 of the Capital Rules; 	CR (s.139(1))
# recognized financial collateral	means any collateral (except collateral in the form of real property) which falls within the description of section 80(a), (b), (c) or (d) of the Capital Rules;	CR (s.139(1))
recognized guarantee	<ul style="list-style-type: none"> (a) in relation to an authorized institution which uses the substitution framework to take into account the credit risk mitigating effect of guarantees for its corporate, sovereign, bank, retail or equity exposures, means a guarantee which falls within section 211 or 212 of the Capital Rules, as the case requires; (b) in relation to an authorized institution which uses the double default framework to take into account the credit risk mitigating effect of guarantees for its corporate exposures (excluding specialized lending under supervisory slotting criteria approach) or public sector entity exposures (excluding exposures to sovereign foreign public sector entities), means a guarantee which falls within section 213 of the Capital Rules; 	CR (s.139(1))



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Term	Definition	Source
# recognized IRB collateral	means any collateral in the form of - (a) financial receivables which fall within section 205 of the Capital Rules; (b) commercial real estate or residential real estate which falls within section 206 or 208 of the Capital Rules, as the case requires; or (c) physical assets (except commercial real estate or residential real estate) which fall within section 207 or 208 of the Capital Rules, as the case requires;	CR (s.139(1))
# retail IRB approach	means an approach under which an authorized institution calculates its credit risk for retail exposures in accordance with Divisions 4, 6, 9, 10 and 11 of Part 6 of the Capital Rules;	CR (s.139(1))
revolving	in relation to a retail exposure of an authorized institution, means that the borrower's outstanding balance is permitted to fluctuate based on the borrower's decisions to borrow and repay, up to a limit established by the institution;	CR (s.139(1))
# risk-weight function	means a formula used by an authorized institution to determine the risk-weight to be allocated to - (a) a corporate, sovereign, bank or retail exposure of the institution; or (b) an equity exposure of the institution if the institution uses the PD/LGD approach;	CR (s.139(1))
simple risk-weight method	means a method under which an authorized institution calculates its credit risk for equity exposures as set out in section 185 of the Capital Rules;	CR (s.139(1))
specialized lending	means an exposure of an authorized institution to a corporate owning or operating a specific asset - (a) the terms of which give the institution 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 which is the income generated by the specific asset;	CR (s.139(1))



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Term	Definition	Source
# substitution framework	in relation to an exposure of an authorized institution, means the method set out in sections 215, 216 and 217 of the Capital Rules for taking into account the credit risk mitigating effect of a recognized guarantee or recognized credit derivative contract;	CR (s.139(1))
supervisory estimate	in relation to an exposure of an authorized institution, means - (a) the risk-weight specified in Part 6 of the Capital Rules in respect of the exposure; or (b) the value specified in Part 6 of the Capital Rules of a credit risk component to be input into a risk-weight function to calculate the risk-weight to be allocated to the exposure under the use of the IRB approach;	CR (s.139(1))
supervisory slotting criteria approach	means an approach under which an authorized institution calculates its credit risk for specialized lending in accordance with section 158(2) of the Capital Rules;	CR (s.139(1))



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Glossary (cont'd)

Table 6 - Terms applicable for disclosure on “Asset Securitization” (Part 5 - section 60, Part 6 - section 69, Part 7 - section 82) of the Banking (Disclosure) Rules

Term	Definition	Source
# ABCP programme	means an asset-backed commercial paper programme;	CR (s.227(1))
# asset-backed commercial paper programme	means a programme under which – (a) an SPE in a securitization transaction issues debt securities with an original maturity of not more than one year; and (b) the payments in respect of those debt securities are secured by a pool of underlying exposures acquired from third parties and held by, or to the order of, that SPE;	CR (s.227(1))
credit-enhancing interest-only strip	in relation to a securitization transaction, means an on-balance sheet exposure which is – (a) recorded by the originator in the transaction as representing the expected future excess spread to be derived from the underlying exposures; and (b) subordinated to claims from other parties to the transaction in terms of the priority of repayment;	CR (s.227(1))
drawn balance	in relation to the calculation of investors' interest, means the amount which has been drawn down by a borrower under a revolving credit line, where – (a) the credit line has been sold, or the credit risk of the credit line has been transferred, to a third party in a securitization transaction; and (b) the investors in the transaction remain, in whole or in part, exposed to future drawings by the borrower under the credit line;	CR (s.227(1))
investing institution	in relation to a securitization transaction, means an authorized institution which is an investor in the transaction;	CR (s.227(1))



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Term	Definition	Source
investor	in relation to a securitization transaction, means any person, other than the originator in the transaction, who assumes securitization exposures by - (a) purchasing securitization issues; (b) providing credit protection to other parties to the transaction; or (c) providing liquidity facilities in respect of the transaction;	CR (s.227(1))
investors' interest	in relation to a securitization transaction in which the underlying exposures are revolving in nature and which is subject to an early amortization provision, means the investors' interest in the underlying exposures in the transaction as determined under section 245(1) or 257(1) of the Capital Rules, as the case requires;	CR (s.227(1))
originator	in relation to a securitization transaction, means a person who – (a) directly or indirectly originates the underlying exposures in the transaction; or (b) serves as a sponsor of an ABCP programme or a programme with similar features;	CR (s.227(1))
principal amount	(a) in relation to an on-balance sheet securitization exposure of an authorized institution, means the book value of the exposure; (b) in relation to an off-balance sheet securitization exposure of an authorized institution, means an amount which is - (i) subject to subparagraph (ii), the contracted amount of the exposure; (ii) in the case of such an exposure which is the undrawn portion of a partially drawn facility, the amount of the undrawn commitment;	CR (s.227(1))
# revolving	in relation to an underlying exposure of an authorized institution in a securitization transaction, means that the borrower's outstanding balance of the exposure is permitted to fluctuate based on the borrower's decision to borrow and repay, up to a limit established by the institution;	CR (s.227(1))
# securitization position	in relation to an authorized institution, means an exposure of the institution to one of the different tranches in a securitization transaction;	CR (s.227(1))



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Term	Definition	Source
# special purpose entity	<p>means a company, trust or other entity -</p> <p>(a) which is created for the sole purpose of acquiring and holding the underlying exposures in a traditional securitization transaction or assuming credit risk in respect of the underlying exposures in a synthetic securitization transaction, as the case may be, and engaging in activities related or incidental to the issuance of securitization issues in the transaction; and</p> <p>(b) which insulates the underlying exposures transferred to it from the effects of default, insolvency or bankruptcy of the originator in the transaction;</p>	CR (s.227(1))
sponsor	<p>in relation to an ABCP programme or a 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 of the following activities -</p> <p>(a) approving the sellers to participate in the programme;</p> <p>(b) approving the pool of underlying exposures to be purchased under the programme;</p> <p>(c) administering the programme, including arranging for the placement into the market of securities issued under the programme; or</p> <p>(d) providing any credit enhancement or liquidity facility in respect of the programme;</p>	CR (s.227(1))
# tranche	<p>means a contractually established segment (referred to in this definition as "relevant segment") of the credit risk associated with a pool of underlying exposures in a securitization transaction where -</p> <p>(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</p> <p>(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;</p>	CR (s.227(1))



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Term	Definition	Source
undrawn balance	<p>in relation to the calculation of investors' interest, means the amount which has not been drawn down by a borrower under a revolving credit line where -</p> <ul style="list-style-type: none">(a) the credit line has been sold, or the credit risk of the credit line has been transferred, to a third party in a securitization transaction; and(b) the investors in the transaction remain, in whole or in part, exposed to future drawings by the borrower under the credit line;	CR (s.227(1))



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Glossary (cont'd)

Table 7 - Terms applicable for disclosure on “Market Risk” (Part 5 - section 61, Part 6 - section 70, Part 7 - section 83) of the Banking (Disclosure) Rules

Term	Definition	Source
# commodity-related derivative contract	means a futures contract, forward contract, swap contract, option contract or similar derivative contract the value of which is determined by reference to the value of, or any fluctuation in the value of, an underlying commodity or an underlying commodity index (being an index calculated by reference to a basket of commodities);	CR (s.281)
# debt security	means - (a) a fixed or floating rate bond; (b) a negotiable certificate of deposit; (c) a non-convertible preference share; or (d) a convertible bond, preference share, or any other instrument, which trades like a bond, certificate or share falling within paragraph (a), (b) or (c);	CR (s.281)
# debt-related derivative contract	means a futures contract, forward contract, swap contract, option contract or similar derivative contract the value of which is determined by reference to the value of, or any fluctuation in the value of, an underlying debt security or an underlying debt security index (being an index calculated by reference to a basket of debt securities);	CR (s.281)
# delta	in relation to an option contract, means a measure of the rate of change in the value of the option contract to changes in the value of the underlying exposure of the option contract;	CR (s.281)
equity	means - (a) an ordinary share (whether voting or non-voting); or (b) a convertible bond, preference share, or any other instrument, which trades like a share falling within paragraph (a);	CR (s.281)



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Term	Definition	Source
# equity-related derivative contract	means a futures contract, forward contract, swap contract, option contract or similar derivative contract the value of which is determined by reference to the value of, or any fluctuation in the value of, an underlying equity or an underlying equity index (being an index calculated by reference to a basket of equities);	CR (s.281)
# general market risk	in relation to an authorized institution, means the risk of loss, arising from changes in interest rates, exchange rates, equity prices or commodity prices, in the value of - (a) the institution's trading book positions held in - (i) debt securities; (ii) debt-related derivative contracts; (iii) interest rate derivative contracts; (iv) equities; and (v) equity-related derivative contracts; and (b) the institution's positions held in - (i) foreign exchange (including gold); (ii) exchange rate-related derivative contracts; (iii) commodities; and (iv) commodity-related derivative contracts;	CR (s.281)
market risk capital charge	in relation to an authorized institution, means the amount of the institution's capital required to cover specific risk or general market risk, or both, for an exposure or a portfolio of exposures;	CR (s.281)
# specific risk	in relation to an authorized institution, means - (a) the risk of loss, arising from changes in the price of debt securities owing to factors relating to the issuers of the debt securities, in the value of the institution's trading book positions held in the debt securities; (b) the risk of loss, arising from changes in the price of equities owing to factors relating to the issuers of the equities, in the value of the institution's trading book positions held in the equities;	CR (s.281)



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Term	Definition	Source
	<p>(c) the risk of loss, arising from changes in the price of debt-related derivative contracts owing to factors relating to the issuers of the underlying debt securities, in the value of the institution's trading book positions held in the debt-related derivative contracts; and</p> <p>(d) the risk of loss, arising from changes in the price of equity-related derivative contracts owing to factors relating to the issuers of the underlying equities, in the value of the institution's trading book positions held in the equity-related derivative contracts;</p>	



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Annex B : Disclosure of Value of Collateral Held Against Overdue Loans and Advances

The following illustrates how an AI should disclose the value of collateral held in respect of its overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion):

HK\$ million

Overdue loans and advances	Outstanding amount of loans and advances	Current market value of collateral	Covered portion	Uncovered portion
A	10	15	10	-
B	10	7	7	3
C	10	-	-	10
Total	30	22	17	13

Minimum information to be disclosed by the AI:

Current market value of collateral held against the covered portion of overdue loans and advances	HK\$ 22 million
Covered portion of overdue loans and advances	HK\$ 17 million
Uncovered portion of overdue loans and advances	HK\$ 13 million

1. The AI should provide sufficient explanation on any material difference between the disclosure amounts of collateral value under the Disclosure Rules and the applicable accounting standards, although line by line reconciliation is not required.
2. Where multiple loans extended to one borrower are in aggregate secured partially by the same collateral, and one of the loans has been overdue for more than 3 months, the proportion of the value of the collateral held against the overdue loan to be disclosed, should be based on the proportion of the



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value of the collateral to the aggregate amount of the loans. For example, if a number of different loans to one borrower are in aggregate 80% secured by the same collateral, it can be assumed that each individual loan, including each individual overdue loan, is also 80% secured. The AI should therefore disclose as the value of the collateral held against the overdue loan 80% of the outstanding amount of the overdue loan. If, however, the current market value of the collateral has fallen to below 80% of the aggregate outstanding amount of the loans, the value of the collateral held against the overdue loan should be adjusted accordingly.



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Annex C : Cross-border Claims

The following illustrates the major country or geographical segment breakdown of cross-border claims by types of counterparties which an AI is required to disclose:

	Banks	Public Sector Entities	Others*	Total
As at [reporting date]				
1. Asia Pacific excluding Hong Kong of which country A	XX	XX	XX	XX
2. North and Latin America of which country B	XX	XX	XX	XX
3. Middle East and Africa of which country C	XX	XX	XX	XX
4. Western and Eastern Europe of which country D	XX	XX	XX	XX
As at [last reporting date]				
1. Asia Pacific excluding Hong Kong of which country A	XX	XX	XX	XX
2. North and Latin America of which country B	XX	XX	XX	XX
3. Middle East and Africa of which country C	XX	XX	XX	XX
4. Western and Eastern Europe of which country D	XX	XX	XX	XX

* includes Sovereign

1. A major country or geographical segment should be reported if cross-border claims attributable to the country or segment constitute not less than 10% of the AI's total cross-border claims after taking into account any recognized risk transfer.



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2. Recognized risk transfer means that the claim is guaranteed by a person in a country which is different from that which the counterparty is in; or the claim is on an overseas branch of a bank and the head office of the bank is located in a country which is different from that of the overseas branch.
3. An AI may use the composition of geographical segments set out in the table above or a different composition of geographical segments defined by its internal management classifications for internal reporting purposes.
4. An AI should make reference to the Completion Instructions of the “Return of External Positions – MA(BS)9” in the determination of cross-border claims.
5. An AI should make the disclosure by types of counterparties, broken down into banks, public sector entities and others as shown in the table. An AI can refer to the glossary at **Annex A** for the definition of “banks” and “public sector entities”.



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Annex D : Sector Information

The following sets out guidance for the analysis of gross loans and advances to customers by major sectors:

Sector classification	Advances included in the following item(s) of the Return (Part I)
<i>Loans and advances for use in Hong Kong</i>	
Industrial, commercial and financial:	
▪ Property development	Item B1e
▪ Property investment	Item B2e
▪ Financial concerns	Item H2e
▪ Stockbrokers	Item H3c
▪ Wholesale and retail trade	Item F
▪ Manufacturing	Items A10
▪ Transport and transport equipment	Item G6
▪ Recreational activities	Item D
▪ Information technology	Item E3
▪ Others	Items B3, C, H1, H4c, H5d and H6
Individuals	
▪ Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	Item H5a
• Loans for the purchase of other residential properties	Item H5b
• Credit card advances	Item H5c
• Others	Item H5e
<i>Trade finance</i>	Item J
<i>Loans and advances for use outside Hong Kong</i>	Item K

1. An AI should disclose a breakdown of the gross amount of loans and advances to customers by major sectors in accordance with the categories as set out in the table above. The allocation of loans and advances to customers and the types of loans and advances that should be included in the respective categories should be in accordance with the definitions and the detailed descriptions in the Completion Instructions for the "Return of Quarterly



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Analysis of Loans and Advances and Provisions - MA(BS)2A” (being the Return referred to in the heading of the second column in the above table).

2. While Part I of MA(BS)2A deals only with the position of the Hong Kong office(s) of an AI, the analysis pursuant to the requirements of the Disclosure Rules should cover all loans and advances to customers of the AI on a consolidated basis where applicable.



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Annex E : Overdue and Rescheduled Assets

The following sets out the criteria which are to be applied in determining overdue and rescheduled assets:

Overdue assets

1. The overdue status of the following assets is to be determined as follows:-
 - a) Loans with a specific expiry date (e.g. a term loan, inward bill loan, advance against trust receipt, packing loan and other loans of similar nature) - these loans should be treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date. (For multiple loans to a single borrower, e.g. where there are more than one trust receipt loans, report only the one which is overdue according to its overdue period.)
 - b) Consumer loans repayable by regular instalments (e.g. residential mortgage loans, hire purchase loans and personal loans) - these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
 - c) Loans repayable on demand (e.g. demand loans and overdrafts) - these loans should be treated as overdue where one or both of the following conditions are met:
 - i) a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction; or
 - ii) the loan has remained continuously outside the approved limit that was advised to the borrower for more than the period in question (e.g. three months or six months).
 - d) Bankers acceptances are to be treated as overdue where either the principal or interest of the instruments are still in arrears after the due dates or maturity dates.
 - e) A bill payable at a determinable date (i.e. usance bill) should be treated as overdue if it remains in arrears after the maturity date. Sight bills/drafts in respect of goods exported from Hong Kong should normally be paid within one week from the date of presentation (or the arrival of the carrying vessel if the buyer is not obliged to pay before the arrival of the goods). However, to allow for



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unforeseeable delays in processing the documents or effecting payments, a grace period of one month will be allowed. These bills should therefore be regarded as overdue if payment is not made within one month after presentation or the arrival of the carrying vessel, as the case may be.

2. The overdue period of a loan which has a determinable due date commences on the date following such due date. The whole amount of a loan is regarded as overdue even if part of it is not yet due and assessment should be made by reference to the earliest due date of such a loan. For example, if the longest overdue instalment of a loan repayable by monthly instalments has been overdue for six months as at the reporting date, the entire amount of the loan should be considered as overdue for six months.
3. Where partial repayment of an overdue loan repayable by monthly instalments is made, to the extent that it is not financed by a new loan extended by the AI for the purpose of repaying the overdue loan, the repayment should be offset against the earliest instalments due. Accordingly, if in the example given in 2 above, the borrower makes a partial repayment reducing the longest overdue instalment to five months, the entire loan may be considered as overdue for five months.
4. If an overdue loan is scheduled to be repaid by a lump sum payment, a partial repayment will not change the overdue status of the remaining loan balance, i.e. the outstanding balance should continue to be treated as overdue with reference to the original due date.
5. An AI should not extend a new loan to a borrower solely for the purpose of repaying an existing overdue loan with the AI. Where the repayment whether partial or whole is financed by a new loan extended by the AI, the overdue status of the initial loan should be considered as unchanged, i.e. as if the new loan and partial repayment had never been made.
6. It is recognised that AIs may decide to increase overdraft limits (or limits of similar facilities) to accommodate the increased financing needs of sound customers. In such cases, the loan would not be regarded as overdue under paragraph 1(c)(ii) above. However, this should only be done on the basis of a well-documented credit evaluation and after the appropriate internal approval has been obtained. An increase in the overdraft limit should not be sanctioned simply to avoid classifying the loan as overdue.



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Rescheduled assets

7. Rescheduled assets refer to loans and other assets that have been restructured and renegotiated between the AI and the borrower because of a deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either in terms of the interest due or the repayment period, are “non-commercial” to the AI. A rescheduled asset will normally require an adverse classification under the loan classification system (i.e. substandard or doubtful).
8. The following assets are not regarded as rescheduled even if their repayment terms have been revised:
 - a) Assets rescheduled in response to changes in market conditions provided that at the time of rescheduling, the assets have been serviced normally, the ability of the borrowers to service the assets according to the revised repayment terms is not in doubt and the rescheduled assets are priced at interest rates equal to the current market interest rates for new assets with similar risks.
 - b) Rescheduled assets with revised repayment terms that are, or become, commercial to the AI and where there is reasonable assurance that the borrowers will be able to service all future principal and interest payments on the assets in accordance with the revised repayment terms and the borrowers have serviced all principal and interest payments on the assets in accordance with the revised repayment terms continuously for a reasonable period. A reasonable period of continuing repayments for rescheduled assets with monthly payments (including both interest and principal) would be 6 months. For other rescheduled assets, a period of continuing repayment of 12 months would be considered as reasonable.
9. If a rescheduled asset is taken up by a new obligor, the AI may regard it as a new asset (i.e. no longer a rescheduled asset) and classify it according to the creditworthiness of the new obligor provided that :
 - a) it is restructured with the new obligor on commercial terms;
 - b) the agreed haircut, if any, has been fully written off upon completion of restructuring; and
 - c) it is a genuine restructuring and not merely a transfer of an overdue loan among the borrower’s group companies. The AI must be



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satisfied with the creditworthiness and repayment ability of the new obligor (e.g. the new obligor must have sufficient assets capable of generating adequate funds to repay the outstanding debt) before entering into the restructuring.

10. A rescheduled asset may be upgraded to “special mention” if: i) the agreed haircut has been fully written off and all the potential losses have been fully provided for upon completion of restructuring; and ii) the AI is satisfied that the borrower will be able to service all future principal and interest payments in accordance with the revised repayment terms. Such asset will however continue to be regarded as rescheduled until the borrower has serviced all principal and interest payments on the asset in accordance with the revised repayment terms continuously for a reasonable period (see paragraph 8 above).



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Annex F : Non-bank Mainland Exposures

The following illustrates the disclosure an AI is required to make in respect of its Mainland exposures to non-bank counterparties (being exposures which are material):

Types of Counterparties	<i>Referred items in Note (6) to MA(BS)2A</i>	[A] On-balance sheet exposure HK\$ million <i>(Note 1)</i>	[B] Off-balance sheet exposure HK\$ million <i>(Note 2)</i>	[A] + [B] Total HK\$ million	Specific provisions HK\$ million
Mainland entities	<i>Aggregate of Item (a) to (e) of column (1)</i>				
Companies and individuals outside Mainland where the credit is granted for use in Mainland	<i>Item (f) of column (1)</i>				
Other counterparties the exposures to whom are considered by the AI to be non-bank Mainland exposures	<i>Item (g) of column (1)</i>				
Total					

Note 1 – i.e. column (2) in the Return Note (6)

Note 2 – i.e. sum of column (3) to (5) in the Return Note (6)

For the categories of non-bank counterparties and the type of direct exposures to be disclosed, an AI should make reference to the Completion Instructions for Note (6) of the “Return of Quarterly Analysis of Loans and Advances and Provisions - MA(BS)2A”.



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Annex G : Currency Risk

The following illustrates the disclosure an AI is required to make in respect of its foreign currency exposures which arise from trading, non-trading and structural positions:

Equivalent in millions of HK\$	US\$	Euro	Japanese Yen	Total
a. Spot assets	200	150	500	850
b. Spot liabilities	(100)	(50)	(100)	(250)
c. Forward purchases	350	100	100	550
d. Forward sales	(550)	(400)	(350)	(1,300)
e. Net option position	(100)	(200)	(80)	(380)
f. Net long (short) position (i.e. sum of (a) to (e))	(200)	(400)	70	(530)
	US\$	Can\$	Euro	Total
Net structural position	180	(15)	(40)	125

1. An individual currency should be disclosed if an AI's net position (in absolute terms) constitutes not less than 10% of the AI's total net position in all foreign currencies. Similarly, for an AI's disclosure requirements in respect of its net structural positions (assets less liabilities), an individual currency should be disclosed if the AI's net structural position (in absolute terms) constitutes not less than 10% of the AI's total net structural position in all foreign currencies.
2. An AI may calculate its net options position using either the delta-weighted position (this definition is available in the glossary at **Annex A**) or the AI's internal reporting method, provided that in either case the basis of calculation is clearly stated.
3. For information on the types of foreign currency positions and the amounts to be disclosed, an AI should make reference to the Completion Instructions for the "Return of Foreign Currency Position – MA(BS)6".



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Annex H : Maturity Classification

The following sets out guidance on maturity classification:

1. Where an item is repayable by instalments, the repayments should be reported according to each instalment payment date and amount.
2. Maturity of items of a revolving nature should be reported according to:
 - the earliest date the asset will mature – if the AI has no notice of any intention of renewal by the borrower;
 - the next maturity date – if notice has been received of renewal of the loan or debt securities upon maturity; and
 - the final maturity date of the credit line – if the asset is to be renewed automatically on each rollover date.
3. An AI should report any assets such as loans and debt securities which have been overdue for not more than one month as “Repayable on demand” and an asset which is impaired or which is overdue for more than one month as “within an indefinite period”. Any loan which is repayable on demand (e.g. demand loans and overdrafts) should be treated as overdue where one or both of the following conditions are met:
 - (i) a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction; or
 - (ii) the loan has remained continuously outside the approved limit that was advised to the borrower for more than the period in question (e.g. three months or six months).
4. In the case of an asset which is repayable by different payments or instalments, only that portion of the asset which is actually overdue should be reported according to the method indicated above. Any part of the asset which is not due should continue to be reported according to the residual maturity unless the repayment of the asset is in doubt, in which case the amount should be reported as “within an indefinite period”.
5. Unless otherwise indicated, liabilities should be classified according to their earliest maturity. In relation to deposits, this means the first roll-over date or the shortest period of notice required to effect a withdrawal.



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6. An AI should report demand, savings and current account deposits of customers as “Repayable on demand”. Time, call and notice deposits of customers should be classified according to the earliest date on which these deposits may be withdrawn.
7. Negotiable debt instruments issued by the AI which are still outstanding and which can be redeemed before maturity at the holder’s option should be classified in the appropriate maturity bands according to the earliest date for redemption. Perpetual instruments should be reported as “within an indefinite period”.



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Annex I : General Basis of Segmental Reporting

The following sets out the general basis of reporting by geographical segments:

Geographical segments

1. Depending on both an AI's activities and the nature of the markets concerned, reportable geographical segments may be based on continents, other regional areas, whether compatible for geographical or economic reasons, and/or individual countries. An AI's operations within Hong Kong should be considered to be a separate geographical segment.

Intra-group items

2. AIs will need to determine, in the light of their individual circumstances, whether it would be more meaningful to include or exclude intra-group items when preparing segmental information. Where the individual segmental analysis is shown inclusive of intra-group transactions, it will be necessary to show separately the aggregate of intra-group items deducted in order to reconcile with the consolidated totals for profits and assets.

General

3. Where an AI operates predominantly in one geographical segment, the AI needs only indicate the geographical segment in which the AI predominantly operates.
4. Where an item of revenue, expense, or assets cannot reasonably be allocated to a segment, no allocation should be made. Instead the unallocated amount should be adjusted against the revenue, expense or assets of all segments. In addition, the unallocated amount should be disclosed separately. Where allocation of an item involves a material judgement, the basis of allocation should be clearly stated.
5. In the event that segments are redefined in subsequent years, an AI should disclose the nature, reason for and effects of such change, where the change has a material effect on the segment information.
6. When a particular segment is regarded as material and disclosed for the first time, comparative figures for the previous year should also be provided even though the segment was not regarded as material in respect of the previous year. Conversely, when a segment falls below the material level in the year of reporting, the segmental information should still be disclosed if the prior year comparatives were material and disclosed in the previous year.



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Annex J : Geographical Concentrations of Income, Profit or Loss, Assets, Liabilities and Contingent Liabilities and Commitments

The following illustrates the disclosure an AI is required to make in respect of its geographical concentrations of income, profit or loss, assets, liabilities and contingent liabilities and commitments:

	Total operating income	Profit/loss before taxation	Total assets	Total liabilities	Contingent liabilities & commitments
As at [reporting date]					
1. Hong Kong	XX	XX	XX	XX	XX
2. Asia Pacific excluding Hong Kong	XX	XX	XX	XX	XX
of which country A	XX	XX	XX	XX	XX
3. North and Latin America	XX	XX	XX	XX	XX
of which country B	XX	XX	XX	XX	XX
4. Middle East and Africa	XX	XX	XX	XX	XX
of which country C	XX	XX	XX	XX	XX
5. Western and Eastern Europe	XX	XX	XX	XX	XX
of which country D	XX	XX	XX	XX	XX
As at [last reporting date]					
1. Hong Kong	XX	XX	XX	XX	XX
2. Asia Pacific excluding Hong Kong	XX	XX	XX	XX	XX
of which country A	XX	XX	XX	XX	XX
3. North and Latin America	XX	XX	XX	XX	XX
of which country B	XX	XX	XX	XX	XX
4. Middle East and Africa	XX	XX	XX	XX	XX
of which country C	XX	XX	XX	XX	XX
5. Western and Eastern Europe	XX	XX	XX	XX	XX
of which country D	XX	XX	XX	XX	XX

Individual countries or geographical segments should be shown if they constitute not less than 10% of any of the relevant disclosure items. An AI may use the composition of geographical segments set out above or a different composition of geographical segments defined by internal management classifications for internal reporting purposes./



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Annex K : Illustrative Disclosure required in respect of each separately disclosed class of exposures under the STC Approach

The following illustrates the disclosure an AI is required to make in respect of each separately disclosed class of exposures under the STC approach pursuant to section 57(d) to (f) of the Disclosure Rules.

Class of Exposures	Total Exposures*	Exposures after Recognized Credit Risk Mitigation		Risk-weighted Amounts		Total Risk-weighted Amounts
		Rated #	Unrated @	Rated #	Unrated @	
A. On-balance Sheet						
1. Sovereign						
2. Public Sector Entity						
3. Multilateral Development Bank						
4. Bank						
5. Securities Firm						
6. Corporate						
7. Collective Investment Scheme						
8. Cash Items						
9. Regulatory Retail						
10. Residential Mortgage Loans						
11. Other Exposures which are not Past Due Exposures						
12. Past Due Exposures						
B. Off-balance Sheet						
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts						
2. OTC derivative transactions						
3. Credit derivative contracts						
4. Other off-balance sheet exposures not elsewhere specified						
Exposures deducted from Capital Base						

* principal amount or credit equivalent amount, as applicable, net of specific provisions

including exposures with ECAI issue specific rating and exposures which have an inferred rating (i.e. exposures which do not have an issue-specific rating but whose risk-weights are determined under the Capital Rules by reference to an ECAI issuer rating assigned to the obligor of the exposure or to an ECAI issue rating of any other exposures of the obligor).

@ exposures which do not have ECAI issue specific rating, nor inferred rating



Illustration for section 57(d) of the Disclosure Rules



Illustration for section 57(e) of the Disclosure Rules



Illustration for section 57(f) of the Disclosure Rules



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Annex L : Mapping between pre-HKFRS and post-HKFRS accounting terms

SPM Module FD-3	Pre-HKFRS accounting terms	Post-HKFRS accounting terms	Equivalent provisions in Banking (Disclosure) Rules
2.2.1	Charge for bad and doubtful debts	Impairment losses and impairment allowances for impaired assets	s.93(1)(e)
2.3.1	Provisions for bad and doubtful debts	Impairment allowance for impaired assets	s.94(a)(vii)(D)
2.3.1	General provisions	Collective impairment allowances	s.94(a)(vii)(D)(I)
2.3.1	Specific provisions	Individual impairment allowances	s.94(a)(vii)(D)(II)
2.3.1	Investment securities	This refers to held-to-maturity securities and available-for-sale securities	s.94(a)(viii)
2.3.2	Provisioning policy	This refers to the impairment allowance policy	s.95(1)
2.3.2	Specific provisions	Individual impairment allowances	s.95(1)
2.3.3	Non-performing loans	Impaired loans	s.95(2)(a)
2.3.3 / 2.3.8	Suspended interest / interest is being placed in suspense or on which interest accrual has ceased	The concept of suspended interest no longer exists post-HKFRS.	--
2.3.3	Specific provisions	Individual impairment allowances	s.95(2)(b)
2.3.5	Specific provisions	Individual impairment allowances	s.95(2)(c)
2.3.7	Specific provisions	Individual impairment allowances	s.100(3)(b)

Note : Disclosures related to non-performing loans previously required in paragraphs 2.3.10, 2.3.11 and 2.5.3 of SPM Module FD-3 are no longer applicable post-HKFRS.



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Annex M : Mapping the Income Statement Information under Section 93 of the Disclosure Rules to the Banking Return

The following illustrates the mapping of income statement information as required to be disclosed under section 93 of the Disclosure Rules to the Return of “Current Year’s Profit and Loss Account – MA(BS)1C”:

Name of Return: Current Year’s Profit and Loss Account

Banking (Disclosure) Rules		Banking Return	
Section No.	Description	Item	Description
93(1)(a)	Interest income	I.1.1	Interest income
93(1)(b)	Interest expense	I.1.2	Interest expense
93(1)(c)	Other operating income		
(i)	- Gains less losses arising from trading in foreign currencies	I.2.1A	Gains less losses arising from trading in foreign currencies
		I.2.1B	Gains less losses arising from non-trading activities in foreign currencies
(ii)	- Gains less losses on securities held for trading purposes	I.3.1	Investments held for trading
(iii)	- Gains less losses from other trading activities	I.2.2	Gains less losses arising from trading in interest rate derivatives
		I.2.3	Gains less losses arising from trading in other derivatives
(iv)	- Net fees and commission income	I.4	Income from fees and commissions (item I.4) less fees and commission expenses
(v)	- Others	I.3.2	Dividend from subsidiary/associated companies and other equity investments
		I.3.3	Income from non-trading investments
		I.6	Other income



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Banking (Disclosure) Rules		Banking Return	
Section No.	Description	Item	Description
93(1)(d)	Operating expenses	I.8	Staff and rental expenses
		I.9	Other expenses less fees and commission expenses
		I.11	Net charge for other provisions
93(1)(e)	Impairment losses and provisions for impaired loans and receivables	I.10	Net charge/(credit) for debt provision
93(1)(f)	Gains less losses from the disposal of property, plant and equipment and investment properties	I.5	Profit/(loss) on sale of fixed assets
93(1)(g)	Profit before taxation	I.13	Profit/(loss) before tax
93(1)(h)	Tax expense or tax income	I.14	Net charge for tax provision
93(1)(i)	Profit after taxation	I.17	Profit/(loss) for the period

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